

ACT Auditor-General's Office

Audit Report

2009-10 Financial Audits

REPORT NO. 10 / 2010



ACT AUDITOR-GENERAL'S OFFICE



PA10/02

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 '**2009-10 Financial Audits**', for tabling in the Legislative Assembly pursuant to section 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Tu Pham
Auditor-General
21 December 2010

CONTENTS

Contributors to the 2009-10 financial audit program	1
1. Report summary	3
Introduction and background	3
Key audit findings	3
Audit recommendations	8
2. Results of the financial audit program	11
Introduction	11
Results of the audits of financial statements	11
Audit reports	12
Results of the reviews of statements of performance	12
3. Audit findings	19
Introduction	19
Status of audit findings.....	21
Financial and performance reporting	21
Annual reporting	26
Budget management.....	26
Recommendations	27
4. Computer information systems	28
Introduction	28
Computer information systems – environment	30
Controls for key applications	30
Recommendations	35
5. The Territory’s financial statements	37
Audit report	37
Financial results	37
Operating results	40
Revenue, expenses and other economic flows	42
Financial position	46
Short-term financial position.....	48
Long-term financial position.....	50
Cash results	52
Capital assets	53
6. Audit results and findings on ACT Government agencies	55
ACT Health	55
ACTEW Corporation Limited.....	58
ActewAGL Joint Venture.....	62
ACTION.....	67
ACT Planning and Land Authority	70
ACT Public Cemeteries Authority	72
ACTTAB Limited	75
Canberra Institute of Technology.....	77
Chief Minister’s Department.....	80
Disability, Housing and Community Services	83
Education and Training	86
Exhibition Park Corporation	90
Housing ACT (including the Lyons Estate Redevelopment Joint Venture).....	93
Insurance Authority.....	97

Contents

Justice and Community Safety..... 100
Land Development Agency (including land joint ventures) 104
Legal Aid Commission 108
Shared Services Centre 110
Superannuation Provision Account..... 112
Territory and Municipal Services 117
Treasury 121
UCU Ltd 123
University of Canberra..... 125

Appendix A Reporting and auditing framework..... 129
Reporting and auditing framework 129
Financial auditing 130

Appendix B Scope of a financial audit 133

CONTRIBUTORS TO THE 2009-10 FINANCIAL AUDIT PROGRAM

Staff of the Audit Office

Graeme Adler
Mukesh Bharania
Cynthia Chan
Tanya Colyer
Benjamin Fradd
Phoebe Hon
Bei Hu
Michael Huang
Jordan Langford-Smith
Tim Larnach
Saman Mahaarachchi
Jessica Nesbitt
David O'Toole
Chris Peterson
Malcolm Prentice
Joel Pritchard
Ajay Sharma
Bernie Sheville
Catherine Shih
Jatin Singh
Lakesh Sundar
Andrew Webber
Kai Zhao

Contracted Firms

Financial Audit Services

Ernst and Young
PricewaterhouseCoopers
WalterTurnbull

Information Technology Audit Services

Deloitte Touche Tohmatsu

Actuarial Services

Cumpston Sarjeant Pty Limited

Taxation Services

KPMG

Accounting Advice

Ernst and Young
Deloitte Touche Tohmatsu

ACKNOWLEDGEMENTS

I greatly appreciate the assistance provided to the Audit Office by Chief Executives, Chief Finance Officers and other agency staff during the conduct of the annual financial audit program. I also acknowledge the effort and commitment of my staff in completing this year's program.

Tu Pham
Auditor-General
21 December 2010

1. REPORT SUMMARY

INTRODUCTION AND BACKGROUND

- 1.1 The Audit Office issues independent audit reports on the financial statements and statements of performance of ACT Government agencies. These reports are included in the annual reports of each agency and tabled in the ACT Legislative Assembly.
- 1.2 This report provides details of the results of the audits of financial statements and reviews of statements of performance of the Territory and its agencies completed during 2009-10.
- 1.3 An overview of the Audit Office's assessment of the quality and timeliness of reporting by agencies is also included in this report.
- 1.4 The matters identified by the Audit Office during the audit process are reported to the agencies. This report includes a summary of the significant audit findings and information on the progress made by agencies in resolving the previously reported findings.

KEY AUDIT FINDINGS

- 1.5 This report includes the following audit findings:

Results of the audits of financial statements (Chapter 2)

- The Audit Office audited 78 financial statements during the 2009-10 financial audit program. No qualified audit reports were issued.

Results of the reviews of statements of performance (Chapter 2)

- The Audit Office issued 30 reports of factual findings on agencies' statements of performance.
- The Audit Office qualified three reports of factual findings because some performance indicators had not been measured as required by the *Financial Management Act 1996*.

Status of audit findings (Chapter 3)

- In 2009-10, agencies resolved 201 (75 percent) of the audit findings reported in previous years compared to 168 (65 percent) in 2008-09.
- Notwithstanding some improvements in addressing audit findings, agencies did not resolve many findings. This indicates that some agencies need to implement better processes for addressing audit findings in a timely manner.
- Several unresolved audit findings related to internal control weaknesses in major revenue applications reviewed during the audit process.

- The number of new audit findings reported in 2009-10 fell significantly from that reported in 2008-09, indicating that many agencies have improved their governance arrangements, internal controls and reporting processes.

Financial and performance reporting (Chapter 3)

Quality of financial statements

- There was an overall improvement in the quality of financial statements submitted for audit, with 83 percent of financial statements being rated by the Audit Office as 'satisfactory' and 'good' in 2009-10 (70 percent in 2008-09).
- The agencies that prepared unsatisfactory financial statements were typically the smaller agencies with limited accounting and reporting capacity.

Quality of statements of performance

- The quality of statements of performance generally improved in 2009-10, with the combined percentage of statements of performance rated as either 'good' or 'satisfactory' increasing from 64 percent in 2008-09 to 74 percent in 2009-10.
- The percentage of agencies that prepared unsatisfactory statements of performance fell markedly from 18 percent in 2008-09 to 7 percent in 2009-10.
- Many agency performance indicators and the associated targets need further improvement, as they provide little or no meaningful information about the planned and actual performance of the agency.

Timeliness of financial statements and statements of performance

- As in previous years, most agencies provided their financial statements and statements of performance to the Audit Office by the due date.

Annual reporting

- In 2009-10, all agencies placed their annual reports on the relevant website by the date required by the *Annual Reports (Government Agencies) Act 2004*.
- All agencies included the correct version of their financial statements and statement of performance in the printed and electronic (website) version of their annual reports.

Budget management

- The Territory and most of its agencies operated within their budgets.

Computer information systems (Chapter 4)

Computer information systems environment

- Controls over the computer information systems (CIS) environment were generally satisfactory. Shared Services Centre (Shared Services) had improved controls over the CIS environment by resolving all previously reported control weaknesses.
- Shared Services reduced the risk of unauthorised access to the ACT Government network by implementing firewall policies and procedures for the network.
- Documentation supporting the reviews of privileged user access to the ACT Government network and audit logs for UNIX servers was often not retained. This increases the risk of inappropriate access to the network and inappropriate changes to applications or data.
- Shared Services should strengthen its processes for managing changes to firewall rules by ensuring that changes to these rules are independently reviewed.

Controls for key applications

- The application controls for the Oracle Financials, Chris21, Community2008 and RAPS applications were generally satisfactory.
- There were significant weaknesses in controls relating to the MAZE, Homenet, Territory Revenue System and Rego.act applications.
- Agencies' progress in addressing previously reported control weaknesses has been mixed.
- User access controls for Oracle Financials and Territory Revenue System have improved and Shared Services improved its processes for testing the restoration of backup data for Chris21.
- Despite these improvements, significant control weaknesses remain. Areas in particular need of improvement include controls over the review of user access for Homenet and Rego.act and backup and recovery procedures for Homenet and Territory Revenue System. Housing ACT has advised that Homenet 5, introduced in April 2010, will potentially address most of the control and access issues raised for the Homenet application.
- For most applications reviewed, audit logs of changes to applications and data are not being reviewed. This exposes agencies to a higher risk of inappropriate or fraudulent changes to applications and data.
- There were no policies or procedures for managing changes to the MAZE application. This significantly increases the risk of untested or fraudulent changes.

The Territory's financial statements (Chapter 5)

Audit report

- The Audit Office issued an unqualified audit report on the Territory's 2009-10 Consolidated Annual Financial Statements.

Net operating balance

- The Territory's net operating balance for 2009-10, a surplus of \$110 million, exceeded the budgeted and prior year's deficit of \$192 million and \$26 million respectively.
- The Territory's higher net operating balance in 2009-10 resulted from a growth in revenue (\$320 million or 8.7 percent) which exceeded the increase in expenses (\$184 million or 5.0 percent) from the previous year.
- The Territory is expected to incur deficits in its net operating balance over the forward years. These estimated deficits are expected to decline from \$246 million in 2010-11 to \$181 million in 2013-14.

Operating result

- In 2009-10, the Territory generated an operating surplus of \$390 million; a result which compares favourably to the budgeted surplus of \$78 million and deficit of \$276 million incurred in the previous year.
- This improved result was mostly due to an increase in the market values of the Territory's superannuation investments and the higher net operating balance.
- The Territory has forecast a small but steadily increasing operating surpluses over the forward years ranging from \$26 million in 2010-11 to \$129 million in 2013-14.
- The achievement of operating surpluses over the forward years is dependent on the Territory obtaining sufficient gains from investment and property markets to counter the anticipated deficits in the net operating balance over this period.

Revenue

- The Territory's revenue exceeded budgeted and prior year amounts by \$233 million (6.2 percent) and \$320 million (8.7 percent) respectively.
- The growth in revenue resulted from increased taxes, grants from the Commonwealth Government, sales of goods and services and land sales.

Expenses

- The Territory's expenses were slightly below the budgeted cost.
- The Territory's expenses increased by \$184 million (5.0 percent) over the prior year due mainly to higher employee related costs and grants expenses.

Financial position

- The Territory's net asset position at 30 June 2010 exceeded the budgeted and prior year positions by \$2 979 million (23.3 percent) and \$956 million (6.5 percent) respectively.
- The Territory's higher net asset position resulted mainly from an increase in non-financial assets. These increases included the first time recognition of land under roads, increases in the estimated value of infrastructure assets and a much larger capital works program. These increases outweighed a significant growth in the unfunded superannuation liability and borrowings, payables and finance leases.

Short-term financial position

- The Territory's short-term financial position remains strong and was much stronger than anticipated in the budget.
- The Territory's short-term financial position is estimated to remain strong over the forward years.

Long-term financial position

- The Territory's long-term financial position weakened significantly in 2009-10. However, its position was stronger than was anticipated in the budget.
- The Territory's long-term financial position is estimated to weaken over the forward years.

Cash results

- The net cash surplus generated by the Territory's operations remained strong and was much higher than the budgeted and prior year cash surpluses. The result mostly reflects increases in tax collections, Commonwealth Government grants, health (cross-border) service receipts, cash obtained from the Territory's land sales and utility services.
- When combining cash flows from operations and capital activities, the Territory had a small overall cash deficit (\$82 million), that was much smaller than the budgeted deficit (\$634 million). Cash spending on the Territory's expanded capital works program was much less than anticipated, and cash generated from the Territory's operations significantly exceeded budget expectations.
- The Territory is expecting larger cash deficits over next two years due mainly to spending on the capital works program.

Capital assets

- In 2009-10, the planned capital works funding was underspent by \$216 million (26.0 percent). However, the amount spent increased by \$270 million (78.5 percent) and there was a lower level of underspending compared to 2008-09.

- Most of the amount underspent in 2009-10 resulted from delays in completing major infrastructure and building projects.

Audit results and findings on ACT Government agencies

- 1.6 Chapter 6 of this report provides audit results and findings on individual ACT Government agencies.
- 1.7 Responses provided by agencies were considered in the preparation of this report and included, as appropriate, in the relevant sections of the report.

AUDIT RECOMMENDATIONS

- 1.8 The Audit Office made 12 recommendations to address the audit findings.

Recommendation 1

Agencies should ensure that:

- they resolve audit findings in a timely manner and implement processes for monitoring the status of unresolved audit findings; and
- audit findings presented in audit management reports are referred to internal audit committees for monitoring and follow-up.

Recommendation 2

Agencies should improve the quality of their financial statements, giving particular attention to ensuring the information is clear, complete and accurate and complying with any new reporting requirements.

Recommendation 3

Agencies should improve the quality of their statements of performance. In particular, agencies should ensure that:

- the systems used to report results are reliable;
- there is sufficient explanatory information on each performance indicators and how it is measured in the budget papers and/or statement of intent and in the statement of performance; and
- concise and clear explanations of material variances from planned levels of performance are provided.

Recommendation 4

Agencies should comprehensively review and improve the usefulness of the performance indicators and the related targets.

Recommendation 5

Agencies should regularly monitor audit logs for the presence of errors and irregularities, including fraudulent changes to key applications and data. The results of this monitoring process should be documented and reported to management.

Recommendation 6

Agencies should regularly monitor users' rights to access applications and data. The results of this monitoring should be documented and reported to management.

Recommendation 7

Agencies should develop and implement change management policies and procedures for significant computer information systems and applications.

The change management policies and procedures should address the documentation processes required for the approval of changes, testing of changes prior to implementation, identification of business risks and 'back-out plans'¹ for each change.

Recommendation 8

Agencies should develop and implement policies and procedures for managing the removal of user access to applications and computer information systems.

Recommendation 9

To ensure activities by users can be traced to individual users, agencies should cease the use of any generic (shared) user access accounts and replace these with individual user accounts.

Recommendation 10

Agencies should conduct regular tests of the recovery and restoration of backup data and document the results of testing and action taken to address weaknesses identified from these tests. These tests should be incorporated into the standard backup and recovery procedures for applications and data.

¹ 'Back-out plans' are plans for reversing or 'backing out' changes that have not operated as intended.

Recommendation 11

To reduce the risk of unauthorised access to systems and applications, agencies should configure their systems and applications so that:

- accounts are locked after a specified number of incorrect logon attempts; and
- passwords are sufficiently complex and required to be changed on a regular basis.

Recommendation 12

Agencies should:

- regularly update operating systems and applications with the latest critical patches; and
- remove any development tools from the production (live) environment.

2. RESULTS OF THE FINANCIAL AUDIT PROGRAM

INTRODUCTION

- 2.1 The Audit Office completes an annual program of financial audits under a range of legislative and other requirements. Most audits are required by the *Financial Management Act 1996*, however, many are performed pursuant to other requirements, such as those contained within the *Corporations Act 2001*, joint venture agreements, trust fund deeds and Commonwealth Government funding agreements.

KEY ISSUES

Results of the audits of financial statements

- The Audit Office audited 78 financial statements during the 2009-10 financial audit program. No qualified audit reports were issued.

Results of the reviews of statements of performance

- The Audit Office issued 30 reports of factual findings on agencies' statements of performance.
- The Audit Office qualified three reports of factual findings because some performance indicators had not been measured as required by the *Financial Management Act 1996*.

RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS

Table 2.1: Summary of audit reports issued

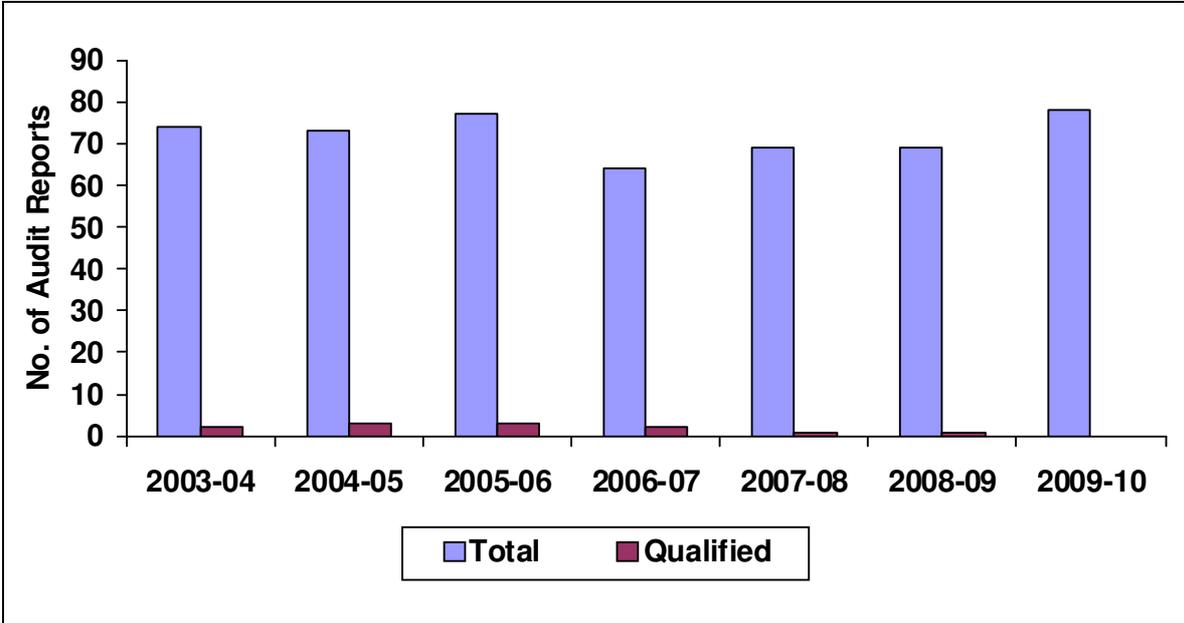
	Unqualified	Qualified	Total
Territory	1	-	1
Departments	18	-	18
Authorities	15	-	15
Territory-owned corporations and other companies	10	-	10
Land joint ventures and partnerships	14	-	14
Other audits	20	-	20
Total audit reports	78	-	78

- 2.2 The Audit Office audited 78 financial statements during the 2009-10 financial audit program. No qualified audit reports were issued. The Office formed the opinion that these financial statements materially complied with the relevant accounting standards and presented a true and fair view of the financial position and performance of the reporting agencies.

2.3 The audit opinions issued by the Audit Office are listed on pages 15 to 18 of this report.

AUDIT REPORTS

Figure 2.1: Audit reports



2.4 The number of audits reports issued by the Audit Office (78) during the 2009-10 financial audit program was higher than that issued in the previous year (71). This increase was mainly due to:

- the audit of the financial statements for the new Department of Land and Property Services and the Long Service Leave Authority;
- the completion of five audits relating to previous reporting periods for the Lyons Estate Redevelopment Joint Venture; and
- additional Commonwealth funding acquittal audits.

