AUSTRALIAN CAPITAL TERRITORY

AUDITOR-GENERAL'S REPORT

2004-05 FINANCIAL AUDITS

REPORT NO.7 / 2005

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The Auditor-General's Office

The roles and responsibilities of the Auditor-General are set out in the *Auditor-General Act 1996*.

The Auditor-General's Office undertakes audits on financial statements of Government agencies, and the whole-of-Government consolidated financial statements.

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.

The Auditor-General and the Office act independently of the Government, and report the results of the audits directly to the Assembly.

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AUDITOR-GENERAL

Australian Capital Territory

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

Dear Mr Speaker

I am pleased to provide you with a report titled '2004-05 Financial Audits', which summarises the outcomes of the financial statement audits of the Territory and its agencies.

I would appreciate if you could arrange for the tabling of this report in the Legislative Assembly pursuant to Section 17(4) of the *Auditor-General Act 1996.*

Yours sincerely

T. Pham

Tu Pham
Auditor-General
12 December 2005

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I appreciate the assistance provided to the ACT Auditor-General's Office by Chief Executives, Chief Finance Officers and other agency staff during the completion of the annual financial audit program.

I also acknowledge the effort and commitment of my staff in completing this year's financial audit program.

Tu Pham
Auditor-General
12 December 2005

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1. REPORT SUMMARY

1. SCOPE

1.1 This report summarises the results of the audits of the financial statements of the Territory and its agencies in 2004-05. The report also refers to significant matters identified during the completion of the 2004-05 financial audit program.

2. FINANCIAL STATEMENT AUDITS

1.2 The Office completed 74 audits in 2004-05, comprising of:

- 1 Territory;
- 20 Departments;
- 21 Statutory authorities;
- 14 Territory owned corporations and other companies;
- 11 Land development joint ventures and partnerships; and
- 7 other financial audits.

Most audit opinions were unqualified …

1.3 Consistent with the trend of recent years, few of the 74 audit opinions issued were qualified. (Appendix 1: 'Reporting and Auditing Framework' contains further information on audit opinions). Three qualified audit opinions were issued for non-compliance with Australian Accounting Standards.

1.4 Significantly, the financial statements of the Territory were qualified because the accounting policy used to account for actuarially assessed movements in the superannuation liability did not comply with Australian Accounting Standards. This non-compliance resulted in the operating results of the Territory and the General Government Sector being significantly overstated.

1.5 Seven unqualified audit opinions contained an 'emphasis of matter' paragraph which referred to performance measures that were not measured or could not be independently verified. Similar to the experience of recent years, the audit reports issued on financial statements identified these problems for only a small number of the audited performance measures.

Agencies should improve their financial statements preparation processes …

1.6 Most financial statements submitted for audit were satisfactory, however, the Office was often required to provide assistance to agencies to bring financial statements to a standard ready for publication.

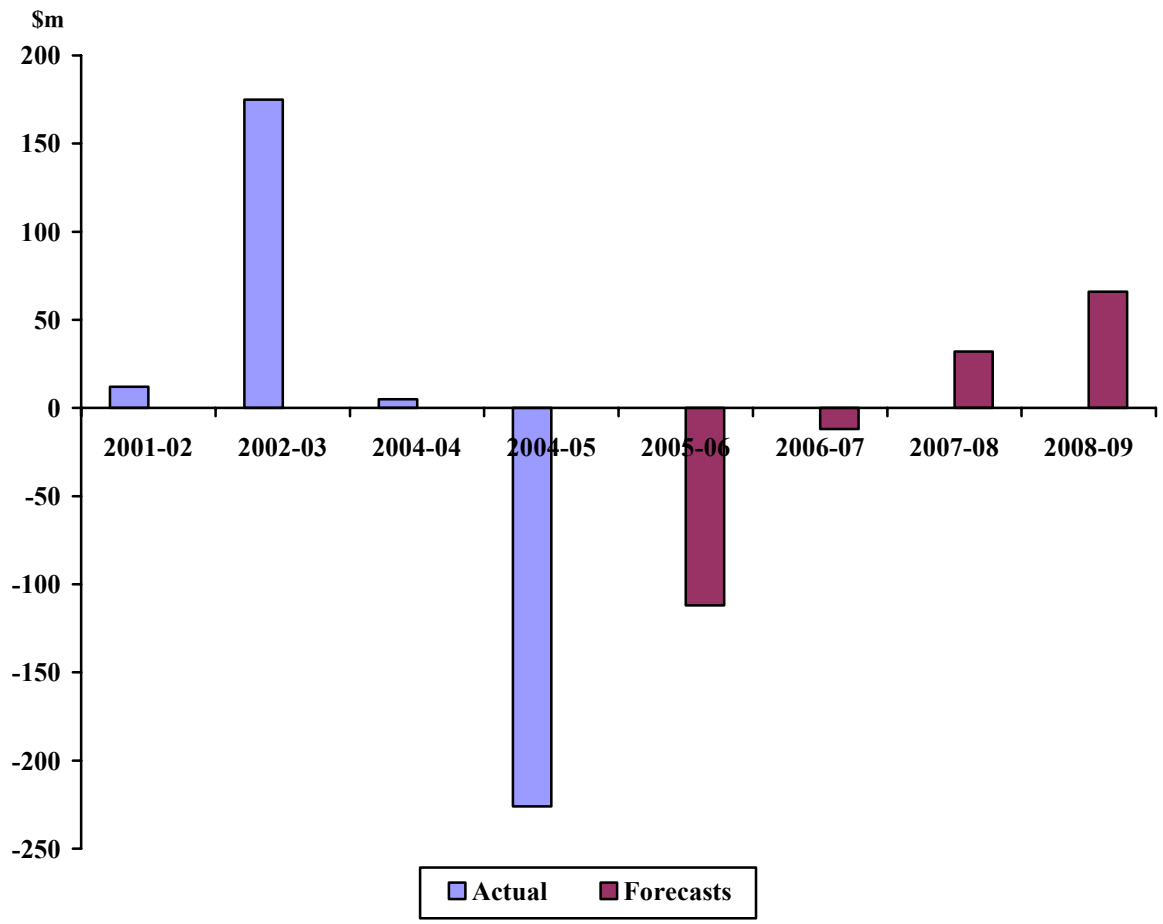
Agencies should improve the timeliness of finalising their financial statements and placing their annual reports on websites …

1.7 Although the Office managed to provide the vast majority of audit opinions on time, most financial statements were not provided to the Office in accordance with Treasury's reporting timetable. The Office also found that many agencies had not placed their annual reports on the relevant website within the required timeframe.

1.8 These problems indicate that there is scope for agencies to improve their processes for preparing their financial statements and annual reports. In particular, more attention needs to be given to complying with the Treasury timetable.

3. THE TERRITORY'S FINANCES

Figure 1.1 Operating Results (as adjusted by Audit*) Year Ended 30 June



*Figures for 2004-05 are adjusted by Audit to reflect compliance with Australian Accounting Standards.

1.9 The Territory's operating result shows the extent to which the costs of service delivery are covered by the revenue raised in a year. The operating result is an important indicator of the financial sustainability of the Government's strategies and policies, particularly when assessed over a number of years.

There is an increased risk of operating results becoming significant deficits in future years …

1.10 Based on figures adjusted by Audit for compliance with Australian Accounting Standards, the Territory incurred an operating deficit of $226m in 2004-05. According to the Budget Papers, the Territory is not expected to return to small operating surpluses until 2007-08.

1.11 These results indicate that there is an ongoing significant risk of deficits especially if negative fluctuations in revenue and higher expenses occur. For example, significant future deficits could be incurred if revenue continues to be adversely affected by slowing property markets or if the Government is unsuccessful in constraining expenses.

The short-term financial position remains strong …

1.12 The Territory's short-term financial position, although having weakened slightly since 30 June 2004, is expected to remain strong over the next few years.

Effective budgetary management is important …

1.13 The Territory's financial assets continued to be less than its liabilities and this shortfall increased by $470m (50.5%) to $1.4 billion in the year to 30 June 2005. This weakening of the Territory's long-term financial position is due to a substantial rise in its unfunded superannuation liabilities coupled with a significant fall in financial assets available to meet these rising liabilities.

1.14 As the Territory continues to use its financial assets to fund capital activities, and does not budget to achieve sufficient surpluses in operating results and cash to match its rising liabilities, its long-term financial position is expected to further weaken. Unfunded liabilities are expected to rise significantly by a further $473m (33.8%) by 30 June 2008.

1.15 The Territory had a negative net cash flow after funding operating and capital activities in 2004-05 for the first time since the data was recorded in 1996-97.

Meeting superannuation obligations continues to be a major challenge …

1.16 As reported in recent years, a major challenge for the Territory is to meet its rapidly rising superannuation liabilities.

1.17 Superannuation liabilities are expected to continue to rise significantly over the next few years. Corresponding increases in investments will be needed to keep pace with the forecast growth in these liabilities. The continued growth in these liabilities raises questions as to whether Government's current strategies to manage the unfunded liabilities will be sufficient to prevent them from growing to the point where significant financial difficulties are experienced in the longer term.

1.18 As the full extent of unfunded superannuation liabilities does not have to be met for some years, there is no current threat to the Territory's finances. However, effective financial management will be critical as these superannuation benefits are paid to an increasing number of retirees over many years.

4. BUDGET MANAGEMENT

1.19 The Territory incurred an operating deficit of $226m in 2004-05 compared to the $26m deficit forecast in the budget, due largely to $214m in unbudgeted actuarially assessed superannuation expenses being incurred.

1.20 Most departments and authorities were found to have managed their operations within their budgets.

1.21 Auditor–General reports over recent years have reported that the allocated capital works budget has been significantly underspent mainly due to delays in projects. While this underspending continued into 2004-05, it was of a smaller proportion of the allocated budget. This suggests there has been some improvement in the delivery of capital projects.

5. AGENCY ISSUES

1.22 Matters of concern noted during the individual audits included:

- ACTEW
  - ACTEW's share of losses in TransACT increased to $19m in 2004-05 from $6m in 2003-04, reflecting a change in accounting policy for calculating the recoverable amount of TransACT's non-current assets.
  - ACTEW's investment in TransACT at 30 June 2005 was $60m (unchanged since 30 June 2002). The reported book value of this investment at 30 June 2005 is nil, reflecting the assessment by the ACTEW Board that there is a significant risk that none of the $60m invested will be recovered in the short to medium term.
- ECOWISE – Several areas were brought to the attention of the ECOWISE Board where controls and accounting practices could be improved.
- Emergency Services Authority - The Audit noted that key features of the corporate governance framework were being established in 2004-05 and were in the initial stages of impacting on the Authority. The internal audit function for the Authority was not established as at 30 June 2005.

- Gold Creek Country Club - The Club identified one instance of alleged fraud involving the issue of three free annual memberships by a staff member during 2004-05. A consultant engaged by the Club advised that the Club did not have effective controls surrounding the recording and management of memberships.
- Insurance Authority - The Authority continues to have insufficient assets to meet its liabilities, a position that has weakened significantly in recent years.
- Totalcare – As reported last year, Totalcare recognised a liability of $17.3m for the estimated superannuation contributions owing in respect of its employees. This liability arose because Totalcare had incorrectly exited the Commonwealth and Public Sector Superannuation Schemes. The exact amount of this liability is still being worked out.

1.23 A range of other matters found during audits was reported to agency management, including control weaknesses, data deficiencies and errors.

1.24 The Office found appropriate actions had been taken to address the following matters that were identified in last year's report:

- ACT Health - Systems used by ACT Health to record and report on its performance measure results have improved significantly from the previous year.
- Legislative Assembly Secretariat - The Secretariat has addressed the significant weaknesses in controls (mainly in relation to payments) reported in the previous year.

5. RESPONSES TO THE REPORT

1.25 Draft sections of the report were provided to management of the relevant agencies for comment.

1.26 A number of Chief Executives provided comments that were incorporated in relevant sections of the report. The Chief Executive of the Department of Treasury provided the following comments in relation to 'The Territory's Financial Statements'.

- *In terms of the qualified audit opinion due to the accounting treatment used for superannuation liability, Note 3 of the Territory's financial statements identifies the basis for the financial reporting, and clearly reports the impact on the financial statements of this treatment. The reporting adopted was consistent with the treatment in the Government's 2005-06 Budget Papers.*

- *Whilst Treasury notes the financial ratio reported (in paragraphs 3.30 and 3.31), it is important to acknowledge that the Government has put in place long-term strategies. Over 60% of the Territory's liabilities are superannuation liabilities, which have a long-term cash impact and will be extinguished over the next 80 to 100 years. The Government remains committed to its strategic financial objectives, including a commitment to a 90% coverage of accrued superannuation liabilities by 2039-40.*

- *The Government recently adopted the 'Public Sector Superannuation Accumulation Plan' (PSSAP) accumulation scheme for new ACT Government employees. As the PSSAP is a fully funded scheme, its introduction will significantly assist in managing the future growth in superannuation liabilities. Further information on this matter is provided at pages 244 and 245 of 2005-06 Budget Paper No. 3.*

- *When considering the Territory's financial position, the overall strength of the balance sheet should be taken into consideration. It is valuable to refer to the recent reports produced by the ratings agencies which assess the Territory's balance sheet as very strong, with a robust financial position capable of absorbing temporary deficit operating results without affecting its rating. Standard and Poor's has recently reaffirmed the ACT's AAA credit rating, making particular reference to the strength of the balance sheet.*

2. SUMMARY OF RESULTS OF FINANCIAL STATEMENT AUDITS

INTRODUCTION

2.1 This chapter provides a summary of the results of the financial statement audits with years ending to 31 December 2004 and 30 June 2005.

HIGHLIGHTS

Audit Reports

- Seventy one (96%) of the 74 audit opinions issued were unqualified.
- Of the 71 unqualified opinions issued, seven (10%) contained an 'emphasis of matter' paragraph indicating performance measures that were not measured or could not be independently verified.
- Three (4%) audit opinions were qualified due to non-compliance with Australian Accounting Standards.

Management Reports

- The Office reported various deficiencies found during audits to the appropriate level of agency management. These deficiencies included areas of control weaknesses such as a lack of segregation of duties, lack of review for employees' payments, inadequate financial reconciliation procedures, poor asset controls and non-compliance with financial delegations.

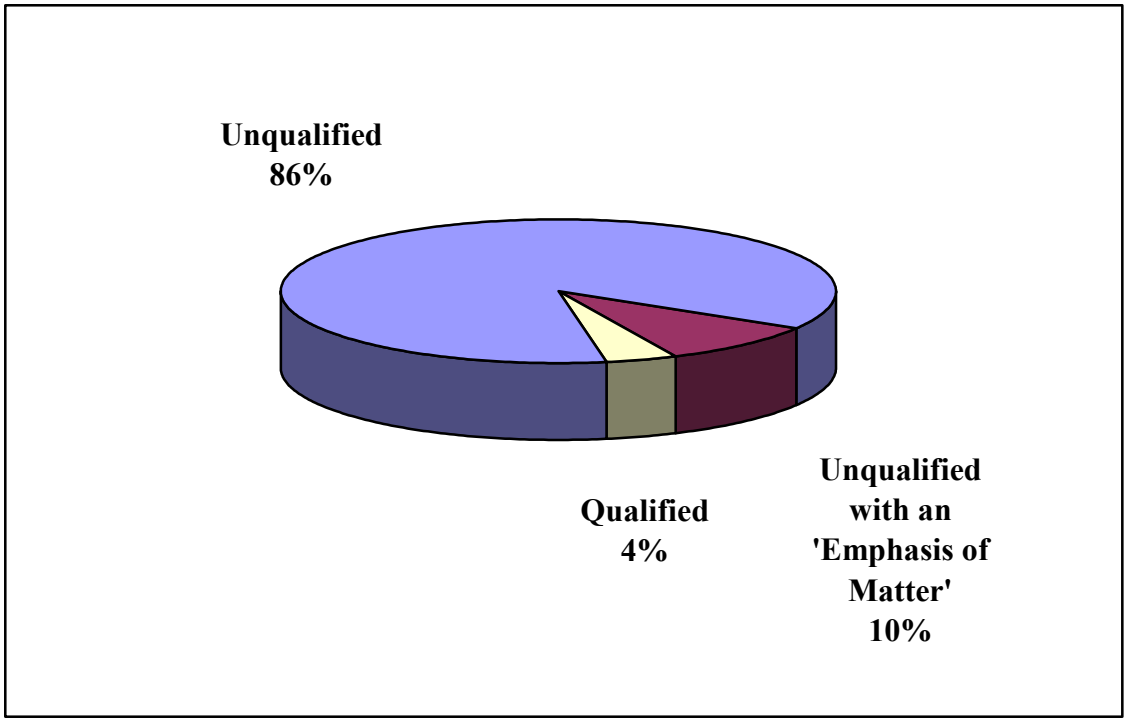
Agency Financial Statements

- As in previous years, the financial statements of many agencies required revision to bring them to a publication standard.
- Many agencies did not comply with the financial statement timetable issued by the Department of Treasury.

Annual Reports

- Many annual reports were not placed on an ACT Government website in a timely manner.

Figure 2.1: Summary of 2004-05 Audit Opinions



RESULTS OF FINANCIAL STATEMENT AUDITS

Table 2.1: Summary of 2004-05 Audit Opinions

Classification of Financial Statements	Unqualified Opinions	Unqualified Opinions with an 'Emphasis of Matter'	Total Unqualified Opinions	'Except for' Qualified Opinions	Total Opinions Issued
Territory	-	-	-	1	1
Departments	13	6	19	1	20
Statutory authorities	20	1	21	-	21
Territory owned corporations and other companies	13	-	13	1	14
Land joint ventures and partnerships	11	-	11	-	11
Other audits	7	-	7	-	7
Total	**64**	**7**	**71**	**3**	**74**

2.2 The Office was satisfied, in all material respects, that the large majority of agency's audited financial statements (96%) complied with Australian Accounting Standards and presented a true and fair view of the financial position and performance of the agency. Qualified opinions were issued for the remaining three (4%).

2.3 Seven unqualified opinions containing an emphasis of matter paragraph were issued because agencies reported performance measures that were not measured or could not be independently verified.

Table 2.2: Audit Opinions Issued in 2004-05

	Type of Opinion	Emphasis of Matter
Territory		
Territory's Consolidated Annual Financial Statements	**Qualified**	No
Departments		
Central Financing Unit	Unqualified	No
Chief Minister's Department	Unqualified	**Yes**
Disability, Housing and Community Services	Unqualified	No
Economic Development	Unqualified	No
Education and Training	Unqualified	No
Emergency Services Authority	Unqualified	No
Executive	Unqualified	No
Forests	Unqualified	**Yes**
ACT Health	Unqualified	No
Home Loan Portfolio	Unqualified	No
Housing ACT	Unqualified	No
InTACT	Unqualified	No
Justice and Community Safety	Unqualified	No
Legislative Assembly Secretariat	Unqualified	No
Office for Children, Youth and Family Support	Unqualified	No
Planning and Land Authority	Unqualified	**Yes**
Superannuation Unit	**Qualified**	No
Treasury	Unqualified	**Yes**
Urban Services	Unqualified	**Yes**
Workcover	Unqualified	**Yes**
Statutory Authorities		
ACTION	Unqualified	No
Australian Capital Tourism Corporation	Unqualified	No
Australian International Hotel School	Unqualified	No
Building and Construction Industry Training Fund Board	Unqualified	No
Canberra Institute of Technology	Unqualified	No
Canberra Public Cemeteries Board	Unqualified	No
Cleaning Industry Long Service Leave Board	Unqualified	No
Construction Industry Long Service Leave Board	Unqualified	No
Cultural Facilities Corporation	Unqualified	No
Gambling and Racing Commission	Unqualified	No
Healthpact	Unqualified	**Yes**
Independent Competition and Regulatory Commission	Unqualified	No
Insurance Authority	Unqualified	No

	Type of Opinion	Emphasis of Matter
Land Development Agency	Unqualified	No
Legal Aid Commission	Unqualified	No
National Exhibition Centre Trust	Unqualified	No
Public Trustee Office Account	Unqualified	No
Public Trustee Trust Account	Unqualified	No
Stadiums Authority	Unqualified	No
University of Canberra	Unqualified	No
Workers' Compensation Supplementation Fund	Unqualified	No
Territory Owned Corporations and Other Companies		
ACTEW China Pty Ltd	Unqualified	No
ACTEW Corporation Ltd	**Qualified**	No
ACTEW Distribution Ltd	Unqualified	No
ACTEW Retail Ltd	Unqualified	No
ACTTAB Ltd	Unqualified	No
CIT Solutions Pty Ltd	Unqualified	No
Community Housing Canberra Ltd	Unqualified	No
ECOWISE Environmental Pty Ltd	Unqualified	No
ECOWISE Environmental (VIC) Pty Ltd	Unqualified	No
Water Quality Centres Pty Ltd	Unqualified	No
Water ECOscience Pty Ltd	Unqualified	No
Rhodium Asset Solutions Ltd	Unqualified	No
Totalcare Industries Ltd	Unqualified	No
University of Canberra College Pty Ltd	Unqualified	No
Land Joint Ventures and Partnerships		
ActewAGL Joint Venture General Purpose Statements	Unqualified	No
ActewAGL Concise Statements	Unqualified	No
ActewAGL Distribution Partnership	Unqualified	No
ActewAGL Retail Partnership	Unqualified	No
Amaroo 3 Joint Venture	Unqualified	No
Amaroo 3 Joint Venture Pty Ltd	Unqualified	No
Gold Creek Country Club Pty Ltd	Unqualified	No
Harcourt Hill Estate	Unqualified	No
Harcourt Hill Estate Pty Ltd	Unqualified	No
Kingston Stage 1A Joint Venture	Unqualified	No
Southside Estate Joint Venture	Unqualified	No
Other Audits		
Canberra Business Development Fund – December 2004	Unqualified	No
Canberra Business Development Fund – June 2005	Unqualified	No
Gungahlin Cemetery Perpetual Care Trust	Unqualified	No
Hall Cemetery Perpetual Care Trust	Unqualified	No
Nicholls Primary School Joint Facilities	Unqualified	No
Nominal Insurer	Unqualified	No
Woden Cemetery Perpetual Care Trust	Unqualified	No

QUALIFIED AUDIT OPINIONS

2.4 Details of the basis for the qualifications issued on the financial statements of the Territory, ACTEW and the Superannuation Unit are provided in Chapters 3 (Territory) and 4 (ACTEW and the Superannuation Unit).

'EMPHASIS OF MATTER' PARAGRAPHS

Table 2.3: Emphasis of Matter Paragraphs

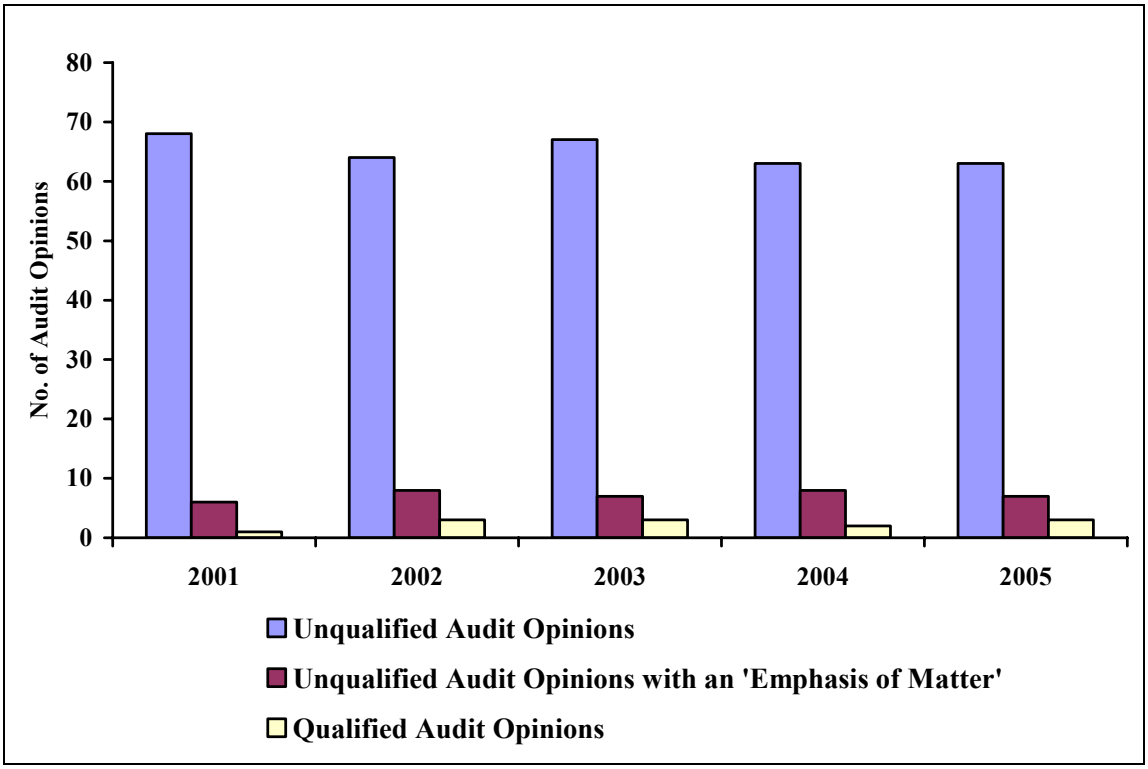
Agency	Performance measures reported as 'not measured' or 'not independently verifiable'
Healthpact	3
Chief Minister's Department	2
Forests	1
Planning and Land Authority	1
Urban Services	1
Treasury	1
Workcover	1
Total	**10**

2.5 The performance measures referred to in the emphasis of matter paragraphs were only a small proportion (1%) of the total number audited (around 1,100), indicating that the Office was able to obtain sufficient audit evidence to verify the reported results for nearly all performance measures.

2.6 During the audits, the Office alerted agencies to instances where performance measures were incorrectly reported, poorly defined and/or were not supported by sufficient evidence. In most cases, the agencies were able to address these deficiencies before the audit was completed. These problems indicate there is scope for agencies to improve systems used to report on performance measures.

TREND IN AUDIT OPINIONS

Figure 2.2: Trend in Audit Opinions



2.7 The number and type of opinions issued has not changed significantly in recent years.

MANAGEMENT REPORTS

2.8 The main purpose of a financial statement audit is to express an opinion on the financial statements of an agency. However, other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. In accordance with the Australian Auditing Standards, the Office reports these matters to the management of the agency.

2.9 Many agencies are provided with an audit management report. However, deficiencies identified in this report are not normally brought to the attention of the Legislative Assembly unless it is serious (for example, where a significant legislative breach or fraud is identified) or systemic (for example, widespread weaknesses in internal controls) that public reporting is warranted to facilitate a proper level of accountability.

2.10 The management report refers to a number of areas where agencies can improve controls and accounting practices, and includes, for example, the ECOWISE group, Emergency Services Authority and the Gold Creek Country Club. The management report on the Gold Creek Country Club also refers to one instance of alleged fraud identified by the Club.

2.11 Management reports provided to agencies advised of instances where:

- agencies had not complied with the Department of Treasury timetable for submitting their financial statements to the Office;
- there were minor differences between versions of financial statements upon which the audit opinion was provided and those published by agencies;
- stocktakes of information technology assets had not been performed;
- no evidence was kept of checks of the correctness of wage and salary payments;
- definitions of measures reported in statements of performance were unclear;
- there was inadequate evidence to support reported performance measure results;
- reconciliation procedures for financial statement balances were inadequate;
- there was no evidence of monitoring of changes to supplier records;
- cash management functions were not appropriately segregated, leading to increased risk of fraud and error; and
- bank reconciliations had not been conducted in a timely manner and documentary evidence of review was not kept.

AGENCY FINANCIAL STATEMENTS

2.12 Although most financial statements presented to the Office were found to be satisfactory, a number of agencies were alerted to errors in their financial statements with many statements needing revision to bring them to a publication standard.

2.13 Most agencies did not comply with the Department of Treasury timetable for the submission of financial statements to the Office for audit. Only 31% (2003-04 43%) of agencies complied with the timetable for the provision of statements. Failure by agencies to meet the Treasury timetable increases the risk that:

- agencies will not meet their annual reporting requirements under the *Annual Reports (Government Agencies) Act 2004*; and
- the financial statements of the Territory and its agencies will not be tabled in the Legislative Assembly on a timely basis.

2.14 There is scope for improving the quality and timing of reporting processes in the Territory.

ANNUAL REPORTS

2.15 Subsequent to providing audit opinions on agency financial statements, the Office reviewed whether the electronic version of annual reports had been placed on an ACT Government website in accordance with the Annual Reports Directions issued by the Chief Minister's Department.

2.16 The Annual Reports Directions required agencies to place their annual reports, including the audited financial statements, on the relevant website as soon as the annual reports were made available to the Legislative Assembly. As there were no sittings of the Legislative Assembly in the last week of September, 2004-05 annual reports were to be provided 'out of session' on or before 30 September and were to have been placed on the website by no later than that date.

2.17 The Office found that roughly half of the annual reports had not been placed on the website by 6 October 2005. However, around 90% of the annual reports were placed on the websites by 10 October 2005.

3. THE TERRITORY'S FINANCIAL STATEMENTS

INTRODUCTION

3.1 This chapter comments on the results of the audit of the Territory's financial statements including the financial statements of the General Government and Public Trading Enterprises Sectors.

3.2 The audit opinions on the Territory's financial statements for the current and recent years (except for 2003-04) were **qualified** as a result of non-compliance with Australian Accounting Standards in relation to the Territory's accounting for its superannuation liability. This chapter presents the financial results and projected information that would have been reported if the Territory's financial statements and projected information reported in the 2005-06 Budget Papers had always been prepared in accordance with these accounting standards.

AUDIT OPINION

- A **qualified** audit opinion on the Territory's 2004-05 financial statements was provided to the Treasurer on 18 October 2005 because the accounting treatment for the movements in the actuarially assessed superannuation liability did not comply with the applicable Australian Accounting Standards.
- Had the Territory's financial statements complied with Australian Accounting Standards, the 'Operating Deficit from Ordinary Activities' would have been $226m and not the reported deficit of $12m, and the operating result would have been a deficit of $188m and not the reported surplus of $26m for the General Government Sector.
- Although the accounting treatment for superannuation did not comply with the relevant accounting standards in 2004-05, the accounting treatment used in 2004-05 is expected to be permitted under AASB 119 'Employee Benefits' for the 2005-06 financial statements and beyond.

OPERATING RESULTS (AS AMENDED BY AUDIT)

- The Territory incurred an operating deficit of $226m in 2004-05 compared to the $26m deficit forecast in the budget.
- The Territory is again expected to operate at a deficit ($112m) in 2005-06 before gradually returning to small surpluses in 2007-08 and 2008-09.
- Given the current deficit and projected results, there is a significant risk that the operating results could continue to be in deficits, in particular, if adverse fluctuations in revenue and expenses occur in future years.

FINANCIAL POSITION

Net Asset Position

- The Territory's net assets fell slightly in 2005 (by $115m or 1.2%) compared to 2004, but remains significantly higher than in recent years.

- Growth in property, plant and equipment valuations and purchases contributed to steady increases in the Territory's assets in recent years. Liabilities have also risen, reflecting the continuing significant increases in unfunded superannuation liabilities, which have more than doubled since 30 June 2002.

Short Term Financial Position

- The Territory has a strong short-term financial position with $5.60 in current assets being available to cover each dollar of current liabilities at 30 June 2005.

- The Territory's short-term financial position has weakened marginally over the last 12 months to 30 June 2005.

- The Territory's ability to cover its current liabilities is expected to remain at healthy levels for the next few years.

Long Term Financial Position

- Over recent years, the Territory's long-term financial position has weakened significantly, with most of the decline occurring over the 12 months to 30 June 2005. This decline is primarily due to a substantial rise in the Territory's unfunded superannuation liabilities combined with a large fall in financial assets.

- As at 30 June 2005, the Territory had $0.45 in financial assets available to meet each dollar of liabilities compared to $0.60 at 30 June 2004.

- The Territory's long-term financial position is expected to further weaken over the next few years. By 30 June 2008, it is expected that there will be $0.32 in financial assets to cover each dollar of liabilities compared to $0.45 at 30 June 2005.

- The longer-term impact on superannuation liabilities of the new 'Public Sector Superannuation Accumulation Plan' for new employees is yet to be assessed, however, as it is a fully funded superannuation plan, it should assist in managing the future growth in superannuation liabilities.

CASH FLOWS

- Net cash inflows from operating activities in 2004-05 ($161m) were substantially less than in previous years due to significant increases in operating payments (particularly employee and other operating costs).
- Net outflows from capital activities ($277m) were about the same as in 2003-04 ($264m).
- The Territory's net cash flows in 2004-05 after meeting operating and capital activities were negative in 2004-05 (-$116m) for the first time since the data was reported in 1996-97, and are not expected to return to positive levels until 2007-08. The expected return to positive cash flows is, however, dependent on the Government's ability to achieve a steady growth in operating cash flows and a substantial reduction in payments on capital activities.

REVENUE AND EXPENSES

Revenue

- Revenue fell by $101m (3.4%) in 2004-05. The largest decreases were from land sales ($88m), asset revaluations ($73m) and taxes ($35m), partially offset by higher superannuation investments returns ($45m) and Commonwealth grants ($45m).

Expenses

- Expenses rose by $130m (4.4%) in 2004-05 mostly due to higher employee expenses ($75m) and grants and purchased services ($33m).
- The growth rate in expenses has slowed in 2004-05 compared to the significant rises experienced in recent years.

CAPITAL ASSETS

- Capital works funding was underspent by $26m (12%) in 2004-05 due mainly to delays in projects. This under-expenditure was of a smaller proportion compared to previous years and suggests there was some improvement in the delivery of capital projects.

AUDIT OPINION

3.3 In 2003-04, the accounting policy adopted by the Government for the liabilities of the Territory and its agencies relating to employer superannuation ('the superannuation liability') was to include actuarially assessed increases (unrealised losses) or decreases (unrealised gains) in the superannuation liability in the operating results of the Territory and the General Government Sector.

3.4 The Government changed this accounting policy in 2004-05 by recording these movements directly against equity.

3.5 This accounting policy is not permitted under Australian Accounting Standards AASB 1018: 'Statement of Financial Performance' and AAS 31: 'Financial Reporting by Governments' because these unrealised losses are 'expenses' and are therefore required to be included in the operating results of the Territory and the General Government Sector. The effects of this departure from these Australian Accounting Standards are that the reported expenses and operating results are misstated by $214m in the financial results presented in the Consolidated Statement of Financial Performance of the Territory and the General Government Sector.

3.6 For the Territory results, had the Australian Accounting Standards been complied with, then the 'Total Expenses from Operating Activities' would have been $3,052m and not the reported amount of $2,838m and the 'Operating Deficit from Ordinary Activities' would have been $226m and not the reported deficit of $12m.

3.7 For the General Government Sector, had the Australian Accounting Standards been complied with, then the 'Total Expenses from Operating Activities' would have been $2,896m and not the reported amount of $2,682m and the 'Operating Surplus from Ordinary Activities' would have been an operating deficit of $188m and not the reported operating surplus of $26m.

3.8 The accounting policy adopted by the Territory is expected to be permitted under AASB 119: 'Employee Benefits' for the 2005-06 financial statements and onwards.

3.9 The Chief Executive of the Department of Treasury provided the following comment on the qualified audit opinion:

> *In terms of the qualified audit opinion due to the accounting treatment used for the superannuation liability, Note 3 of the Territory's financial statements identifies the basis for the financial reporting, and clearly reports the impact on the financial statements of this treatment. The reporting adopted was consistent with the treatment in the Government's 2005-06 Budget Papers.*

OPERATING RESULTS (AS AMENDED BY AUDIT)

3.10 The operating result shows the extent to which the costs of service delivery are covered by the revenue raised in that year. When assessed over a number of years, the operating result is an important indicator of the financial sustainability of the Government's strategies and policies.

3.11 To better reflect the trend in the Territory's financial performance, revenue and expenses relating to the January 2003 bushfire are regarded as 'extraordinary' and have therefore been excluded from this analysis. Net extraordinary revenue/(expenses) were $20m in 2002-03 and ($13m) in 2003-04.

3.12 Further, for the purpose of this analysis, the budgeted expenses ($2,723m) and operating deficit of $28m as reported in 2004-05 Budget Paper No. 3 have been amended to exclude the effects of amortising the actuarial gain/(loss) on superannuation liability to reflect compliance with Australian Accounting Standards. (The Superannuation Unit provided the budget projections for the effects of amortisation on the actuarial gain/(loss) on superannuation liability).

Table 3.1: Operating Results

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Budget 2004-05 $m
Revenue	2,354	2,588	2,928	2,827	2,695
Expenses	2,342	2,413	2,923	3,053	2,721
Operating surplus/(deficit)	**12**	**175**	**5**	**(226)**	**(26)**
Operating surplus/(deficit) as a percentage of revenue	**0.5%**	**6.8%**	**0.2%**	**(8.0%)**	**(1.0%)**

3.13 The Territory's operating result in 2004-05 was $200m below budget. This was mainly due to $214m in unbudgeted actuarially assessed superannuation expenses.

Expected Trends

Table 3.2: Projected Operating Results

	Actual 2004-05 $m	Budget 2005-06 $m	Budget 2006-07 $m	Budget 2007-08 $m	Budget 2008-09 $m
Revenue	2,827	2,855	3,003	3,158	3,310
Expenses	3,052	2,967	3,015	3,126	3,244
Operating (deficit)/surplus (Note 1)	**(226)**	**(112)**	**(12)**	**32**	**66**
Operating (deficit)/surplus as a percentage of revenue	**(8.0%)**	**(3.9%)**	**(0.4%)**	**1.0%**	**2.0%**

Note 1: Projected figures are sourced from 2005-06 Budget Paper No.3.

3.14 The Territory is forecast to operate at a deficit for the next two years before gradually moving towards small surpluses in 2007-08 and 2008-09.

3.15 In light of the 2004-05 deficit results, there is an increased risk of significant deficits occurring in the near future, especially if revenue continues to be affected by slow property markets, and if there is a lack of Government success in constraining expenses.

FINANCIAL POSITION

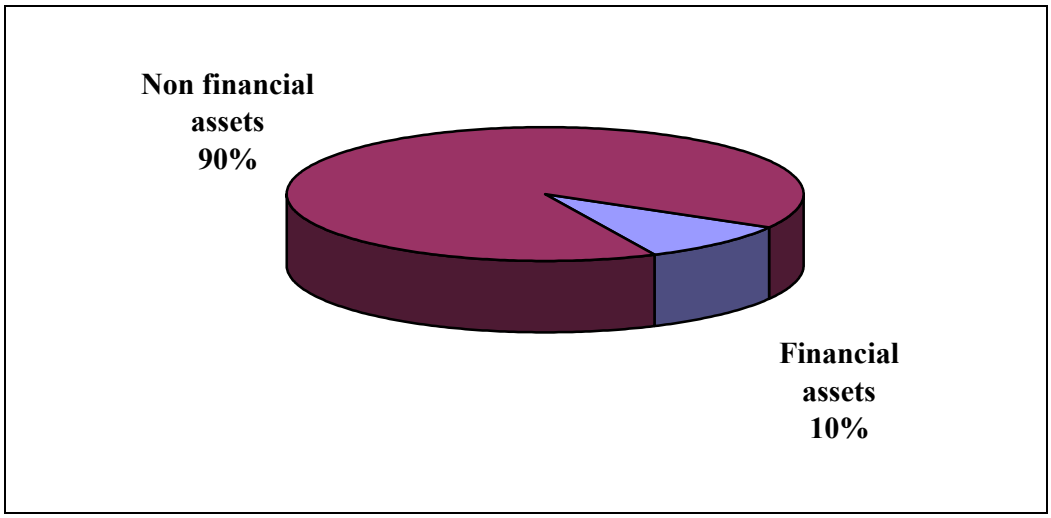
3.16 The Statement of Financial Position summarises the Territory's assets and liabilities and is an important indicator of the Territory's financial strength.

ASSETS AND LIABILITIES

3.17 The Territory's assets are mostly (90%) comprised of assets that are not readily convertible to cash and therefore cannot, in the normal course of events, be converted to cash in order to cover the Territory's liabilities. These assets are generally comprised of property, plant and equipment such as land, buildings, infrastructure, capital works and investments in joint ventures and other entities.

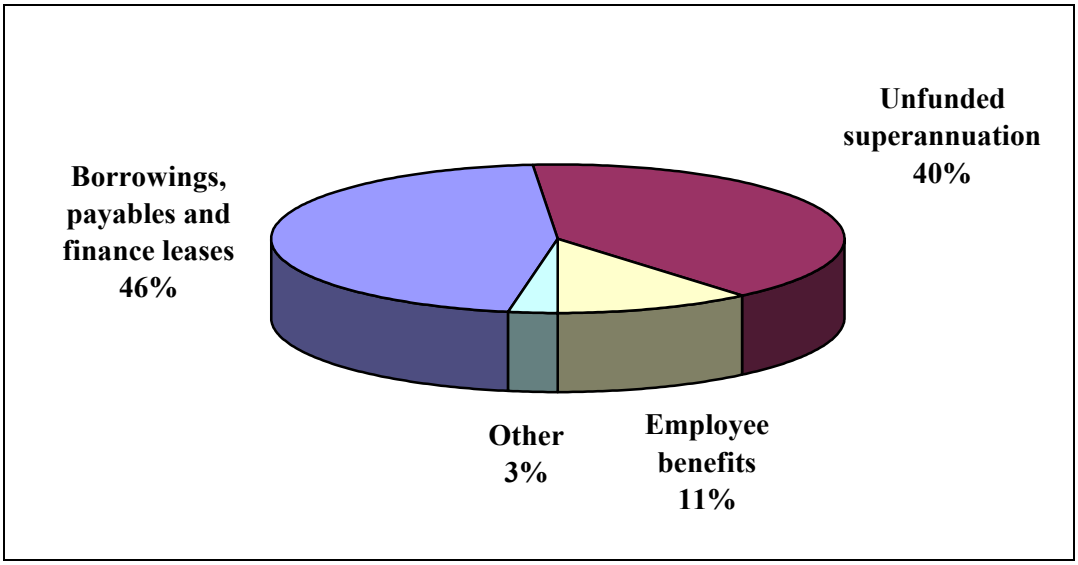
3.18 The remaining financial assets (10%) are generally comprised of cash, receivables and investments and are comparatively easy to convert to cash to cover the Territory's liabilities.

Figure 3.1: Composition of Assets at 30 June 2005



3.19 Figure 3.2: Composition of Liabilities at 30 June 2005 (below) shows that almost half of the Territory's liabilities are comprised of borrowings, payables and finance leases with the remainder being mostly represented by employee related liabilities, including unfunded superannuation liabilities. 'Unfunded superannuation liabilities' are discussed further in the 'Superannuation Unit' section in Chapter 4.

Figure 3.2: Composition of Liabilities at 30 June 2005



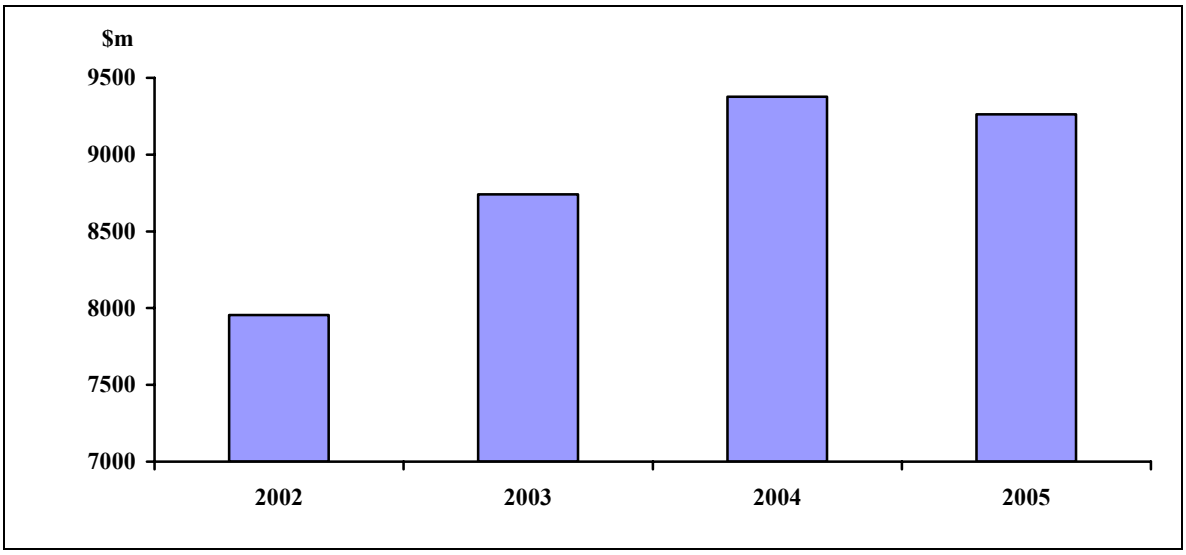
CHANGES IN THE TERRITORY'S FINANCIAL POSITION

Table 3.3: Statement of Financial Position

	Actual 2002 $m	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %	Actual 2005 $m	Variation from prior year %
Assets							
Financial assets	1,081	1,326	22.7	1,414	6.6	1,166[1]	(17.5)
Non financial assets	8,792	9,502	8.1	10,309	8.5	10,664	3.4
	9,873	**10,828**	**9.7**	**11,723**	**8.3**	**11,830**	**0.9**
Liabilities							
Borrowings, payables and finance leases	1,127	1,120	(0.6)	1,151	2.8	1,178	2.3
Unfunded superannuation	507	606	19.5	851	40.4	1,031	21.2
Employee benefits	235	271	15.3	291	7.4	291	0.0
Other	49	91	85.7	52	(42.9)	67	30.8
	1,918	**2,088**	**8.9**	**2,345**	**12.3**	**2,567**	**9.5**
Net assets	**7,955**	**8,740**	**9.9**	**9,378**	**7.3**	**9,263**	**(1.2)**

[1] Financial assets are represented by the $3,019m in financial assets as recorded in Note 46 of the 2004-05 Territory's financial statements less the Territory's investments in joint ventures of $381m, and superannuation investments of $1,472m as reported in the Superannuation Unit's financial statements.

Figure 3.3: Net Assets Over Recent Years



3.20 Net assets fell slightly (by $115m or 1.2%) from 2004 levels. Notwithstanding this small decrease, the level of net assets remains substantially higher than in 2002. The growth experienced in net assets over the period from 2002 to 2004 was mainly due to increasing valuations for property, plant and equipment, which exceeded the significant growth in the Territory's unfunded superannuation liabilities.

SHORT TERM FINANCIAL POSITION

Table 3.4: Short Term Financial Position

	Actual 2002 $m	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %	Actual 2005 $m	Variation from prior year %
Current assets							
Financial assets[2]	1,081	1,326	22.7	1,414	6.6	1,166	(17.5)
Funded superannuation assets[3]	922	1,000	8.5	1,193	19.3	1,412	18.4
	2,003	**2,326**	**16.1**	**2,607**	**12.1**	**2,578**	**(1.1)**
Current liabilities							
Current liabilities[4]	553	637	15.2	419	(34.2)	460	9.8
Net current assets	**1,450**	**1,689**	**16.5**	**2,188**	**29.5**	**2,118**	**(3.2)**
Current assets to current liabilities	**3.62 to 1**	**3.65 to 1**		**6.22 to 1**		**5.60 to 1**	

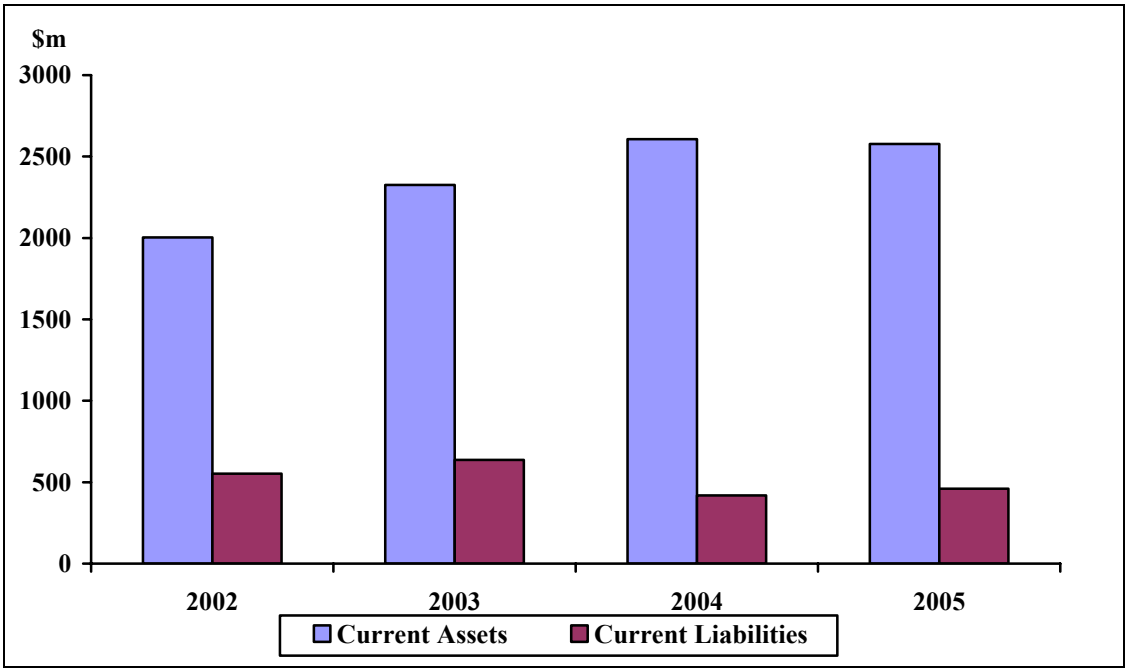
[2] 'Financial assets' exclude Territory's investments in joint ventures and superannuation investments.
[3] 'Funded superannuation assets' are calculated by subtracting current employee superannuation benefits as reported in the Territory's financial statements from superannuation investments as reported in Superannuation Unit's financial statements.
[4] These figures are calculated by subtracting current employee superannuation benefits and 'unrealised gain from actuarial review of employee superannuation benefits' from total current liabilities as reported in the Territory's financial statements over these years.