RESULTS OF THE REVIEWS OF STATEMENTS OF PERFORMANCE

2.5 The Audit Office is required by the *Financial Management Act 1996* to provide a report of factual findings on statements of performance prepared by departments and authorities. This report identifies any matters of concern about the accuracy of the results included in the statement of performance.

2.6 The Audit Office does not address the relevance or usefulness of performance indicators as part of its review of the statement of performance because these indicators are settled as part of the budget process. However, the Office reports any concerns about the usefulness of performance indicators in audit management reports provided to the reporting agencies and their responsible Ministers.

Table 2.2: Summary of reports of factual findings issued

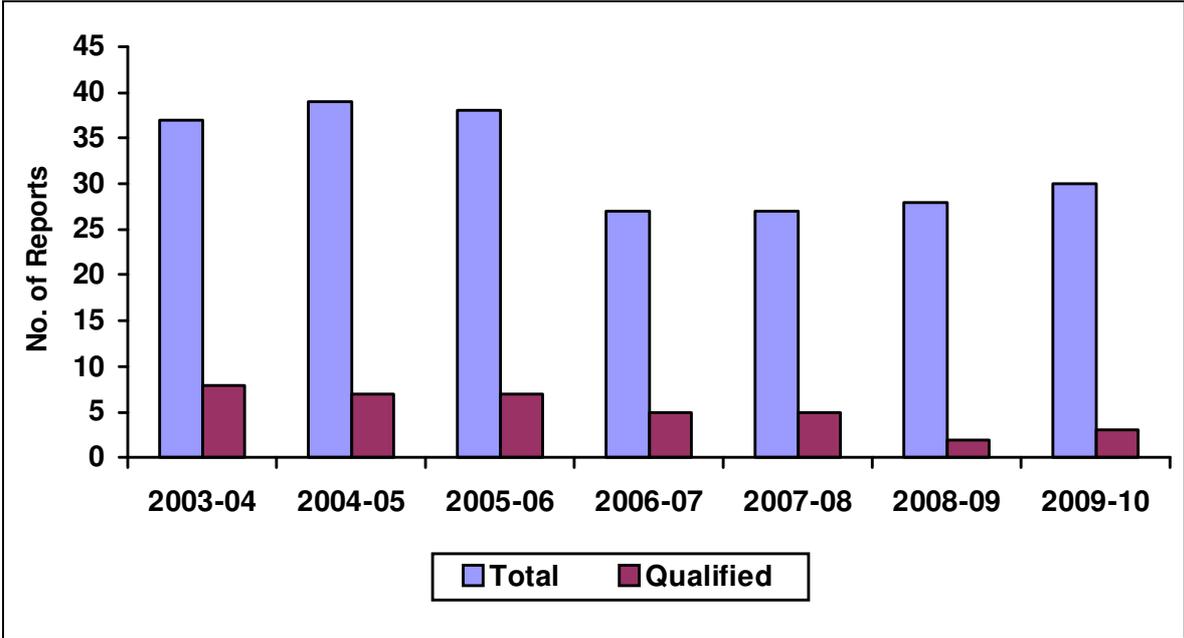
	Unqualified	Qualified	Total
Departments	13	3	16
Authorities	14	-	14
Total reports of factual findings	27	3	30

Table 2.3: Qualified reports of factual findings

Agency	Qualification
Department of Education and Training	One performance indicator was not measured.
Department of Territory and Municipal Services	Three performance indicators were not measured.
ACTION	Three performance indicators were not measured.

- 2.7 The Audit Office qualified three reports because the reporting agencies did not measure some performance indicators as required by the *Financial Management Act 1996*.
- 2.8 The Audit Office continued to find performance indicators that have not been:
- accurately reported;
 - clearly and concisely defined;
 - supported by sufficient evidence; and
 - accompanied by sufficient explanatory information to enable the performance of the agency to be understood.
- 2.9 While agencies were generally able to sufficiently address these reporting deficiencies prior to the issue of the report of factual findings, these deficiencies indicate that agencies need to give further attention to improving their reporting practices.
- 2.10 The Audit Office has outlined its concerns about the usefulness or appropriateness of performance indicators in the commentary on some individual agencies in Chapter 6 of this report.

Figure 2.2: Reports of factual findings



2.11 The number of reports of factual findings issued by the Audit Office in 2009-10 (30) was slightly higher than in 2008-09 (28). This increase was due to the establishment of the new Department of Land and Property Services and the Long Service Leave Authority.

Table 2.4: Summary of 2009-10 audit reports and reports of factual findings

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Territory		
Consolidated Annual Financial Statements	Unqualified	Not applicable
Departments		
ACT Health	Unqualified	Unqualified
ACTION	Unqualified	Qualified
ACT Planning and Land Authority	Unqualified	Unqualified
Chief Minister's Department	Unqualified	Unqualified
Disability, Housing and Community Services	Unqualified	Unqualified
Education and Training	Unqualified	Qualified
Environment, Climate Change, Energy and Water	Unqualified	Unqualified
Executive	Unqualified	Unqualified
Home Loan Portfolio	Unqualified	Unqualified
Housing ACT	Unqualified	Unqualified
Justice and Community Safety	Unqualified	Unqualified
Legislative Assembly Secretariat	Unqualified	Unqualified
Land and Property Services	Unqualified	Unqualified
Shared Services Centre	Unqualified	Unqualified
Superannuation Provision Account	Unqualified	Unqualified
Territory and Municipal Services	Unqualified	Qualified
Territory Banking Account	Unqualified	Unqualified
Treasury	Unqualified	Unqualified
Authorities		
Building and Construction Industry Training Fund Authority	Unqualified	Unqualified
Canberra Institute of Technology	Unqualified	Unqualified
Canberra Public Cemeteries Authority	Unqualified	Unqualified
Cleaning Industry Long Service Leave Authority (Final Audit)	Unqualified	Unqualified

Results of the financial audit program

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Authorities - continued		
Construction Industry Long Service Leave Authority (Final Audit)	Unqualified	Unqualified
Long Service Leave Authority	Unqualified	Unqualified
Cultural Facilities Corporation	Unqualified	Unqualified
Exhibition Park Corporation	Unqualified	Unqualified
Gambling and Racing Commission	Unqualified	Unqualified
Independent Competition and Regulatory Commission	Unqualified	Unqualified
Insurance Authority	Unqualified	Unqualified
Land Development Agency	Unqualified	Unqualified
Legal Aid Commission (ACT)	Unqualified	Unqualified
Public Trustee for the ACT - Office Account	Unqualified	Unqualified
University of Canberra	Unqualified	Not applicable
Territory-owned corporations and other companies		
ACTEW Corporation Limited	Unqualified	Not applicable
ACTEW Distribution Limited	Unqualified	Not applicable
ACTEW Retail Limited	Unqualified	Not applicable
ACTTAB Limited	Unqualified	Not applicable
CIT Solutions Pty Limited	Unqualified	Not applicable
Community Housing Canberra Limited	Unqualified	Not applicable
Rhodium Asset Solutions Limited	Unqualified	Not applicable
Totalcare Industries Limited	Unqualified	Not applicable
University of Canberra College Pty Limited	Unqualified	Not applicable
UCU Ltd	Unqualified	Not applicable
Land joint ventures and partnerships		
ActewAGL Joint Venture Summary Financial Report	Unqualified	Not applicable
ActewAGL Joint Venture Special Purpose Financial Report	Unqualified	Not applicable
ActewAGL Distribution Partnership	Unqualified	Not applicable
ActewAGL Retail Partnership	Unqualified	Not applicable
Forde Joint Venture (December 2009)	Unqualified	Not applicable

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Land joint ventures and partnerships - continued		
Forde Joint Venture (June 2010)	Unqualified	Not applicable
Crace Joint Venture (December 2009)	Unqualified	Not applicable
Crace Joint Venture (June 2010)	Unqualified	Not applicable
Lyons Joint Venture (June 2007)	Unqualified	Not applicable
Lyons Estate Redevelopment Joint Venture (December 2007)	Unqualified	Not applicable
Lyons Estate Redevelopment Joint Venture (June 2008)	Unqualified	Not applicable
Lyons Estate Redevelopment Joint Venture (December 2008)	Unqualified	Not applicable
Lyons Estate Redevelopment Joint Venture (June 2009)	Unqualified	Not applicable
Woden East Joint Venture	Unqualified	Not applicable
Other audits		
Albert Hall Refurbishment Project	Unqualified	Not applicable
Canberra Business Development Fund	Unqualified	Not applicable
Capital Region Community Foundation Open Fund	Unqualified	Not applicable
Capital Region Community Foundation Gift Fund	Unqualified	Not applicable
Commonwealth Annual Revenue and Expenditure Statement of the Legal Aid Commission	Unqualified	Not applicable
Commonwealth Funding under the <i>Interstate Road Transport Act 1985</i> - Expenditure Statement	Unqualified	Not applicable
Commonwealth Funding under the <i>Interstate Road Transport Act 1985</i> - Revenue Statement	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program Act 2009</i> - Roads to Recovery Supplementary Funding	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program Act 2009</i> - Black Spot Projects	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program Act 2009</i> - National Projects	Unqualified	Not applicable
Default Insurance Fund	Unqualified	Not applicable
Gungahlin Cemetery Perpetual Care Trust	Unqualified	Not applicable
Hall Cemetery Perpetual Care Trust	Unqualified	Not applicable

Results of the financial audit program

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Heavy Vehicle Safety & Productivity Program	Unqualified	Not applicable
Nation Building and Jobs Plan (Building the Education Revolution Program)	Unqualified	Not applicable
Nicholls Primary School Joint Facilities	Unqualified	Not applicable
Nominal Defendant	Unqualified	Not applicable
Public Trustee for the ACT - Trust Account	Unqualified	Not applicable
University of Canberra Research Income Return	Unqualified	Not applicable
Woden Cemetery Perpetual Care Trust	Unqualified	Not applicable

3. AUDIT FINDINGS

INTRODUCTION

- 3.1 The primary purpose of auditing financial statements or reviewing statements of performance is to express an independent opinion on whether financial statements and statements of performance prepared by the reporting agencies are materially accurate and reliable.
- 3.2 The auditor is also required by the relevant Australian Auditing Standard² to report 'matters of governance interest' identified during an audit (i.e. audit findings) to agency heads, governing boards and relevant ministers. The matters reported typically include weaknesses in governance arrangements and internal controls, legislative breaches, errors and fraud.
- 3.3 This chapter discusses the quality of agency financial statements, statements of performance and agency performance in addressing audit findings.

KEY ISSUES

Status of audit findings

- In 2009-10, agencies resolved 201 (75 percent) of the audit findings reported in previous years compared to 168 (65 percent) in 2008-09.
- Notwithstanding some improvements in addressing audit findings, agencies did not resolve many findings. This indicates that some agencies need to implement better processes for addressing audit findings in a timely manner.
- Several unresolved audit findings related to internal control weaknesses in major revenue applications reviewed during the audit process.
- The number of new audit findings reported in 2009-10 fell significantly from that reported in 2008-09, indicating that many agencies have improved their governance arrangements, internal controls and reporting processes.

Financial and performance reporting

Quality of financial statements

- There was an overall improvement in the quality of financial statements submitted for audit, with 83 percent of financial statements being rated by the Audit Office as 'satisfactory' and 'good' in 2009-10 (70 percent in 2008-09).

² ASA 260 'Communication with Those Charged with Governance'.

- The agencies that prepared unsatisfactory financial statements were typically the smaller agencies with limited accounting and reporting capacity.

Quality of statements of performance

- The quality of statements of performance generally improved in 2009-10, with the combined percentage of statements of performance rated as either 'good' or 'satisfactory' increasing from 64 percent in 2008-09 to 74 percent in 2009-10.
- The percentage of agencies that prepared unsatisfactory statements of performance fell markedly from 18 percent in 2008-09 to 7 percent in 2009-10.
- Many agency performance indicators and the associated targets need further improvement, as they provide little or no meaningful information about the planned and actual performance of the agency.

Timeliness of financial statements and statements of performance

- As in previous years, most agencies provided their financial statements and statements of performance to the Audit Office by the due date.

Annual reporting

- In 2009-10, all agencies placed their annual reports on the relevant website by the date required by the *Annual Reports (Government Agencies) Act 2004*.
- All agencies included the correct version of their financial statements and statement of performance in the printed and electronic (website) version of their annual reports.

Budget management

- The Territory and most of its agencies operated within their budgets.

STATUS OF AUDIT FINDINGS

- 3.4 Each year, the Audit Office reports audit findings identified during the audit process in an audit management report issued to agencies. This report provides information on new audit findings along with a progress report on the status of implementation of the previous years audit findings.
- 3.5 A summary of the status of audit findings for all agencies is shown in the following table.

Table 3.1: Status of audit findings (number of findings)

	Previously Reported	Resolved	Not Resolved	Partially Resolved	New	Balance
2008-09	260	(168)	59	33	177	269
2009-10	269	(201)	44	24	123	191

- 3.6 In 2009-10, agencies resolved 201 (75 percent) of the audit findings reported in previous years compared to 168 (65 percent) in 2008-09. This indicates that agencies are continuing to address important aspects of their governance arrangements, internal controls and reporting practices.
- 3.7 The Audit Office believes that audit findings should, in the large majority of cases, be resolved within 12 months of being reported (some audit findings may reasonably take longer to be resolved). Given that many previous audit findings were not resolved (16 percent) or were partially resolved (9 percent), some agencies need to implement better processes for addressing audit findings in a timely manner.
- 3.8 Several audit findings that were not fully resolved related to internal control weaknesses in major revenue applications reviewed during the audit process. Audit findings relating to these applications are discussed in Chapter 4 of this report.
- 3.9 The number of new audit findings reported in 2009-10 fell significantly (by 31 percent) compared to 2008-09. This reflected an overall improvement in agencies' governance arrangements, internal controls and reporting processes.

FINANCIAL AND PERFORMANCE REPORTING

Quality of financial statements

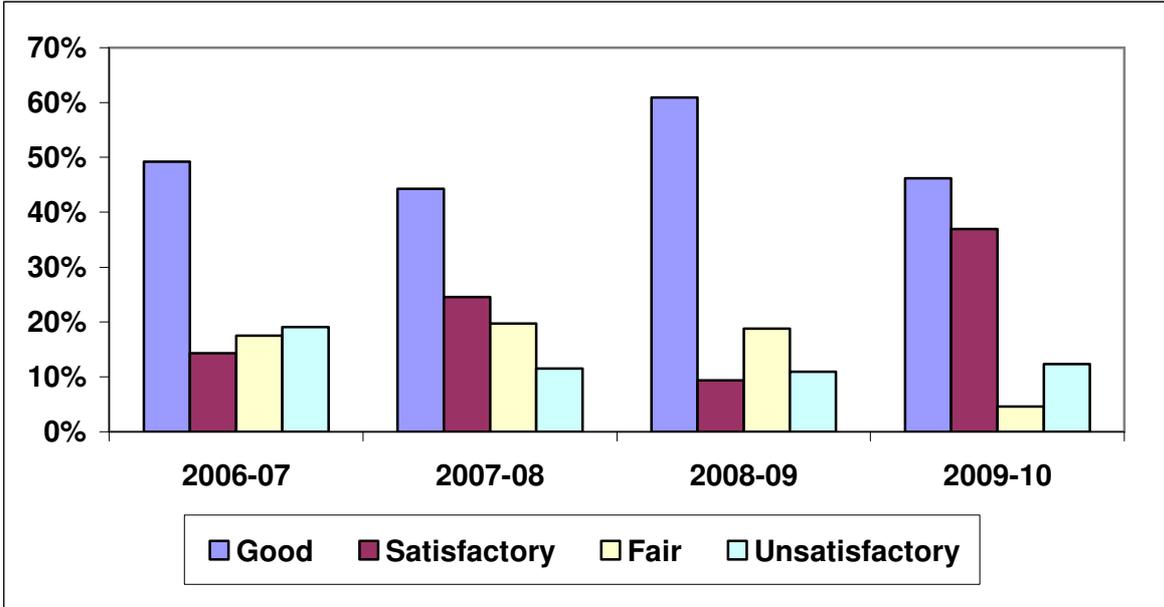
- 3.10 In recent years, the Audit Office has issued few qualified audit reports on financial statements prepared by agencies.
- 3.11 This positive result does not always provide a reliable indicator of the adequacy of reporting arrangements implemented by agencies because financial statements are often amended during the audit process.

3.12 The Audit Office believes that a more reliable indication of the adequacy of these reporting arrangements is provided by assessing the quality of financial statements submitted to the Office for audit using the rating criteria below.

Table 3.2: Rating criteria

Rating	Criteria
Good	Financial statements were well prepared. Little or no adjustments were needed to amounts or disclosures.
Satisfactory	Financial statements were well prepared with few adjustments being needed to amounts or disclosures.
Fair	Financial statements were of a borderline quality. Adjustments were needed to amounts or disclosures.
Unsatisfactory	Financial statements were not well prepared. Many adjustments were needed to amounts and disclosures.

Figure 3.1: Quality of financial statements



3.13 Although there was a reduction in the number of financial statements rated as ‘good’ in 2009-10, there was an overall improvement in the quality of financial statements submitted for audit, with a combined percentage of financial statements rated as ‘satisfactory’ and ‘good’ increasing from 70 percent in 2008-09 to 83 percent in 2009-10.

3.14 The percentage of financial statements rated as unsatisfactory in 2009-10 (12 percent) remained largely unchanged from 2008-09 (11 percent).

3.15 The agencies that prepared unsatisfactory financial statements were typically the smaller ones with limited accounting and reporting capacity. Although these agencies were able to improve their financial statements during the audit process,

they tended to rely on the audit process to assist them in meeting their financial reporting obligations.

3.16 As in previous years, the most common types of deficiencies in financial statements were the:

- misstatement of current or prior year figures due to error;
- lack of clear and concise explanatory information to assist readers to understand the information being reported; and
- use of disclosures from an example of financial statements without ensuring these disclosures were relevant to the operations of the reporting agencies.