3.21 The 'short term' generally refers to the next 12 month period. The Territory's 'short term' financial position can be assessed by comparing the amount of assets available to cover liabilities that are expected to be payable over the next 12 months.

Past Trends

3.22 Consistent with recent years, the Territory has retained its strong short-term financial position with $5.60 in current assets being available to cover each dollar of current liabilities at 30 June 2005.

Figure 3.4: Comparison of Current Assets to Current Liabilities Over Recent Years



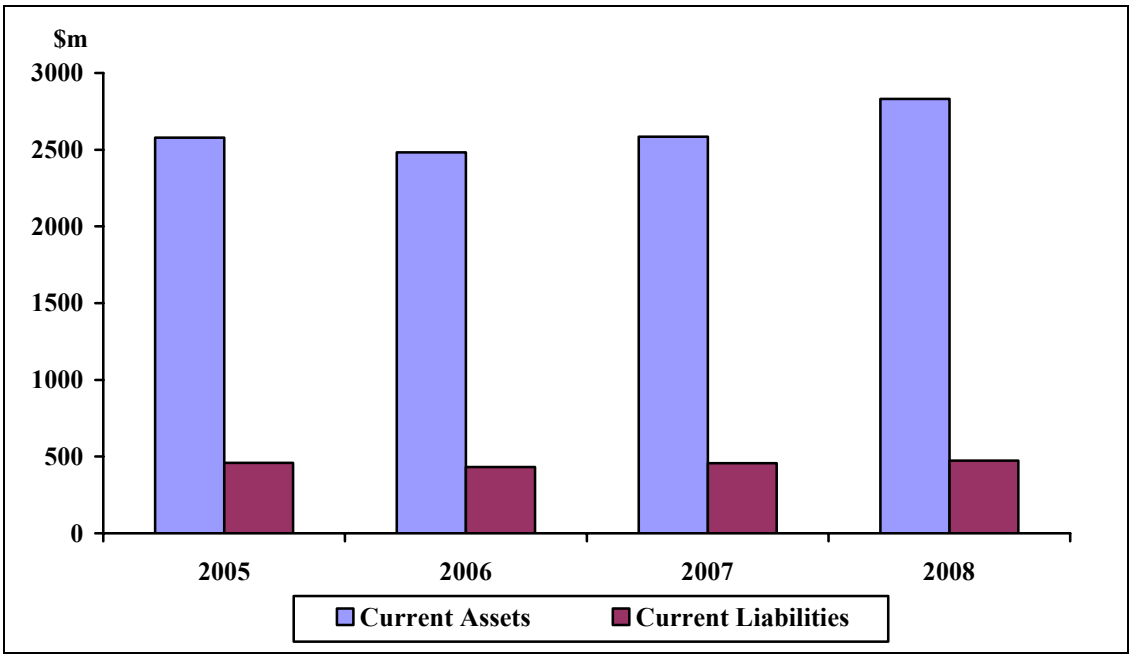
3.23 The Territory's short-term financial position is strong but has declined slightly since 30 June 2004.

Expected Trends

Table 3.5: Short-Term Financial Position (Projections)

	Actual 2005 $m	Budget 2006 $m	Variation from prior year %	Budget 2007 $m	Variation from prior year %	Budget 2008 $m	Variation from prior year %
Current assets							
Financial assets	1,166	923	(20.8)	831	(10.0)	873	5.1
Funded superannuation assets	1,412	1,561	10.6	1,756	12.5	1,961	11.7
Total current assets	**2,578**	**2,484**	**(3.6)**	**2,587**	**4.1**	**2,834**	**9.5**
Current liabilities[5]	460	432	(6.1)	457	5.8	475	3.9
Net current assets	**2,118**	**2,052**	**(3.1)**	**2,130**	**3.8**	**2,359**	**10.8**
Current assets to current liabilities	**5.60 to 1**	**5.75 to 1**		**5.66 to 1**		**5.97 to 1**	

Figure 3.5: Comparison of Current Assets to Current Liabilities Over the Next Few Years



3.24 The Territory's ability to cover its current liabilities is expected to remain at healthy levels for the next few years.

[5] These figures are calculated by subtracting current employee superannuation benefits from total current liabilities as reported in the Territory's financial statements over these years.

LONG TERM FINANCIAL POSITION

3.25 The Territory's long-term financial position can be assessed by comparing the amount of financial assets to its liabilities.

3.26 Assets that are generally considered to be available to cover long-term (i.e. the period beyond 12 months) liabilities exclude 'non financial assets'. Although some of these assets might be realisable to meet liabilities over the long-term, most are not available to do so. Many of the Territory's assets (for example, infrastructure assets essential to the provision of Government services to the community) are not realistically available to be sold to meet long-term debt.

3.27 The Territory's financial assets are therefore the primary means of covering short and long-term obligations even though a significant amount of the Territory's liabilities, particularly superannuation liabilities, are not due and payable for several years.

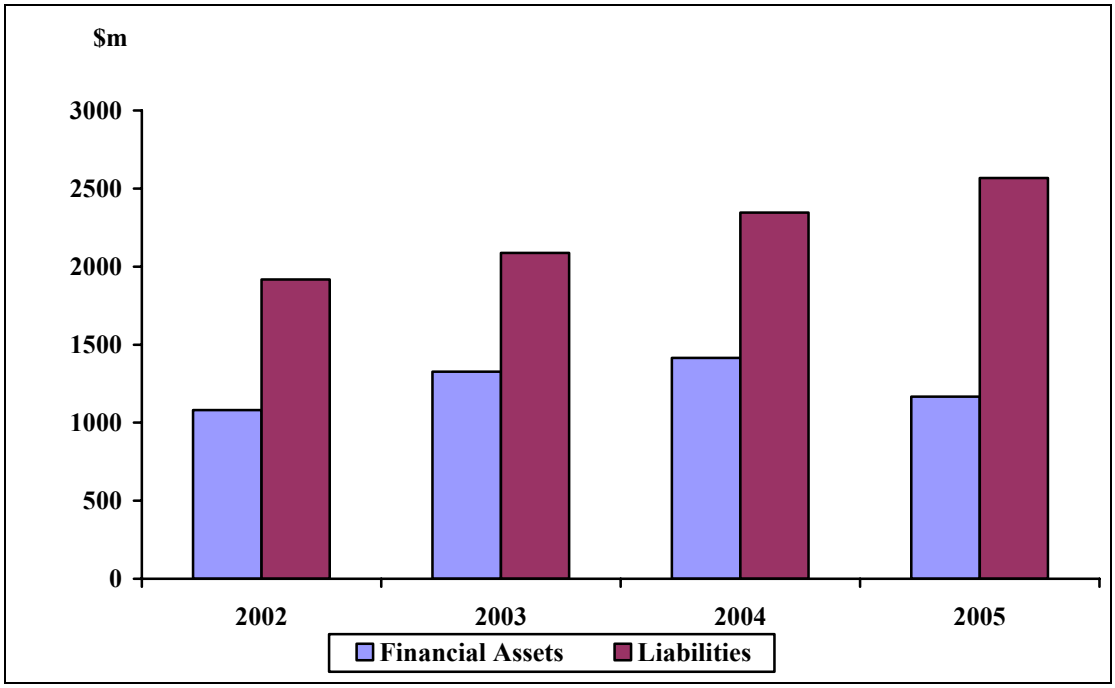
Past Trends

3.28 The extent of the shortfall in the Territory's financial assets to cover liabilities over recent years is presented below.

Table 3.6: Unfunded Financial Liabilities (including Superannuation Liabilities)

	Actual 2002 $m	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %	Actual 2005 $m	Variation from prior year %
Financial assets	1,081	1,326	22.7	1,414	6.6	1,166	(17.5)
Unfunded superannuation liabilities	(507)	(606)	19.5	(851)	40.4	(1,031)	21.2
Other liabilities	(1,411)	(1,482)	5.0	(1,494)	0.8	(1,536)	2.8
Liabilities	(1,918)	(2,088)	8.9	(2,345)	12.3	(2,567)	9.5
Unfunded financial liabilities	**837**	**762**	**(9.0)**	**931**	**22.2**	**1,401**	**50.5**
Ratio of financial assets to financial liabilities	**0.56 to 1**	**0.64 to 1**		**0.60 to 1**		**0.45 to 1**	

Figure 3.6: Comparison of Financial Assets to Liabilities Over Recent Years



3.29 The Territory's financial assets have been less than its liabilities in recent years and this long-term financial position has deteriorated significantly since 30 June 2004 with most of the decline occurring in the year to 30 June 2005.

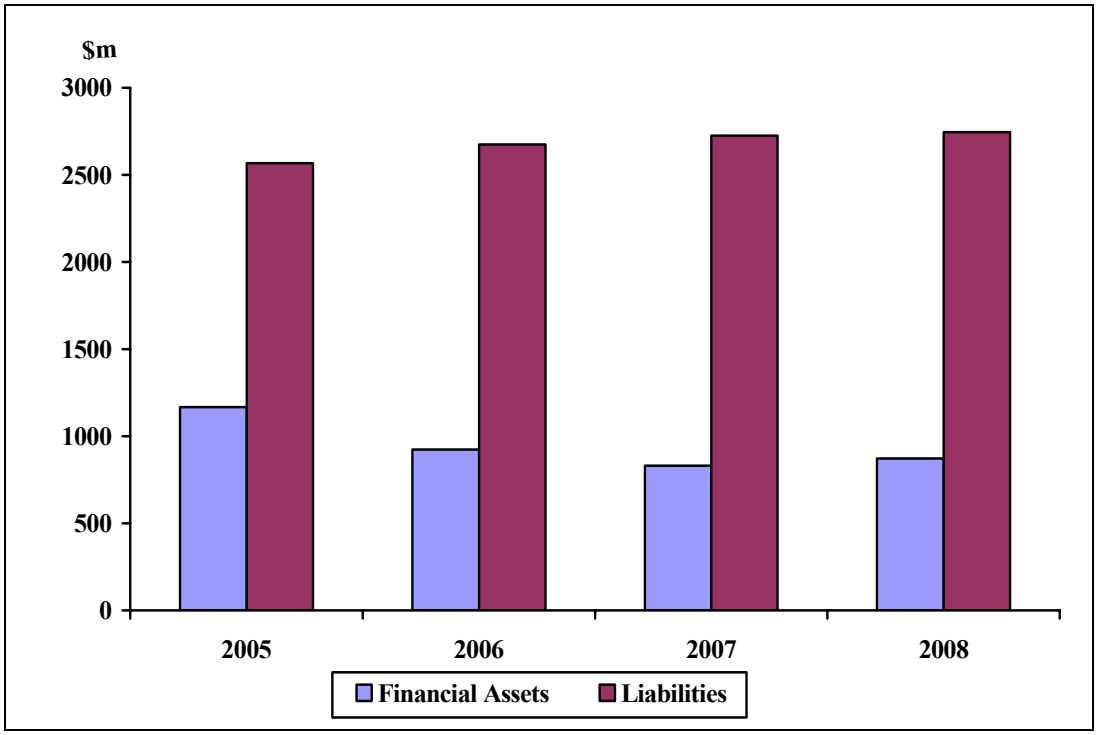
3.30 At 30 June 2005, the Territory had $0.45 in financial assets available to cover each dollar of financial liabilities compared to $0.60 at 30 June 2004. This decline is due to the increase in the unfunded superannuation liabilities coupled with a significant fall in financial assets available to meet these rising liabilities.

Expected Trends

Table 3.7: Assets Available to Meet Territory's Liabilities (Projections)

	Actual 2005 $m	Budget 2006 $m	Variance from prior year %	Budget 2007 $m	Variance from prior year %	Budget 2008 $m	Variance from prior year %
Assets							
Financial assets	1,166	923	(20.8)	831	(10.0)	873	5.1
Liabilities							
Unfunded superannuation liabilities[6]	(1,031)	(1,080)	4.8	(1,098)	1.7	(1,105)	0.6
Other liabilities	(1,536)	(1,595)	3.8	(1,628)	2.1	(1,642)	0.9
	(2,567)	**(2,675)**	**4.2**	**(2,726)**	**1.9**	**(2,747)**	**0.8**
Unfunded liabilities	**1,401**	**1,752**	**25.1**	**1,895**	**8.2**	**1,874**	**(1.1)**
Ratio of financial assets to liabilities	**0.45 to 1**	**0.35 to 1**		**0.30 to 1**		**0.32 to 1**	

Figure 3.7: Comparison of Financial Assets to Liabilities Over the Next Few Years



[6] 'Unfunded superannuation' is the amount by which superannuation liabilities exceed superannuation investments. 'Unfunded superannuation liabilities' are discussed in Chapter 4.

3.31 Over the next few years, the Territory's long-term financial position is expected to weaken further with the expected shortfall in the Territory's financial assets to cover its liabilities rising by $473m (33.8%) to $1,874m in 2007-08. By 30 June 2008, it is expected that there will be $0.32 in financial assets to cover each dollar of these liabilities compared to $0.45 at 30 June 2005.

3.32 This weakening in the Territory's long-term financial position is mainly due to an expected substantial fall in financial assets coupled with increasing liabilities over the next few years. The Territory continues to use its financial assets to fund capital activities and at the same time does not budget to achieve a sufficient surplus in operating and cash results for these years to match its rising liabilities (particularly the superannuation liabilities).

3.33 The Chief Executive of the Department of Treasury provided the following comments on the Territory's long-term financial position:

> *Whilst Treasury notes the financial ratio reported (in paragraphs 3.30 and 3.31), it is important to acknowledge that the Government has put in place long-term strategies. Over 60% of the Territory's liabilities are superannuation liabilities, which have a long-term cash impact and will be extinguished over the next 80 to 100 years. The Government remains committed to its strategic financial objectives, including a commitment to a 90% coverage of accrued superannuation liabilities by 2039-40.*
>
> *The Government recently adopted the 'Public Sector Superannuation Accumulation Plan' (PSSAP) accumulation scheme for new ACT Government employees. As the PSSAP is a fully funded scheme, its introduction will significantly assist in managing the future growth in superannuation liabilities. Further information on this matter is provided at pages 244 and 245 of 2005-06 Budget Paper No. 3.*
>
> *When considering the Territory's financial position, the overall strength of the balance sheet should be taken into consideration. It is valuable to refer to the recent reports produced by the ratings agencies which assess the Territory's balance sheet as very strong, with a robust financial position capable of absorbing temporary deficit operating results without affecting its rating. Standard and Poor's has recently reaffirmed the ACT's AAA credit rating, making particular reference to the strength of the balance sheet.*

CASH FLOWS

Table 3.8: Cash Flows from Operating and Capital Activities[7]

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m
Cash flows from operating activities				
Receipts	2,371	2,530	2,811	2,787
Payments	(1,955)	(2,051)	(2,340)	(2,626)
Net cash inflows from operating activities	**416**	**479**	**471**	**161**
Cash flows from capital activities				
Payments for property, plant and equipment and capital works	(202)	(210)	(309)	(306)
Sale of property, plant and equipment	45	38	45	29
Net outflows from capital activities	**(157)**	**(172)**	**(264)**	**(277)**
Net cash inflows after funding operating and capital activities	**259**	**307**	**207**	**(116)**
Net cash inflows after funding operating and capital activities as a percentage of operating receipts	**10.9%**	**12.1%**	**7.4%**	**(4.2%)**

3.34 The Statement of Cash Flows informs readers about the amount of cash provided by the Territory's main revenue sources and how much of this cash was used on 'operating' and 'capital' activities.

3.35 'Cash flows from operating activities' are those receipts and payments that relate to the operations of the Territory in providing goods and services. 'Operating receipts' include cash received from taxes, fees and fines, receipts from providing goods and services and grants received from the Commonwealth. 'Operating payments' include payments to employees and contractors and other costs of the Territory's operations.

3.36 'Cash flows from capital activities' are mostly comprised of payments for property, plant and equipment and capital works.

[7] Cash flows relating to the January 2003 bushfire are regarded as 'extraordinary' and have been excluded from this analysis. Net cash outflows from the January 2003 bushfire were $3m in 2003-04 and $1m in 2004-05.

Cash Flows from Operating Activities

3.37 Operating receipts fell slightly by $24m (0.9%) compared to 2003-04, reversing the steady growth trend of recent years.

3.38 Operating payments continued the steady upward trend of previous years and grew by $286m (12.2%) in 2004-05 due mainly to higher employee costs and other operating costs (including materials, equipment and supplies costs).

3.39 As a result, net cash inflows from operating activities ($161m) were much smaller than in 2003-04.

Cash Flows from Capital Activities

3.40 Net outflows from capital activities were about the same as in 2003-04.

Net Cash Inflows after Funding Operating and Capital Activities

3.41 Net cash inflows after funding operating and capital activities provides an indication of the Territory's ability to accumulate cash to meet its future liabilities.

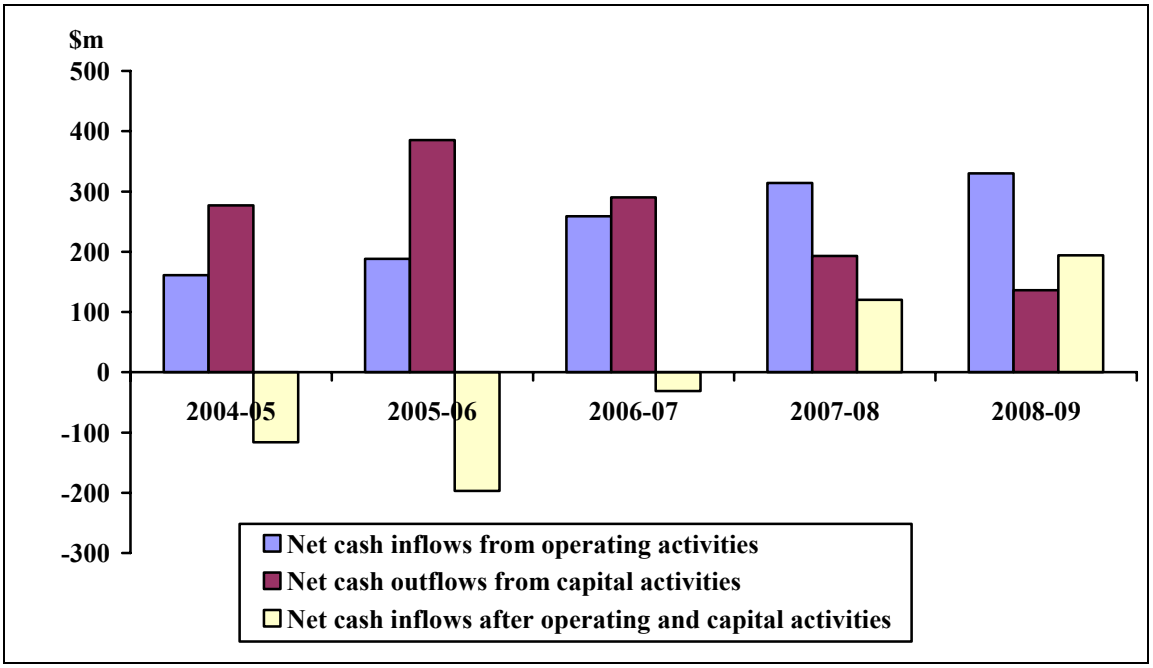
3.42 In 2004-05, net cash inflows after funding operating and capital activities fell significantly by $323m to be in a deficit of $116m for the first time since the data was recorded in 1996-97.

Expected Trends

Table 3.9: Projected Cash Flows from Operating and Capital Activities

	Actual 2004-05 $m	Budget 2005-06 $m	Budget 2006-07 $m	Budget 2007-08 $m	Budget 2008-09 $m
Cash flows from operating activities					
Receipts	2,787	2,898	2,999	3,131	3,271
Payments	(2,626)	(2,710)	(2,740)	(2,818)	(2,941)
Net cash inflows from operating activities	**161**	**188**	**259**	**313**	**330**
Net cash outflows from capital activities	**(277)**	**(385)**	**(290)**	**(193)**	**(136)**
Net cash (outflows)/inflows after funding operating and capital activities	**(116)**	**(197)**	**(31)**	**120**	**194**
Net cash inflows/(outflows) after funding operating and capital activities as a percentage of operating receipts	**(4.2%)**	**(6.8%)**	**(1.0%)**	**3.8%**	**5.9%**

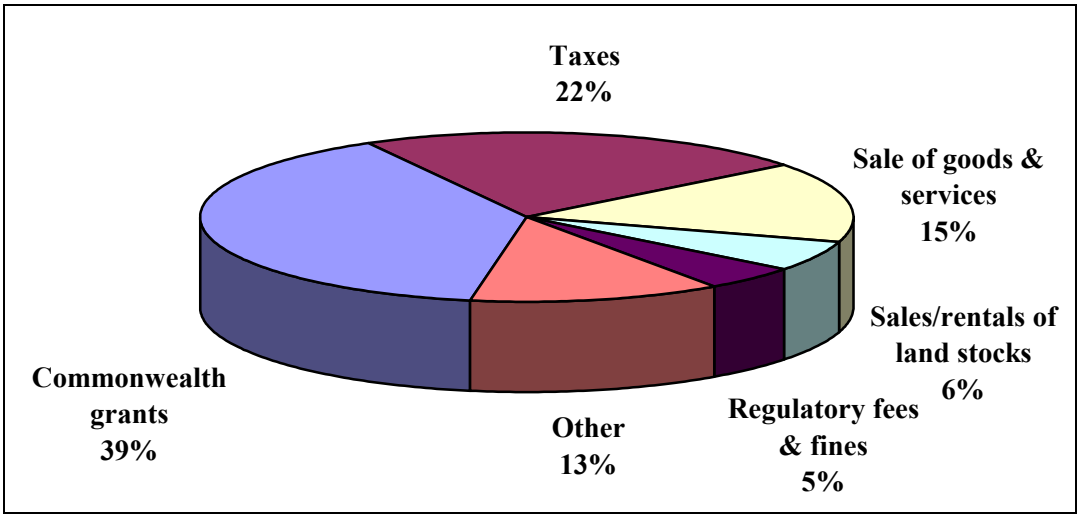
Figure 3.8: Projected Cash Flows from Operating and Capital Activities Over the Next Few Years



3.43 Significant cash surpluses are not expected to be generated in the near future as the Territory's net cash inflows after meeting operating and capital activities are expected to remain negative for the next few years, before returning to positive levels in 2007-08 and 2008-09. The forecast return to positive net cash flows, however, will depend on the Government's ability to achieve a steady growth in net cash inflows from operating receipts and a substantial reduction in expenditure on capital activities.

REVENUE AND EXPENSES

Figure 3.9: Composition of Revenue 2004-05



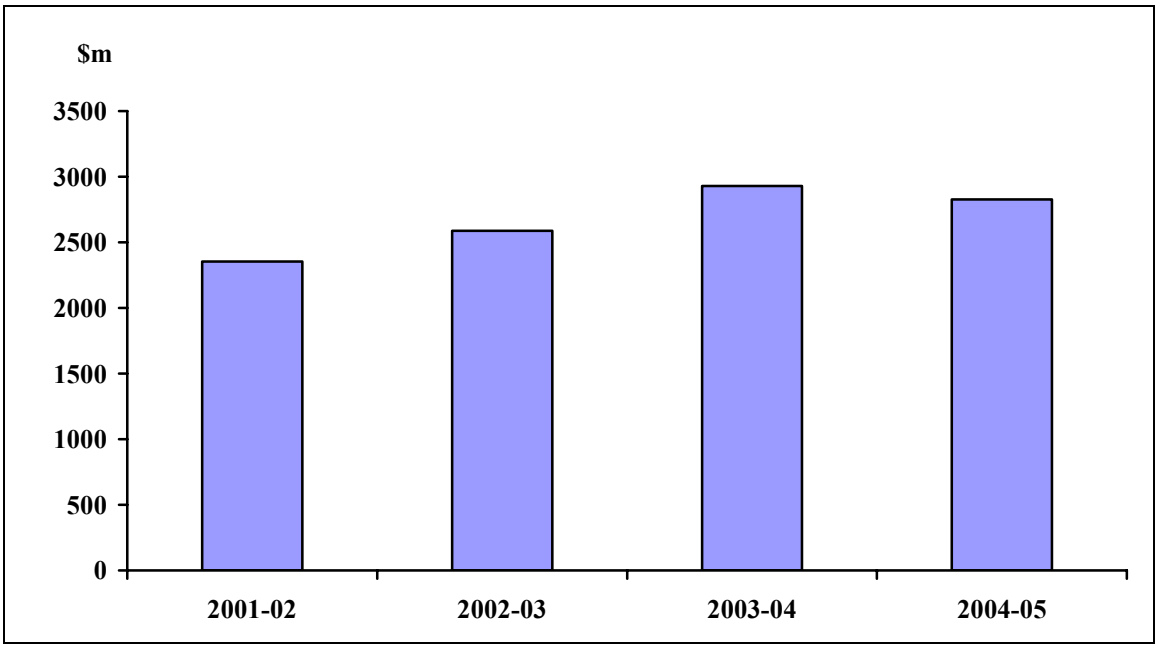
3.44 Most revenue comes from Commonwealth grants, taxes, and the sale of goods and services.

3.45 Revenue fell by $102m (3.5%) as indicated below.

Table 3.10: Revenue

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Commonwealth grants	996	1,018	1,064	4.5	1,109	4.2
Taxes	519	612	670	9.5	635	(5.2)
Sale of goods and services	388	393	411	4.6	434	5.6
Sales/rentals of land stocks	125	178	252	41.6	164	(34.9)
Regulatory fees and fines	112	122	130	6.6	134	3.1
Gains on superannuation investments	-	-	102	-	147	44.1
Asset revaluations	24	32	75	134.4	2	(97.3)
Interest	69	93	74	(20.4)	64	(13.5)
Revenue from joint ventures	60	46	56	21.7	55	(1.8)
Other	61	94	95	(1.1)	83	(12.6)
Territory revenue	**2,354**	**2,588**	**2,929**	**13.2**	**2,827**	**(3.5)**

Figure 3.10: Revenue Over Recent Years



3.46 The small decline in revenue in 2004-05 marks a reversal of the previous trend of steady increases over recent years.

3.47 The main sources of revenue are discussed below.

Table 3.11: Commonwealth Grants

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
GST revenue grant	544	616	658	6.8	684	4.0
Specific purpose grants	345	347	358	3.2	380	6.1
Other grants	107	55	48	(12.7)	45	(6.3)
Commonwealth grants	**996**	**1,018**	**1,064**	**4.5**	**1,109**	**4.2**

3.48 Commonwealth grants increased by $45m (4.2%) in 2004-05 due to a $26m (4.0%) rise in the GST revenue grant and a $22m (6.1%) rise in specific purpose grants.

3.49 The GST revenue grant rose because of an increase in the GST revenue pool which is allocated to the States and Territories by the Commonwealth.

3.50 The major increases in specific purpose grants related to growth in the funding of non-government schools ($8m) and the Australian Health Care Agreement ($4.5m).

Table 3.12: Taxes

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Stamp duty	176	238	269	13.0	212	(21.2)
Payroll tax	149	165	173	4.8	184	6.4
General rates	101	106	112	5.7	118	5.4
Gambling taxes	42	45	48	6.7	47	(2.1)
Land tax	31	38	47	23.7	53	12.8
Other taxes	20	20	21	5.0	21	-
Taxes	**519**	**612**	**670**	**9.5**	**635**	**(5.2)**

3.51 The fall in taxes in 2004-05 is in contrast to the upward trend of previous years.

3.52 Taxes fell by $35m (5.2%) in 2004-05 mainly due to decreases in stamp duty ($57m), which were partially offset by rises in payroll tax ($11m), land tax ($6m) and general rates ($6m).

3.53 The decrease in stamp duty mainly reflected a softening of the residential property market.

3.54 The rise in payroll tax reflected growth in employment and wages. General rates rose mostly due to a CPI increase of 2.7% being applied to overall charges levied on residential and rural land. Land tax rose in line with an increase in the average unimproved value of land.

Table 3.13: Sales of Goods and Services

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Water, sewerage, electricity and other services	102	108	109	0.9	115	5.5
Hospital and other health services	89	91	100	9.9	106	6.0
Housing rentals	55	60	61	1.7	64	4.9
Other	51	46	50	8.7	52	4.0
Vocational, tertiary education and training	27	29	31	6.9	32	3.2
Totalisator sales	23	24	26	8.3	28	7.7
Bus services	14	16	16	-	16	-
Parking fees	11	10	12	20.0	13	8.3
Fire & ambulance services	7	1	5	400.0	7	40.0
Forestry log sales	9	8	2	(75.0)	2	-
Sale of goods and services	**388**	**393**	**412**	**4.8**	**435**	**5.6**

3.55 Sales of goods and services continued to rise in 2004-05 with increases occurring in most revenue sources.

Table 3.14: Sales/Rentals of Land Stocks

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Sales/rentals of land stocks	125	178	252	41.6	164	(34.9)

3.56 Land sales were lower than those of recent years. The contributing factor was a generally softening in the property market compared to the buoyant conditions in 2003-04, when a number of large residential development sites were sold to the private sector.

Table 3.15: Regulatory Fees and Fines

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Motor vehicle registrations	49	54	59	9.3	61	3.4
Other regulatory fees and fines	64	68	72	5.9	74	2.8
Regulatory fees and fines	**113**	**122**	**131**	**7.4**	**135**	**3.1**

3.57 Regulatory fees and fines were higher in 2004-05 compared to 2003-04.

Table 3.16: Gains on Superannuation Investments

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance From prior year %
Gains on superannuation investments	-[8]	-[9]	102	-	147	44.1

3.58 The increased gains on superannuation investments ($45m) reflected improved conditions in investment markets and larger investment balances.

[8] Losses of $83m were incurred on superannuation investments in 2001-02 and reported under 'Expenses'.

[9] Losses of $41m were incurred on superannuation investments in 2002-03 and reported under 'Expenses'.

EXPENSES

3.59 Most expenses relate to employee expenses, operating expenses and grants and purchased services.

Figure 3.11: Composition of 2004-05 Expenses

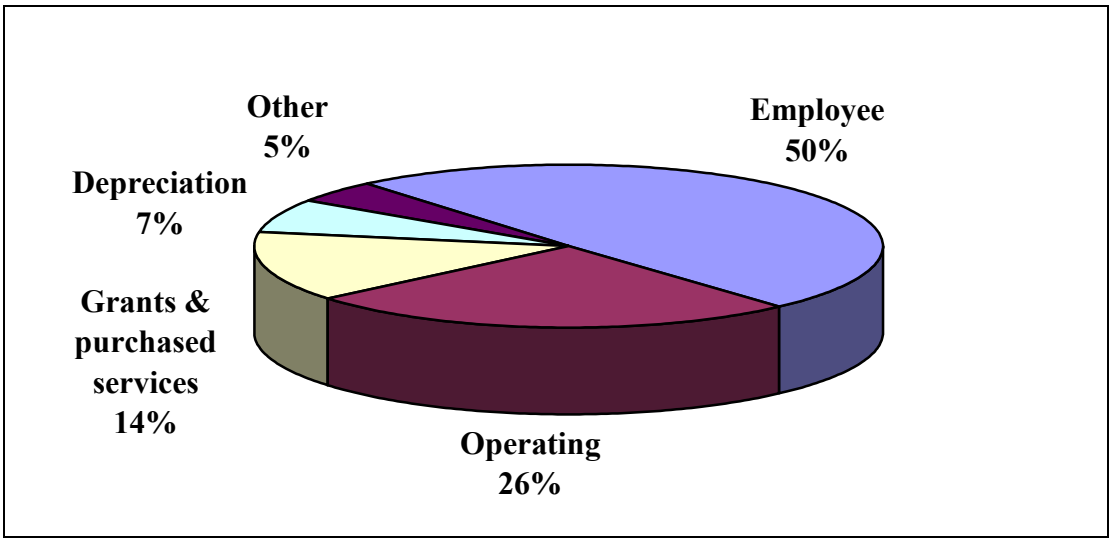


Table 3.17: Expenses

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Wages, salaries and other employee costs	742	816	917	12.4	1,011	10.3
Superannuation	264	247	523	111.7	504	(3.6)
Employee expenses	**1,006**	**1,063**	**1,440**	**35.5**	**1,515**	**5.2**
Operating expenses	696	666	781	17.3	790	1.2
Grants and purchased services	321	338	369	9.2	402	8.9
Depreciation	180	180	195	8.3	204	4.6
Other	139	166	138	(16.9)	142	2.9
Expenses	**2,342**	**2,413**	**2,923**	**21.1**	**3,053**	**4.4**

Figure 3.12: Expenses Over Recent Years

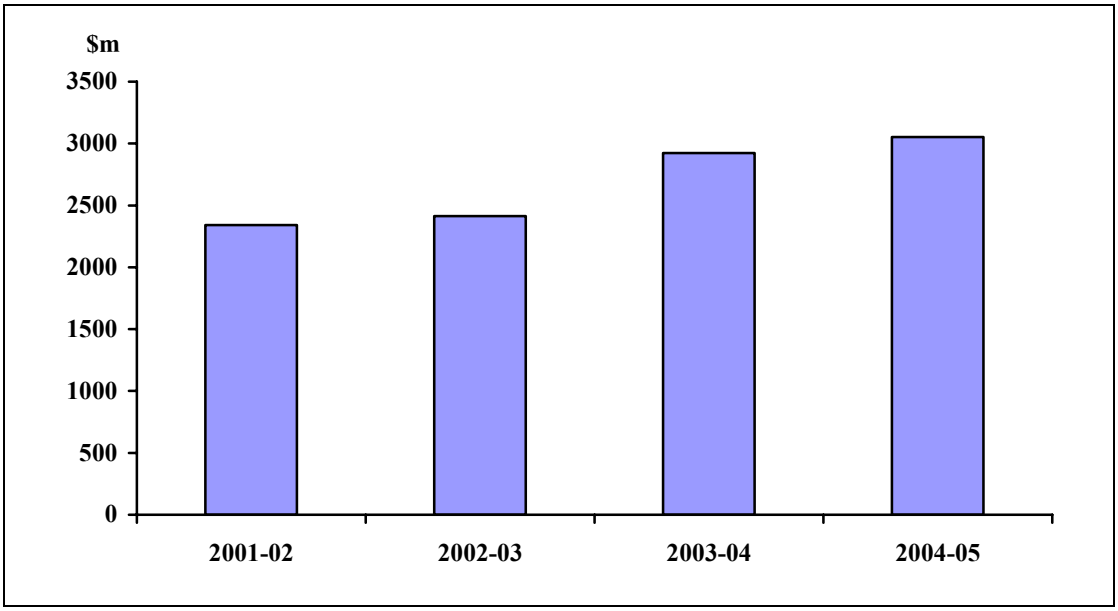


Table 3.18: Employee Expenses

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Wages, salaries and other employee costs	742	816	917	12.4	1,011	10.3
Superannuation expenses	264	247	523	111.7	504	(3.6)
Employee expenses	**1,006**	**1,063**	**1,440**	**35.5**	**1,515**	**5.2**

3.60 Employee expenses have increased by $75m (5.2%) since 2003-04. Major contributing factors included pay increases in agencies' enterprise bargaining agreements and a small increase in staffing levels.

Table 3.19: Operating Expenses

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Loss on superannuation investments	83	41	-[10]	(100.0)	-[11]	-
Other operating expenses	613	625	781	25.0	790	1.2
Operating expenses	**696**	**666**	**781**	**17.3**	**790**	**1.2**

3.61 Operating expenses were only slightly higher than the prior year.

[10] Gains of $102m were generated from superannuation investments in 2003-04 and reported under 'Revenue'.
[11] Gains of $147m were generated from superannuation investments in 2004-05 and reported under 'Revenue'.

Table 3.20: Grants and Purchased Services

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Grants and purchased services	321	338	369	9.2	402	8.9

3.62 The $33m (8.9%) increase in grants and purchased services in 2004-05 resulted mainly from additional funding being provided to non-government organisations ($9m), non-government schools ($10m) and Calvary Hospital ($9m).

3.63 The 2004-05 increase continued a pattern of steady growth in the costs of providing key services experienced in recent years.

Table 3.21: Depreciation

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Depreciation	180	180	195	8.3	204	4.6

3.64 Depreciation expenses have not varied significantly over recent years.

Table 3.22: Other

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Variance from prior year %	Actual 2004-05 $m	Variance from prior year %
Cost of goods sold	82	111	86	(22.5)	90	4.7
Borrowing costs	57	55	52	(5.5)	52	-
Other	**139**	**166**	**138**	**(16.9)**	**142**	**2.9**

3.65 Other expenses remained largely unchanged from the previous year.

CAPITAL ASSETS

3.66 Each year, the Territory's planned expenditure on capital works is included in the Budget Papers. The information in the Budget Papers provides the Legislative Assembly and the community with details of the planned projects and the associated expenditure on these projects.

3.67 The Territory's capital works funding ($218m in 2004-05) includes funding for schools, construction, road, bridge and other infrastructure and minor new works. The capital works program also includes major upgrades to Territory owned buildings and other facilities. Housing ACT's capital works program was predominantly funded from the sale of land and housing rather than by capital appropriations.

3.68 Previous Auditor–General reports have reported that the allocated capital works budget was significantly underspent mainly due to delays in projects. This underspending, while continuing into 2004-05, was of a smaller proportion and indicates that there has been some improvement in the delivery of capital projects.

3.69 Capital works funding was underspent by $26m (12%) in 2004-05. The extent to which agencies spent the allocated funding in 2004-05 is presented below.

Table 3.23: Capital Works Funding and Expenditure

	Budget $m	Expenditure $m	Underspending $m
Housing ACT	69	64	5
Department of Urban Services	55	53	2
Department of Education and Training	27	22	5
ACT Health	21	18	3
Department of Justice and Community Safety	10	7	3
Chief Minister's Department	9	5	4
Other	27	23	4
Total	**218**	**192**	**26**

3.70 In 2004-05, this underspending was mainly due to fewer properties being purchased by Housing ACT ($5m) than anticipated at the time of budget and delays in a number of projects as follows:

Department of Urban Services ($2m)

- Kippax Library Collection Improvements.

Department of Education and Training ($5m)

- Gungahlin Primary and High School Refurbishment;
- Melrose and Belconnen High Schools New Gymnasiums; and
- Older Schools Refurbishment.

ACT Health ($3m)

- Departmental Office Fitout;
- Refurbishment of the Intensive Care and Critical Care Units; and
- Refurbishment of the Sub/Non-Acute Inpatient Service.

Department of Justice and Community Safety ($3m)

- Woden Police Station; and
- Alexander Maconochie Centre (Correctional Facility).

Chief Minister's Department ($4m)

- Civic Library and Link;
- Aboriginal and Torres Strait Island Cultural Centre; and
- Tidbinbilla Nature Reserve.

RECENT TRENDS

3.71 The trend of capital works underspent in recent years is presented below.

Table 3.24: Capital Works Funding and Expenditure in Recent Years

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m
Allocated funding	205	191	241	218
Expenditure	146	132	192	192
Underspending	**59**	**59**	**49**	**26**
Percentage of the allocated funding underspent	**29%**	**31%**	**20%**	**12%**

4. AGENCIES WITH SIGNIFICANT ISSUES

ACTEW

4.1 ACTEW Corporation Ltd (ACTEW) is a holding company with $1.3 billion in assets and investments in water, sewerage, electricity, gas and telecommunications.

4.2 ACTEW has three subsidiaries (ACTEW Distribution Ltd, ACTEW Retail Ltd and ACTEW China Pty Ltd). ACTEW also has significant investments in the ActewAGL Joint Venture[12] and TransACT Communications Pty Ltd[13] (TransACT).

4.3 The consolidated results of ACTEW are reported in this section. The consolidated results include the financial results of ACTEW and its subsidiaries, ACTEW's share of the financial results of the ActewAGL Joint Venture, TransACT and the Majura Rise Joint Venture.

HIGHLIGHTS

- A **qualified** audit opinion was issued on ACTEW's financial statements.
- **Unqualified** audit opinions were issued on the financial statements of ACTEW's subsidiaries.
- The ACTEW group's consolidated operating profit of $71m in 2004-05 represents a significant increase in profits compared to recent years.
- Revenue increased by $11m from 2003-04 due mainly to increases in water and sewerage charges.
- Despite its reduced current ratio, ACTEW is expected to be able to meet its current liabilities as they fall due, as its operations continue to generate sufficient cash to meet these liabilities.
- TransACT has accumulated losses of $180m at 30 June 2005. ACTEW's share of these losses is $45m. There is a significant risk that ACTEW will not recover its $60m investment in TransACT in the short to medium term.

[12] Further commentary on ActewAGL is provided in Chapter 5.

[13] References in this report to 'TransACT' refer to TransACT Communications Pty Ltd and a number of entities that it controlled during the year. TransACT is not audited by the Auditor-General. Further commentary on TransACT is provided later in this section.

AUDITS OF THE 2004-05 FINANCIAL STATEMENTS

4.4 The following audit opinions were issued on the financial statements of ACTEW and its subsidiaries.

Company	Audit Opinion	Date of Issue
ACTEW Corporation Ltd	**Qualified**	5 September 2005
ACTEW Retail Ltd	Unqualified	5 September 2005
ACTEW Distribution Ltd	Unqualified	5 September 2005
ACTEW China Pty Ltd	Unqualified	5 September 2005

AUDIT QUALIFICATIONS

4.5 The qualified audit opinion issued on ACTEW's financial statements, related to issues identified and reported in previous years. Detailed explanations of the basis for these qualifications, including ACTEW's comments were previously provided in Auditor-General's Report No. 10 of 2003 titled 'Financial Audits with Years Ending to 30 June 2003' and Auditor-General's Report No. 10 of 2004 titled '2003-04 Financial Audits'.

Departure from Australian Accounting Standards

4.6 Prior to 2003-04, ACTEW had not equity accounted its investment in TransACT as required by AASB 1016: 'Accounting for Investments in Associates' (AASB 1016). ACTEW commenced equity accounting in 2003-04. In 2004-05, the past non-compliance affected the reporting of prior year comparatives in ACTEW's results. The audit opinion was therefore qualified in respect of this departure from AASB 1016.

Use of Unaudited Information to Equity Account TransACT

4.7 ACTEW used unaudited and therefore less reliable financial information on TransACT to equity account the investment in TransACT because TransACT's audit had not been completed when ACTEW's financial statements and audit report were signed. The audit report therefore disclosed that information relating to TransACT in ACTEW's statements had not been audited.

4.8 The use of unaudited information did not have a material impact on ACTEW's statements on this occasion because TransACT's subsequently audited results did not vary significantly from the unaudited financial results used in preparing ACTEW's statements. TransACT's statutory auditor (Ernst & Young) issued an **unqualified** audit opinion on TransACT's financial statements on 27 September 2005.

4.9 Audit Report No. 10 of 2003 includes a recommendation that:

> *the Annual Reports of Territory entities be legally required to include the audited financial statements of all entities in which the Territory has a 'controlling interest'.*

4.10 Implementation of this recommendation would require the audited financial results of TransACT to be available when ACTEW's financial statements are signed and ensure that TransACT's financial statements are tabled in the Legislative Assembly on a timely basis.

ACTEW Board's Disagreement with Accounting Treatment

4.11 As in recent years, in ACTEW's financial statements, the ACTEW Board stated that it strongly disagreed with recording contributed assets as revenue as required by Urgent Issues Group Abstract 11: 'Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets' (UIG 11).

4.12 Although the accounting treatment used in ACTEW's statements complied with UIG 11, the audit opinion was qualified as required by Australian Auditing Standard AUS 702: 'The Audit Report on a General Purpose Financial Report' in relation to these additional comments. The Audit considers that the accounting treatment required by UIG 11 is required to show a true and fair view of the financial statements and is not misleading.

FINANCIAL PERFORMANCE

Table 4.1: Summary Statement of Financial Performance

	Actual 2004-05 $m	Actual 2003-04 $m	Actual 2002-03 $m
Revenue			
Water	65	62	66
Sewerage	69	64	61
Other sales	9	9	9
Other	17	14	12
	160	**149**	**148**
Expenses			
Cost of sales	10	8	6
Depreciation and amortisation	21	20	20
Borrowing costs	23	23	25
Project related expenses – water contract	62	61	55
Provision for diminution in TransACT **(Note 1)**	(19)	34	-
Other	7	7	8
	104	**153**	**114**
Share of profits - ActewAGL Joint Venture	52	52	43
Share of losses - TransACT **(Note 1)**	(19)	(6)	(3)
Operating profit before tax equivalent expense	**89**	**42**	**74**
Income tax equivalent expense	18	30	20
Operating profit (Note 2)	**71**	**12**	**54**

Financial effects of ACTEW's departure from AASB 1016

Note 1: ACTEW's published statements for 2003-04 report a 'provision for diminution' in TransACT's expense of $14m and 'Share of losses – TransACT' of $26m in 2003-04. This table presents the amounts that would have been reported if ACTEW's statements had been prepared in accordance with AASB 1016.

Note 2: ACTEW's reported 2003-04 operating profit of $12m was unaffected by the departure from AASB 1016, however, the published 2002-03 operating profit of $43m was understated by $11m.

4.13 ACTEW's operating profit after tax was $71m, an increase from $12m in 2003-04, due mainly to:

- an $11m increase in revenue which mainly reflected increases in water ($3m) and sewerage revenue ($5m) charges;
- a reduction in expenses as a $34m provision for diminution expense that was incurred in 2003-04 did not reoccur in 2004-05; and
- a lower income tax equivalent expense ($12m).

4.14 ACTEW's share of profit from the ActewAGL Joint Venture was similar to the 2003-04 returns.

4.15 ACTEW's share of losses in TransACT increased to $19m in 2004-05 from $6m in 2003-04. The significant increase in the share of losses from TransACT can be attributed to a change in accounting policy relating to the calculation of the recoverable amount of TransACT's non-current assets from an undiscounted basis to net present value as permitted by Australian Accounting Standard AASB 1010: 'Recoverable Amount of Non-Current Assets'. Under this change, the recoverable amount of TransACT's non-current assets was calculated on a basis consistent with that required when TransACT transitions to reporting under the Australian equivalent to international financial reporting regime for the first time in 2005-06.

SHORT TERM FINANCIAL POSITION

Table 4.2: Summary Current Assets and Current Liabilities

	Actual 2005 $m	Actual 2004 $m	Actual 2003 $m
Current assets			
Cash and investments	13	49	35
Other	29	27	23
	42	**76**	**58**
Current liabilities	**56**	**52**	**42**
Current ratio	**0.75 to 1**	**1.46 to 1**	**1.38 to 1**

4.16 ACTEW's current ratio fell due to a significant decrease in short-term securities resulting from a dividend paid before 30 June 2005 and the inclusion of a $23m provision for dividend in the current year. There was no provision for dividend in 2004 as the ACT Government waived the requirement to pay a dividend to allow ACTEW to retain the cash needed for capital expenditure commitments such as the Stromlo and Googong projects.

4.17 Despite the reduction in the current ratio, ACTEW retains the capacity to meet its current liabilities, as its operations generate sufficient cash to meet its liabilities. ACTEW also intends to realise $20m in non-current investments to meet its provision for dividend of $23m in 2005-06.

ACTEW'S INVESTMENT IN TRANSACT

4.18 TransACT was incorporated, and commenced operations, on 25 February 2000. TransACT was formed to construct and operate an open, full-service, broadband communications network in the ACT. TransACT is not a subsidiary of ACTEW.

4.19 ACTEW's investment in TransACT at 30 June 2005 was $60m. The amount invested in TransACT has not changed since 30 June 2002. This investment equates to a 24.9% interest in TransACT. The reported net carrying value of the investment in TransACT at 30 June 2005 is nil, due to the recognition of a provision of diminution of $60m against the investment. There is a significant risk that ACTEW will not recover its investment in TransACT in the short to medium term.

FINANCIAL PERFORMANCE

Table 4.3: TransACT - Summary Statement of Financial Performance

	Actual 2004-05 $m	Actual 2003-04 $m	Actual 2002-03 $m
Revenue	**41**	**33**	**22**
Expenses			
Employee	1	9	13
Management fees	26	10	0
Depreciation and amortisation	22	23	18
Borrowing costs	3	2	1
Other	13	15	19
	65	**59**	**51**
Operating loss before adjustment to carrying value of non-current assets	**(24)**	**(26)**	**(29)**
Adjustment to carrying value of non-current assets	(51)	-	-
Operating loss	**(75)**	**(26)**	**(29)**
Accumulated losses at the end of the year	**(180)**	**(105)**	**(78)**

4.20 Excluding the impact of the revision of asset values, TransACT's underlying operating loss of $24m was less than that of recent years. TransACT's 2004-05 operating loss of $75m increased by $49m due to the adjustment to carrying value of non-current assets as a result of a change of accounting policy. As at 30 June 2005, TransACT had accumulated losses of $180m.

4.21 ACTEW's share of TransACT's accumulated losses at 30 June 2005 of $180m was $45m. ACTEW has also provided a guarantee over debt funding for TransACT of $25m. As at 30 June 2005, TransACT has drawn down $21m of this debt funding.