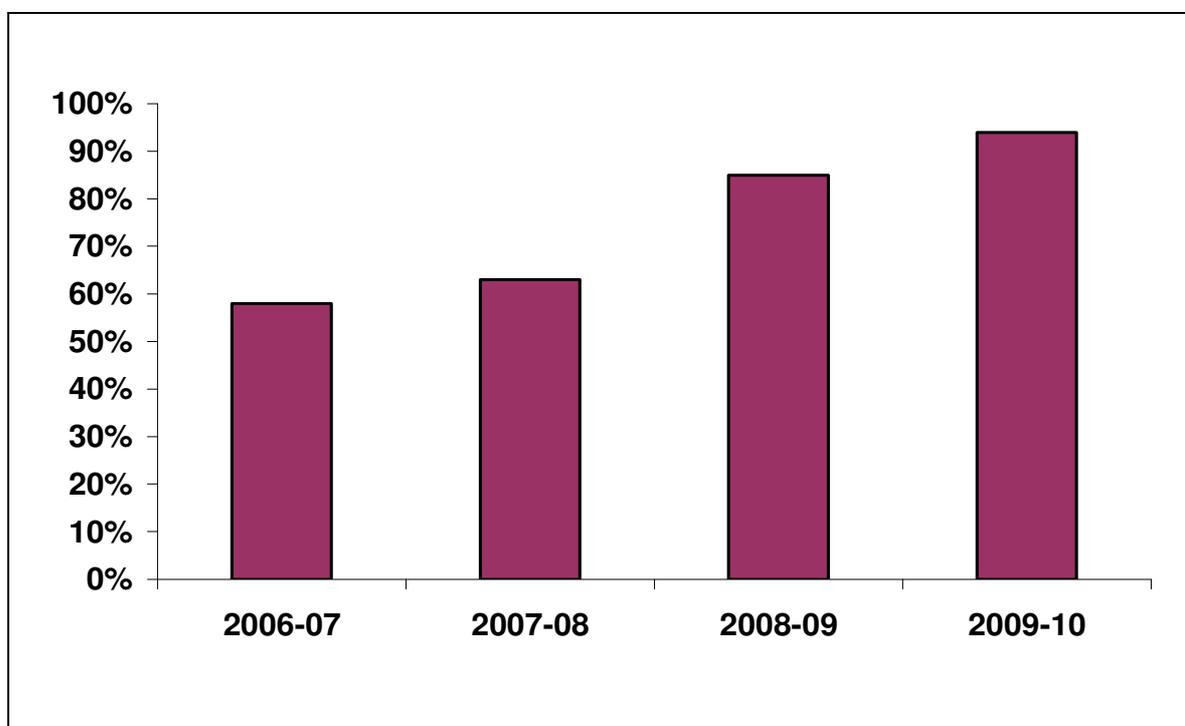
Timeliness of financial statements

3.17 Each year, the Department of Treasury issues a whole-of-government reporting timetable. This timetable includes the dates by which agencies are to submit their financial statements to the Audit Office.

3.18 Agencies need to comply with the Treasury timetable to ensure that:

- they comply with applicable legislative annual reporting deadlines; and
- the Territory’s financial statements are completed and audited within the timeframe required by the *Financial Management Act 1996*.

Figure 3.2: Compliance with the whole-of-government reporting timetable



3.19 Agency compliance with the whole-of-government reporting timetable has improved in recent years. This indicates that most agencies have implemented processes that ensure their financial statements are prepared by the due date.

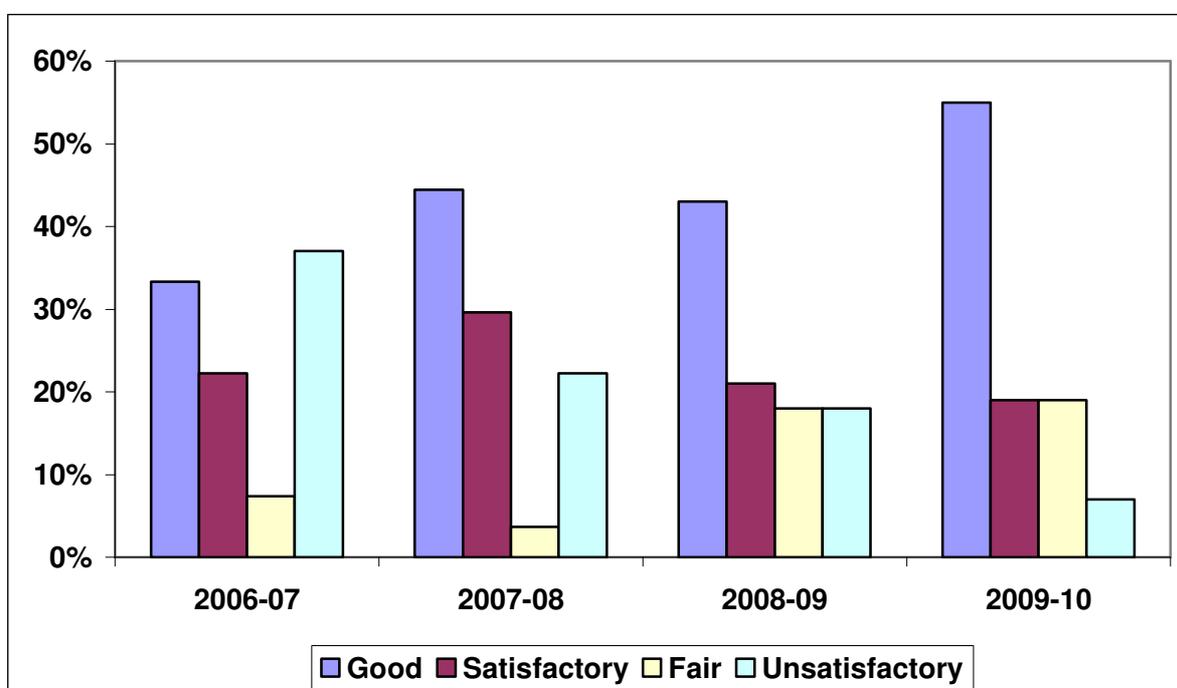
3.20 Only two agencies did not comply with the timetable in 2009-10. However, the financial statements for these agencies were provided to the Audit Office shortly after the due date.

Quality of statements of performance

3.21 Departments and authorities are required by the *Financial Management Act 1996* to prepare statements of performance that present their results against planned targets. These statements include important information on the non-financial aspects of the performance of departments and authorities.

3.22 The Audit Office used the same rating criteria applied to financial statements (page 22) to assess the quality of statements of performance submitted to the Office.

Figure 3.3: Quality of statements of performance



3.23 The quality of statements of performance generally improved in 2009-10, with the combined percentage of statements of performance rated as either ‘good’ or ‘satisfactory’ increasing from 64 percent in 2008-09 to 74 percent in 2009-10.

3.24 The percentage of agencies that prepared unsatisfactory statements of performance fell markedly from 18 percent in 2008-09 to 7 percent in 2009-10.

3.25 As in previous years, the most common types of deficiencies in statements of performance were:

- errors in the calculation of the actual results and variance from planned targets;

- the provision of insufficient explanations of the indicators and/or how they were measured or estimated; and
- a lack of information on the reasons for material variances between actual and planned levels of performance.

Usefulness or meaningfulness of performance indicators

- 3.26 Under the *Financial Management Act 1996*, agencies are required to present in their statements of performance the actual results for each performance indicator and compare them to planned or targeted levels of performance as set out in their budgets or statements of intent.³
- 3.27 In 2009-10 (as in previous years), there were several instances where the performance indicators being reported provided little meaningful information about the planned and actual performance of agencies. For example, some performance indicators only referred to the conduct of an activity, with no explanation of what that activity means or how well it was to be performed.
- 3.28 The Audit Office also noted that the information included in the budget papers or statement of intent did not always provided sufficient insight into the planned levels of performance. Where planned levels of performance are not clearly defined and explained in agencies' budget papers or statements of intent, it is less likely that agencies can be held to account for their performance.
- 3.29 The Audit Office found that performance indicators tended to be more useful and meaningful when agencies:
- clearly defined and explained their performance indicators and associated targets in their budget papers or statement of intent;
 - provided sufficient information on how actual results were measured; and
 - explained significant judgements or estimates applied in measuring the reported results.
- 3.30 The Audit Office alerted agencies to areas where their statements of performance could be improved.
- 3.31 Chapter 6 of this report provides examples of where individual agencies could improve the usefulness and meaningfulness of their performance indicators.

Timeliness of statements of performance

- 3.32 In 2009-10, 90 percent of agencies provided their statements of performance to the Audit Office on time. This compares favourably to the 82 percent recorded in 2008-09.
- 3.33 Where agencies did not provide their statements of performance on time, the statement was provided shortly after the due date.

³ Authorities are required by the *Financial Management Act 1996* to prepare statements of intent. These statements include the performance indicators and associated targets.

ANNUAL REPORTING

Timeliness of reporting – printed and electronic versions of the annual report

- 3.34 Agencies are required by the Chief Minister's Annual Report Directions (issued under the *Annual Reports (Government Agencies) Act 2004*) to place their annual reports on the relevant website on the same day that their annual reports are tabled in the Legislative Assembly.⁴
- 3.35 In 2009-10, all agencies placed their annual reports on the relevant website by the date required by the Chief Minister's Annual Report Directions.

Inclusion of correct versions of audited documents

- 3.36 Reporting agencies are responsible for ensuring that the version of their financial statements and statement of performance made available in their annual report is consistent with those on which the audit report and report of factual findings were issued.
- 3.37 All agencies included the correct version of their financial statements and statement of performance in the printed and electronic (website) version of their annual reports.

BUDGET MANAGEMENT

- 3.38 The capacity of the Territory to operate within its budget depends largely on agencies managing their finances within their allocated budgets.
- 3.39 As disclosed in Chapter 5 of this report, the Territory achieved its budgeted net operating balance and operating result.
- 3.40 The financial results of the Territory's major agencies are compared to their budgets in Chapter 6 of this report. Instances where individual agencies exceeded their budgets included:
- The Department of Territory and Municipal Services' net cost of services exceeded its budgeted cost by \$28.8 million (7.0 percent) due mainly to additional depreciation expenses resulting from asset transfers and revaluations;
 - The Department of Justice and Community Safety's net cost of services exceeded the budgeted cost by \$5.4 million (2.7 percent). This was due mainly to higher wages and salaries for ACT Intensive Care Paramedics (\$6.4 million), collective agreement and leave liability increases in areas such as the Emergency Services Agency, Office of Regulatory Services and Corrective Services;
 - ACT Health's net cost of services (\$784.6 million) exceeded its budgeted cost (\$767.1 million) by \$17.5 million (2.3 percent) due mainly to higher than expected employee costs. These higher costs resulted from increased

⁴ Page 8 of the Chief Minister's 2007-10 Annual Report Directions.

staff numbers and unbudgeted pay rises provided in certified agreements for nurses and administrative staff;

- ACTION's net cost of services exceeded its budgeted cost by \$4.0 million or 4.9 percent due mainly to higher employee and insurance costs and the settlement of a legal claim that predated ACTION's insurance coverage;
- The Chief Minister's Department's net cost of services exceeded the budgeted cost by \$5.4 million (11.3 percent) due mainly to the financial effects of changes to administrative arrangements that were announced after the finalisation of the Department's budget; and
- The Canberra Institute of Technology's net cost of services, excluding unbudgeted capital grants received from the Commonwealth Government, exceeded the budgeted cost by \$3.3 million (4.5 percent) due mainly to higher costs for employees and supplies and services.

RECOMMENDATIONS

Reccomendation 1

Agencies should ensure that:

- they resolve audit findings in a timely manner and implement processes for monitoring the status of unresolved audit findings; and
- audit findings presented in audit management reports are referred to internal audit committees for monitoring and follow-up.

Reccomendation 2

Agencies should improve the quality of their financial statements, giving particular attention to ensuring the information is clear, complete and accurate and complying with any new reporting requirements.

Reccomendation 3

Agencies should improve the quality of their statements of performance. In particular, agencies should ensure that:

- the systems used to report results are reliable;
- there is sufficient explanatory information on each performance indicators and how it is measured in the budget papers and/or statement of intent and in the statement of performance; and
- concise and clear explanations of material variances from planned levels of performance are provided.

Reccomendation 4

Agencies should comprehensively review and improve the usefulness of the performance indicators and the related targets.

4. COMPUTER INFORMATION SYSTEMS

INTRODUCTION

- 4.1 The Audit Office assesses the adequacy of controls over computer information systems (CIS) and applications because agencies rely on these systems and applications to produce their financial statements and statements of performance.
- 4.2 Where sound controls over computer information systems and applications have been implemented, agencies are provided with increased assurance that:
- computer information systems and applications will be secure, reliable and operate as intended; and
 - information on systems and applications will be valid and secure.
- 4.3 The Audit Office's assessment of CIS controls includes a consideration of:
- the environmental controls. This includes the review of controls over the physical and logical security of computer information systems and networks, governance (such as strategic and business continuity planning) and change management. For the majority of systems and applications, most controls over the CIS environment are managed by the Shared Services Centre (Shared Services); and
 - the application controls. This consists of controls included within a specific application.
- 4.4 As part of the completion of the 2009-10 financial audit program, the Audit Office reviewed the environmental controls managed by Shared Services and application controls for the following major applications:
- Oracle Financials (financial management information system);
 - Chris21 (human resource management information system);
 - MAZE (school administration system);
 - Community2008 (information system used to process rates, land tax and levies);
 - Homenet (information system used to record and manage information on Housing ACT's social housing services);
 - Territory Revenue System (information system used by the Department of Treasury to record taxes, fees and fines);
 - Rego.act (information system used to process motor vehicle registrations, drivers' licenses and related infringements); and
 - Receipting Accounting and Payments System (RAPS - information system used to record revenue received from ACT businesses and residents).
- 4.5 This chapter provides an overview of the results from the Audit Office's assessment of CIS controls.

KEY ISSUES

Computer information systems environment

- Controls over the computer information systems (CIS) environment were generally satisfactory. Shared Services had improved controls over the CIS environment by resolving all previously reported control weaknesses.
- Shared Services reduced the risk of unauthorised access to the ACT Government network by implementing firewall policies and procedures for the network.
- Documentation supporting the reviews of privileged user access to the ACT Government network and audit logs for UNIX servers was often not retained. This increases the risk of inappropriate access to the network and inappropriate changes to applications or data.
- Shared Services should strengthen its processes for managing changes to firewall rules by ensuring changes to these rules are independently reviewed.

Controls for key applications

- The application controls for the Oracle Financials, Chris21, Community2008 and RAPS applications were generally satisfactory.
- There were significant weaknesses in controls relating to the MAZE, Homenet, Territory Revenue System and Rego.act applications.
- Agencies' progress in addressing previously reported control weaknesses has been mixed.
- User access controls for Oracle Financials and Territory Revenue System have improved and Shared Services improved its processes for testing the restoration of backup data for Chris21.
- Despite these improvements, significant control weaknesses remain. Areas in particular need of improvement include controls over the review of user access for Homenet and Rego.act and backup and recovery procedures for Homenet and Territory Revenue System. Housing ACT has advised that Homenet 5, introduced in April 2010, will potentially address most of the control and access issues raised for the Homenet application.
- For most applications reviewed, audit logs of changes to applications and data are not being reviewed. This exposes agencies to a higher risk of inappropriate or fraudulent changes to applications and data.
- There were no policies or procedures for managing changes to the MAZE application. This significantly increases the risk of untested or fraudulent changes.

COMPUTER INFORMATION SYSTEMS – ENVIRONMENT

- 4.6 The Audit Office found that controls implemented by Shared Services over the CIS environment were generally satisfactory. Shared Services improved controls over this environment by resolving all previously reported control weaknesses.
- 4.7 Shared Services reduced the risk of unauthorised access to the ACT Government network by implementing firewall policies and procedures for the network. However:
- there was no documentation supporting the review of privileged users of the ACT Government network. This increases the risk of inappropriate or unauthorised access to the ACT Government network;
 - audit logs for UNIX servers were not subject to regular scheduled monitoring by independent officers. This increases the risk that accidental or fraudulent changes to critical applications and data will not be detected or remedied; and
 - changes made to firewall rules were not being independently reviewed.
- 4.8 Shared Services has agreed to address these control weaknesses.

CONTROLS FOR KEY APPLICATIONS

Oracle Financials

- 4.9 Oracle Financials is the financial management information system used by most ACT Government agencies to process and record financial transactions. Oracle Financials is managed and maintained by Shared Services.
- 4.10 From 2009 onwards, most ACT Government agencies were migrated to a single version (instance) of Oracle Financials.

Table 4.1: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
3	(3)	1	1

- 4.11 Overall, the Audit Office found that controls implemented by Shared Services in relation to Oracle Financials were satisfactory.
- 4.12 Shared Services addressed previously reported control weaknesses. In particular, Shared Services reduced the risk of unauthorised or inappropriate access to financial data within Oracle Financials by reviewing user access reports.
- 4.13 However, audit logs for changes made to Oracle Financials were not subject to regular scheduled monitoring by independent officers.
- 4.14 Shared Services has agreed to address this control weakness by having audit logs for Oracle Financials reviewed independently.

Chris21

- 4.15 Chris21 is a Human Resources Management Information System used to process salaries and leave entitlements for many ACT Government employees.
- 4.16 Shared Services is responsible for managing the Chris21 application.

Table 4.2: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
3	(2)	1	1	2

- 4.17 Generally, the Audit Office found that application controls for Chris21 were satisfactory.
- 4.18 Shared Services has addressed most previously reported control weaknesses.
- 4.19 Shared Services has implemented routine testing of the restoration of backed up data for Chris21. This provides additional assurance that payroll data would be available and recoverable in the event of a disaster. However:
- there has not been regular scheduled monitoring of audit logs for Chris21 since the application was first introduced in 2005-06. This increases the risk of accidental or fraudulent changes to payroll data within Chris21; and
 - evidence supporting the review of user access to Chris21 was not always available. This increases the risk of inappropriate or unauthorised access to the Chris21 data.
- 4.20 Shared Services has agreed to address these control weaknesses.

MAZE

- 4.21 MAZE is a school administration system used by all ACT Government schools. This application records the substantial amount of school receipts and expenditure included in the financial statements of the Department of Education and Training.

Table 4.3: Audit findings (number of findings)

New	Balance
2	2

- 4.22 The Audit Office found that the Department of Education and Training has not formally documented change management policies or procedures for the MAZE application. This control weakness increases the risk of untested and potentially fraudulent changes being made to the application.
- 4.23 The Audit Office also found that there is an increased risk of unauthorised, inappropriate or fraudulent access to the MAZE application because periodic reviews of user access to the MAZE application are not performed.

4.24 The Department of Education and Training has agreed to address these control weaknesses.

Community2008

4.25 The Community2008 application is used by the Department of Treasury to process general rates, land taxes and levy transactions.