4.22 ACTEW provided the following comments on TransACT.

> *ACTEW is required under Australian Accounting Standards to consider the value of its investments. This assessment of value, from an investor's viewpoint, is based on cash flows from anticipated dividends and return in value from its assets. In 2003-04, taking into consideration the most recent information available, ACTEW decided it would reduce the book value of its investment in TransACT by $40m.*
>
> *Following the alliance with ActewAGL on 1 February 2004, TransACT's business focus shifted from providing dividends to shareholders, to increasing revenue and network coverage in the ACT. The alliance with ActewAGL significantly improves the efficiency of TransACT by providing a reduction in operating costs. Over the long term this will improve operational cash flow and provide some scope for dividends to shareholders (including ACTEW).*
>
> *However, in the short to medium term, TransACT's operating cash flows will be reinvested in the business. This will ensure there is sufficient cash to further roll out telephone and data services to the remaining areas of Canberra, Queanbeyan and the region.*
>
> *The 2003-04 valuation by ACTEW is not a reflection of the Corporation's commitment to TransACT. ACTEW considers TransACT to be a viable entity and strongly supports its new business focus. Our valuation simply reflects our expectation that the profit potential of TransACT will be realised, not in the short to medium term, but in the future, as TransACT management now concentrate on investing in the network and growing customers.*

4.23 The Audit has not conducted an audit of the future viability of TransACT and is therefore not in a position to comment on ACTEW's comments.

ACTION

4.24 The ACTION Authority (ACTION) operates Canberra's public and school bus network with the objective of providing effective and accessible passenger services. ACTION also provides special needs and charter bus services.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Minister for Urban Services on 9 September 2005.
- ACTION did not manage its operations to budget due to higher than anticipated employee related expenses and bus maintenance and fuel costs.

FINANCIAL PERFORMANCE

Table 4.4: Summary Statement of Financial Performance

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses				
Employee	50,144	54,450	49,484	45,928
Bus running and maintenance	18,933	22,282	19,538	17,673
Depreciation and amortisation	5,338	5,786	5,115	4,824
Borrowing costs	1,054	1,047	1,023	1,276
Other[14]	1,542	328	745	1,136
	77,011	**83,893**	**75,905**	**70,837**
Revenue				
Bus fares and other charges	17,346	17,049	16,890	16,927
Commonwealth grants and other	244	1,011	1,367	573
	17,590	**18,060**	**18,257**	**17,500**
Net cost of services	**59,421**	**65,833**	**57,648**	**53,337**
Government contributions				
Government payments for public transport services	53,772	59,179	52,253	51,271
Capital injections	3,945	3,945	13,149	1,550
Other	-	-	50	180
	57,717	**63,124**	**65,452**	**53,001**
Operating (deficit)/surplus	**(1,704)**	**(2,709)**	**7,804**	**(336)**

[14] Includes net loss from sale of plant and equipment and ACT Government taxes paid.

Comparison to Budget

4.25 Expenses ($83.9m) in 2004-05 exceeded budget by $6.9m (8.9%) mainly due to higher than expected rises in:

- employee expenses resulting from a recent enterprise bargaining agreement;
- diesel fuel costs; and
- maintenance costs on older buses.

4.26 As a result, ACTION's net cost of services ($65.8m) in 2004-05 exceeded budget by $6.4m (10.8%).

4.27 Government contributions exceeded budget by $5.4m (9.4%) as extra funding was provided to meet the higher bus maintenance costs.

Comparison to Prior Years

4.28 Compared to 2003-04, expenses and net cost of services increased by $7.9m (10.5%) and $8.2m (14.2%) respectively in 2004-05.

4.29 ACTION's costs have grown significantly over recent years due to rising employee and bus operating costs.

4.30 Government contributions were $2.3m less in 2004-05 due to the non-recurrence of a $9.2m capital injection received in 2003-04 for the acquisition of new buses partially offset by higher Government funding provided for transport services of $6.9m.

ECOWISE

4.31 ECOWISE Environmental Pty Limited (ECOWISE) has three subsidiaries (ECOWISE Environmental (Victoria) Pty Ltd, ECOWISE Western Australia Pty Ltd, and ECOWISE Technologies Pty Ltd) and holds a 50% interest in Water Data Services Pty Ltd (Joint Venture).

4.32 ECOWISE Environmental (Victoria) Pty Ltd is a holding company and has two subsidiaries (WSL Consultants Pty Ltd and Water Quality Centres Pty Ltd). Water Quality Centres in turn owns Water ECOscience Pty Ltd and Environmental Measurements International Pty Ltd.

4.33 The principal activities of the ECOWISE group are to provide integrated analytical, monitoring and consulting environmental services for a variety of customers.

4.34 As ECOWISE is a subsidiary of the ActewAGL Joint Venture, 50% of ECOWISE's results flows through ACTEW's shared profits from the ActewAGL Joint Venture.

HIGHLIGHTS

- **Unqualified** audit opinions were issued on the financial statements of ECOWISE Environmental Pty Ltd, ECOWISE Environmental (Victoria) Pty Ltd, Water Quality Centres Pty Ltd and Water ECOscience Pty Ltd.
- The group's consolidated operating profit of $1.3m in 2004-05 represented a significant increase in profits compared to recent years due to the acquisition of companies within the group.
- The group had sufficient assets to meet its liabilities at 30 June 2005.

MATTERS ARISING FROM THE AUDIT

4.35 The Audit identified several areas where controls and accounting practices could be improved and brought these to the attention of the ECOWISE Board. The Audit recommended improvements to the financial statement preparation processes as well as corporate governance issues. The Board indicated that these recommendations would be addressed.

AUDITS OF THE 2004-05 FINANCIAL STATEMENTS

4.36 The following audit opinions were provided:

Entity	Audit Opinion	Date
ECOWISE Environmental Pty Ltd	Unqualified	9 September 2005
ECOWISE Environmental (Victoria) Pty Ltd	Unqualified	9 September 2005
Water Quality Centres Pty Ltd	Unqualified	9 September 2005
Water ECOscience Pty Ltd	Unqualified	9 September 2005

FINANCIAL PERFORMANCE

Table 4.5: Summary Statement of Financial Performance

	Actual 2004-05 $m	Actual 2003-04 $m
Revenue		
Provision of services	39.8	16.8
Other	0.6	0.5
	40.4	**17.3**
Expenses	39.1	16.8
Operating profit	**1.3**	**0.5**

4.37 ECOWISE's group operating profit of $1.3m in 2004-05 represented a significant increase in profits compared to recent years.

4.38 The growth in profit was mainly due to the acquisition of Water Quality Centres Pty Ltd and its subsidiaries and the first full year of consolidation of WSL Consultants Pty Ltd (WSL) results in 2004-05 (in 2003-04, WSL was consolidated for only 3 months of the year). Increased revenue was also generated through the West Australian subsidiary, ECOWISE Western Australia Pty Ltd.

SHORT TERM FINANCIAL POSITION

Table 4.6: Summary Current Assets and Current Liabilities

	Actual 2005 $m	Actual 2004 $m
Current assets	13.8	8.2
Current liabilities	11.2	6.7
Current ratio	**1.23 to 1**	**1.22 to 1**

4.39 ECOWISE group's current ratio at 30 June 2005 of $1.23 in current assets to each dollar of liabilities indicates the group has sufficient current assets to meet its current liabilities and is consistent with the 30 June 2004 ratio.

EMERGENCY SERVICES AUTHORITY

4.40 The Emergency Services Authority (the Authority) was established on 1 July 2004 under the *Emergencies Act 2004*. Under this Act, the principal objectives of the Authority are to:

- protect and preserve life, property and the environment;
- provide for effective emergency management;
- provide for the effective and cohesive management by the Authority of the state emergency service, ambulance service, the fire brigade and the rural fire service; and
- recognise the value to the community of all emergency service members, including volunteer members.

4.41 This is achieved through the integration of services from the ACT Ambulance Service, ACT Rural Fire Service, ACT State Emergency Service and ACT Fire Brigade.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Minister for Police and Emergency Services on 23 August 2005.
- The Authority's corporate governance framework is still developing.
- The Authority generally managed to budget as its net cost of services did not significantly exceed the amended budget.
- The budgeted operating surplus was not achieved due to capital injection funding not being fully drawn down because of the discontinuation of two major projects.

MATTERS ARISING FROM THE AUDIT

4.42 The Audit noted that key features of the corporate governance framework, such as the Audit Committee and the Finance Committee, were established in 2004-05 and they were in the initial stages of having an impact on the operations of the Authority. The internal audit function for the Authority was open for public tender as at 30 June 2005.

FINANCIAL PERFORMANCE

Table 4.7: Summary Statement of Financial Performance

	Budget[15] 2004-05 $000	Actual 2004-05 $000
Expenses		
Employee	48,341	45,099
Supplies and services	12,727	16,916
Other	3,177	3,784
	64,245	**65,799**
Revenue[16]	**8,434**	**8,556**
Net cost of services	**55,811**	**57,243**
Government contributions		
Government payment for outputs	52,236	52,236
Capital injections	21,436	15,215
	73,672	**67,451**
Operating surplus[17]	**17,861**	**10,208**

Comparison to Budget

4.43 Expenses did not vary significantly from budget amounts. Employee expenses were less than the amount budgeted by $3.2m as the Authority did not fill all planned positions during the year. This was largely offset by an increase in costs for supplies and services (contractors and consultants). In addition, additional expenses associated with the implementation of recommendations from the McLeod bushfire inquiry were incurred.

4.44 The Authority generally managed to the amended budget as its net cost of services did not significantly exceed this budget.

4.45 The budgeted operating surplus of $17.9m was not achieved because the Authority did not draw down all budget capital injections. The Belconnen and West Belconnen Joint Emergency Service Centre projects were discontinued during the year.

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[15] Budget amounts included in the financial statements differ from those included in the Budget Papers. The original budget included in the 2004-05 Budget Papers was amended in accordance with the *Financial Management Act 1996*.

[16] Revenue consists mainly of Ambulance Transport charges and Fire Protection Levies.

[17] The operating surplus in the table differs from the published operating surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.

ACT HEALTH

4.46 ACT Health aims to increase the community's capacity for healthy living by planning, providing and purchasing quality community based health services, major trauma and tertiary health care, managing public health risks, and promoting health and early care interventions.

4.47 ACT Health's objectives, amongst other things, includes:

- meeting the health needs of an ageing population;
- improving mental health and reducing the barriers facing people with mental health problems;
- reducing harm from alcohol and other drug use; and
- ensuring that health services in the community are appropriate and of a high quality.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Minister for Health on 17 September 2005.
- Systems used by ACT Health to record and report on its performance measure results were found to have improved significantly from the previous year.
- ACT Health managed its overall departmental operations within budget as its net cost of services of $520.6m was less than the budgeted amount of $524.5m.
- ACT Health's net cost of services has risen substantially by $108m (26.3%) since 2002-03.
- ACT Health's budgeted operating surplus was not achieved because capital injections funding was not drawn down due to delays in various capital works projects.
- ACT Health has only $0.81 in current assets to meet each dollar of current liabilities at 30 June 2005. It will need to manage its expenses carefully to avoid unexpected cash injections being required from the Government over the next 12 months.
- ACT Health's territorial operations were managed to budget.

MATTERS ARISING FROM THE AUDIT

4.48 In Auditor-General's Report No. 10 of 2004 titled '2003-04 Financial Audits', the Office reported that:

> *The systems used by ACT Health to record and report on its performance measure results were found to need significant improvement and did not provide assurance that its reported results were free from errors and irregularities.*

4.49 In 2004-05, the systems used by ACT Health to record and report on its performance measure results has improved significantly.

FINANCIAL PERFORMANCE – DEPARTMENTAL

Table 4.8: Summary Statement of Financial Performance

	Budget[18] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses				
Purchase of health services				
Calvary Hospital (**Note 1**)	81,707	82,592	73,848	66,155
Grants to non-government organisations (**Note 1**)	39,212	39,346	34,362	35,147
Employee	309,176	316,968	275,936	249,806
Supplies and services	171,456	171,544	156,407	141,787
Depreciation	14,244	13,640	14,343	11,450
Other	8,097	11,596	7,564	6,420
	623,892	**635,686**	**562,460**	**510,765**
Revenue				
Cross border receipts (**Note 1**)	44,914	48,351	54,197	49,676
Fees from services (**Note 1**)	51,380	64,225	53,793	47,269
Other	3,097	2,530	1,775	1,511
	99,391	**115,106**	**109,765**	**98,456**
Net cost of services	**524,501**	**520,580**	**452,695**	**412,309**
Government contributions				
Government payment for outputs	502,285	499,550	435,098	401,527
Capital injections	28,281	15,291	16,411	9,073
Grants from the Commonwealth	5,676	7,259	6,074	5,377
Resources received free of charge	303	741	664	604
	536,545	**522,841**	**458,247**	**416,581**
Operating surplus[19]	**12,044**	**2,261**	**5,552**	**4,272**

Note 1: These figures are not separately reported in the Budget Papers and were provided by ACT Health.

[18] The original budget included in the 2004-05 Budget Papers was amended in accordance with the *Financial Management Act 1996*.

[19] The operating result varies from the published operating deficit due to the inclusion of capital injections in Government contributions.

Comparison to Budget

4.50 Expenses were higher than budget due mainly to increased employee costs resulting from higher staffing levels and increases in Comcare premiums. Revenue also exceeded budget, reflecting greater than expected cross border receipts, patient and facility fees.

4.51 ACT Health managed its overall operations within budget as its net cost of services of $520.6m was less than the budgeted amount of $524.5m.

4.52 ACT Health's operating surplus ($2.3m) was less than the budgeted operating surplus ($12.0m) because funding for capital injections was not drawn down as projects relating to building refurbishment and a new building (ANU Medical Authority) at The Canberra Hospital were delayed.

Comparison to Prior Years

4.53 Net cost of services ($520.6m) rose by $67.9m in 2004-05 due to higher expenses ($73.2m) partially offset by increases in revenue ($5.3m).

4.54 Expenses increased due to higher:

- employee costs from pay rises associated with a new enterprise bargaining agreement and higher staffing levels;
- supplies and services expenses rose from increased insurance premiums, higher than anticipated demand for high cost drugs, increased use of agency nurses and visiting medical officer payments;
- payments to the Calvary Hospital to meet pay rises provided to its nursing and clerical staff and visiting medical officers and to provide funding for a car park; and
- grant payments to non-government organisations.

4.55 These significant increases in costs were largely anticipated in the budget with Government payment for outputs rising by $64.5m to meet these costs.

4.56 ACT Health's net cost of services has risen substantially in recent years with its net costs increasing by $108m or 26.3% since 2002-03. Rising employee and supplies and services costs, as well as significant increases in the cost of funding services provided by Calvary Hospital, have driven these cost increases.

SHORT TERM FINANCIAL POSITION

Table 4.9: Summary Current Assets and Current Liabilities

	Actual 2005 $000	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Current assets	63,656	67,595	64,150	26,845
Current liabilities	78,216	78,162	79,841	23,891
Current ratio	**0.81 to 1**	**0.86 to 1**	**0.80 to 1**	**1.12 to 1**

4.57 ACT Health's current ratio is low, with $0.81 in current assets to meet each dollar of current liabilities. ACT Health will need to manage its expenses carefully to avoid the need for unexpected cash injections from the Government to support its operations over the next 12 months.

FINANCIAL PERFORMANCE – TERRITORIAL

Table 4.10: Territorial Revenue and Expenses

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Revenue				
Payment for expenses on behalf of the Territory	15,881	7,426	4,756	5,624
Taxes, fees and fines	679	680	618	611
Grants from the Commonwealth	121,284	121,892	113,928	111,424
	137,844	**129,998**	**119,302**	**117,659**
Expenses				
Grants and purchased services	15,881	7,426	4,756	5,624
Transfer to the Government	121,963	122,572	114,546	112,035
	137,844	**129,998**	**119,302**	**117,659**
Operating result	-	-	-	-

Comparison to Budget

4.58 Territorial revenue and expenses were less than budget by $7.9m due mainly to delays in capital works projects at Calvary Hospital. ACT Health managed its Territorial operations to budget.

Comparison to Prior Year

4.59 Territorial revenue and expenses increased by $10.7m from 2003-04 due to increases in the amount Commonwealth Specific Purpose Payments to the ACT.

INSURANCE AUTHORITY

4.60 The Insurance Authority (the Authority) operates under the *Insurance Authority Act 2005*. The objectives of the Authority are to enable the Territory to effectively meet the costs of its insurable claims and losses and to ensure these costs are fully reflected in the Territory accounts. The Authority operates a centrally managed fund to cover the insurable risks of Territory agencies.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Treasurer on 6 September 2005.
- The Authority did not manage its operations within the overall budget due to a rise in court awarded settlements for medical malpractice claims and the further identification of outstanding matters by agencies. These factors were largely outside the direct control of the Authority and made it difficult for the Authority to manage its costs to budget.
- The net insurance loss from the January 2003 bushfire was $0.7m in 2004-05 and $16.5m overall.
- At 30 June 2005, the Authority did not have enough assets to meet its liabilities and its ability to meet long term liabilities and any unexpected losses has weakened significantly in recent years.

FINANCIAL PERFORMANCE

Table 4.11: Summary Statement of Financial Performance

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Revenue				
Net premiums earned	15,798	18,909	16,480	16,691
Other	6,781	20,673	3,797	6,920
	22,579	**39,582**	**20,277**	**23,611**
Expenses				
Claims	16,917	61,117	30,408	9,489
Other	1,663	1,797	3,134	3,964
	18,580	**62,914**	**33,542**	**13,453**
Operating surplus/(deficit) from ordinary activities	**3,999**	**(23,332)**	**(13,265)**	**10,158**
January 2003 bushfire				
Reinsurance recoveries	-	(5,130)	5,366	113,948
Less: Claims expense	-	(4,384)	(12,102)	(122,966)
Net loss from bushfire	**-**	**(746)**	**(6,736)**	**(9,018)**
Operating surplus/(deficit)	**3,999**	**(24,078)**	**(20,001)**	**1,140**

Comparison to Budget and Prior Year

4.61 The 2004-05 operating result (a deficit of $23.3m) was significantly worse than budgeted and the prior year mainly because of an increase in the claims provision resulting from a rise in court awarded settlements for medical malpractice claims. In addition, improved reporting practices at key agencies have revealed a far greater number of matters than previously anticipated.

4.62 The Authority did not manage its operations to its budget because of the circumstances described above. These circumstances were largely outside the control of the Authority.

Impact of the January 2003 Bushfire

4.63 In 2004-05, the Authority revised its estimates of insurance claims expenses and reinsurance recoveries relating to the January 2003 bushfire. As a result, the net loss from the bushfire increased by $0.7m. Total insurance losses stemming from the January 2003 bushfire had accumulated to $16.5m at 30 June 2005.

SHORT TERM FINANCIAL POSITION

Table 4.12: Summary Current Assets and Current Liabilities

	Actual 2005 $000	Actual 2004 $000	Actual 2003 $000
Current assets	62,867	76,177	128,158
Current liabilities	36,138	58,652	127,289
Current ratio	**1.7 to 1**	**1.3 to 1**	**1 to 1**

4.64 The current ratio of 1.7 to 1 indicates that the Authority can meet its current obligations when they fall due.

LONG TERM FINANCIAL POSITION

Table 4.13: Summary Total Assets and Total Liabilities

	Actual 2005 $000	Actual 2004 $000	Actual 2003 $000
Total assets	136,594	140,333	166,242
Total liabilities	168,205	157,866	163,775
Net (liabilities) / assets	**(31,611)**	**(17,533)**	**2,467**
Ratio of total assets to total liabilities	**0.81 to 1**	**0.89 to 1**	**1.02 to 1**

4.65 The Authority did not have enough assets to meet its liabilities at 30 June 2005 and its ability to meet long term liabilities and any unexpected losses has weakened significantly in recent years.

4.66 The Authority received a capital injection of $10m in 2004-05 and is budgeted to receive a further $23m to meet its rising insurance liabilities.

LAND DEVELOPMENT AGENCY (including the Gold Creek Country Club, Kingston Stage 1A and other Joint Ventures)

4.67 The Land Development Agency (the Agency) was established by the *Planning and Land Act 2002* and commenced operations on 1 July 2003. The Agency incorporates those agencies formerly undertaking land development and sales functions on behalf of the Territory, being the Land Group in the Department of Urban Services, the Gungahlin Development Authority and the Kingston Foreshore Development Authority.

4.68 The Agency's objectives are to contribute to high quality design outcomes in urban projects and the development of greenfields, commercial and industrial land. The Agency provides land for development directly to the market, undertakes partnerships with the private sector and conducts its own land development.

4.69 The Agency is also responsible for the land joint ventures (comprising the Harcourt Hill Estate, Amaroo 3 and Southside Estates), the Kingston Stage 1A Joint Venture, and the Gold Creek Country Club.

HIGHLIGHTS

Land Development Agency

- An **unqualified** audit opinion on the Agency's financial statements was provided to the Minister for Planning on 19 August 2005.
- **Unqualified** audit opinions were also provided on the financial statements of the Gold Creek Country Club, Kingston Stage 1A and other joint ventures.
- The Agency managed its operations within budget as the operating surplus of $100.4m was higher than the expected surplus of $92.6m.
- The operating surplus of $100.4m was $78.0m less than the previous year due mainly to a decline in land sales.

Gold Creek Country Club

- The Gold Creek Country Club continued to operate at a loss in 2004-05 and was reliant on Government financial support to continue operations.
- Audit noted several areas where internal controls and accounting practices at the Club could be improved and the Club identified one instance of alleged fraud during the year.

FINANCIAL PERFORMANCE

Table 4.14: Summary Statement of Financial Performance[20]

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Revenue (Note 1)			
Land sales	183,335	159,884	246,021
Revenue from joint ventures	1,600	2,752	3,947
Other	4,044	4,981	6,422
	188,979	**167,617**	**256,390**
Expenses (Note 1)			
Employee	4,281	4,557	3,560
Supplies and services	9,950	11,224	4,453
Cost of goods sold	81,658	41,919	61,880
Other	480	9,480	8,040
	96,369	**67,180**	**77,933**
Operating surplus	**92,610**	**100,437**	**178,457**

Note 1: The budget and actual results have been adjusted to remove the financial effects of internal transactions within Government of the notional value of unleased Territory land transferred to LDA from the ACT Planning and Land Authority and the notional value of the land sold ($66.7m in 2004-05).

Comparison to Budget

4.70 Land sales revenue was lower than originally budgeted as the volume of sales in residential estates fell due to a general softening in the property market. In particular, the release of some medium density residential development sites was deferred due to an over-supply in that sector of the market.

4.71 The Agency managed its operations within budget, as the operating surplus of $100.4m was greater than the expected result of $92.6m. Although land sales were significantly less than expected by $23.5m (12.8%), the decline was more than offset by cost of goods sold being $39.7m under budget.

[20] The budget and actual results have been adjusted to remove the financial effects of internal transactions within Government of the notional value of unleased Territory land transferred to LDA from the ACT Planning and Land Authority and the notional value of the land sold.

Comparison to Prior Year

4.72 The operating surplus of $100.4m was $78.0m less than the previous year's surplus of $178.4m mostly due to an $86.1m decline in land sales, which more than offset the $20.0m reduction in cost of goods sold.

4.73 The volume of land sales in residential estates was lower due to a general softening in the property market compared to the very buoyant conditions that prevailed in 2003-04, when a number of large residential development sites were sold to the private sector.

4.74 Revenue from joint ventures fell as most joint ventures were winding down and had sold all land in previous years.

GOLD CREEK COUNTRY CLUB

4.75 On 24 December 1997, the Government acquired full ownership of the golf course and the outstanding shares in Gold Creek Country Club Pty Ltd (the Club), which was the manager of the golf course.

4.76 An **unqualified** audit opinion on the Club's 2004-05 financial statements was issued to the Minister for Planning on 7 September 2005.

MATTERS ARISING FROM THE AUDIT

4.77 The Audit identified several areas where internal controls and accounting practices could be improved and brought these to the attention of the Club.

4.78 The Club identified one instance of alleged fraud involving the issue of three free annual memberships by a staff member during 2004-05. This staff member has resigned and the Club pursued no charges. The Club engaged a consultant to examine the adequacy of the current fraud management policies and operational procedures. This consultant advised that the Club did not have effective controls surrounding the recording and management of memberships. The Audit understands that the Club has since taken action to improve its policies and procedures.

FINANCIAL PERFORMANCE

Table 4.15: Summary Statement of Financial Performance

	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Revenue	2,257	2,573	2,787
Expenses	3,391	3,577	3,517
Operating loss	**(1,134)**	**(1,004)**	**(730)**

4.79 Fees from the golf course, health club, bar and shop sales are the major sources of revenue for the Club. Major expenses relate to administration, employee expenses, operation of the clubhouse and health club and the maintenance of the golf course.

4.80 The Club's operating loss of $1.1m was similar to the $1.0m loss incurred in 2003-04. The Club was reliant on Government financial support to continue operations and to assist in meeting its commitments as they fell due.

4.81 The financial performance of the Club during 2004-05 has been impacted by its proposed sale and the difficult conditions experienced in maintaining the condition of the golf course during the drought. Although revenue was less than the previous year, management reduced expenses to contain the operating loss to a similar level as incurred in the previous year.

KINGSTON STAGE 1A JOINT VENTURE

4.82 The Kingston Stage 1A Joint Venture (the Joint Venture) was established on 10 October 2001 under a Deed of Agreement between the former Kingston Foreshore Development Authority and Kingston (ACT) Pty Ltd (a wholly owned subsidiary of St. Hilliers Pty Ltd). The purpose of the Joint Venture is to construct medium density residential housing in Stage 1A of the Kingston Foreshore.

4.83 The Management Committee, which has equal representation from both partners, and an independent Chair, manages the Joint Venture. St. Hilliers Pty Ltd provides development, administrative and accounting services for the Joint Venture. Costs for these services are met by the Joint Venture through a management fee.

4.84 An **unqualified** audit opinion was provided to the Minister for Planning on 17 August 2005.

FINANCIAL PERFORMANCE

Table 4.16: Summary Statement of Financial Performance

	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Revenue	17,997	37,372	8,855
Expenses	12,605	29,684	7,530
Operating surplus	**5,392**	**7,688**	**1,325**

Comparison to Prior Year

4.85 Revenue of the Joint Venture is recognised based on the 'percentage of completion method'. Under this method, sales revenue is recognised on the basis of the percentage of construction completed multiplied by the value associated with units sold. The $19.4m decrease in revenue (and the associated decrease of $17.1m in cost of sales expenses) was a result of most sales having taken place in 2003-04. The Joint Venture is expected to be completed in 2005-06.

SUMMARY OF THE LAND JOINT VENTURES

4.86 During 2004-05, the Agency was involved in three land development joint ventures. The remaining joint ventures, namely Harcourt Hill, Amaroo 3 and Southside Estates are expected to be deregistered in 2005-06.

Table 4.17: Summary of Financial Results of Land Joint Ventures

Joint Venture	Territory Share of Profit	Joint Venture Operating Profit/(Loss) 2004-05	Joint Venture Total Profit Since Inception
	%	$000	$000
Harcourt Hill	50	54	28,891
Amaroo 3 (formerly Dunlop 4)	60	88	14,568
Southside Estates	50	(84)	7,120
Total		**58**	**50,579**

4.87 These land joint ventures made profits of $0.058m in 2004-05 and have accumulated profits of $50.6m since their inception.

FORDE JOINT VENTURE

4.88 During 2004-05, the Agency signed an agreement to commence a joint venture for a residential development to be known as the 'Forde Joint Venture'. The Agency and Forde Development (ACT) Pty Ltd each have a 50% ownership interest in this joint venture. The Forde Joint Venture expects to commence operations in 2005-06.

LEGISLATIVE ASSEMBLY SECRETARIAT

4.89 The Legislative Assembly Secretariat (the Secretariat) provides procedural, policy and administrative advice necessary to conduct the business of the Legislative Assembly and its committees. The Secretariat also provides a range of services and facilities for Legislative Assembly Members and their staff.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Clerk on 15 August 2005.
- The Secretariat has taken appropriate action to address the significant weaknesses in controls (mainly in relation to payments) reported in 2003-04.
- The Secretariat managed its operations to budget.

MATTERS ARISING FROM THE AUDIT

4.90 Auditor-General's Report No. 10 of 2004 titled '2003-04 Financial Audits' reported significant weaknesses in controls to the Secretariat. The cumulative effect of these weaknesses was that the Secretariat was at particular risk of errors and irregularities (including fraud). The 2004-05 audit found that the Secretariat has taken appropriate action to address the weaknesses identified in 2003-04.

FINANCIAL PERFORMANCE

Table 4.18: Summary Statement of Financial Performance

	Budget[21] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses	5,437	5,161	5,403	4,676
Revenue	32	101	126	66
Net cost of services	**5,405**	**5,060**	**5,277**	**4,610**
Government contributions	**5,336**	**5,167**	**4,883**	**4,616**
Operating (deficit)/surplus	**(69)**	**107**	**(394)**	**6**

Comparison to Budget and Prior Year

4.91 The Secretariat's 2004-05 net cost of services was less than budget by $0.35m and the previous year by $0.2m. Employee expenses fell due to lower staffing levels and lower levels of activity undertaken by the Committee and Hansard Offices during the election period in 2004.

4.92 The Secretariat managed its operations to budget.

[21] The original budget included in the 2004-05 Budget Papers was amended in accordance with the *Financial Management Act 1996*

SUPERANNUATION UNIT

4.93 The Superannuation Unit manages funds set aside to meet the employer superannuation liabilities of the Territory agencies, authorities and Territory owned corporations. The *Territory Superannuation Provision Protection Act 2000* ensures that funds set aside to meet the Territory's future employer superannuation costs remain dedicated for this purpose.

AUDIT QUALIFICATION

4.94 The audit report on the Superannuation Unit's financial statements for 2004-05 was qualified for non-compliance with Australian Accounting Standards AASB 1018: 'Statement of Financial Performance' and AAS 29: 'Financial Reporting by Government Departments' in relation to the accounting policy for the actuarially assessed movements in the superannuation liability.

4.95 The effect of this accounting policy was to record $214m of actuarially assessed increases (unrealised losses) in the superannuation liability directly against equity rather than in expenses.

4.96 This accounting policy is not permitted under AASB 1018 and AAS 29 in respect of the 2004-05 financial statements but is expected to be permitted under AASB 119: 'Employee Benefits' for the 2005-06 statements and beyond.

HIGHLIGHTS

- A **qualified** audit opinion for the 2004-05 financial statements was provided to the Treasurer on 6 September 2005.
- The audit opinion was qualified because the accounting treatment for the actuarially assessed movements in the superannuation liability did not comply with the applicable Australian Accounting Standards.
- The accounting treatment used in 2004-05, however, is expected to be permitted under AASB 119 'Employee Benefits' for the 2005-06 financial statements and beyond.
- The Superannuation Unit continued to be unable to achieve the budgeted operating result because the significant increase in superannuation expenses exceeded investment returns.
- There are insufficient investments set aside to meet superannuation liabilities. The ratio of investments to superannuation liabilities has continued to decline in recent years from $0.65 in 2002 to $0.59 in 2005 in investments for each dollar of superannuation liabilities.
- The Budget Papers indicate that unfunded superannuation liabilities are expected to grow by $74m from $1,031m in 2005 to $1,105m in 2008.
- The rising unfunded superannuation liabilities do not present a current threat to the Territory's finances, as the full extent of these liabilities does not have to be met for some years. However, the recent significant upward trend in unfunded superannuation liabilities raises a question as to whether the Government's current strategies to manage this growing shortfall will be sufficient to prevent significant financial difficulties being experienced by the Territory in the long-term.
- The impact of the new Public Sector Superannuation Accumulation Plan (PSSAP) for new employees on superannuation liabilities is to be assessed in the coming years. As the PSSAP is fully funded, it should assist in limiting the future growth of unfunded superannuation liabilities.

FINANCIAL PERFORMANCE

4.97 This section presents the financial results and projected information that would have been reported if the Superannuation Unit's financial statements had been prepared in accordance with the above mentioned accounting standards.

Table 4.19: Summary Statement of Revenue and Expenses on Behalf of the Territory

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Revenue				
Gain in the net market value of investments	61,448	146,400	102,125	-
Reimbursement of annual pension costs to the Commonwealth	1,832	1,351	43,968	39,169
Investment income	17,301	19,190	29,202	47,762
Superannuation contributions	15,288	13,297	11,508	13,482
	95,869	**180,238**	**186,803**	**100,413**
Expenses				
Superannuation[22]	246,525	474,602	495,704	221,755
Loss in the net market value of investments	-	-	-	41,231
Other	6,577	7,511	5,909	6,197
	253,102	**482,113**	**501,613**	**269,183**
Operating deficit	**(157,233)**	**(301,875)**	**(314,810)**	**(168,770)**

Comparison to Budget and Prior Years

4.98 Revenue in 2004-05 substantially exceeded budget expectations by $84.4m (88%) because the increase in the market value of investments was much higher than expected.

4.99 Expenses for 2004-05 were much higher than budget due to an upwards revision of the actuarial estimate of the superannuation liability.

4.100 Revenue, expenses and the operating deficit for 2004-05 were relatively consistent with the 2003-04 results.

4.101 The Superannuation Unit was unable to achieve the budgeted operating result because the significant increase in superannuation expenses substantially exceeded budget investment returns.

[22] Superannuation and other expenses differ from the amounts reported in the Superannuation Unit's audited financial statements due to the reclassification of $17m relating to Totalcare Industries Limited from 'other' expenses to 'superannuation' expenses.

LIABILITY FOR SUPERANNUATION

4.102 The Territory is responsible for meeting superannuation payments for ACT Public Sector employees as members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS).

4.103 The following table shows the actuarial assessment of the estimated annual amounts payable to meet superannuation payments for these employees, in 'nominal' and 'real terms'.

Table 4.20: Superannuation Future Payments Schedule

Year Ending 30 June	Nominal Terms[23] $m	Real Terms[24] $m
2006	59.5	58.1
2012	115.7	97.3
2018	208.5	151.2
2024	314.7	196.8
2030	418.6	225.9
2036	494.1	229.8
2042	519.8	209.5

4.104 Superannuation cash payments will rise steadily for many years. As reported in previous years, this is due to:

- the short period of the Territory's responsibility for employees' superannuation. The Territory's share of the superannuation payments to its long-serving retirees is currently relatively low because the Territory's liability only relates to CSS/PSS members employed with the ACT Public Service since 1 July 1989. (The Commonwealth is liable prior to that date). The Territory's share of the liability will rapidly grow as the service with the ACT Public Service becomes a larger proportion of the total service; and

- the age profile of its employees. Over the next few decades, many employees will be reaching retirement age and then the Territory will be required pay superannuation entitlements accrued over years of service. For many of these employees, the retirement benefits provided under these defined benefits schemes will be taken as indexed pensions that will continue over the lives of the members and their surviving spouses.

[23] 'Report as at 30 June 2004 on the Projected Stream of Emerging Costs and Accrued Superannuation Liabilities of the ACT Government' dated 9 February 2005 prepared by the Territory's consulting actuary, Russell.

[24] The Superannuation Unit provided the figures for superannuation cash payments included in the table.

Unfunded Superannuation Liabilities

4.105 The Territory has been setting aside investment funds to meet superannuation liabilities as they fall due. From 1 July 2000, these funds were quarantined to be used for superannuation purposes by the *Territory Superannuation Provision Protection Act 2000*. At 30 June 2005, these investments totalled $1,472m.

Table 4.21: Unfunded Superannuation Liabilities

	Actual 2002 $m	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %	Actual 2005 $m	Variation from prior year %
Investments	960	1,043	8.6	1,237	18.6	1,472	19.0
Superannuation liabilities[25]	(1,467)	(1,649)	12.4	(2,088)	26.6	(2,503)[26]	19.9
Unfunded superannuation liabilities	507	606	19.5	851	40.4	1,031	21.2
Investments to superannuation liabilities	**0.65 to 1**	**0.63 to 1**		**0.59 to 1**		**0.59 to 1**	

4.106 The Territory continues to have insufficient investments set aside to meet its superannuation liabilities.

4.107 Unfunded superannuation liabilities increased significantly by $180m (21.2%) since 30 June 2004 because superannuation liabilities rose by a much higher amount ($415m or 19.9%) than the increase in investments set aside to meet these liabilities ($235m or 19.0%).

4.108 The ratio of investments to superannuation liabilities has declined steadily in recent years from $0.65 in investments for each dollar of superannuation liabilities at 30 June 2002 to $0.59 at 30 June 2005.

[25] For the years ending 30 June 2002 and 30 June 2003, superannuation liabilities exclude amounts reported as 'unrealised gain on actuarial review'.

[26] Superannuation liabilities in 2004 and 2005 differ from the Superannuation Unit's audited financial statements due to the inclusion of $17m relating to Totalcare Industries Limited.

Table 4.22: Funding of Superannuation Liabilities (Projections)[27]

	Actual 2005 $m	Budget 2006 $m	Variation from prior year %	Budget 2007 $m	Variation from prior year %	Budget 2008 $m	Variation from prior year %
Investments	1,472	1,627	10.5	1,829	12.4	2,042	11.6
Superannuation liabilities	(2,503)	(2,707)	8.2	(2,927)	8.1	(3,147)	7.5
Unfunded superannuation liabilities	**1,031**	**1,080**	**4.8**	**1,098**	**1.7**	**1,105**	**0.5**
Ratio of investments to superannuation liabilities	**0.59 to 1**	**0.60 to 1**		**0.62 to 1**		**0.65 to 1**	

4.109 Significant increases in investments will be needed in the next few years to keep pace with the expected growth in superannuation liabilities. According to the Budget Papers, unfunded superannuation liabilities are expected to grow by $74m from $1,031m in 2005 to $1,105m in 2008.

4.110 There is no present threat to the Territory's finances because most of the unfunded superannuation liabilities will not need to be met for some years. However, the Territory will need to manage it finances to ensure that sufficient investments are set aside to address the current shortfall.

4.111 The impact of the new Public Sector Superannuation Accumulation Plan (PSSAP) for new employees on superannuation liabilities is to be assessed in the coming years. The introduction of the PSSAP should assist in limiting the future growth of unfunded superannuation liabilities because the PSSAP is a fully funded accumulation plan where the employer's superannuation liability is fully extinguished by contributions made to the plan.

4.112 Although the new scheme is expected to reduce costs, the recent significant upward trend in unfunded superannuation liabilities raises a question as to whether Government current strategies to manage this growing shortfall will be effective in preventing it from growing to the point where significant financial difficulties are experienced in the long term.

4.113 Prudent planning and effective financial management will be essential particularly with an increasing number of employees retiring over the next few decades.

[27] Budget Figures are sourced from page 159 of 2005-06 Budget Papers No. 4 and on projections supplied by the Superannuation Unit.

TOTALCARE

4.114 Totalcare Industries Ltd (Totalcare) was a Territory owned corporation until its remaining business unit (fleet management services) was transferred to another Territory owned corporation (Rhodium Asset Solutions Ltd) on 31 December 2004.

HIGHLIGHTS

- An **unqualified** audit opinion on Totalcare's financial statements was issued on 27 September 2005.
- Totalcare continues to recognise a liability of $17.3m for the estimated amount of superannuation contributions owing in respect of approximately 1,200 former employees that were incorrectly exited from the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). Work continues on gathering the information required to determine the exact amount of this liability.

LIABILITY FOR SUPERANNUATION

4.115 In late 2003, Totalcare commissioned an independent audit of Totalcare's superannuation practices since its formation. The report found that Totalcare had not correctly carried out the legal processes required to exempt it from contributing to the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). In particular, many employees were eligible to be members of the CSS or PSS between 1991 and 2004 but were not advised of this right.

4.116 Consequently, an estimate of the liability, based on factors such as average salary and average length of service, of $17.3m for the superannuation contributions owing in respect of these employees was recognised in Totalcare's financial statements. However, as up to 1,200 employees may have been affected, work is continuing on gathering the information required to determine the amount of this liability.

TRANSFER OF ACTIVITIES BACK TO THE ACT GOVERNMENT

4.117 At 30 June 2004, fleet management services still remained with Totalcare. These operations were transferred to another newly established Territory owned corporation (Rhodium Asset Solutions Ltd) on 31 December 2004, completing the transfer of all the company's activities back to the ACT Government. Following the last business unit transfer, the Totalcare Board has now commenced actions necessary to formally wind up the operations of Totalcare.

5. OTHER AGENCIES

ACTEWAGL JOINT VENTURE

5.1 The ActewAGL Joint Venture (the Joint Venture) was formed on 3 October 2000. On formation of the Joint Venture, ACTEW Corporation Ltd (ACTEW) transferred its electricity business and The Australian Gas Light Company (AGL) transferred its ACT, Queanbeyan and Yarrowlumla Shire's gas business to the Joint Venture.

5.2 ACTEW holds a 50% interest in the Joint Venture. The Joint Venture is comprised of the ActewAGL Retail Partnership, the ActewAGL Distribution Partnership and ECOWISE Environmental Pty Ltd (ECOWISE).

5.3 Financial statements, aggregating the results of the Partnerships, were prepared to provide an overall view of the Joint Venture for public reporting purposes. These statements are included in a supplementary report to ACTEW's 2004-05 Annual Report.

5.4 The Joint Venture entered into a strategic alliance by way of a management agreement with TransACT Communications Pty Ltd[28] (TransACT) on 1 February 2004 to manage the TransACT business. The management agreement expires on 30 June 2007.

5.5 The principal activities of the Joint Venture are to:

- operate the energy networks;
- supply energy to customers in the ACT region;
- operate TransACT's business operations pursuant to the management agreement;
- operate the water and sewerage services of the ACT; and
- undertake other related business activities.

[28] Further information on TransACT is provided in Chapter 4.

HIGHLIGHTS

- The Joint Venture's operating profit before income tax expense was $103m in 2004-05 compared to $102m in 2003-04.
- Cash distributions of $48.5m were paid to ACTEW in 2004-05 (2003-04 $48m).
- The Joint Venture is in a strong financial position and at 30 June 2005 had sufficient assets to meet its liabilities.

AUDITS OF THE 2004-05 FINANCIAL STATEMENTS

5.6 The *ActewAGL Partnership Facilitation Act 2000* requires the Joint Venture's financial statements to be audited jointly by the Auditor-General and an auditor appointed by AGL (Deloitte).

5.7 The following audit opinions were provided:

Entity	Audit Opinion	Date
ActewAGL Joint Venture Financial Statements	Unqualified	31 August 2005
ActewAGL Joint Venture Concise Financial Statements	Unqualified	31 August 2005
ActewAGL Retail Partnership	Unqualified	31 August 2005
ActewAGL Distribution Partnership	Unqualified	31 August 2005

5.8 ECOWISE Environmental Pty Ltd's audit and financial results are discussed in Chapter 4.

FINANCIAL PERFORMANCE

Table 5.1: Summary Statement of Financial Performance

	Actual 2004-05 $m	Actual 2003-04 $m	Actual 2002-03 $m
Revenue			
Sale and supply of energy	378	417	386
Operations management (Water and Sewerage and TransACT)	138	102	69
Other	52	28	32
	568	**547**	**487**
Expenses	**465**	**445**	**402**
Operating profit	**103**	**102**	**85**

Operating Results

5.9 Revenue from the sale and distribution of energy fell by $39m from $417m to $378m. This reflected the amendments to pricing tariffs determined by the Independent Competition and Regulatory Commission, which decreased revenue from gas and electricity networks by CPI less 4.3% and CPI less 6.3% respectively. Customers moving to other energy providers and unseasonally warmer weather also impacted sales volumes. This was partially offset by customer growth from outside the Australian Capital Territory region, such as the south coast region of New South Wales and Nowra.

5.10 Revenue from operations management increased as additional revenue was earned for future water supply project options for Canberra, construction of new water treatment plants at Mt. Stromlo and Googong Dam and other drought related projects. Also, the Joint Venture earned additional revenue from managing TransACT's operations for a full year compared to only 5 months last year.

5.11 Other revenue increased due to ECOWISE acquiring a subsidiary group of companies in Victoria and the full year effect in 2004-05 of subsidiaries acquired by ECOWISE in 2003-04.

5.12 Although costs associated with the sale and supply of energy fell in line with this source of revenue, overall expenses rose by $20m (4.5%) due mainly to higher:

- employee costs resulting from increased staff numbers following the acquisition of other subsidiaries in the ECOWISE Group and annual pay adjustments; and

- subcontractor expenses associated with work on the future water supply project options, construction of new water treatment plants and other drought related projects.

5.13 The operating result was maintained in 2004-05 because the overall growth in revenue was matched by the rise in expenses.

DISTRIBUTIONS TO JOINT VENTURE PARTNERS

5.14 In 2004-05, $97m ($96m in 2003-04) was paid to the Joint Venture's partners including cash distributions to ACTEW of $48.5m (2003-04 $48m).

SHORT TERM FINANCIAL POSITION

Table 5.2: Summary Current Assets and Current Liabilities

	Actual 2005 $m	Actual 2004 $m	Actual 2003 $m
Current assets	122	126	108
Current liabilities	115	111	99
Current ratio	**1.06 to 1**	**1.14 to 1**	**1.09 to 1**

5.15 The Joint Venture's current ratio at 30 June 2005 of $1.06 in current assets to each dollar of liabilities is generally in line with prior years. The Joint Venture had sufficient current assets to meet its current liabilities at 30 June 2005.

CANBERRA INSTITUTE OF TECHNOLOGY

5.16 The Canberra Institute of Technology (the CIT) is a statutory authority established on 4 January 1988 under the *Canberra Institute of Technology Act 1987*.

5.17 The functions of the CIT include conducting an educational institution for the purpose of fostering excellence in the fields of technical and further education and supporting industry, commerce and the community in the ACT. The CIT serves the vocational, educational and training needs of the ACT and its region. The CIT has a 31 December year-end for financial reporting.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2004 financial statements was provided to the Minister for Education and Training on 3 March 2005.
- The CIT generally managed its operations to budget as its net cost of services did not significantly exceed budget.
- CIT's net cost of services has increased in recent years due mainly to rising employee expenses.

FINANCIAL PERFORMANCE

Table 5.3: Summary Statement of Financial Performance (Calendar Years)

	Budget 2004 $000	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Expenses				
Employee	51,868	54,213	48,405	46,228
Operating	26,418	26,397	27,844	24,146
Depreciation and amortisation	3,360	3,322	3,325	3,185
	81,646	**83,932**	**79,574**	**73,559**
Revenue				
Courses, student fees and other charges	12,120	12,568	12,343	12,798
Grants and other	7,389	6,634	8,581	4,902
	19,509	**19,202**	**20,924**	**17,700**
Net cost of services	**62,137**	**64,730**	**58,650**	**55,859**
Government contributions				
Government payments for education and training programs	56,169	59,264	52,750	52,073
Capital injections	7,400	6,436	4,970	3,001
Other	-	52	43	47
	63,569	**65,752**	**57,763**	**55,121**
Operating surplus/(deficit)[29]	**1,432**	**1,022**	**(887)**	**(738)**

[29] For the purpose of this analysis, the operating surplus/(deficit) varies from the published operating surplus/(deficit) due to inclusion of capital injections in the Government contributions.

Comparison to Budget

5.19 Employee expenses and net cost of services exceeded the budget by $2.3m (4.5%) and $2.6m (4.2%) respectively. This is due mainly to wage increases flowing from a new enterprise bargaining agreement and increased levels of training provided under the ACT User Choice program (a vocational education and training program for apprentices and trainees). Government contributions were also increased to meet these cost increases.

5.20 The CIT generally managed its operations to budget because its net cost of services did not significantly exceed budget.

Comparison to Prior Years

5.21 Expenses increased from the previous year by $4.4m mainly due to higher employee expenses stemming from a new enterprise bargaining agreement.

5.22 Revenue fell by $1.7m because less Commonwealth grants funding was received and managed by CIT under the national Vocational Education and Training Communication and Leadership Program in 2004 than in 2003.

5.23 CIT's net cost of services rose by $6.1m (10.4%) in 2004 due to the combined effects of higher employee expenses and the decrease in revenue from Commonwealth grants.

5.24 Government contributions increased by $8.0m (13.8%) as additional funding was provided to meet wage rises and to fund increased numbers of apprentices and trainees in 2004.

CHIEF MINISTER'S DEPARTMENT

5.25 The Chief Minister's Department's (the Department's) objectives include:

- providing policy and strategic advice to the Chief Minister and Cabinet;
- exhibiting leadership in public sector reform;
- providing policy and support on women and indigenous issues;
- providing arts and cultural services; and
- guiding, coordinating and supporting various activities across all Government agencies.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Chief Minister on 15 September 2005.
- An **'emphasis of matter'** paragraph was included in the audit report in relation to two performance measures that were not independently verifiable. No audit opinion could be expressed on these performance measures.
- The Department generally managed its operations to budget, as its net cost of services was in line with budget.
- The budget operating surplus was not achieved because $14.2m of budget capital injections funding was not drawn down due to delays in the commencement of the ACT Dragway, Human Resources System Upgrade and Glass Centre projects.

5.26 The Chief Executive of the Department provided the following comments:

The audit report included an 'Emphasis of Matter' in relation to two output performance measures relating to the weeds program. The concern expressed was that the achievement of the performance measures was not independently verifiable.

Comprehensive documentation is submitted each year to demonstrate that a program of work has been formulated for that year, approved by the ACT Weeds Working group and then carried out. The nature of the work carried out is such that it is not practical to obtain independent verification as the work progresses. The cost of doing so would represent a significant proportion of the funds available for the program.

A similar performance measure is included in the output statements for 2005-06, but the definition has been refined to indicate that performance can be substantiated without recourse to costly and impractical independent verification.