4.26 Community2008 is expected to be upgraded in 2010-11 to increase the types of fees and levies it processes.

4.27 The Audit Office reviewed the Community2008 application and found that controls over this application were strong.

Homenet

4.28 The Homenet application is a business application used to record and manage information on all aspects of Housing ACT's social housing services. Homenet recorded substantial amounts of rental revenue as reported in the 2009-10 financial statements of Housing ACT.

4.29 Housing ACT implemented version 5 of Homenet in April 2010.

Table 4.4: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
10	(5)	2	3	1	6

4.30 The Audit Office found that Housing ACT improved controls over the Homenet application. Housing ACT:

- has documented user role and administration policies as well as procedures for new, modified and terminated user access. This should reduce the risk of users having access to Homenet, which is not commensurate with their current role and responsibilities; and
- has reduced the risk of unauthorised access to Homenet by ensuring passwords needed to access the application and data are sufficiently complex to minimise the risk of being compromised.

4.31 Despite these improvements, Housing ACT has not addressed some previously reported control weaknesses in a timely manner. The Audit Office again found that:

- user access rights and audit logs of changes to the Homenet application and data were not being periodically reviewed;
- a shared (generic) user account with no minimum password complexity requirements was used to access the Oracle database supporting Homenet; and
- backup testing and database restoration procedures relating to Homenet have not been formally documented and tested to verify their effectiveness.

- 4.32 These control weaknesses mean there continues to be a higher risk of:
- unauthorised, inappropriate and possibly fraudulent access to the Homenet application and data; and
 - the Homenet application and its data not being able to be recovered and restored in the event of a significant disruption.

4.33 In 2009-10, the Audit Office found five users with inappropriate access to the Oracle database holding Homenet data.

4.34 Housing ACT has agreed to address these control weaknesses and has advised that:

The control weaknesses identified by the Audit Office for the Homenet system relate to the legacy system Homenet version 4 which was replaced by version 5 in late April 2010.

The implementation of the new system resolved most of the control weaknesses identified and Housing ACT is working on resolving the remaining control weaknesses once the new system has been bedded down and fully operational.

Territory Revenue System

4.35 The Territory Revenue System is used to record the substantial amounts of taxes and fines revenue reported in the financial statements of Treasury.

Table 4.5: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	Balance
7	(2)	2	3	5

4.36 In 2008-09, Treasury indicated that many of the audit findings relating to the Territory Revenue System would be addressed when it is upgraded. As this upgrade has been delayed, Treasury only resolved two audit findings in 2009-10.

- 4.37 Treasury improved controls over the Territory Revenue System application by:
- implementing a new service level agreement with the supplier of Territory Revenue System. This should reduce the risk that any problems with the Territory Revenue System are not effectively resolved in a timely manner; and
 - performing periodic reviews of user access to the Territory Revenue System.

4.38 Despite these improvements, most previously reported weaknesses have not been fully resolved. In particular:

- audit logs of changes to the Territory Revenue System data (specifically, changes to rates, codes and client information) were not being periodically reviewed;
- backup testing and database restoration procedures relating to the Territory Revenue System have not been formally documented and tested to verify their effectiveness;

- the Territory Revenue System did not lock accounts to prevent access after a specified number of logon attempts; and
- the Territory Revenue System did not have the facility to ensure passwords are sufficiently complex to minimise the risk of being compromised.

4.39 These unresolved control weaknesses mean there continues to be a higher risk of errors, irregularities and fraud.

4.40 Treasury agreed with the audit findings and indicated that it intends to address the identified control weaknesses when the upgrade to the Territory Revenue System is implemented. This is expected to occur towards the end of 2011.

Rego.act

4.41 Rego.act is used by the Department of Territory and Municipal Services (TAMS) to process motor vehicle registrations, driver licences and related infringements.

4.42 The Department of Justice and Community Safety also relies on Rego.act to process parking infringement revenue.

Table 4.6: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	Balance
6	(2)	2	2	4

4.43 The Audit Office found that only two of the six previously reported control weaknesses were resolved by TAMS. Most of these control weaknesses were first identified and reported to TAMS in 2006-07. Control weaknesses include a lack of regular review of users’ access rights, weak password settings on operating systems and databases, failing to apply critical updates to servers and the presence of development tools in the production environment.

4.44 Until these issues are addressed, there is a higher risk that data may be incorrectly processed or changed and unauthorised persons may gain access to the system.

4.45 TAMS has agreed to address these control weaknesses and advised that:

The majority of work required to address these control weaknesses was completed prior to December 2010 with the implementation of the new version of Rego.act on 30 November 2010. The remaining recommendations are scheduled for completion in early 2011.

Receipting Accounting and Payments System

- 4.46 RAPS (the Receipting Accounting and Payments System) is managed by TAMS and is used to process revenue received from ACT businesses and residents. This revenue is reported in the financial statements of a number of ACT Government agencies.

Table 4.7: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Balance
2	(1)	1	1

- 4.47 TAMS' policies and procedures relating to UNIX administration have been updated to require UNIX administrators to use individual logons prior to elevating their level of access on the server. This has reduced the risk of unauthorised or malicious activity on the system and provided TAMS with greater assurance that such activities can be tracked and traced to individuals.
- 4.48 RAPS does not have the facility to record audit logs. This weakness means that TAMS does not have an adequate means of checking whether unauthorised changes have been made to RAPS. This facility has been included in the specifications of the RAPS redevelopment project which is expected to be implemented in early 2011. In the meantime, TAMS has determined that the residual risk associated with this control weakness is acceptably low.

RECOMMENDATIONS

- 4.49 The following recommendations were made to agencies as part of the review of the controls for the above applications. The Audit Office considers these recommendations are likely to be relevant to all applications used by agencies, including those that were not reviewed by the Office.

Reccomendation 5

Agencies should regularly monitor audit logs for the presence of errors and irregularities, including fraudulent changes to key applications and data. The results of this monitoring process should be documented and reported to management.

Reccomendation 6

Agencies should regularly monitor users' rights to access applications and data. The results of this monitoring should be documented and reported to management.

Reccomendation 7

Agencies should develop and implement change management policies and procedures for significant computer information systems and applications.

The change management policies and procedures should address the documentation processes required for the approval of changes, testing of changes prior to implementation, identification of business risks and 'back-out plans'⁵ for each change.

Reccomendation 8

Agencies should develop and implement policies and procedures for managing the removal of user access to applications and computer information systems.

Reccomendation 9

To ensure activities by users can be traced to individual users, agencies should cease the use of any generic (shared) user access accounts and replace these with individual user accounts.

Reccomendation 10

Agencies should conduct regular tests of the recovery and restoration of backup data and document the results of testing and action taken to address weaknesses identified from these tests. These tests should be incorporated into the standard backup and recovery procedures for applications and data.

Reccomendation 11

To reduce the risk of unauthorised access to systems and applications, agencies should configure their systems and applications so that:

- accounts are locked after a specified number of incorrect logon attempts; and
- passwords are sufficiently complex and required to be changed on a regular basis.

Reccomendation 12

Agencies should:

- regularly update operating systems and applications with the latest critical patches; and
- remove any development tools from the production (live) environment.

⁵ 'Back-out plans' are plans for reversing or 'backing out' changes that have not operated as intended.

5. THE TERRITORY'S FINANCIAL STATEMENTS

- 5.1 The financial statements of the Australian Capital Territory (the Territory) include the results of all ACT Government-controlled agencies. These financial statements also include the Territory's share of financial results from land and utility joint ventures.
- 5.2 This chapter discusses the Territory's financial performance, position and capital assets program. It also includes an overview of the Territory's estimated financial performance and position over the period of the forward years (to 2013-14).

AUDIT REPORT

- The Audit Office issued an unqualified audit report on the Territory's 2009-10 Consolidated Annual Financial Statements.

FINANCIAL RESULTS

Net operating balance

- The Territory's net operating balance for 2009-10, a surplus of \$110 million, exceeded the budgeted and prior year's deficit of \$192 million and \$26 million respectively.
- The Territory's higher net operating balance in 2009-10 resulted from a growth in revenue (\$320 million or 8.7 percent) which exceeded the increase in expenses (\$184 million or 5.0 percent) from the previous year.
- The Territory is expected to incur deficits in its net operating balance over the forward years. These estimated deficits are expected to decline from \$246 million in 2010-11 to \$181 million in 2013-14.

Operating result

- In 2009-10, the Territory generated an operating surplus of \$390 million; a result which compares favourably to the budgeted surplus of \$78 million and deficit of \$276 million incurred in the previous year.
- This improved result was mostly due to an increase in the market values of the Territory's superannuation investments and the higher net operating balance.
- The Territory has forecast a small but steadily increasing operating surpluses over the forward years ranging from \$26 million in 2010-11 to \$129 million in 2013-14.
- The achievement of operating surpluses over the forward years is dependent on the Territory obtaining sufficient gains from investment and property markets to counter the anticipated deficits in the net operating balance over this period.

Revenue

- The Territory's revenue exceeded budgeted and prior year amounts by \$233 million (6.2 percent) and \$320 million (8.7 percent) respectively.
- The growth in revenue resulted from increased taxes, grants from the Commonwealth Government, sales of goods and services and land sales.

Expenses

- The Territory's expenses were slightly below the budgeted cost.
- The Territory's expenses increased by \$184 million (5.0 percent) over the prior year due mainly to higher employee related costs and grants expenses.

Financial position

- The Territory's net asset position at 30 June 2010 exceeded the budgeted and prior year positions by \$2 979 million (23.3 percent) and \$956 million (6.5 percent) respectively.
- The Territory's higher net asset position resulted mainly from an increase in non-financial assets. These increases included the first time recognition of land under roads, increases in the estimated value of infrastructure assets and a much larger capital works program. These increases outweighed a significant growth in the unfunded superannuation liability and borrowings, payables and finance leases.

Short-term financial position

- The Territory's short-term financial position remains strong and was much stronger than anticipated in the budget.
- The Territory's short-term financial position is estimated to remain strong over the forward years.

Long-term financial position

- The Territory's long-term financial position weakened significantly in 2009-10. However, its position was stronger than was anticipated in the budget.
- The Territory's long-term financial position is estimated to weaken over the forward years.

Cash results

- The net cash surplus generated by the Territory's operations remained strong and was much higher than the budgeted and prior year cash surpluses. The result mostly reflects increases in tax collections, Commonwealth Government grants, health (cross-border) service receipts and cash obtained from the Territory's land sales and utility services.
- When combining cash flows from operations and capital activities, the Territory had a small overall cash deficit (\$82 million), that was much smaller than the budgeted deficit (\$634 million). Cash spending on the Territory's expanded

capital works program was much less than anticipated, and cash generated from the Territory's operations significantly exceeded budget expectations.

- The Territory is expecting larger cash deficits over next two years due mainly to spending on the capital works program.

Capital assets

- In 2009-10, the planned capital works funding was underspent by \$216 million (26.0 percent). However, the amount spent increased by \$270 million (78.5 percent) and there was a lower level of underspending compared to 2008-09.
- Most of the amount underspent in 2009-10 resulted from delays in completing major infrastructure and building projects.

5.3 Treasury has provided the following comments in relation to the above audit finding:

The growth in the Territory's revenues has been temporarily inflated by grants received from the Commonwealth for the Nation Building Program. These revenues do not include offsetting expenditure, as they are instead capitalised with the delivery of roads, education and social housing infrastructure assets across the Territory.

The improvement in the UPF Net Operating Balance largely reflects a number of technical outcomes and adjustments, including:

- *externally driven factors such as payments by the Commonwealth for Financial Assistance Grants brought forward to 2009-10; and those related to the sale of Government goods and services (associated with increased activity in the latter part of the year);*
- *outcomes associated with the ongoing management of the Territory's liabilities for superannuation and insurance;*
- *transactional variances associated with the transfer of assets between Government agencies;*
- *improved revenue from the Land Development Agency;*
- *higher dividends from ACTEW as a result of the ActewAGL Joint Venture activities;*

offset by:

- *variations associated with revised discount factor impacts;*
- *increased depreciation expenses associated with the write-down of The Canberra Hospital car park; and*

- the recognition of make-good provisions for fit-outs in Government leased accommodation.

Many of these variations are technical in nature and will not flow across the forward estimates.

OPERATING RESULTS

Table 5.1: Operating results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Revenue	3 586	3 665	3 985	3 752
Expenses	(3 415)	(3 691)	(3 875)	(3 944)
Net operating balance – surplus/(deficit)	171	(26)	110	(192)
Other economic flows - (outflows)/inflows	(40)	(250)	280	270
Operating surplus/(deficit)	131	(276)	390	78

- 5.4 The 'net operating balance' and 'operating surplus/(deficit)' are key measures of the Territory's financial performance. These measures provide a good indication of the overall financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time.
- 5.5 The net operating balance generally includes revenue and expenses that arise from 'mutually agreed transactions' such as:
- revenue from Commonwealth Government grants, taxation, and sales of goods and services; and
 - expenditure associated with employees, supplies and services, grants and depreciation.
- 5.6 Other economic flows largely consist of gains and losses in the value of investments, land and other assets. These gains and losses result from changing market conditions.
- 5.7 The Territory's net operating balance for 2009-10, a surplus of \$110 million, exceeded the budgeted and prior year's deficit of \$192 million and \$26 million respectively.

- 5.8 The Territory's higher net operating balance resulted from a growth in revenue (\$320 million or 8.7 percent) which exceeded the increase in expenses (\$184 million or 5.0 percent) from the previous year. Further information on revenue and expenses is provided on pages 42 to 45 of this report.
- 5.9 In 2009-10, the Territory generated an operating surplus of \$390 million. This result compares favourably to the budgeted surplus of \$78 million and deficit of \$276 million incurred in the previous year.
- 5.10 This improved result was mostly due to:
- increases in the market value of the Territory's superannuation investments (included in other economic flows discussed on pages 45 and 46 of this report); and
 - the higher net operating balance referred to previously.

Table 5.2: Projected operating results - Note 1

	Actual 2009-10 \$m	Budget 2010-11 \$m	Budget 2011-12 \$m	Budget 2012-13 \$m	Budget 2013-14 \$m
Revenue	3 985	3 890	4 176	4 371	4 596
Expenses	(3 875)	(4 136)	(4 453)	(4 594)	(4 777)
Net operating balance surplus/ (deficit)	110	(246)	(277)	(223)	(181)
Other economic flows – inflows/ (outflows)	280	272	346	378	310
Operating surplus	390	26	69	155	129

Note 1: Budget figures are sourced from the 2010-11 Budget Papers.

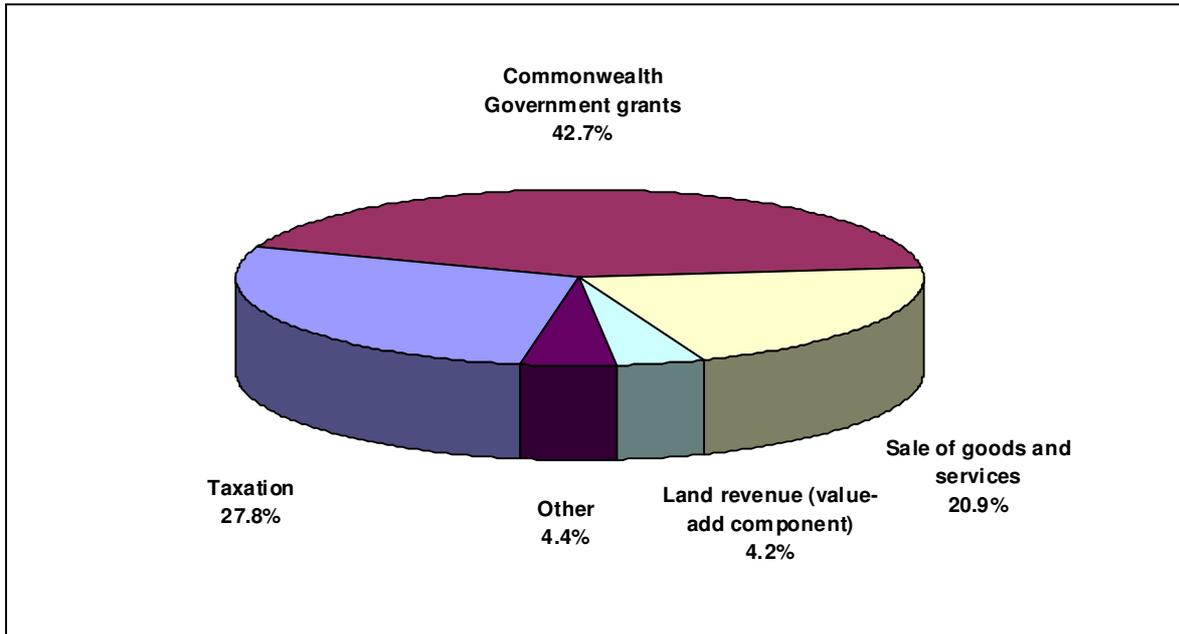
- 5.11 The Territory has forecast deficits in its net operating balance over the forward years. These deficits are expected to decline from \$246 million in 2010-11 to \$181 million in 2013-14.
- 5.12 Over the same period, the Territory has forecast small but steadily increasing operating surpluses, ranging from \$26 million in 2010-11 to \$129 million in 2013-14.

5.13 The achievement of the estimated operating surpluses in the next four years is dependent on the Territory obtaining sufficient gains from investment and property markets to counter the estimated deficits in the net operating balance over this period.

REVENUE, EXPENSES AND OTHER ECONOMIC FLOWS

Revenue

Figure 5.1: 2009-10 Revenue



5.14 The Territory receives most of its revenue from Commonwealth Government grants, taxation and the sale of goods and services.

Table 5.3: Revenue

	Actual 2007-08 \$m	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Commonwealth Government grants	1 324	1 432	1 701	1 630
Taxation	1 006	986	1 106	993
Sale of goods and services	702	772	834	776
Land revenue (value-added component)	229	88	166	171
Other	324	387	178	182
Revenue	3 585	3 665	3 985	3 752

5.15 The Territory's revenue exceeded the budgeted and prior year's amounts by \$233 million (6.2 percent) and \$320 million (8.7 percent) respectively.

5.16 Revenue exceeded budget expectations due mostly to growth in:

- taxation revenue (mainly higher stamp duty from residential and commercial sales);
- grants revenue from the Commonwealth Government due to additional funding for the First Home Owners Boost Assistance and education and health services and higher than budgeted GST revenue; and
- revenue from the sale of goods and services (mainly revenue from land sales and utility joint ventures and the provision of water and sewerage services).