FINANCIAL PERFORMANCE

Table 5.4: Summary Statement of Financial Performance

	Budget[30] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses			
Employee	31,519	34,214	23,701
Grants and purchased services	19,531	17,603	38,462
Other	24,350	25,590	24,655
	75,400	**77,407**	**86,818**
Revenue	**1,565**	**3,315**	**1,345**
Net cost of services	**73,835**	**74,092**	**85,473**
Government contributions			
Government payments for outputs	67,947	66,792	85,772
Capital injections	24,325	10,100	1,523
Other	2,368	4,324	7,331
	94,640	**81,216**	**94,626**
Operating surplus[31]	**20,805**	**7,124**	**9,153**

Comparison to Budget

5.27 Net cost of services ($74.1m) did not vary significantly from the budget ($73.8m). The results reflected wage increases and increased leave entitlement liabilities being offset by less than anticipated supplies and services costs and higher than expected revenue. The Department is considered to have generally managed its operations to its budget, as its net cost of services was consistent with budget.

5.28 Revenue in 2004-05 exceeded budget primarily because of increased funding for NRMA Road Safety programs and the National Pollutant Inventory. The National Pollutant Inventory is a database maintained by the Commonwealth. The Commonwealth pays States and Territories to collect information for this database.

[30] The Department's budget included in Budget Paper No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.

[31] The operating surplus in the table differs from the published operating surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.

5.29 The operating surplus was $13.7m less than budget mainly due to capital injections of $14.2m not being drawn down, reflecting delays in the commencement of the ACT Dragway, Human Resources System Upgrade and Glass Centre projects.

Comparison to Prior Year

5.30 The significant fall in expenses, net cost of services, Government contributions and the operating surplus in 2004-05 was mainly due to the transfer of functions to the Department of Economic Development under the Administrative Arrangement Order of 4 November 2004. Functions transferred included BusinessACT, Child and Family Centres, Community Engagement Unit, Multicultural Office and Sport and Recreation ACT.

DEPARTMENT OF DISABILITY, HOUSING AND COMMUNITY SERVICES

The Department of Disability, Housing and Community Services (the Department) has responsibility for disability services and policy, child, youth and family policy and services, social housing policy and services, community engagement, concessions, multicultural affairs, community services and facilities, homelessness services and strategies and therapy services.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Minister for Disability, Housing and Community Services on 7 September 2005.
- The Department managed its Departmental and Territorial operations to its overall budget.
- The Department did not achieve the budgeted operating surplus because most of the budget capital injections were not drawn down due to delays in projects.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 5.5: Summary Statement of Financial Performance

	Budget[32] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses	93,309	95,457	80,170
Revenue	6,096	6,990	4,869
Net cost of services	**87,213**	**88,467**	**75,301**
Government payment for outputs	85,359	85,080	72,824
Capital injections	10,991	4,921	1,748
Resources received free of charge	278	392	437
Government contributions	**96,628**	**90,393**	**75,009**
Operating surplus/(deficit)[33]	**9,415**	**1,926**	**(292)**

Comparison to Budget

5.31 The Department managed its operations to budget with the net cost of services being generally in line with budget expectations.

5.32 The Department's operating surplus ($1.9m) and Government contributions ($90.4m) were significantly less than anticipated because capital injections of $6.1m were not drawn down due to delays in the completion of some capital projects. Work on the Gungahlin Child and Family Centre ($2.7m) and the Multicultural Centre ($1.4m) was not complete at 30 June 2005.

Comparison to Prior Year

5.33 The Department's net cost of services and Government contributions rose significantly in 2004-05 due mainly to the transfer of the Multicultural Affairs and Community Engagement Unit and Child and Family Centres Unit to the Department.

[32] The Department's budget included in Budget Paper No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.

[33] The operating surplus/(deficit) from ordinary activities in the table differs from the Department's published operating (deficit)/surplus from ordinary activities because, for the purpose of this analysis, capital injections have been included in the Government contributions.

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

Table 5.6: Territorial Expenses

	Budget[34] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Concession and community service obligation payments	25,455	23,780	22,747

5.34 Concession and community service obligation payments include payments to service providers to cover subsidies provided to low income earners, pensioners and people with disabilities for general rates, motor vehicle registrations and licences, pensioner transport, spectacles, electricity and water and sewerage.

5.35 The Department managed its Territorial operations within the budget with concession and community service obligation payments being slightly under budget.

EDUCATION AND TRAINING

5.36 The Department of Education and Training (the Department) works in partnership with the community to provide school education, training and preschool services to meet the needs of the people of Canberra.

5.37 The Department's services include the provision of government school education, registration of non-government schools, coordination and purchase of vocational education and training and the provision of preschool and early intervention education programs.

[34] The Department's Territorial budget included in the Budget Papers No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Minister for Education and Training on 7 September 2005.

Departmental Operations

- The Department managed its operations to budget.

Territorial Operations

- The Department managed its Territorial operations to budget.

- Payments of grants to non-government schools have increased significantly in recent years.

FINANCIAL PERFORMANCE - DEPARTMENTAL OPERATIONS

Table 5.7: Summary Statement of Financial Performance

	Budget[35] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses				
Employee	269,876	272,976	264,553	231,965
Superannuation	45,653[36]	39,215	36,240	35,840
Purchase of CIT training services	57,499	57,266	50,858	48,070
Grant payments	20,218	17,435	32,661	30,389
Costs incurred directly by schools	46,930	45,758	46,401	43,081
Supplies and services	31,879	34,392	43,784	37,450
Depreciation	25,267	24,782	25,024	24,029
Other	565	1,222	3,207	1,134
	497,887	**493,046**	**502,728**	**451,958**
Revenue	**28,748**	**32,696**	**31,544**	**30,467**
Net cost of services	**469,139**	**460,350**	**471,184**	**421,491**
Government contributions				
Government payment for outputs	453,003	440,294	430,201	399,115
Capital injections	28,369	25,775	41,330	14,189
Other	615	1,640	445	962
	481,987	**467,709**	**471,976**	**414,266**
Operating surplus/(deficit)	**12,848**	**7,359**	**792**	**(7,225)**

[35] The Department's budget included in Budget Paper No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.

[36] For the purpose of providing a more meaningful budget comparison, the budget superannuation figure of $52.3m has been amended downwards by $6.6m to correct an error in the budget estimate caused by using an incorrect staffing profile for CSS and PSS members.

Comparison to Budget and Prior Year

5.38 Expenses ($493.0m) and the net cost of services ($460.3m) in 2004-05 were under budget by $4.8m (1.0%) and $8.8m (1.9%) respectively, mainly due to employee superannuation expenses being below budget. As the Department's net costs of providing its services were in line with budget expectations, the Department is considered to have managed its operations to budget.

Expenses and net cost of services in 2004-05 declined from the prior year due to a reduction in grant payments and supplies and services costs resulting from the transfer of functions relating to Office for Children, Youth and Family Support from the Department.

5.40 Government contributions were $14.3m under budget as less than expected government payments for outputs were needed to meet the net costs of Departmental operations, in particular, superannuation.

FINANCIAL PERFORMANCE - TERRITORIAL OPERATIONS

Table 5.8: Territorial Expenses

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Grants to non-government schools	129,511	129,481	118,552	108,889
Junior Bursary Scheme	69	212	226	258
Other grants	448	41	46	49
	130,028	**129,734**	**118,824**	**109,196**

5.41 The Department managed its Territorial operations to budget with its 2004-05 expenses being consistent with budget expectations.

5.42 The recent trend of increased payments for grants to non-government schools continued into 2004-05. These payments have increased by $20.6m (18.9%) since 2002-03.

DEPARTMENT OF ECONOMIC DEVELOPMENT

5.43 The Department of Economic Development (the Department) commenced operations on 4 November 2004. The Department's functions include responsibilities for BusinessACT, Small Business Commission and Sport and Recreation ACT. The Department also has portfolio responsibility for the Australian Capital Tourism Corporation, ACTTAB and the ACT Gambling and Racing Commission.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Minister for Economic Development on 12 September 2005.
- The Department managed its operations within the overall budget as the net cost of services did not exceed budget.
- Delays in capital projects resulted in $10.5m of capital injections funding not being drawn down and was the main reason for the Department's operating deficit of $8.9m compared to the budgeted operating surplus of $1.0m.

FINANCIAL PERFORMANCE

Table 5.9: Summary Statement of Financial Performance

	Budget[37] 2004-05 $000	Actual 2004-05 $000
Expenses		
Employee	4,810	4,927
Grants and purchased services	35,703	32,417
Other	10,556	10,009
	51,069	**47,353**
Revenue	**138**	**333**
Net cost of services	**50,931**	**47,020**
Government contributions		
Government payments for outputs	36,328	33,274
Capital injections	11,603	1,153
Other	3,985	3,723
	51,916	**38,150**
Operating surplus/(deficit)[38]	**985**	**(8,870)**

[37] The Department's budget included in Budget Paper No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.

[38] The operating surplus/(deficit) in the table differs from the published operating surplus/(deficit) because, for the purpose of this analysis, capital injections have been included in the Government contributions.

Comparison to Budget and Prior Year

5.44 Net cost of services ($47.0m) was lower than the budget ($50.9m) by $3.9m (7.7%) due to the deferral of expenditure associated with the Knowledge Fund project. The Knowledge Fund project provides grants to organisations that undertake research and development in technology related fields.

5.45 The Department is considered to have managed its operations within overall budget as the net cost of services did not exceed budget.

5.46 The Department recorded a significant operating deficit of $8.9m compared to a budgeted surplus of $1.0m. This is mainly due to budget capital injections not being drawn down as a result of delays in the commencement of the Convention Centre and Manuka Oval projects.

HOUSING ACT

5.47 Housing ACT's (Housing) principal objective is to provide people of Canberra with safe, affordable and appropriate social housing that supports the needs of its clients.

5.48 Housing provides property and tenancy management services for public housing in accordance with the *Housing Assistance Act 1987* and the '2003-2008 Commonwealth State Housing Agreement' (the Agreement). It also manages the Territory's public housing assets, including the acquisition, disposal, redevelopment and repairs, maintenance and improvement of those assets.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Minister for Disability, Housing and Community Services on 15 September 2005.
- Housing managed its operations to its overall budget.
- At 30 June 2005, Housing held and managed the Territory's significant public housing assets, valued at over $2.9 billion.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 5.10: Summary Statement of Financial Performance

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses	117,964	108,395	104,454
Revenue	66,659	64,265	66,432
Net cost of services	**51,305**	**44,130**	**38,022**
Government payment for outputs	31,913	30,238	32,823
Capital injections	5,000	5,000	36,164
Government contributions	**36,913**	**35,238**	**68,987**
Operating (deficit)/surplus[39]	**(14,392)**	**(8,892)**	**30,965**

Comparison to Budget

5.49 Expenses ($108.4m) were significantly under budget expectations ($118.0m) mainly due to lower than anticipated grants ($6.1m) and depreciation and amortisation ($2.4m) expenses.

5.50 Grants were under budget due mainly to delays in a number of community housing projects, including the Indigenous Boarding House ($3.2m), which has been rolled over to 2005-06, and the redevelopment of Burnie Court ($2.4m), which was still at the preliminary negotiation stage at 30 June 2005.

5.51 The depreciation and amortisation expense was less than anticipated due to a change in accounting policy extending the useful life of buildings from 50-80 years to 80 years.

5.52 Housing is considered to have generally managed within its overall budget as the net cost of services did not exceed budget.

[39] The operating (deficit)/surplus in the table differs from the published operating (deficit)/surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.

Comparison to Prior Year

5.53 Expenses ($108.4m) and net cost of services ($44.1m) in 2004-05 rose from the preceding year by $3.9m (3.8%) and $6.1m (16%) respectively, primarily due to higher repairs and maintenance costs.

5.54 Government contributions ($35.2m) fell significantly from last year by $33.7m (49%) due to an additional $31.2m in capital injections being provided in 2003-04, to address homelessness and housing affordability through the expansion of public and community housing, and to replace rural properties destroyed in the January 2003 bushfire, that was not repeated in 2004-05.

5.55 The 2004-05 operating deficit ($8.9m) was significantly lower than the prior year's operating surplus ($31.0m) due to the above-mentioned fall in capital injections.

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

5.56 Housing's Territorial operations consist mainly of Commonwealth grants (of approximately $18m) received in accordance with the '2003-2008 Commonwealth State Housing Agreement'.

5.57 Housing receives funding from the Commonwealth to provide housing assistance to the community under this Agreement. The Territory is required to match approximately 50% of this funding.

5.58 The funding received by Housing from the Commonwealth and recorded in Housing's Territorial operations was transferred (paid) to the Central Financing Unit and subsequently appropriated to Housing's departmental operations as Government payment for outputs.

PROPERTY PORTFOLIO

5.59 As at 30 June 2005, Housing held and managed the Territory's significant public housing assets, valued at over $2.9 billion.

5.60 The following table provides details of the number of land parcels and dwellings under Housing's control at 30 June 2005.

Table 5.11: Number and Value of Land and Dwellings

	Actual 2005	Actual 2004	Actual 2003
Number of land parcels	6,943	6,983	6,944
Land value ($000)	**$2,050,947**	**$1,984,663**	**$1,585,324**
Number of dwellings	11,552	11,509	11,382
Dwellings value ($000)	**$933,612**	**$900,151**	**$824,363**
Total value of land and dwellings ($000)	**$2,984,559**	**$2,884,814**	**$2,409,687**

5.61 The net value of the property portfolio as at 30 June 2005 rose from 30 June 2004 by $100m (3%). This net increase includes the annual revaluation, subsequent acquisitions, disposals, capital improvements and depreciation. This increase included rises in the value of land ($66m) and dwellings ($34m).

5.62 Overall property numbers remained steady during 2004-05 with the small increase in the number of dwellings being offset by a small decline in land parcels.

INTACT

5.63 Information Technology in the ACT (InTACT) commenced operations on 1 July 1996. InTACT's primary objectives are to manage existing information technology (IT) infrastructure services on a whole of government basis and deliver cost efficient infrastructure services.

HIGHLIGHTS

- An unqualified audit opinion on the 2004-05 financial statements was provided to the Treasurer on 8 September 2005.
- InTACT managed its operations within budget.

FINANCIAL PERFORMANCE

Table 5.12: Summary Statement of Financial Performance

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses			
Supplies and services	38,372	40,270	37,545
Employee	14,137	12,964	11,575
Depreciation and amortisation	18,957	20,527	18,378
Other	1,573	1,149	1,192
	73,039	**74,910**	**68,690**
Revenue			
Fees from IT services to agencies	59,435	63,505	66,589
Other	2,451	1,439	955
	61,886	**64,944**	**67,544**
Net cost of services	**11,153**	**9,966**	**1,146**
Government contributions			
Government payments for outputs	3,955	3,955	1,839
Capital injections	10,365	10,365	5,661
Other	185	232	202
	14,505	**14,552**	**7,702**
Operating surplus[40]	**3,352**	**4,586**	**6,556**

Comparison to Budget

5.64 Expenses were slightly higher than budgeted by $1.9m (2.6%) due mainly to:

- increased depreciation on information technology (IT) infrastructure assets, following a reassessment of the useful lives of these assets; and
- higher IT and telecommunications costs associated with increased consumption and demand for InTACT's services.

5.65 Revenue exceeded budget by $3.1m (4.9%) due mainly to a greater demand for InTACT services. These services included desktop environment support, Oracle licences, project revenue and voice revenue.

5.66 InTACT managed its overall operations within budget, as the net cost of services ($10.0m) was less than budget ($11.2m).

[40] The operating surplus in the table differs from the published operating surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.

Comparison to Prior Year

5.67 Expenses rose in 2004-05 due mainly to:

- a reassessment of useful lives of IT infrastructure assets resulting in higher depreciation charges;
- pay rises stemming from enterprise bargaining negotiations and, to a lesser extent, higher employee numbers;
- increases in project related work and expenditure; and
- additional software licence and maintenance charges.

5.68 Government contributions were significantly higher as a result of increased capital injections to fund the Private Data Network. The Private Data Network is an optical fibre telecommunications infrastructure network that will provide data communications to 90% of ACT Government staff for the next 5 to 10 years. The network is owned by InTACT and has replaced the previous arrangement of renting data communication lines from Telstra.

JUSTICE AND COMMUNITY SAFETY

5.69 The Department of Justice and Community Safety (the Department) is responsible for the provision of legal and representation services, legislative drafting, the administration of justice, public prosecutions and the provision of corrective services.

5.70 Other services include the protection of rights, administration of the rental bonds scheme, conduct of elections and referenda, regulatory services and community policing services provided by the Australian Federal Police.

HIGHLIGHTS

- An **unqualified** audit report on the 2004-05 financial statements was provided to the Attorney-General on 13 September 2005.

Departmental Operations

- The Department generally managed its Departmental operations to budget as the net cost of services was under budget.
- The Department did not achieve its budgeted operating surplus because $7.1m of budget capital injections funding was not drawn down due to delays in the commencement of the correctional facility.

HIGHLIGHTS (CONTINUED)

- The Department's current assets were not sufficient to meet its current liabilities. The Department will need to manage its expenses carefully to avoid unexpected cash injections being required from the Government over the next 12 months.

Territorial Operations

- Payments to the Australian Federal Police for community policing services have increased steadily from $78.7m 2002-03 to $89.7m in 2004-05.
- The Department generally managed its Territorial operations to budget.

FINANCIAL PERFORMANCE - DEPARTMENTAL OPERATIONS

Table 5.13: Summary Statement of Financial Performance

	Budget[41] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03[42] $000 Note 1
Expenses				
Employee	53,654	52,377	49,106	79,275
Supplies and services	35,822	39,861	39,490	42,853
Other	3,234	3,249	2,517	4,022
	92,710	**95,487**	**91,113**	**126,150**
Revenue	**3,560**	**7,797**	**7,253**	**6,394**
Net cost of services	**89,150**	**87,690**	**83,860**	**119,756**
Government contributions				
Government payment for outputs	86,125	87,811	82,553	114,920
Capital injections	10,430	3,367	7,658	5,916
Other	-	256	328	-
	96,555	**91,434**	**90,539**	**120,836**
Operating surplus[43]	**7,405**	**3,744**	**6,679**	**1,080**

Note 1: The 2002-03 comparatives include amounts relating to the former Emergency Services Bureau.

[41] The Department's budget included in Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.
[42] The 2002-03 comparatives include amounts relating to the former Emergency Services Bureau.
[43] For the purpose of this analysis, the operating surplus from ordinary activities varies from the published operating surplus due to the inclusion of capital injections in Government contributions.

Comparison to Budget

5.71 Expenses ($95.5m) exceeded budget by $2.8m (3%) with supplies and services expenses being higher than expected due to legal costs associated with the coronial inquest into the bushfire and the Eastman case, and higher information technology and communications charges.

5.72 Net cost of services ($87.7m) in 2004-05 was $1.5m less than budget mainly due to unexpected revenue from insurance recoveries relating to the coronial inquest, which more than compensated for higher legal costs. The Department generally managed its operations to budget, as the net cost of services did not exceed budget.

5.73 The Department did not achieve the 2004-05 budget operating result because $7.1m in capital injections were not drawn down due to delays in the commencement of the correctional facility.

Comparison to Prior Year

5.74 The increase in expenses ($4.4m) and net cost of services ($3.8m) in 2004-05 was mainly due to pay rises flowing from a new enterprise bargaining agreement.

SHORT TERM FINANCIAL POSITION

Table 5.14: Summary Current Assets and Current Liabilities

	Actual 2005 $000	**Actual 2004 $000**	**Actual 2003 $000**
Current assets	8,951	8,486	10,570
Current liabilities	10,560	12,842	22,758
Net current liabilities	**(1,609)**	**(4,356)**	**(12,188)**
Current ratio	**0.85 to 1**	**0.66 to 1**	**0.46 to 1**

5.75 Although the current ratio has improved, the Department continues to have insufficient current assets to meet its current liabilities and, without additional Government financial support, may be unable to meet its liabilities as they fall due.

FINANCIAL PERFORMANCE - TERRITORIAL OPERATIONS

Table 5.15: Territorial Expenses

	Budget 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03[44] $000 Note 2
Payments to the Australian Federal Police	89,720	89,720	85,239	78,699
Payments to the Legal Aid Commission	6,617	6,617	6,011	6,228
Victims of crime – financial assistance, damages and settlements (**Note 1**)	3,420	3,530	3,153	5,230
Other (**Note 1**)	1,155	1,201	3,310	1,597
	100,912	**101,068**	**97,713**	**91,754**

Note 1: These figures are not separately reported in the Budget Papers and were provided by the Department.
Note 2: The 2002-03 comparatives include the amounts relating to the former Emergency Services Bureau.

5.76 The trend of increasing payments for the Australian Federal Police continued into 2004-05. The Department generally managed its Territorial operations to the overall budget, as its Territorial expenses were consistent with budget expectations.

OFFICE FOR CHILDREN, YOUTH AND FAMILY SUPPORT

5.77 The Office for Children, Youth and Family Support (the Department) was created as a result of an Administrative Arrangement Order and commenced operations on 26 May 2004.

The Department's principal objective is to provide, in partnership with the community and family, care and protection to children and young people, to meet the needs of the people of Canberra.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Minister for Children, Youth and Family Support on 9 September 2005.

- The Department managed its operations within budget, as the net cost of services was lower than budget expectations. However, the budgeted operating result of $10.4m was not achieved because $5.5m of budget capital injections funding was not drawn down as a result of delays in the completion of some capital projects.

[44] The 2002-03 comparatives include amounts relating to the former Emergency Services Bureau.

FINANCIAL PERFORMANCE

Table 5.16: Summary Statement of Financial Performance

	Budget[45] 2004-05 $000	Actual 2004-05 $000
Expenses	66,979	67,048
Revenue	510	2,290
Net cost of services	**66,469**	**64,758**
Government payment for outputs	65,603	63,180
Capital injections	11,265	5,807
Resources received free of charge	1	303
Government contributions	**76,869**	**69,290**
Operating surplus[46]	**10,400**	**4,532**

5.78 The Department managed its operations within budget as the net cost of services was lower than budget.

5.79 Government contributions ($69.3m) were significantly lower than budgeted ($76.9m) due mainly to capital injections of $5.5m not being drawn down as a result of delays in the completion of the 11 Moore Street building fit out ($3.5m), upgrade of the Quamby Youth Detention Centre ($1.7m) and the Civic Youth Centre ($0.25m).

SHORT TERM FINANCIAL POSITION

5.80 The following table provides an indication of the Department's ability to meet its obligations at 30 June 2005.

Table 5.17: Summary Current Assets and Current Liabilities

	Budget[47] 2005 $000	Actual 2005 $000
Current assets	705	6,821
Current liabilities	1,942	7,180
Net current liabilities	**(1,237)**	**(359)**
Current ratio	**0.36 to 1**	**0.95 to 1**

[45] The Department's budget included in Budget Paper No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.
[46] The operating surplus in the table differs from the published operating surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.
[47] The Department's budget included in Budget Paper No. 4 2004-05 was amended during the year in accordance with the *Financial Management Act 1996*.

5.81 The Department currently has only just enough current assets to meet its current liabilities when they fall due.

PLANNING AND LAND AUTHORITY

5.82 The ACT Planning and Land Authority (the Authority) was established as a statutory authority on 1 July 2003 by the *Planning and Land Act 2002*. Its principal objectives are to provide, in partnership with all stakeholders in the community, a planning and land system that contributes to the orderly and sustainable development of the Territory, consistent with the social, environmental and economic aspirations of the people of the ACT and in accordance with sound financial principles.

5.83 The Authority was deemed to be an administrative unit (a department) for financial reporting purposes effective from 1 October 2003 in accordance with the Administrative Arrangements 2003 (No. 3).

HIGHLIGHTS

- An **unqualified** audit opinion on the Authority's financial statements was provided to the Minister for Planning on 13 September 2005.
- An **'emphasis of matter'** paragraph was included in the audit report because one performance measure had not been measured. No audit opinion could therefore be expressed on this performance measure.
- The Authority managed its operations to budget.
- The operating surplus ($9.5m) was less than budgeted ($14.2m) because $5.4m in capital injections were not drawn down due to delays in the commencement of some capital works projects.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 5.18: Summary Statement of Financial Performance

	Budget[48] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses			
Employee	23,882	24,204	22,391
Supplies and services	13,322	13,545	12,797
Depreciation and amortisation	529	499	478
Other[49]	329	531	714
	38,062	**38,779**	**36,380**
Revenue	**2,010**	**2,304**	**2,099**
Net cost of services	**36,052**	**36,475**	**34,281**
Government contributions			
Government payments for outputs	34,876	34,876	33,146
Capital injections	15,330	9,930	840
Other[50]	86	1,132	574
	50,292	**45,938**	**34,560**
Operating surplus[51]	**14,240**	**9,463**	**279**

Comparison to Budget

5.84 The Authority managed its operations to budget because the net cost of services was in line with budget.

5.85 Government contributions were lower than budget by $4.4m (8.7%) as funds from capital injections were not drawn down due to delays in the commencement of a number of capital works projects.