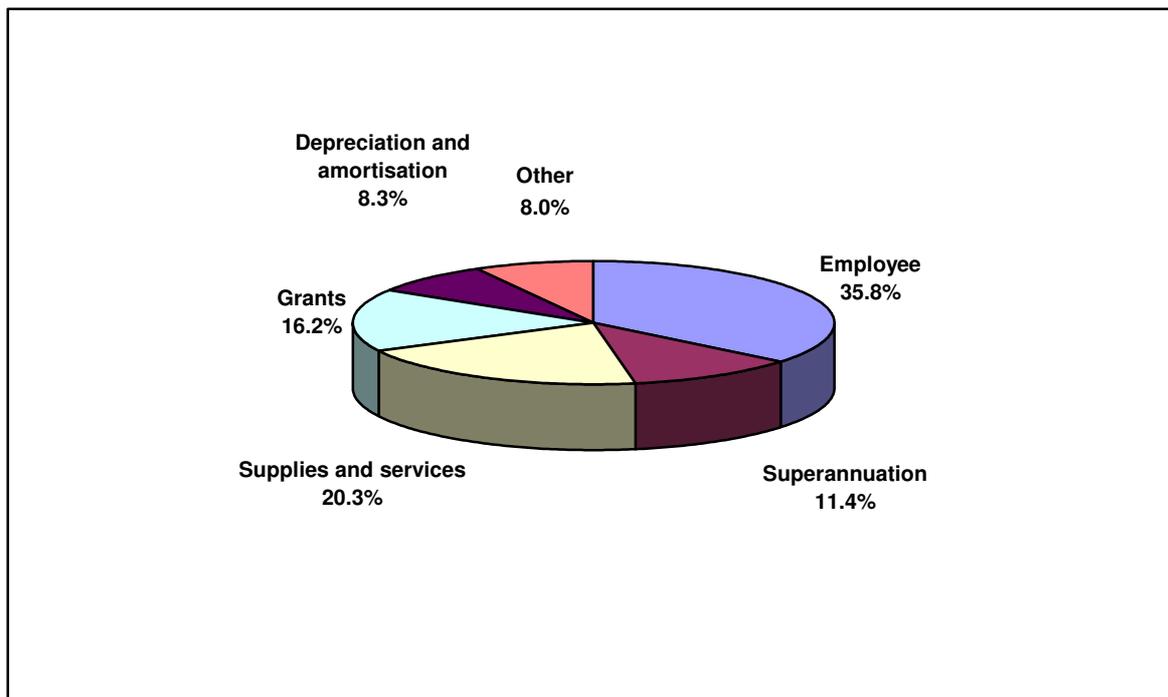
5.17 The increase in revenue from the prior year largely resulted from growth in:

- taxation revenue and grants from the Commonwealth Government (noted above); and
- land revenue resulting from the ACT Government's accelerated land release program and a growing demand for residential land in the Territory.

5.18 These increases in revenue were partially offset by a large fall in other revenue (\$209 million or 54.0 percent). The Territory's reinsurers reduced their estimate of the public liability claims (expense) against the Territory as a number of insurance claims against the Territory were withdrawn during 2009-10. This resulted in a corresponding reduction in the estimated reinsurance recoveries (revenue).

Expenses

Figure 5.2: 2009-10 Expenses



5.19 The majority of the Territory's expenditure relates to employee and supplies and services expenses.

Table 5.4: Expenses

	Actual 2007-08 \$m	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Employee	1 158	1 271	1 389	1 328
Superannuation	377	383	440	439
Supplies and services	728	774	788	903
Grants	493	531	629	604
Depreciation and amortisation	266	297	322	292
Other	393	435	307	378
Expenses	3 415	3 691	3 875	3 944

5.20 The Territory's expenses (\$3 875 million) were slightly below the budgeted cost (\$3 944 million).

5.21 Expenses (\$3 875 million) increased by \$184 million (5.0 percent) over the prior year's amount. This was mainly due to:

- higher employee and superannuation expenses (\$175 million or 10.6 percent) resulting from pay rises, the 'sign-on' bonuses provided under agency collective agreements, and increased numbers of full-time equivalent employees;⁶ and
- increased grants expenses (\$98 million or 18.4 percent) due mostly to additional payments to non-government schools funded by the Commonwealth Government's 'Building the Education Revolution' program.⁷

5.22 These higher costs were partially offset by a reduction in other expenses. As noted previously, the Territory's reinsurers reduced their estimate of the public liability claims (expense) against the Territory.

Other economic flows

Table 5.5: Other economic flows

	Actual 2007-08 \$m	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Land revenue - market gains and undeveloped land value	244	139	125	187
Net (loss)/gain on financial assets and liabilities at fair value	(276)	(340)	160	89
Other	(8)	(50)	(5)	(6)
Other economic flows	(40)	(251)	280	270

5.23 Other economic flows exceeded the budgeted amount by \$10 million (3.7 percent). The better than expected gain on financial assets and liabilities at fair value was mostly offset by lower than anticipated land revenue.

5.24 The Territory's net gain on financial assets and liabilities at fair value significantly exceeded the budgeted amount by \$71 million (79.8 percent). This reflects a better than anticipated increase in the value of superannuation investments from improved conditions in domestic and international financial markets.

6 The number of full-time equivalent employees increased by 436 (or 2.6 percent) from 16 681 at 30 June 2009 to 17 117 at 30 June 2010.

7 The 'Building the Education Revolution' program is part of the Commonwealth Government's 'Nation Building – Economic Stimulus Plan' to provide economic stimulus and support local jobs through the delivery of new infrastructure and refurbishments to Australian schools.

The Territory's financial statements

- 5.25 Land revenue was lower than estimated by \$62 million (33.2 percent) as planned sales of residential, commercial and industrial sites in Barton, Canberra City, Hawker, Hume, Isaacs, Kingston Foreshore and Flemington Road did not occur as expected.
- 5.26 Other economic flows, an inflow of \$280 million, represents a substantial turnaround from the prior year's outflow of \$251 million. This result stemmed from the increase in the market value of superannuation investments referred to above.

FINANCIAL POSITION

- 5.27 The Territory's assets are primarily represented by property, plant and equipment (81.2 percent) including land, buildings and infrastructure assets.
- 5.28 The Territory's liabilities consist mainly of the estimated unfunded superannuation liability (49.7 percent) and borrowings, payables and finance leases (39.0 percent).

Table 5.6: Balance sheet

As at 30 June	Actual 2008 \$m	Actual 2009 \$m	Actual 2010 \$m	Budget 2010 \$m
Assets				
Financial assets - Note 1	2 034	2 185	2 266	1 360
Non-financial assets - Note 2	15 524	17 251	18 694	16 023
	17 558	19 436	20 960	17 383
Liabilities				
Borrowings, payables and finance leases	(1 581)	(1 791)	(2 032)	(1 990)
Unfunded superannuation - Note 3	(1 097)	(2 252)	(2 586)	(2 087)
Employee benefits	(438)	(579)	(556)	(511)
Other	(7)	(14)	(30)	(18)
	(3 123)	(4 636)	(5 204)	(4 606)
Net assets	14 435	14 800	15 756	12 777

Note 1: Financial assets exclude the Territory's superannuation investments.

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

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

- 5.29 The Territory's net asset position at 30 June 2010 exceeded the budgeted and prior year positions by \$2 979 million (23.3 percent) and \$956 million (6.5 percent) respectively.
- 5.30 An increase in non-financial assets mostly contributed to the growth in the net asset position, and reflected:
- the first time recognition of land under roads in accordance with Australian Accounting Standard (AASB 1051: 'Land Under Roads');
 - increases in the estimated value of infrastructure assets; and
 - a much larger capital works program. This included major capital works on:
 - the Territory's infrastructure (for example, upgrading roads and major water security projects such as enlarging the Cotter Dam);
 - constructing new public school buildings under the Commonwealth Government's 'Building the Education Revolution' program; and
 - social and community housing under the Commonwealth Government's 'Nation Building and Jobs Plan – Investment in Social Housing'.⁸
- 5.31 These increases outweighed a growth in the unfunded superannuation liability and borrowings, payables and finance leases.

⁸ Funding was provided by the Commonwealth Government for its 'Nation Building – Economic Stimulus Plan' to provide economic stimulus and support local jobs through the delivery of new social housing and the refurbishment of existing social housing.

SHORT-TERM FINANCIAL POSITION

Table 5.7: Short-term financial position

As at 30 June	Actual 2008 \$m	Actual 2009 \$m	Actual 2010 \$m	Budget 2010 \$m
Short-term assets				
Financial assets – Note 1	2 034	2 185	2 266	1 360
Superannuation assets - Note 2	1 951	1 712	1 901	1 858
	3 985	3 897	4 167	3 218
Short-term liabilities - Note 3	(976)	(1 087)	(1 183)	(1 346)
Net short-term assets	3 009	2 810	2 984	1 872
Short-term assets to short-term liabilities	4.1 to 1	3.6 to 1	3.5 to 1	2.4 to 1

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

Note 2: Superannuation assets represent the total superannuation investments reported in the Superannuation Provision Account's financial statements less the current superannuation benefit liability reported in Note 46 of the Territory's financial statements.

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

5.32 The Territory's short-term financial position can be evaluated by comparing the amount of assets available to cover short-term liabilities.

5.33 At 30 June 2010, the Territory had \$3.50 in short-term assets available to cover each dollar of short-term liabilities. The Territory's short-term financial position remains strong and was much stronger than was estimated in the budget.

Table 5.8: Projected short-term financial position - Note 1

As at 30 June	Actual 2010 \$m	Budget 2011 \$m	Budget 2012 \$m	Budget 2013 \$m	Budget 2014 \$m
Short-term assets					
Financial assets	2 266	1 515	1 440	1 538	1 710
Superannuation assets	1 901	2 124	2 272	2 418	2 563
Total short-term assets	4 167	3 639	3 712	3 956	4 273
Short-term liabilities	(1 183)	(1 064)	(977)	(996)	(1 020)
Net short-term assets	2 984	2 575	2 735	2 960	3 253
Short-term assets to short-term liabilities	3.5 to 1	3.4 to 1	3.8 to 1	4.0 to 1	4.2 to 1

Note 1: The budget figures are sourced from the 2010-11 Budget Papers.

5.34 The Territory's short-term financial position is estimated to remain strong over the period to 2013-14.

LONG-TERM FINANCIAL POSITION

Table 5.9: Financial assets to liabilities

As at 30 June	Actual 2008 \$m	Actual 2009 \$m	Actual 2010 \$m	Budget 2010 \$m
Financial assets	2 034	2 185	2 266	1 360
Liabilities				
Unfunded superannuation	(1 097)	(2 252)	(2 587)	(2 087)
Other	(2 026)	(2 384)	(2 620)	(2 519)
	(3 123)	(4 636)	(5 207)	(4 606)
Unfunded liabilities	(1 089)	(2 451)	(2 940)	(3 246)
Ratio of financial assets to liabilities	0.7 to 1	0.5 to 1	0.4 to 1	0.3 to 1

5.35 The Territory's short-term and long-term obligations are mainly funded from its financial assets rather than its non-financial assets. Although the Territory could meet some of its obligations by selling its non-financial assets, most non-financial assets are committed to the provision of public services (for example, infrastructure assets, schools, hospitals, etc) and therefore are not generally available for this purpose.

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

5.37 The Territory's long-term financial position weakened significantly in 2009-10. However, its position was stronger than was estimated in the budget.

5.38 The weakening long-term financial position was largely caused by:

- a significant growth in the unfunded superannuation liability because the increase in the estimated superannuation liability (mainly resulting from the use of a lower discount rate to estimate the present value of the superannuation liability) exceeded the increase in the value of superannuation investments; and
- additional borrowings being undertaken to fund major capital projects relating to water security.

5.39 The Territory's long-term financial position was stronger than anticipated in the budget. Delays in the capital works program and a higher net cash surplus from the Territory's operating activities resulted in a much higher growth in financial assets than anticipated. This growth exceeded the unexpected significant growth in the unfunded superannuation liability referred to above.

Table 5.10: Projected assets available to meet the Territory's liabilities - Note 1

As at 30 June	Actual 2010 \$m	Budget 2011 \$m	Budget 2012 \$m	Budget 2013 \$m	Budget 2014 \$m
Financial assets	2 266	1 514	1 439	1 537	1 710
Liabilities					
Unfunded superannuation	(2 587)	(2 007)	(2 096)	(2 181)	(2 262)
Other liabilities	(2 620)	(3 046)	(3 329)	(3 349)	(3 382)
	(5 207)	(5 053)	(5 425)	(5 530)	(5 644)
Unfunded liabilities	(2 941)	(3 539)	(3 986)	(3 993)	(3 934)
Ratio of financial assets to liabilities	0.4 to 1	0.3 to 1	0.3 to 1	0.3 to 1	0.3 to 1

Note 1: The budget figures are sourced from the 2010-11 Budget Papers.

5.40 The Territory's long-term financial position is expected to further weaken over the forward period.

CASH RESULTS

Table 5.11: Cash flows

	Actual 2007-08 \$m	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Cash flows from operations				
Receipts	4 120	3 961	4 451	4 138
Payments	(3 136)	(3 417)	(3 674)	(3 562)
Net cash surplus from operations	984	544	777	576
Cash flows from capital activities				
Payments for property, plant, equipment and capital works	(466)	(577)	(894)	(1 271)
Sale of property, plant and equipment	29	65	35	61
Net cash deficit from capital activities	(437)	(512)	(859)	(1 210)
Net cash surplus/(deficit) from operating and capital activities	547	32	(82)	(634)

- 5.41 The cash surplus from the Territory's operations (\$777 million) remained strong in 2009-10 and was much higher than the previous year's and budgeted surplus of \$544 million and \$576 million respectively.
- 5.42 This result mostly reflects increases in tax collections, Commonwealth Government grants, health (cross-border) service receipts and cash obtained from the Territory's land sales and utility services.
- 5.43 The Territory's overall cash deficit (\$82 million) was much smaller than the budgeted deficit (\$634 million). Cash payments to agencies for the Territory's expanded capital works program was much less than anticipated (by \$377 million or 29.7 percent), and the cash generated by the Territory's operations exceeded budget expectations (by \$201 million or 34.9 percent).

Table 5.12: Projected cash flows – Note 1

	Actual 2009-10 \$m	Budget 2010-11 \$m	Budget 2011-12 \$m	Budget 2012-13 \$m	Budget 2013-14 \$m
Cash flows from operations					
Receipts	4 451	4 254	4 616	4 866	5 031
Payments	(3 674)	(3 850)	(4 035)	(4 238)	(4 459)
Net cash inflows from operations	777	404	581	628	572
Net cash (outflows) from capital activities	(859)	(1 256)	(814)	(459)	(295)
Net cash (outflows)/ inflows after operating and capital activities	(82)	(852)	(233)	169	277

Note 1: The budget figures are sourced from the 2010-11 Budget Papers.

5.44 The Territory has forecast cash deficits over the next two years before returning to a cash surplus position by 2013 due mainly to anticipated spending on the ACT Government's capital works program.

CAPITAL ASSETS

Table 5.13: Capital works funding and expenditure – Note 1

	2007-08 \$m	2008-09 \$m	2009-10 \$m
Original budget – Note 2	475	588	830
Capital outlays – Note 2	(327)	(344)	(614)
Underspending against the original budget	148	244	216
Underspending as a percentage of the original budget	31.2%	41.5%	26.0%

Note 1: This table covers expenditure on infrastructure reported in the Territory's Capital Works Report - Program Outcome. These reports are prepared by the Department of Treasury and published on Treasury's website.

Note 2: This includes supplementary appropriations and Commonwealth Government funding and Housing ACT's capital works.

5.45 Details of the capital works planned by the ACT Government are provided in the annual budget papers.

- 5.46 Planned spending on the Territory's capital works program was anticipated to increase substantially in 2009-10. The planned spending in 2009-10 (\$830 million) exceeded that planned in 2008-09 (\$588 million) by \$242 million (41.2 percent).
- 5.47 The much larger capital works program included substantial additional funding provided by the Commonwealth Government through the National Building Stimulus Plan to:
- improve schools and update public and social housing stocks (economic stimulus funding); and
 - continue funding of major road projects such as the Kings Highway, Airport roads and Lanyon Drive upgrade.
- 5.48 Major Territory-funded capital works in 2009-10 included:
- major road projects such as the duplication of Gungahlin Drive, John Gorton Drive, Mulligans Flat Road, Cohen Street, Bonner Western Distributor Road and the extension of Wells Station Drive to Horse Park Drive; and
 - building of new schools (the Gungahlin College and Harrison High School) and upgrade of the Belconnen Community Health Centre.
- 5.49 In 2009-10, the planned capital works funding was underspent by \$216 million (26.0 percent). However, the amount spent increased by \$270 million (78.5 percent), and the level of underspending was lower compared to 2008-09.
- 5.50 Most of the underspend in 2009-10 was due to delays in completing infrastructure and building projects for ACT Health and the Department of Territory and Municipal Services. These delays are outlined in the sections for these agencies in Chapter 6 of this report.

6. AUDIT RESULTS AND FINDINGS ON ACT GOVERNMENT AGENCIES

ACT HEALTH

- 6.1 ACT Health aims to achieve good health for the community by planning, purchasing and providing community-based health services, providing hospital and extended care services, managing public health risks and promoting health and early care interventions.

KEY ISSUES

- The Audit Office issued an unqualified audit report on ACT Health's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- ACT Health's net cost of services exceeded the budgeted cost by \$17.5 million (2.3 percent) due mainly to higher than expected employee costs.
- ACT Health did not draw down a significant portion (47.3 percent) of the allocated capital injection funding due to delays in major construction projects.
- ACT Health reduced the risk of undetected errors and fraud by implementing consistent reviews of salary reports and improving bank reconciliation processes relating to third party monies.
- ACT Health has not fully complied with its policy on waiting time and management of the elective surgery list. Consequently, ACT Health was unable to demonstrate that all re-classifications of clinical priority Category 1 patients were clinically appropriate and consistently and equitably managed.
- ACT Health needs to further improve its processes for preparing its statement of performance and financial statements. In particular, ACT Health's statement of performance should be improved to provide sufficient explanatory information about the material variations from planned targets for its performance indicators.

Financial results

Table 6.1: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(938.8)	(990.4)	(973.1)
Income	197.2	205.8	206.0
Net cost of services	(741.6)	(784.6)	(767.1)
Government contributions	707.6	753.6	748.7
Operating deficit	(34.0)	(31.0)	(18.4)
Capital injections	28.8	61.8	117.3

- 6.2 ACT Health's expenses are mostly represented by employment costs associated with its workforce, payments for services provided by visiting medical officers, purchase of clinical, medical and surgical supplies and pharmaceuticals, and insurance. ACT Health also funds the delivery of health services provided to the community by the Calvary Public Hospital and other non-government organisations.
- 6.3 ACT Health's net cost of services (\$784.6 million) exceeded its budgeted cost (\$767.1 million) by \$17.5 million (2.3 percent) due mainly to higher than expected employee costs. The higher employee costs resulted from increased staff numbers (reflecting a continuing higher demand for health services and a move from agency staff to employees) and unbudgeted pay rises provided in certified agreements for nurses and administrative staff.
- 6.4 Income mostly consists of payments from other state and territory governments for interstate patients treated in ACT public hospitals (cross-border receipts), patient fees, rebates from the Commonwealth Government for the cost of specialised drugs, and contributions from medical specialists engaged in private practice for the use of hospital facilities.
- 6.5 Income in 2009-10 (\$205.8 million) was in line with budget expectations (\$206.0 million) and slightly higher than the previous year's amount \$197.2 million).
- 6.6 ACT Health did not draw down a significant portion (47.3 percent) of the allocated capital injection funding due to delays in major construction projects, including the replacement of a multi-storey car park at The Canberra Hospital and the construction of the Women and Children's Hospital.

Audit findings

Table 6.2: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
6	(3)	2	1	8	11

- 6.7 ACT Health reduced the risk of incorrect or fraudulent salary payments by implementing consistent and timely reviews of salary reports. ACT Health also reduced the risk of errors and fraud by improving bank reconciliation processes relating to third party monies.
- 6.8 ACT Health has not always complied with its Waiting Time and Elective Patient Management Policy. Consequently, ACT Health was unable to demonstrate that, in all cases, re-classifications of clinical priority Category 1 patients to another category were clinically appropriate and consistently and equitably managed. This presents a higher risk of:
- patients experiencing adverse health outcomes, should re-classifications of a clinical priority category occur for reasons other than those permitted by this policy; and
 - errors in publicly reported waiting lists for elective surgery.
- 6.9 Further, ACT Health's statement of performance did not always provide sufficient explanations, including the reason(s) for material variations from planned targets, for several performance indicators.
- 6.10 ACT Health improved the quality of the financial statements submitted for audit; however, there is scope for further improvement.
- 6.11 ACT Health has advised that it has agreed to address all audit findings.

ACTEW CORPORATION LIMITED

- 6.12 The principal activities of ACTEW Corporation Limited (ACTEW) are to supply water, promote and manage the sustainable use of energy and water, provide sewerage services and undertake other related activities.
- 6.13 ACTEW's two subsidiaries, ACTEW Distribution Limited and ACTEW Retail Limited, hold ACTEW's interest in the ActewAGL Joint Venture.

KEY ISSUES

- The Audit Office issued unqualified audit reports on the financial statements of ACTEW Corporation Limited, ACTEW Distribution Limited and ACTEW Retail Limited.
- ACTEW's operating profit increased from \$72.8 million in 2008-09 to \$91.5 million in 2009-10. This was largely due to a growth in revenue from the provision of water and sewerage services and increased profit share from the ActewAGL Joint Venture. This significant increase in profit (\$18.7 million or 25.7 percent) is reflected in the higher dividend paid to the ACT Government.
- ACTEW's future profitability is expected to be adversely affected by significant impairment losses relating to its regulated asset base under the present regulatory pricing decision.
- ACTEW's short and long-term financial positions remain sound.
- ACTEW addressed all previously reported audit findings and no new audit findings were identified in 2009-10.

Financial results

Table 6.3: Key results

	2008-09 \$m	2009-10 \$m
Revenue	239.5	250.3
Profit share - ActewAGL Joint Venture	80.5	93.4
	320.0	343.7
Expenses	219.1	216.3
Operating profit before income tax	100.9	127.4
Income tax	28.1	35.9
Operating profit	72.8	91.5
Dividends paid to the ACT Government	74.6	91.8

- 6.14 ACTEW's consolidated results include the financial results of ACTEW and its subsidiaries along with ACTEW's share of the financial results of the ActewAGL Joint Venture and TransACT Communications Pty Limited (TransACT).⁹
- 6.15 ACTEW's revenue is derived mainly from charges for water supply, wastewater, sewerage services and its 50 percent share of the profit from the ActewAGL Joint Venture.
- 6.16 Revenue growth in 2009-10 (\$10.8 million or 4.5 percent) was principally due to higher charges for water and sewerage services under the present regulatory price determination and an increase in customer numbers.
- 6.17 The increased profit share from the ActewAGL Joint Venture related mainly to the sale of Ecowise Environmental Pty Limited. (Further information on the ActewAGL Joint Venture is provided on pages 61 to 65 of this report).
- 6.18 ACTEW's major costs include project-related expenses incurred under a utilities management agreement with the ActewAGL Joint Venture, cost of sales in supplying water, interest on loans and depreciation.
- 6.19 Expenses fell slightly by \$2.8 million (1.3 percent) in 2009-10.
- 6.20 Income tax expense increased during 2009-10 reflecting an increase in ACTEW's taxable profit.
- 6.21 ACTEW's operating profit increased from \$72.8 million in 2008-09 to \$91.5 million in 2009-10, due largely to the above-mentioned growth in revenue.
- 6.22 The significant increase in the operating profit (\$18.7 million or 25.7 percent) resulted in a higher dividend being paid to the ACT Government.
- 6.23 ACTEW is required by Australian Accounting Standard AASB 136: 'Impairment of Assets' to annually assess whether there is an indication that its water and sewerage network assets are impaired. ACTEW is also required to record an impairment loss where the carrying value of these assets exceeds the revenue that ACTEW is able to earn from those assets. This impairment loss must be recorded as an expense to the extent it exceeds the balance available in the asset revaluation reserve.
- 6.24 In ACTEW's case, the revenue it may earn from these networks is set by regulatory pricing decisions made by the Independent Competition and Regulatory Pricing Commission (ICRC). ACTEW is expected to incur substantial capital expenditure on major projects related to water security. As these amounts are expected to exceed the amount included in the regulated asset base for this expenditure, ACTEW is expected to incur substantial impairment losses in the future. As ACTEW does not have an available balance in its asset revaluation reserve, any impairment losses will be recorded as an expense. This will have a significant adverse impact on ACTEW's future profitability.

⁹ TransACT refers to TransACT Communications Pty Limited and any entities it controlled during the year. TransACT is not a subsidiary of ACTEW and is not audited by the Auditor-General.

Short-term financial position

Table 6.4: Short-term financial position

As at 30 June	2009 \$m	2010 \$m
Short-term assets	228.9	324.6
Short-term liabilities	102.3	136.0
Net short-term assets	126.6	188.6
Short-term liquidity ratio	2.2 to 1	2.4 to 1

6.25 ACTEW's financial position has improved since the previous year because ACTEW increased the short-term investments needed to pay for future expenditure on major capital projects such as the enlargement of the Cotter Dam and construction of the Murrumbidgee to Googong pipeline.

6.26 ACTEW's short-term liabilities include a provision for dividend payable to the ACT Government of \$16.8 million in 2010 (\$17.1 million in 2009).

Long-term financial position

Table 6.5: Long-term financial position

As at 30 June	2009 \$m	2010 \$m
Assets	2 112.5	2 306.3
Liabilities	1 113.7	1 364.3
Net assets	998.8	942.0
Long-term liquidity ratio	1.9 to 1	1.7 to 1

6.27 ACTEW's major assets consist of property, plant and equipment (\$1 452.7 million) and investments (\$481.1 million). Property, plant and equipment consist mostly of the water and sewerage networks. Investments are mostly represented by ACTEW's investments in the ActewAGL Joint Venture and TransACT.

6.28 The value of assets increased in 2009-10 as a result of ACTEW undertaking major capital projects mainly relating to water security.

6.29 ACTEW's major liabilities are borrowings and deferred tax liabilities. Liabilities increased in 2009-10 due mainly to an additional borrowing of \$243 million to fund major capital projects.

Audit findings

Table 6.6: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
5	(5)	0	0

6.30 ACTEW addressed all previously reported audit findings and no new audit findings were identified in 2009-10.

ACTEWAGL JOINT VENTURE

- 6.31 The principal activities of ActewAGL are to operate the energy networks, supply energy to customers in the ACT region, operate the water and sewerage services of the ACT under a utilities management agreement with ACTEW Corporation Limited (ACTEW) and undertake other related business activities.
- 6.32 ACTEW holds a 50 percent interest in ActewAGL. ActewAGL is comprised of the ActewAGL Retail Partnership and ActewAGL Distribution Partnership. The financial statements, aggregating the results of these Partnerships, are included in ACTEW's annual report.

KEY ISSUES

- The Audit Office and Deloitte Touche Tohmatsu jointly issued unqualified audit reports on the financial statements of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's operating profit increased by \$26.0 million (16.4 percent) from \$158.7 million in 2008-09 to \$184.7 million in 2009-10. This increase was mainly due to higher energy sales and revenue from the sale of Ecowise Environmental Pty Limited¹⁰ and the Grapevine Joint Venture.¹¹
- ActewAGL's cash distributions to ACTEW increased from \$58.8 million in 2008-09 to \$74.3 million in 2009-10.
- ActewAGL's short and long-term financial positions remained sound.
- ActewAGL addressed all previously reported audit findings. ActewAGL reduced the risk of errors, irregularities and fraud by improving controls over payroll, information technology systems and debtors.
- ActewAGL has made good progress in addressing control weaknesses in its billing systems.

10 Ecowise Environmental Pty Limited (Ecowise) was a subsidiary of the ActewAGL Distribution Partnership, providing environmental solution operations. Ecowise was sold to Australian Laboratory Services Pty Limited on 30 November 2009.

11 Grapevine is a Joint Venture between Transact and ActewAGL. Grapevine is an internet service provider.

Financial results

Table 6.7: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m
Income	798.7	847.6
Expenses	642.0	664.9
Operating profit from continuing operations	156.7	182.7
Operating profit from discontinued operations (Ecowise)	2.0	2.0
Operating profit	158.7	184.7
Distributions paid to partners	117.5	148.6
Distributions paid to ACTEW (50 percent)	58.8	74.3

- 6.33 ActewAGL's principal sources of revenue are the sale and distribution of energy (electricity and gas) and revenue from operating water and sewerage services of the ACT under a utilities management agreement with ACTEW.
- 6.34 ActewAGL's income increased by \$48.9 million or 6.1 percent. This increase was mostly due to:
- revenue growth of \$46.8 million (8.1 percent) in the sale and distribution of energy due to increased customer numbers and higher tariffs for electricity and gas; and
 - revenue from selling Ecowise to Australian Laboratory Services Pty Limited and selling ActewAGL's 50 percent interest in the Grapevine Joint Venture to TransACT.
- 6.35 The above higher revenue was partially offset by a decline in operations management income, that was due mainly to a decrease in capital expenditure activity in the Water Division performed on behalf of ACTEW. (In 2008-09, the amount of capital works was particularly high compared to 2009-10).
- 6.36 ActewAGL's major expenses consist mainly of energy purchases, employee costs, payments to subcontractors and depreciation.

- 6.37 Expenses increased by \$22.9 million (3.6 percent) due largely to:
- higher employee costs due primarily to pay rises in the enterprise bargaining agreement and increased staff numbers; and
 - increased energy purchases resulting from the growth in revenue from the sale and distribution of energy.
- 6.38 These higher costs were partially offset by lower subcontractor expenses. Amounts paid to subcontractors fell, reflecting a reduced capital expenditure program for ACTEW under the utilities management agreement.
- 6.39 ActewAGL’s operating profit increased by \$26.0 million (16.4 percent) from \$158.7 million in 2008-09 to \$184.7 million in 2009-10. This profit growth enabled ActewAGL to make a higher cash distribution to ACTEW of \$74.3 million in 2009-10 compared to \$58.8 million in 2008-09.

Short-term financial position

Table 6.8: Short-term financial position

As at 30 June	Actual 2009 \$m	Actual 2010 \$m
Short-term assets	216.9	205.3
Short-term liabilities	173.9	182.8
Net short-term assets	43.0	22.5
Short-term liquidity ratio	1.2 to 1	1.1 to 1

- 6.40 ActewAGL’s short-term financial position as shown in the above table represents its position after making cash distributions to partners.
- 6.41 ActewAGL continues to have sufficient assets to meet its short-term liabilities. ActewAGL’s short-term financial position remains sound, even though it has weakened since the previous year due mainly to the purchase of property, plant and equipment, including network assets during 2009-10.

Long-term financial position

Table 6.9: Long-term financial position

As at 30 June	Actual 2009 \$m	Actual 2010 \$m
Assets	1 020.9	1 068.3
Liabilities	177.3	188.5
Net assets	843.6	879.8
Long-term liquidity ratio	5.8 to 1	5.7 to 1

6.42 ActewAGL's major assets are represented by property, plant and equipment (mainly electricity and gas system assets).

6.43 ActewAGL's long-term financial position continues to be strong.

Audit findings

Table 6.10: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
18	(18)	6	6

6.44 ActewAGL resolved all previously reported audit findings. This indicates ActewAGL's processes for addressing audit findings are effective. In particular, ActewAGL reduced the risk of:

- incorrect or fraudulent salary payments by implementing additional reviews of data entered into the payroll system;
- unauthorised changes to financial data or applications by strengthening access procedures for key financial systems. This included, for example, the implementation of additional reviews of access granted to new users and procedures for removing old or unused user accounts; and
- errors in the reported revenue balances and inappropriate debtor write-offs by issuing formal guidance for revenue reconciliations and authorisation of debtor write-offs.

- 6.45 In 2009-10, the Audit Office reported weaknesses in ActewAGL's billing systems and information technology controls. These included:
- a lack of review of customer data in the commercial billing system. This increases the risk that customers have been entered into the system with incorrect energy rates; and
 - an inadequate restriction of access to IT server rooms, increasing the risk of unauthorised access to IT systems and data.
- 6.46 ActewAGL had taken action to remedy three of the new audit findings by 30 June 2010 and agreed to address the remaining audit findings and associated recommendations during 2010-11.

ACTION

- 6.47 ACTION's primary activities are to provide a public bus network within the ACT, including school, special needs and charter bus services.
- 6.48 Although ACTION is part of the Department of Territory and Municipal Services, it remains a separate entity for reporting purposes.

KEY ISSUES

- The Audit Office issued an unqualified audit report on ACTION's 2009-10 financial statements.
- The Audit Office issued a qualified report of factual findings on ACTION's 2009-10 statement of performance because ACTION did not measure a result for three of its performance indicators as required by the *Financial Management Act 1996*.
- ACTION's net cost of services exceeded its budgeted cost by \$4.0 million or 4.9 percent due mainly to higher employee and insurance costs and the settlement of a legal claim that predated ACTION's insurance coverage.
- In 2009-10, ACTION improved its business continuity arrangements by testing the effectiveness of these arrangements.
- ACTION continued to experience breakdowns of its ticketing system in 2009-10. These failures resulted in a loss of revenue and the lack of reliable passenger data that is used by ACTION to report a result for three of its performance indicators.
- ACTION needs to further improve its processes over cash collected by bus drivers, receipt of goods and services and salary payments, to reduce the risk of errors, irregularities and fraud.
- ACTION's IT strategic planning arrangements could be improved.

Financial results

Table 6.11: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(106.3)	(110.0)	(105.5)
Income	22.5	23.8	23.3
Net cost of services	(83.8)	(86.2)	(82.2)
Government contributions	74.0	79.7	74.0
Losses on the revaluation of plant and equipment	(1.5)	-	-
Operating deficit	(11.3)	(6.5)	(8.2)
Capital injections	7.9	32.1	25.9

6.49 ACTION's expenses consist mainly of employee costs and bus operating costs including maintenance, fuel and insurance costs. Most of ACTION's income is derived from fares charged for its transport services.

6.50 ACTION's net cost of services exceeded the budgeted cost by \$4.0 million (4.9 percent) due to higher than expected costs. ACTION's expenses exceeded the budgeted amount due mainly to:

- the recruitment of additional bus drivers to meet the scheduling requirements of the express bus service 'REDEX' that was introduced during the year;
- the unexpected settlement of a legal claim for an accident that predated ACTION's current insurance coverage; and
- higher insurance premiums for public liability and workers' compensation insurance.

6.51 ACTION drew down \$6.2 million (23.9 percent) more in capital injections than budgeted. ACTION's capital budget was based on the purchase of 100 buses over a three-year period and the installation of a new ticketing system over a two-year period. Due to delays in contract negotiations, both projects were delayed with some 2008-09 expenditure being deferred to 2009-10.

Audit findings

Table 6.12: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
10	(7)	3	3	6

- 6.52 ACTION resolved most previously reported audit findings. In particular, ACTION:
- improved its business continuity arrangements by approving and testing the effectiveness of these arrangements;
 - reduced the risk of errors in its accounting records by reconciling fare revenue collected to the general ledger and by reviewing salary reconciliations prepared by the external provider of payroll services; and
 - improved the methods used to measure its performance indicators on customer satisfaction and timeliness of services that are reported in ACTION’s statement of performance.
- 6.53 In 2009-10, there continued to be several failures in ACTION’s ticketing system. These failures cause a loss of cash fare revenue as cash fares are unable to be collected. As these system failures also prevented ACTION from maintaining an accurate record of passenger numbers, ACTION was unable to measure a result for three of its performance indicators as required by the *Financial Management Act 1996*.
- 6.54 The Audit Office again found that ACTION’s procedures for investigating variances between the daily cash fare collections by bus drivers and data from the ticketing system need to be improved to reduce the risk of errors, irregularities and fraud.
- 6.55 ACTION has improved its salary reporting processes by distributing fortnightly salary reports to each business unit. However, there was often no evidence that these reports were being reviewed to reduce the risk of undetected errors, irregularities and fraud in relation to employee payments.
- 6.56 In 2009-10, the Audit Office found that:
- there was not always sufficient documentary evidence that goods and services had been satisfactorily received prior to payment. There is a risk of erroneous, irregular or fraudulent payments where payments can be made without evidence that the goods and services have been received; and
 - ACTION did not have an approved IT strategic plan. The acquisition and development of IT systems and infrastructure may not meet ACTION’s emerging business priorities and needs, in the absence of an approved and up-to-date IT planning framework.
- 6.57 ACTION has agreed to address these audit findings.