Comparison to Prior Year

5.86 Expenses and net cost of services increased from the prior year by $2.4m (6.6%) and $2.2m (6.4%) respectively. This was mainly due to higher employee costs flowing from its enterprise bargaining agreement.

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[48] The original budget included in the 2004-05 Budget Papers was amended in accordance with the *Financial Management Act 1996*.

[49] For the purpose of comparing the financial results to budget and the prior year, the budget transfer of infrastructure assets to the Department of Urban Services ($2.1m) has been excluded from the budget figure for 'other' expenses.

[50] For the purpose of comparing financial results to budget and the prior year, assets transferred from other agencies in 2004-05 ($0.9m) and 2003-04 ($2.75m) have been excluded from 'other' revenue.

[51] The operating surplus in the table differs from the published operating surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.

5.87 Government contributions increased by $11.4m (32.9%) due to the commencement of the Authority's capital works program in 2004-05.

5.88 Including the transfer of assets to and from other agencies, the financial results of the Authority were as follows:

Table 5.19: Summary Statement of Financial Performance

	Budget[52] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses	40,162	38,779	36,380
Revenue	2,010	2,304	2,099
Net cost of services	**38,152**	**36,475**	**34,281**
Government contributions	50,292	46,838	37,310
Operating surplus[53]	**12,140**	**10,363**	**3,029**

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

5.89 The Territorial operations of the Authority consist mainly of taxes, fees and fines. This revenue is reported in Chapter 3.

RHODIUM

5.90 Rhodium Asset Solutions Limited (Rhodium) was incorporated on 8 December 2004 and commenced operations as a Territory owned corporation on 1 January 2005. Rhodium's main business activities during 2004-05 were the provision of asset financing and fleet management services.

HIGHLIGHTS

- An **unqualified** audit opinion on Rhodium's financial statements was issued on 6 September 2005.
- Rhodium's profit after tax for the first six months of operations was an essentially breakeven result of $0.18m.
- At 30 June 2005, Rhodium had just enough current assets to meet its current liabilities when they fall due.

[52] The original budget included in the 2004-05 Budget Papers was amended in accordance with the *Financial Management Act 1996*.
[53] The operating surplus in the table differs from the published operating surplus because, for the purpose of this analysis, capital injections have been included in the Government contributions.

FINANCIAL PERFORMANCE

Table 5.20: Summary Statement of Financial Performance

	8 December 2004 to 30 June 2005 $000
Revenue	
Asset financing and fleet management services	8,978
Proceeds from the sale of non current assets	909
Other	91
	9,978
Expenses	
Cost of sales (including lease payments, insurance, registration and third party insurance)	2,937
Borrowing (interest on finance leases and novated leases)	1,748
Depreciation and amortisation (owned and leased assets)	1,770
Employee and contractor expenses	1,274
Disposal of non current assets	745
Other	1,211
	9,685
Operating profit before tax equivalent expense	**293**
Income tax equivalent expense	112
Operating profit	**181**

5.91 Rhodium's revenue consisted mainly of fleet leasing income ($3.3m), fleet management fees ($1.5m) and income from finance lease charges ($1.5m).

5.92 Rhodium's profit after tax for the first six months of operations was $0.18m.

SHORT TERM FINANCIAL POSITION

Table 5.21: Summary Current Assets and Current Liabilities

	Actual 2005 $000
Current Assets	**24,815**
Current liabilities	**24,948**
Current ratio	**1 to 1**

5.93 Rhodium currently has only just enough current assets to meet its current liabilities when they fall due.

TREASURY

5.94 The Department of Treasury (Treasury) is responsible for managing the overall financial, budget, revenue and economic management functions of the Territory.

HIGHLIGHTS

- An **unqualified** audit opinion on the 2004-05 financial statements was provided to the Treasurer on 12 September 2005.
- An **'emphasis of matter'** was included in the audit report in relation to one performance measure that was not measurable. No audit opinion was expressed on this performance measure.
- Treasury managed its operations within budget as the 2004-05 net cost of services was well under budget.
- Budget capital injections funding of $2.5m was not drawn down due to delays in the commencement of the sustainable infrastructure program.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 5.22: Summary Statement of Financial Performance

	Budget[54] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000
Expenses			
Employee	23,822	16,766	16,170
Supplies and services	11,122	11,347	11,743
Other	4,624	5,272	6,475
	39,568	**33,385**	**34,388**
Revenue	**872**	**1,720**	**1,401**
Net cost of services	**38,696**	**31,665**	**32,987**
Government contributions			
Government payment for outputs	26,836	26,336	28,506
Capital injections	4,000	1,500	1,360
Other	4,742	4,692	4,383
	35,578	**32,528**	**34,249**
Operating (deficit)/surplus[55]	**(3,118)**	**863**	**1,262**

[54] Treasury's budget included in Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.

[55] For the purpose of this analysis, the operating surplus/(deficit) from ordinary activities varies from the published operating surplus/(deficit) due to the inclusion of capital injections in Government contributions.

Comparison to Budget

5.95 Expenses ($33.4m) and net cost of services ($31.7m) were lower than budget by $6.2m (15.6%) and $7.0m (18.2%) respectively, mainly due to the restructure fund set up to fund whole-of-Government restructuring activities not being used to the extent anticipated in the budget.

5.96 Treasury managed its operations within budget as the 2004-05 net cost of services did not exceed budget.

5.97 Government contributions were $3.1m less than budget because capital injections of $2.5m were not drawn down following delays in the commencement of the sustainable infrastructure program. This project involved the implementation of measures directed at improving energy efficiency, reducing emissions and conserving water.

5.98 Treasury recorded an operating surplus of $0.9m compared to a budget deficit of $3.1m, mainly due to funding received for whole-of-Government restructuring activities not being used.

Comparison to Prior Year

5.99 Expenses and the net cost of services did not vary significantly from 2003-04. The small decline of $1.0m (2.9%) in expenses and $1.3m (4.0%) in the net cost of services was mainly due to Gambling and Racing Commission function being transferred from Treasury to the Department of Economic Development as a result of Administrative Arrangement Order of 4 November 2004.

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

5.100 The Territorial operations of Treasury consist mainly of taxes, fees and fines and Commonwealth grants. This revenue is reported in Chapter 3.

UNIVERSITY OF CANBERRA

5.101 On 30 November 1997 the Commonwealth Government transferred the University of Canberra (the University) to the Territory under the *University of Canberra (Transfer) Act 1997*. The University has a 31 December year-end for financial reporting purposes.

5.102 The functions of the University include the:

- creation and communication of knowledge by means of teaching and research of the highest quality;
- encouragement of undergraduate and postgraduate study and research;
- provision of facilities and courses for Australian and international students for higher education generally, and particularly for professional occupations;
- awarding of degrees, diplomas and certificates, whether in its own right, jointly with other institutions, or as otherwise determined by the council;
- fostering of lifelong learning in graduates and others alike; and
- pursuing of community activities which benefit society at large.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2004 financial statements was provided to the Minister for Education and Training on 17 March 2005.
- The operating surplus of $4.4m was mainly due to the receipt of a $10.0m grant for the School of Health Sciences from the ACT Government, which offset the effect of the timing of payments from the Commonwealth Department of Education and Training from late December 2004 to early January 2005.

FINANCIAL PERFORMANCE

Table 5.23: Summary Statement of Financial Performance (Calendar Years)

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Expenses			
Employee	74,830	71,858	72,732
Operating and other	31,444	36,047	29,302
Depreciation	8,157	7,110	7,047
	114,431	**115,015**	**109,081**
Revenue			
Government sources			
Commonwealth Government grants	34,830	39,706	36,373
Higher education contribution scheme	29,938	29,376	28,973
State Government grants	10,251	483	535
	75,019	**69,565**	**65,881**
Other sources			
Fees and charges	27,898	27,931	25,154
Other research grants and contracts	752	1,847	2,626
Investment income	862	830	941
Other	14,346	14,500	14,582
	43,858	45,108	43,303
	118,877	**114,673**	**109,184**
Operating surplus/(deficit)	**4,446**	**(342)**	**103**

Comparison to Prior Year

5.103 Employee expenses rose by $3.0m mainly in relation to non-academic staff. This increase was offset by a decrease in operating and other expenses costs associated with the non-recurrence of the write-off of the unfunded superannuation expense that occurred in 2003.

The decrease in Commonwealth Government grants reflects a change in the timing of payments from the Commonwealth Department Education, Science and Training (DEST) from late December 2004 to early January 2005. State Government grants increased due to a grant of $10.0m from the ACT Government for facilities at the School of Health Sciences.

5.105 Other research grants and contracts fell by $1.1m due to the completion in 2003 of a major grant for Scaffolding Reading and Writing for Indigenous Children in School.

5.106 The operating surplus of $4.4m was mainly due to the receipt of a $10.0m grant for the School of Health Sciences from the ACT Government, which offset the effect of the change, from late December 2004 to early January 2005, of the timing of payments from the Commonwealth Department of Education and Training.

URBAN SERVICES

5.107 The Department of Urban Services' (DUS) provides a wide range of services, including municipal, and transport regulation services. DUS also provides policy advice to Government on the strategic management of Government owned properties.

5.108 DUS supplies management support to the ACT Public Cemeteries Board and provides funds to ACTION and the Cultural Facilities Corporation. DUS also manages forestry services through ACT Forests.

5.109 On 4 November 2004, Government transferred the functions of Environment and Heritage and Arts and Cultural Services to the Chief Minister's Department.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Minister for Urban Services on 14 September 2005.
- An **'emphasis of matter'** paragraph was included in the audit report because one performance measure had not been measured. No audit opinion could therefore be expressed on this performance measure.
- The Department's net cost of services were consistent with budget expectations indicating that overall operations were managed to budget.
- The operating surplus was significantly less than the budgeted operating surplus due to the Department receiving less than budgeted infrastructure assets and the deferral of capital injections funding to 2005-06.

FINANCIAL PERFORMANCE - DEPARTMENTAL OPERATIONS

Table 5.24: Summary Statement of Financial Performance

	Budget[56] 2004-05 $000	Actual 2004-05 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses				
Transport services – ACTION **(Note 1)**	52,127	52,127	45,452	44,799
Arts and cultural facilities – Cultural Facilities Corporation **(Note 1)**	2,272	2,272	6,793	6,473
Forestry services – Forests **(Note 1)**	2,138	2,138	2,338	2,188
Grants to community organisations **(Note 1)**	2,553	1,257	2,449	2,974
Payments for services	**59,090**	**57,794**	**57,032**	**56,434**
Operating	150,838	157,062	156,442	133,649
Employee	79,389	75,744	75,024	81,279
Depreciation and amortisation	79,474	81,795	77,092	68,862
Other	4,895	7,972	9,550	14,862
	373,686	**380,367**	**375,140**	**355,086**
Revenue				
Sale of goods and services	74,802	78,926	58,687	45,146
Other[57]	3,794	6,459	14,112	12,884
	78,596	**85,385**	**72,799**	**58,030**
Net cost of services	**295,090**	**294,982**	**302,341**	**297,056**
Government contributions				
Government payments for outputs	224,279	223,435	240,983	241,692
Capital injections	78,172	54,263	50,868	69,360
Transfer of infrastructure assets	66,709	42,039	33,117	61,741
Resources received free of charge	1,900	627	604	1,758
	371,060	**320,364**	**325,572**	**374,551**
Operating surplus[58]	**75,970**	**25,382**	**23,231**	**77,495**

Note 1: These figures are not separately reported in the Budget Papers and were provided by DUS.

[56] The Department's budget included in the Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.
[57] For the purpose of comparing financial results to budget and the prior year, assets recognised for the first time in 2003-04 ($59.5m) have been excluded from 'Other' revenue.
[58] The operating surplus differs from the published operating surplus because capital injections have been included in Government contributions.

Comparison to Budget and Prior Year

5.110 Expenses ($380.4m) in 2004-05 were higher than the budgeted amounts and 2003-04 results by $6.7m (1.8%) and $5.2m (1.4%) respectively, due to:

- additional costs associated with the increased demand for the Department's Services; and
- the full year effect of the transfer of Totalcare's operations to DUS.

5.111 Revenue for 2004-05 ($85.4m) exceeded budget and the preceding year by $6.8m (8.6%) and $12.6m (17.3%) respectively. This growth in revenue was mainly due to:

- increased demand for services provided by Cityscape and the Yarralumla Nursery; and
- the full year effect of the transfer of Totalcare's operations to DUS.

5.112 The Department's net cost of services was consistent with budget expectations, indicating that overall operations were managed to budget.

5.113 The Department did not achieve its budget operating result because:

- $23.9m in planned capital injection funding was not drawn down due to the deferral of some capital works projects. (The projects that were deferred are reported in the 'Capital Assets' section of Chapter 3); and
- the transfer of infrastructure assets from the Land Development Agency (LDA) was lower than budget by $24.7m (37%). The Department and/or LDA have no control over the timing of asset construction by private sector land developers.

FINANCIAL PERFORMANCE - TERRITORIAL OPERATIONS

5.114 DUS Territorial operations consist mainly of taxes, fees and fines and Commonwealth grants. This revenue is reported in Chapter 3.

APPENDIX 1

REPORTING AND AUDITING FRAMEWORK

This appendix provides an overview of the main legislative requirements for financial and performance reporting in the Territory's public sector and the auditing requirements under this framework.

REPORTING AND AUDITING FRAMEWORK

The *Financial Management Act 1996,* the *Territory Owned Corporations Act 1990,* the *Annual Reports (Government Agencies) Act 2004* and the *Auditor-General Act 1996* provide most of the legislative framework for financial and performance reporting and audit arrangements for the Territory's public sector. These Acts also include mechanisms for the public scrutiny of the financial and operational performance of agencies in the Territory's public sector.

These reporting and audit arrangements are intended to facilitate the Government's accountability to the Legislative Assembly, and the public, for its management of public sector resources.

Relevant aspects of this legislation are outlined below.

Financial Management Act 1996

The *Financial Management Act 1996* addresses the financial management and associated accountability requirements of the Territory and its departments and authorities.

Amongst other things, this Act requires the Territory and its departments and authorities to prepare annual financial and performance statements, which can be easily compared to their budget, and to have these statements audited by the Office.

This Act requires financial statements to be prepared in accordance with generally accepted accounting practices, which refer to the Australian Accounting Standards and other mandatory professional reporting requirements.

Territory Owned Corporations Act 1990

The *Territory Owned Corporations Act 1990* addresses the reporting requirements of Territory owned corporations. These corporations are required to appoint the Auditor-General as their statutory auditor under the *Corporations Act 2001*. Consequently, the Office performs the audit of the financial statements of these corporations under this Act.

The *Corporations Act 2001* requires financial statements to present a 'true and fair view' and to be prepared in accordance with accounting standards and other mandatory professional reporting requirements in Australia.

Annual Reports (Government Agencies) Act 2004

The *Annual Reports (Government Agencies) Act 2004* requires departments, authorities and Territory owned corporations to prepare annual reports that provide information on their financial and operational performance. This Act also requires these annual reports to be tabled in the Legislative Assembly.

The audited annual financial and performance statements of these agencies and the accompanying audit opinion are published in agencies' annual reports.

Auditor-General Act 1996

The Office operates principally under the *Auditor-General Act 1996.* This Act, amongst other things, provides a legislative mandate for the Auditor-General to conduct financial statement and performance audits of public sector agencies.

The Act supports the independence of the Office by providing that the Auditor-General (and the Office) is not subject to direction by the Executive or any Minister in the exercise of the Office's functions. The Auditor-General reports directly to the Legislative Assembly on any matter in the connection with the exercise of these functions.

FINANCIAL STATEMENT AUDITING

Purpose of a Financial Statement Audit

The Legislative Assembly and the community rely on the Office to provide an impartial opinion on whether financial statements of the Territory and its agencies present a true and fair view of reported performance.

Audits conducted by the Office are required to be performed in accordance with the Australian Auditing Standards.

Public Reporting

Audit Reports

The main 'visible' outcome of a financial statement audit is an independent written audit report which includes an opinion on whether the audited financial statements fairly present the financial results of reporting agencies in accordance with Australian Accounting Standards and other mandatory reporting requirements.

This audit report is published in agencies' annual reports and accompanies the audited financial statements.

Other Public Reporting

In addition to the audit reports issued on individual agencies and on the consolidated Territory financial statements, the Office also publishes an annual report which provides a summary of the overall results of the financial audit program. This report also includes matters of significance identified during the audits that warrant reporting to the Legislative Assembly.

Types of Audit Opinion

Under Australian Auditing Standards, audit opinions may be 'qualified' or 'unqualified'.

Unqualified Audit Opinions

An 'unqualified opinion' is issued when the Office is satisfied, in all material respects, that the financial statements are in accordance with the relevant accounting standards and other mandatory reporting requirements and fairly reflect the agencies' performance and financial position.

An unqualified audit report may be modified by the inclusion of an 'emphasis of matter' paragraph in the report where the auditor wishes to emphasise matters that are relevant to users of the financial statements.

Qualified Audit Opinions

The types of 'qualified' opinions are briefly explained below.

- An 'except for opinion' indicates the financial statements are in accordance with the relevant accounting standards and other mandatory reporting requirements except for certain matter(s) etc.
- An 'adverse opinion' is issued where the effect of a disagreement with management on accounting requirements or errors and deficiencies of data provided are so fundamental or pervasive that the financial statements are misleading or of little use.
- An 'inability to form an opinion' is issued where the limitation on the scope of the audit is such that the auditor is unable to form an opinion.

Few audit opinions are qualified. Before expressing a qualified opinion, the Office is required by the Australian Auditing Standards to take reasonable steps to be in a position to express an unqualified opinion. Potential audit qualifications are usually averted through consultation with the agency. Often financial statements are amended through this consultative process before the financial statements are published.

However, unresolved differences of opinion occasionally arise between an agency and the Office on significant matters resulting in a qualification of the audit opinion.

In the past, the most common type of 'qualified' audit opinion issued by the Office has been the 'except for' opinion arising from a 'disagreement with management'. These opinions are not necessarily a reflection on the integrity or quality of an agency's management. The Chief Executives are solely responsible for the financial statements and are required to form their own views on the financial statements independently of any opinion that may be expressed by the Office. An example of 'except for' qualified audit opinions arising from 'a disagreement with management' are the 2004-05 qualifications issued on the financial statements of the Territory and the Superannuation Unit because the Office considered the superannuation accounting policy used to prepare did not comply with the Australian Accounting Standards.

Reporting to Management

The main purpose of a financial statement audit is to express an opinion on the financial statements of an agency. Other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Office is required by the Australian Auditing Standards to report these matters to an agency's management.

Matters reported in these management reports are not publicly reported to the Legislative Assembly unless the matter is serious (for example, significant legislative breach or fraud) or systemic (for example, major weaknesses in the control) that further public reporting is warranted to facilitate an appropriate level of accountability to the Legislative Assembly and the wider community.

APPENDIX 2

SCOPE AND LIMITATION OF FINANCIAL AUDITS

Purpose

The main purpose of financial auditing by the ACT Auditor-General's Office is to provide an impartial opinion to the Legislative Assembly on whether financial statements of the Territory and its agencies present a true and fair view of reported performance.

Audits conducted by the Office are required to be performed in accordance with the Australian Auditing Standards.

Other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Office is also required by the Australian Auditing Standards to report these matters to an agency's management.

The 'Expectation Gap'

The auditing profession recognises that an 'expectation gap' may exist because users of the financial statements and audit reports may tend to believe the auditor's roles and responsibilities are greater than they actually are. This may occur with audits undertaken by the Office.

Users of audited statements therefore need to have a clear understanding of the respective responsibilities of management of the reporting entity and the auditor. Key elements of those responsibilities are:

- The reporting entity's management is responsible for maintaining adequate accounting records and preparing the financial and performance statements.
- The reporting entity's management is responsible for maintaining a system of internal controls to prevent or detect errors or irregularities (including fraud).
- The auditor is to form an opinion on whether the financial statements prepared by management present a view that is consistent with the auditor's understanding of the reporting entity's financial position, its operations and cash flows in accordance with the Australian Accounting Standards and other mandatory professional reporting requirements.
- The financial statements of departments and authorities include budget information. In performing audits of financial statements, the auditor provides no opinion on the accuracy or appropriateness of budget information or whether an agency could reasonably have been expected to achieve budget. No opinion is provided on the systems or the significant accounting policies and estimates that are used in preparing the budget.

- An audit does not involve an examination of every transaction of the reporting entity, as this would be prohibitively expensive and time consuming. Rather, an audit comprises a combination of system checks and examination of a sample of transactions for all items in the financial statements that are considered material and/or high risk in nature. These are items that, if materially misstated as a result of an error or fraud, could adversely affect decisions made by users of financial statements.
- An audit opinion provides users of those statements with reasonable assurance that they are free of material errors. However, the audit opinion cannot provide a guarantee of absolute accuracy of every amount and disclosure made in the financial statements.
- An audit opinion on financial statements does not express a view on the efficiency and effectiveness with which management conducts its affairs, nor does it guarantee an entity's future viability.
- An audit opinion does not express a view on the prudence of decisions made by a reporting entity's management.
- An audit opinion does not cover information provided by management that seeks to explain the performance of a reporting entity. The auditor is only required to check that the information in any accompanying analysis is not materially inconsistent with the information reported in the audited financial statements.

The audit is generally confined to providing an opinion on a reporting entity's financial statements. The auditor's opinion only considers whether the financial statements comply with the provisions of the legislation that apply directly to the financial statements.

PREVIOUS AUDIT REPORTS

Reports Published in 2005-2006

Report No. 3 / 2005	Reporting on Ecologically Sustainable Development
Report No. 4 / 2005	Courts Administration
Report No. 5 / 2005	Annual Report 2004-05
Report No. 6 / 2005	Government Procurement

Reports Published in 2004-2005

Report No. 4 / 2004:	Data Reliability for Reporting on the ACT 'No Waste by 2010' Strategy
Report No. 5 / 2004:	Leave Management
Report No. 6 / 2004:	Workers' Compensation Supplementation Fund
Report No. 7 / 2004:	Annual Report 2003-2004
Report No. 8 / 2004:	Waiting Lists for Elective Surgery and Medical Treatment
Report No. 9 / 2004:	Administration and Monitoring of Youth Service Contracts
Report No. 10 / 2004:	2003-04 Financial Audits
Report No. 1 / 2005:	Management of Government Grants to the ACT Multicultural Council Inc.
Report No. 2 / 2005:	Development Application and Approval Process
Review Report:	Matters Relevant to the Office of the Special Advisor, Council of Australian Governments and Inter-Governmental Relations

Reports Published in 2003-2004

Report No. 9 / 2003:	Annual Management Report for the Year Ended 30 June 2003
Report No. 10 / 2003:	Financial Audits with Years Ending to 30 June 2003
Report No. 1 / 2004:	Administration of Policing Services
Report No. 2 / 2004:	Travel Arrangements and Expenses
Report No. 3 / 2004:	Revenue Estimates in Budget Papers 2002-03

Reports Published in 2002-2003

Report No. 5 / 2002:	V8 Car Races in Canberra – Costs and Benefits
Report No. 6 / 2002:	Annual Management Report for the Year Ended 30 June 2002
Report No. 7 / 2002:	Financial Audits with Years Ending to 30 June 2002
Report No. 1 / 2003:	Effectiveness of Annual Reporting
Report No. 2 / 2003	Belconnen Indoor Aquatic Leisure Centre
Report No. 3 / 2003:	Emergency Services
Report No. 4 / 2003:	Management of Fraud and Corruption Prevention in the ACT Public Sector
Report No. 5 / 2003:	Lease of FAI House
Report No. 6 / 2003:	Allegations of Financial Mismanagement University of Canberra Union
Report No. 7 / 2003:	Compliance Performance Audit – Recruitment Processes
Report No. 8 / 2003:	Financial Incentive Package for Fujitsu Australia Ltd (FAL)

Reports Published in 2001-2002

Report No. 5 / 2001:	The Administration of Payroll Tax
Report No. 6 / 2001:	Annual Management Report for the Year Ended 30 June 2001
Report No. 7 / 2001:	Managing Canberra Urban Parks and Open Spaces
Report No. 8 / 2001:	Canberra Tourism and Events Corporation – Relocation to Brindabella Business Park
Report No. 9 / 2001:	Agents Board – Financial Administration of Training Grant Program
Report No. 10 / 2001:	Corrective Services – Review of Certain Allegations
Report No. 11 / 2001:	Financial Audits with Years Ending to 30 June 2001
Report No. 12 / 2001:	The Freedom of Information Act
Report No. 1 / 2002:	Special Purpose Review of Part of the Commission of Audit Report on the State of the Territory's Finances at 31 October 2001
Report No. 2 / 2002:	Operation of the Public Access to Government Contracts Act
Report No. 3 / 2002:	Government Arrangements of Selected Statutory Authorities
Report No. 4 / 2002:	Frameworks for Internal Auditing in Territory Agencies

Details of reports published prior to 2001-2002 can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: http://www.audit.act.gov.au.

AVAILABILITY OF REPORTS

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

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CIVIC SQUARE ACT 2608

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