ACT PLANNING AND LAND AUTHORITY

- 6.58 The ACT Planning and Land Authority's (ACTPLA's) main function is to provide a planning and land system that contributes to the orderly and sustainable development of the ACT.
- 6.59 ACTPLA's responsibilities include building regulation, leasing, land information, administration of the Territory Plan, urban design and spatial planning policy.

KEY ISSUES

- The Audit Office issued an unqualified audit report on ACTPLA's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- ACTPLA's net cost of services was \$2.6 million (6.1 percent) below the budgeted cost due mainly to higher than expected income.
- ACTPLA addressed all previously reported audit findings.
- ACTPLA reduced the risk of undetected irregularities and fraud in salary payments by ensuring that the relevant business managers review the payroll reports in a timely manner.
- ACTPLA also improved its internal audit arrangements.
- Sufficient and appropriate documentation was not always readily available to support the results for three accountability indicators.

Financial results

Table 6.13: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(43.1)	(48.4)	(46.8)
Income	6.2	8.4	4.2
Net cost of services	(36.9)	(40.0)	(42.6)
Government contributions	35.6	40.7	42.2
Transfers of capital works and land to the Department of Territory and Municipal Services	-	(6.4)	-
Operating deficit	(1.3)	(5.7)	(0.4)

- 6.60 ACTPLA's expenses consist mainly of employee, contractors and consultants, computing and rental costs. These expenses slightly exceeded the budgeted amount.

- 6.61 Most of ACTPLA’s income is derived from fees charged for conveyancing and licenses, including fees for the extension of time to build and the sale of maps and publications. ACTPLA also charges fees for providing signage which notifies the public of developments.
- 6.62 ACTPLA’s income exceeded the budgeted amount by \$4.2 million (100.0 percent). ACTPLA obtained higher fees income relating to extensions of time to build and conveyancing and signage activities.
- 6.63 ACTPLA’s net cost of services was \$2.6 million (6.1 percent) below the budgeted cost due to the higher than expected income mentioned above.

Audit findings

Table 6.14: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
6	(6)	0	1	1

- 6.64 ACTPLA resolved all previously reported audit findings. In particular, ACTPLA:
- reduced the risk of irregularities and fraud in salary payments by ensuring that the relevant business managers review the payroll reports in a timely manner; and
 - improved its internal audit arrangements by implementing quality reviews of internal audit contractor files.
- 6.65 Sufficient and appropriate documentation was not always retained or was not readily available to support the results for three of ACTPLA’s accountability indicators relating to audits/investigations of electrical, sewerage and gas installations. This increases the risk of material errors in the statement of performance. ACTPLA has indicated that it will address this audit finding.

ACT PUBLIC CEMETERIES AUTHORITY

- 6.66 The ACT Public Cemeteries Authority (the Authority) was established under the *Cemeteries and Crematoria Act 2003*.
- 6.67 The Authority manages the cemeteries at Gungahlin, Woden and Hall under perpetual care trust arrangements. Under these arrangements, the Authority provides a ministerially determined percentage of revenue from each burial, interment of ashes or memorialisation to a perpetual care trust established for the maintenance of each cemetery. These trusts then reimburse the Authority for the maintenance costs incurred by the Authority.

KEY ISSUES

- The Audit Office issued unqualified audit reports on the 2009-10 financial statements of the Authority and perpetual care trusts relating to the Gungahlin, Woden and Hall cemeteries.
- The Audit Office issued an unqualified report of factual findings on the Authority's 2009-10 statement of performance.
- The Authority's 2009-10 operating surplus was close to its budgeted surplus.
- In recent years, the Gungahlin Cemetery Perpetual Care Trust has not had sufficient assets to meet its liabilities. The ministerially determined percentage of revenue transferred to this Trust has not been sufficient to meet the maintenance costs of this cemetery.
- The ministerially determined revenue percentage has not been reviewed by the Minister since the creation of the perpetual care trusts in 2003.
- The Authority resolved nearly all previously reported audit findings. In particular, the Authority improved the quality of its financial statements and controls over its property, plant and equipment and associated records.
- The Audit Office identified weaknesses in controls over payments which increased the risk of irregular or fraudulent payments.
- The Authority incorrectly claimed reimbursement of expenses that did not relate to the maintenance of the cemeteries from the perpetual care trusts. The Authority does not have documented policies and procedures for identifying these expenses in accordance with the *Cemeteries and Crematoria Act 2003*.
- The Authority's internal audit arrangements are not effective and therefore do not provide sufficient assurance to the Authority that its governance arrangements and internal controls are adequate and operating effectively.

Financial results

Table 6.15: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Income	3.9	3.9	3.9
Expenses	(3.3)	(3.5)	(3.6)
Operating surplus	0.6	0.4	0.3

- 6.68 The Authority's income mostly consists of fees charged for grave allotments and reservations, burials, maintenance and the sale of plaques and vaults. Income also includes reimbursements from the perpetual care trusts for maintenance expenditure incurred by the Authority.
- 6.69 The Authority's expenses consist mainly of employee expenses and costs of maintaining the cemeteries. Expenses also include the transfer of the ministerially determined percentage of revenue to the perpetual care trusts.
- 6.70 The Authority's 2009-10 operating surplus was close to the budgeted surplus.

Table 6.16: Net asset/(liability) position of the perpetual care trusts

	Actual 2008 \$m	Actual 2009 \$m	Actual 2010 \$m
Gungahlin Cemetery Perpetual Care Trust	(0.4)	(0.4)	(0.5)
Woden Cemetery Perpetual Care Trust	0.8	0.9	1.1
Hall Cemetery Perpetual Care Trust	-	-	-

- 6.71 The net asset/(liability) position of the perpetual care trusts reflects the funds each trust has available to meet the maintenance costs of the cemeteries.
- 6.72 In recent years, the Gungahlin Cemetery Perpetual Care Trust has not had sufficient assets to meet its liabilities. The ministerially determined percentage of revenue transferred to the Trust has not been sufficient to meet the maintenance costs of this cemetery. This revenue percentage has not been reviewed by the Minister since the creation of the perpetual care trust arrangements in 2003.

Audit findings

Table 6.17: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
10	(9)	1	6	7

6.73 The Authority resolved nearly all previously reported audit findings. This indicates that its processes for addressing audit findings are effective.

6.74 In particular, the Authority:

- significantly improved the quality of the financial statements submitted for audit; and
- improved controls over its property, plant and equipment and associated records by ensuring correct information was included in its asset register and conducting a stocktake of these assets.

6.75 In 2009-10, the Audit Office found that:

- only one bank signatory was required to authorise payments from bank accounts and several expense transactions were incurred by staff members prior to obtaining the approval from an authorised delegate. These control weaknesses increase the risk of irregular and fraudulent payments;
- under internal audit arrangements with the Department of Territory and Municipal Services, no internal audits relating to the Authority have been conducted since 2008-09. The Authority’s internal audit arrangements are therefore ineffective and do not provide the Authority with assurance that its governance arrangements and internal controls are adequate and operating effectively; and
- the Authority has incorrectly claimed to the perpetual care trusts for reimbursement of expenses that did not relate to the maintenance of the cemeteries. In addition, the Authority does not have approved policies for determining those expenses that are recoverable from the perpetual care trusts.

6.76 The Authority has indicated that it has addressed or will address all audit findings.

ACTTAB LIMITED

6.77 ACTTAB Limited is a territory-owned corporation responsible for providing a totaliser betting service on racing and sporting events. ACTTAB is also a licensed sports bookmaker under the *Sports Bookmaking Act 2001* and provides Keno and Trackside products in accordance with the *Lotteries Act 1964*.

KEY ISSUES

- The Audit Office issued an unqualified audit report on ACTTAB’s 2009-10 financial statements.
- ACTTAB incurred an operating loss of \$1.5 million in 2009-10; down from the small profit of \$0.3 million in 2008-09. This reduction was mainly due to declining commissions earned on betting services and additional payments by ACTTAB for the use and publication of interstate race fields information.
- ACTTAB reduced the risk of errors and irregularities in its financial statements by ensuring that key reconciliations were reviewed.
- As disclosed in ACTTAB’s 2009-10 annual report, ACTTAB has referred an alleged fraud by an employee to the Australian Federal Police. The alleged fraud also resulted in the identification of breakdowns in key supervisory controls in the Betting Control Centre. ACTTAB addressed these internal control weaknesses in March 2010.
- The Audit Office identified weaknesses in ACTTAB’s backup and disaster recovery arrangements.

Financial results

Table 6.18: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m
Income	31.9	30.6
Expenses	(32.2)	(32.7)
Operating loss	(0.3)	(2.1)
Income tax credit	0.6	0.6
Operating profit/(loss)	0.3	(1.5)

6.78 ACTTAB’s income mainly consists of commissions earned on its betting services.

6.79 ACTTAB’s expenses consist mainly of racing distributions, license fees, employee costs, and agent and processing fees.

6.80 In 2009-10, ACTTAB incurred an operating loss of \$1.5 million; down from the small profit of \$0.3 million in 2008-09. This declining result was mainly due to a reduction in commission arising from lower gambling activity and additional payments by ACTTAB for the use and publication of interstate race fields information.

Audit findings

Table 6.19: Status of audit findings (number of findings)

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

6.81 ACTTAB resolved most previously reported audit findings. In particular, ACTTAB reduced the risk of errors and irregularities in its financial statements by ensuring that key reconciliations were reviewed by an independent officer.

6.82 In 2008-09, the Audit Office recommended that ACTTAB perform a post-implementation review of its new betting system. ACTTAB agreed to perform this review but is unable to do so until the new betting system has been implemented.

6.83 As disclosed in ACTTAB’s 2009-10 annual report, ACTTAB referred an alleged fraud by an employee to the Australian Federal Police. The alleged fraud also resulted in the identification of breakdowns in key supervisory controls in the Betting Control Centre. ACTTAB addressed these weaknesses in March 2010. ACTTAB will need to give particular attention to ensuring that these controls continue to operate effectively to minimise the risk of fraud.

6.84 The Audit Office identified weaknesses in ACTTAB’s business continuity arrangements. The Office noted that ACTTAB:

- creates data backups every day and stores the backup media on-site in its premises in Gungahlin. However, data backups are only taken to an off-site location once every month; and
- has not tested the effectiveness of its disaster recovery plan.

6.85 These control weaknesses increase the risk that critical systems and information will not be recovered and that operations will not be resumed in a timely manner in the event of a disaster or other adverse event.

6.86 ACTTAB has agreed to address all audit findings.

CANBERRA INSTITUTE OF TECHNOLOGY

6.87 The Canberra Institute of Technology provides vocational education and training services to the ACT and surrounding region.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Institute's 2009 financial statements and an unqualified report of factual findings on its 2009 statement of performance.
- The Institute's net cost of services, excluding unbudgeted capital grants received from the Commonwealth Government, exceeded the budgeted cost by \$3.3 million (4.5 percent) due mainly to higher costs for employees and supplies and services.
- The Institute tested the effectiveness of its business continuity plan and reduced the risk of its critical systems not recovering effectively in the event of a disaster.
- The Institute did not consistently have evidence that goods and services were received prior to making payments to suppliers. This increases the risk of payment errors, irregularities and fraud.

Financial results

Table 6.20: Key results (calendar years)

	Actual 2008 \$m	Actual 2009 \$m	Budget 2009 \$m
Expenses (excluding 2008 losses on revaluation of property, plant and equipment)	(97.8)	(114.6)	(105.4)
Income (excluding capital grants received from the Commonwealth Government)	29.8	37.5	31.6
Net cost of services	(68.0)	(77.1)	(73.8)
Government contributions	62.2	64.5	64.8
Capital grants received from the Commonwealth Government	-	5.9	-
Losses on the revaluation of property, plant and equipment	(26.6)	-	-
Operating deficit	(32.4)	(6.7)	(9.0)
Capital injections	6.8	20.4	13.8

- 6.88 The Institute's main expenses are employee and supplies and services costs including consultants and contractors, operating lease and repairs and maintenance costs.
- 6.89 The Institute's expenses exceeded the budgeted cost by \$9.2 million (8.7 percent) due to higher than expected costs for employees and supplies and services.
- 6.90 Higher employee costs resulted from:
- the recruitment of additional staff to support additional training courses and new student services; and
 - an unbudgeted increase in the estimate of employee benefits and related expenses due to the use of a revised methodology for estimating employee benefits.
- 6.91 Supplies and services costs also exceeded budget expectations due mainly to the higher costs of maintaining and repairing the Institute's ageing infrastructure under its building and grounds infrastructure program, and payments to agents for the management of international students.
- 6.92 Income is mainly derived from the provision of tertiary education services to students and vocational education and training programs to the public and private sectors.
- 6.93 Income exceeded the budgeted and prior year amounts by \$5.9 million (18.7 percent) and \$7.7 million (25.8 percent) respectively. The Institute earned more revenue from a growth in international student numbers and new commercial training courses provided to Commonwealth and ACT Government public sector employees.
- 6.94 The Institute's net cost of services was \$77.1 million in 2009, excluding unbudgeted capital grants received from the Commonwealth Government (\$5.9 million) to build the Sustainable Skills Training Centre at the Bruce Campus. The net cost of services exceeded the budgeted cost by \$3.3 million (4.5 percent) due mainly to the higher employee and supplies and services costs referred to above.
- 6.95 Capital injections exceeded the budgeted amount by \$6.6 million (47.8 percent). Additional capital funding was provided to:
- fund the construction of new student facilities, including a new horticultural facility at the Bruce Campus; and
 - meet the costs of closing down the Weston Campus and transferring its functions to the other campuses.

Audit findings

Table 6.21: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	New	Balance
3	(1)	2	4	6

6.96 The Institute resolved one of the three previously reported audit findings. The Institute tested the effectiveness of its business continuity plan and reduced the risk of its critical systems not recovering effectively in the event of a disaster.

6.97 However, the Audit Office found that:

- the Institute did not consistently have evidence that goods and services were received prior to making payments to suppliers. This increases the risk of payment errors, irregularities and fraud; and
- the financial statements submitted for audit did not always include explanations for major variances between current and prior year balances. These explanations were subsequently included in the notes to the financial statements.

6.98 The Institute has agreed to address all audit findings.

CHIEF MINISTER'S DEPARTMENT

- 6.99 The Chief Minister's Department provides direction at a whole-of-government level for planning, developing, coordinating and implementing major ACT Government policies and strategies.
- 6.100 In 2009-10, ACT Tourism was transferred to the Chief Minister's Department from the Department of Territory and Municipal Services, and Strategic Projects Facilitation was transferred from the Chief Minister's Department to the Department of Land and Property Services as a result of the Administrative Arrangement Orders of 10 November 2009 and 1 December 2009 respectively.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Department's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Department's net cost of services exceeded the budgeted cost by \$5.4 million (11.3 percent) due mainly to the financial effects of changes to administrative arrangements that were announced after the finalisation of the Department's budget.
- The Department implemented the regular review of payroll reports and, as a result, reduced the risk of undetected errors, irregularities and fraud.
- The Department finalised its business continuity arrangements and tested the effectiveness of these arrangements.
- The Audit Office again found that the Department's performance indicators do not always facilitate a meaningful assessment of the Department's actual performance against its planned performance.
- There was a higher risk of erroneous, irregular or fraudulent payments because there was often insufficient documentary evidence of the satisfactory receipt of goods and services prior to payments being made.

Financial results

Table 6.22: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(55.2)	(62.2)	(53.3)
Income	3.6	9.0	5.5
Net cost of services	(51.6)	(53.2)	(47.8)
Government contributions	48.6	52.1	45.2
Operating deficit	(3.0)	(1.1)	(2.6)

- 6.101 The Department's expenses mainly consist of employee expenses, grants (mainly to non-government organisations for arts), consultants and contractors, accommodation, information technology and other services provided by Shared Services.
- 6.102 The Department's expenses exceeded the budgeted cost by \$8.9 million (16.7 percent) due mainly to the financial effects of changes to administrative arrangements. The Department incurred additional costs from the transfer in of ACT Tourism from the Department of Territory and Municipal Services and saved costs from the transfer out of Strategic Projects Facilitation to the Department of Land and Property Services. These transfers were decided after the finalisation of the Department's 2009-10 budget.
- 6.103 The Department's income consists mainly of resources received free of charge from the Department of Treasury to fund tax incentives provided to various organisations under the ACT Business Incentive Fund, and sponsorship for events and festivals through ACT Tourism.
- 6.104 The Department's net cost of services (\$53.2 million) exceeded the budgeted cost (\$47.8 million) by \$5.4 million (11.3 percent) due mainly to the higher costs caused by the revised administrative arrangements referred to above.
- 6.105 Government contributions exceeded the budgeted amount by \$6.9 million (15.3 percent) due mainly to the transfer of ACT Tourism to the Department.

Audit findings

Table 6.23: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	(2)	1	2	1	4

- 6.106 In 2009-10, the Department reduced the risk of undetected errors, irregularities and fraud by implementing regular monitoring of payroll reports.
- 6.107 The Department also improved its business continuity arrangements by finalising its business continuity plan and testing the effectiveness of these arrangements. This should provide the Department with greater assurance that its operations can be promptly resumed with minimal disruption in the event of a disaster or other adverse event.
- 6.108 The Audit Office again found that:
- the Department’s performance in delivering some of its outputs is not always explained meaningfully in its statement of performance. Some of the accountability indicators and methodologies used to measure results have not been clearly defined or disclosed in the Department’s budget papers; and
 - the targets set and results reported for a number of indicators provide users with little information about the Department’s performance. In particular, a number of indicators with a target of ‘1’ are measured as being completed after meeting a number of internal targets. Where the Department has not disclosed or explained its targets in its budget papers, it is not possible to subsequently reliably assess whether the planned level of performance was achieved.
- 6.109 In 2009-10, the Audit Office found that there was often insufficient documentary evidence of the satisfactory receipt of goods and services prior to payments being made. There is a higher risk of erroneous, irregular or fraudulent payments when payments are made without evidence that the goods and services have been satisfactorily received.
- 6.110 There was scope for improving the independence of the Department’s internal audit function. The Audit Office understands the Department has assessed the risk associated with this audit finding to be low and has decided not to change its present arrangements.
- 6.111 The Department has agreed to address all other audit findings.

DISABILITY, HOUSING AND COMMUNITY SERVICES

6.112 The Department of Disability, Housing and Community Services provides a wide range of services to people with disabilities and disadvantaged members of the community. These include the provision of:

- accommodation support and respite care to people with disabilities;
- therapy services for children with developmental delays or disabilities;
- early intervention and prevention services for children and their families;
- support services for young people at risk and young offenders;
- care and protection services for young people; and
- out-of-home support and care where children cannot remain within the family home.

6.113 The Department also administers a range of concessions and benefits to low income earners and manages community facilities.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Department's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Department's net cost of services was in line with its budgeted cost.

Financial results

Table 6.24: Key results – departmental

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(210.2)	(193.0)	(190.6)
Income	3.8	4.6	2.5
Net cost of services	(206.4)	(188.4)	(188.1)
Government contributions	200.0	182.3	181.7
Gains from contributed assets/asset transfers	0.4	6.0	-
Operating deficit	(6.0)	(0.1)	(6.4)

- 6.114 The Department's expenses mainly consist of grants and payments to non-government organisations to provide disability and community services, employee related costs and supplies and services expenses.
- 6.115 The Department's net cost of services (\$188.4 million) was in line with its budgeted cost (\$188.1 million).
- 6.116 In 2009-10, the Department's net cost of services fell by \$18.0 million (8.7 percent) compared to 2008-09. This fall was anticipated in the budget and largely reflects the transfer of social housing and homelessness services from the Department to Housing ACT from 1 July 2009.
- 6.117 The Department's operating deficit (\$0.1 million) was less than the budgeted deficit (\$6.4 million), due mainly to a gain recognised for the transfer of two former school sites to the Department for the establishment of regional community facilities and neighbourhood halls.

Table 6.25: Key results – territorial expenses

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Subsidies and concessions	16.2	19.0	18.1
Community service obligations	14.1	15.0	16.1
Concession and community service obligation expenses	30.3	34.0	34.2

- 6.118 Subsidies and concessions expenses mainly include payments to external service providers to subsidise the costs of services provided to low income earners, pensioners and people with disabilities. Subsidies are provided for general rates, motor vehicle registrations and licences, pensioner transport and spectacles for eligible concession card holders.
- 6.119 Community service obligations expenses relate to the provision of electricity and gas concessions for pensioners, water and sewerage rebates paid to schools and charities, and a taxi subsidy scheme for people with a disability.
- 6.120 Subsidies and concessions exceeded the budgeted cost by \$0.9 million (5.0 percent). This was due mainly to higher than expected costs associated with the pensioner transport scheme as a result of an increase in the number of people eligible for bus fare concessions and higher ACTION bus fares.
- 6.121 Community service obligations expenses were \$1.1 million (6.8 percent) below the budgeted cost, due mostly to a lower than expected number of pensioners eligible for electricity and gas concessions.

Audit findings

Table 6.26: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
2	(2)	1	1

6.122 The Department addressed all previously reported audit findings. In particular, the Department ensured that salary break-up reports were reviewed in a timely manner, hence minimising the risk of errors, irregularities and potential fraud in employee payments not being detected in a timely manner.

EDUCATION AND TRAINING

6.123 The Department of Education and Training provides public school education and associated services to the people of Canberra and surrounding region. These services include the provision of public school education, maintenance of standards in non-government schools and home education, managing vocational education and training initiatives and early intervention programs to children with developmental delays, disabilities and other challenges.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Department's 2009-10 financial statements.
- The Audit Office issued a qualified report of factual findings on the Department's 2009-10 statement of performance because one of its performance indicators was not measured as required by the *Financial Management Act 1996*.
- The Department's net cost of services was slightly higher than its budgeted cost.
- Capital injections and grants provided to non-government schools increased significantly in 2009-10 due mainly to Commonwealth funding provided under the 'Building the Education Revolution' program.¹²
- The Department improved its processes for measuring the results of performance indicators relating to client satisfaction and timeliness of home education reviews.¹³
- The Audit Office found that salary reports were not being reviewed by schools and were not being consistently reviewed by business units to reduce the risk of undetected incorrect, irregular or fraudulent salary payments. The Department has advised that it has since addressed this control weakness.

12 The 'Building the Education Revolution' program is part of the Commonwealth Government's 'Nation Building – Economic Stimulus Plan' to provide economic stimulus and support local jobs through the delivery of new infrastructure and refurbishments to Australian schools.

13 Section 130(1) of the *Education Act 2004* allows parents to apply, in writing, to the Chief Executive for registration for home education of a child. The application for the renewal of registration for home education must be made at least three months before the expiry of the current registration. On receipt of an application, a registration visit or review is conducted with the parents by an authorised person of the Department to ensure that the conditions of the registration are met.

Financial results

Table 6.27: Key results – departmental

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(528.8)	(548.9)	(546.9)
Income	37.8	35.8	36.8
Net cost of services	(491.0)	(513.1)	(510.1)
Government contributions	441.4	473.0	465.8
Operating deficit	(49.6)	(40.1)	(44.3)
Capital injections	99.7	198.5	214.8

- 6.124 The Department's expenses mostly comprise salaries and wages, superannuation costs, supplies and services, school operating costs and depreciation. The Department obtains income from fundraising, voluntary contributions, excursion funds, international students and funding from the Commonwealth for various programs.
- 6.125 The Department's net cost of services (\$513.1 million) was slightly higher than its budgeted cost (\$510.1 million).
- 6.126 The Department's net cost of services increased by \$22.1 million (4.5 percent) from the prior year's cost. This increase was largely anticipated in the budget and reflected:
- pay rises flowing from the certified agreement;
 - employee and other costs associated with various new budget initiatives;
 - higher school property maintenance costs;
 - increased service charges from InTACT for desktop and information and communication technology support; and
 - increased depreciation expenses as a result of new capital works.
- 6.127 Government revenue increased by \$31.6 million (7.2 percent) from the previous year as additional funding was provided:
- to meet higher employee expenses, property maintenance costs and costs associated with new budget initiatives as discussed above; and
 - from the Commonwealth for various programs.

6.128 Capital injections were \$98.8 million (99.1 percent) higher than the prior year’s amount due mainly to the Commonwealth funding provided under the ‘Building the Education Revolution’ program and funding for new schools including Harrison High School, Gungahlin College and Kambah P-10 (preschool to year 10).

Table 6.28: Key results – territorial expenses

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Grants and purchased services	171.9	225.4	231.3
	171.9	225.4	231.3

6.129 Grants and purchased services increased by \$53.5 million (31.1 percent) from the prior year mainly because of additional Commonwealth funding provided to the Department under the ‘Building the Education Revolution’ program for payments to non-government schools.

Audit findings

Table 6.29: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
4	(3)	1	4	5

6.130 The Department resolved most previously reported audit findings. In particular, the Department improved its processes for measuring the results of performance indicators on the overall satisfaction with public primary and high school education, and the timeliness of home education reviews.

6.131 The Audit Office issued a qualified report of factual findings on the Department’s 2009-10 statement of performance because one of its performance indicators (Individual Learning Plans commenced within one month of the students’ first attendance at an early intervention program) was not measured as required by the *Financial Management Act 1996*. The Department has advised that it has now put into place a methodology to correctly report on this performance indicator.

6.132 The Audit Office again found that salary reports for some cost centres were not being consistently reviewed in a timely manner. The Office also found that schools were not reviewing staff salary reports and there was no requirement to do so. The Office understands that fortnightly salary reports are not prepared and distributed to schools for verification due to limitations in the reporting system.

- 6.133 The Audit Office has recommended that the Department implement consistent reviews of salary reports to reduce the risk of undetected erroneous or fraudulent employee payments. The Department has advised that it has now implemented a new automated system to provide salary reports to schools from August 2010.
- 6.134 The Department has agreed to address all audit findings.

EXHIBITION PARK CORPORATION

6.135 The Exhibition Park Corporation operates under the *Exhibition Park Corporation Act 1976*. The Corporation aims to maximise the use of facilities located at Exhibition Park in Canberra by holding various events at this venue. These include trade shows, exhibitions, meetings, sporting, cultural and recreational events and corporate and private functions. The Corporation also leases camping sites and facilities to the public.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Corporation's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Corporation's net cost of services, excluding an unbudgeted impairment loss in the value of its investment property, was \$0.2 million (15.4 percent) below the budgeted cost. This result was due mainly to higher revenue being obtained from the use of facilities located at Exhibition Park in Canberra.
- The Corporation's operating deficit was much larger than budgeted due to an unbudgeted impairment loss in the value of its investment property.
- The Corporation addressed nearly all previously reported audit findings. In particular, the Corporation complied with the minimum number of board members required by the *Exhibition Park Corporation Act 1976* and improved controls over payments and assets.
- The Authority has not improved the meaningfulness of the performance indicators included in its statement of performance.

Table 6.30: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses (excluding impairment loss on investment property)	(4.0)	(3.3)	(3.1)
Income	2.8	2.2	1.8
Net cost of services	(1.2)	(1.1)	(1.3)
Impairment loss on investment property	-	(1.3)	-
Government contributions	0.6	0.4	0.4
Operating deficit	(0.6)	(2.0)	(0.9)

- 6.136 The Corporation's expenses mainly relate to maintaining and operating the facilities in Exhibition Park in Canberra. These include the cost of employees, building and ground maintenance, water, sewerage and electricity, contractors and consultants, and marketing.
- 6.137 Expenses, excluding the impairment losses on the investment property exceeded the budgeted cost by \$0.2 million (6.4 percent). The Corporation incurred additional consultancy costs relating to re-leasing its investment property.
- 6.138 The Corporation generates most of its revenue from customers hiring facilities at Exhibition Park in Canberra and commissions related to food and beverage sales at events.
- 6.139 Income was \$0.4 million (22.2 percent) higher than the budgeted amount. This was due mostly to higher revenue from:
- renting camping sites due to higher patronage of camping facilities; and
 - hiring facilities and commissions, reflecting an increase in the number of retail events and exhibitions held during the reporting period.
- 6.140 As a result of higher revenue, the Corporation's net cost of services, excluding an unbudgeted impairment loss relating to its investment property was \$0.2 million (15.4 percent) below the budgeted cost.
- 6.141 The Corporation's operating deficit (\$2.0 million) was larger than the budgeted deficit (\$0.9 million) due to an unbudgeted impairment loss on its investment property. The impairment loss (\$1.3 million) resulted from the Corporation's decision to demolish the buildings on the site of its investment property in preparation for signing a lease with a new tenant.

Audit findings

Table 6.31: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
8	(7)	1	1	2

- 6.142 The Corporation resolved nearly all previously reported audit findings. In particular, the Corporation:
- complied with the minimum number of board members required by the *Exhibition Park Corporation Act 1976*;
 - reduced the risk of payment errors, irregularities and fraud by ensuring expenses were approved by a delegate prior to making payments for goods and services; and
 - implemented an asset management policy to provide assurance that its assets are effectively managed in accordance with management's requirements.

- 6.143 The Audit Office again found that the Corporation's performance in meeting its objectives was not adequately explained in its statement of performance.
- 6.144 The Corporation has a number of performance indicators that are expressed as an activity. The Corporation has not included, in its statement of intent, meaningful information on what the planned activity means or how well the activity was to be performed. The Corporation's accountability for its performance is likely to be compromised where the planned levels of performance are not clearly established and explained in its statement of intent.
- 6.145 The Corporation has advised the Audit Office that all audit findings will be addressed.

HOUSING ACT (INCLUDING THE LYONS ESTATE REDEVELOPMENT JOINT VENTURE)

- 6.146 Housing ACT aims to provide safe, affordable and appropriate housing to those in the community that are socially and financially disadvantaged or homeless.
- 6.147 Housing ACT also manages the ACT Government's interest in the Lyons Estate Redevelopment Joint Venture.

KEY ISSUES

Housing ACT

- The Audit Office issued an unqualified audit report on Housing ACT's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- Housing ACT's net cost of services was \$4.5 million (8.9 percent) below the budgeted cost due mainly to lower operating costs and higher than expected revenue.
- Housing ACT addressed most previously reported audit findings.

Lyons Estate Redevelopment Joint Venture

- The Audit Office issued unqualified audit reports on the half and full-year financial statements of the Lyons Estate Redevelopment Joint Venture for the five reporting periods between 17 May 2007 and 30 June 2009.
- The reporting arrangements for the Lyons Estate Redevelopment Joint Venture need to be improved.

Financial results

Table 6.32: Key results - departmental

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(110.7)	(134.9)	(137.1)
Income	84.4	86.4	83.6
Gains from the sale of properties	10.9	2.4	2.9
Net cost of services	(15.4)	(46.1)	(50.6)
Government contributions	26.5	47.4	46.7
Other gains	0.7	1.9	2.3
Operating surplus/(deficit)	11.8	3.2	(1.6)

6.148 Housing ACT's expenses mostly consist of expenses on the maintenance of public housing properties, payment of rates on these properties, employee costs, grants for the provision of homelessness services and depreciation expenses.

6.149 Most of Housing ACT's income is represented by rent received from public housing tenants.

6.150 Housing ACT's net cost of services (\$46.1 million) was \$4.5 million (8.9 percent) below the budgeted cost (\$50.6 million). This was mostly due to:

- lower than expected operating costs, in particular, general rates and repairs and maintenance expenses; and
- higher than expected interest revenue. Housing ACT held higher levels of cash and cash equivalents to fund capital works being performed under the Commonwealth Government's 'Nation Building and Jobs Plan'.¹⁴

14 Funding was provided by the Commonwealth Government for its 'Nation Building and Jobs Plan' to provide economic stimulus and support local jobs through the delivery of new social housing and the refurbishment of existing social housing.

- 6.151 In 2009-10, Housing ACT's net cost of services increased by \$30.7 million (199.3 percent) compared to 2008-09. This substantial increase was anticipated in the budget and largely reflects:
- the transfer of social housing and homelessness services to Housing ACT from the Department of Disability, Housing and Community Services from 1 July 2009; and
 - lower gains from the sale of properties. In the previous year, Housing ACT obtained a significant sale price for a multi-unit housing complex (Fraser Court) that was not repeated in the current year.

Lyons Estate Redevelopment Joint Venture

- 6.152 The Lyons Estate Redevelopment Joint Venture (Joint Venture) was established in May 2007 as a joint venture between the Commissioner for Social Housing (Housing ACT), Hindmarsh Lyons Developments Pty Limited and Johrosa Pty Limited, for the redevelopment of a former public housing complex in the suburb of Lyons.
- 6.153 Under the financial arrangements for the Joint Venture, Housing ACT contributes land (\$8.1 million) to the Joint Venture and the other venturers meet the development costs for the construction of a retirement village and high-density residential property on the site.
- 6.154 The financial statements submitted for audit required significant amendments to bring them to an acceptable standard and they have not been provided to the Office in a timely manner.
- 6.155 The Joint Venture has yet to provide financial statements for the six months ended 31 December 2009 and for the year ended 30 June 2010 to the Audit Office.
- 6.156 The Audit Office issued unqualified audit reports on the half and full-year financial statements of the Lyons Estate Redevelopment Joint Venture for the five reporting periods between 17 May 2007 and 30 June 2009.
- 6.157 The Joint Venture has indicated that it intends to improve its reporting arrangements.

Property portfolio

Table 6.33: Value of land and dwellings

As at 30 June	Actual 2008	Actual 2009	Actual 2010
Number of land parcels	6 899	6 961	6 939
Land value (\$m)	\$2 657	\$2 672	\$3 041
Number of dwellings	11 306	11 340	11 574
Dwellings value (\$m)	\$1 092	\$1 121	\$1 147
Total value of land and dwellings (\$m)	\$3 749	\$3 793	\$4 188

6.158 The value of Housing ACT’s property portfolio increased by \$395 million or 10.4 percent in 2009-10 due mainly to an increase in land values following an annual property revaluation conducted in March 2010.

Audit findings

Table 6.34: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	New	Balance
5	(4)	1	2	3

6.159 Housing ACT addressed most previously reported audit findings.

6.160 In particular, the Audit Office found that Housing ACT:

- measured the results of the two performance indicators that were not measured in 2008-09, relating to the overall satisfaction of tenants with the provision of public and community housing; and
- consistently performed reconciliations of rent revenue between the Homenet tenant management system and general ledger in a timely manner.

6.161 The Audit Office reported two new audit findings to Housing ACT in 2009-10.

6.162 Housing ACT has agreed to address the audit findings.

INSURANCE AUTHORITY

6.163 The Insurance Authority operates under the *Insurance Authority Act 2005*. The Authority buys insurance to cover the major risks faced by ACT Government agencies and settles insurance claims. The Authority also promotes the implementation of sound risk management practices by agencies.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Authority's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Authority's operating deficit exceeded the budgeted deficit by \$0.7 million (11.9 percent).
- The Authority's short-term financial position at 30 June 2010 continued to be strong and was better than anticipated in the budget.
- The Authority's long-term financial position at 30 June 2010 was reasonably close to budget expectations. The Authority's assets are just sufficient to meet its liabilities.
- The Audit Office again found that the Authority's performance was not always meaningfully explained in its statement of performance.

Financial results

Table 6.35: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Gross premiums	49.9	48.1	48.1
Returns from investments	14.2	15.8	8.5
Other	0.1	0.2	0.2
Income	64.2	64.1	56.8
Reinsurance expenses	10.4	10.8	12.0
Net insurance claims expenses	49.5	57.2	47.7
Other	2.7	2.7	3.0
Expenses	62.6	70.7	62.7
Operating surplus/(deficit)	1.6	(6.6)	(5.9)

Audit results and findings on ACT Government agencies

- 6.164 The Authority's income consists mainly of insurance premiums collected from ACT Government agencies, recoveries under reinsurance arrangements and interest and distributions on its investments.
- 6.165 Income was \$7.3 million (12.9 percent) higher than the budgeted amount due largely to better than expected returns on investments.
- 6.166 The Authority's expenses are largely represented by the costs of insurance claims and reinsurance premiums.
- 6.167 Net insurance claims expenses are estimated based on a range of actuarial assumptions, including a discount to allow for interest that is expected to be earned on investments held to fund claims until they are paid. A lower discount rate reduces the amount of expected interest and results in an increase in the estimated claims liability and related net insurance claims expenses.
- 6.168 In 2009-10, a reduction in the discount rate used by the actuary led to expenses (\$70.7 million) exceeding the budgeted cost (\$62.7 million) by \$8.0 million (12.8 percent).
- 6.169 The Authority's operating deficit exceeded the budgeted deficit by \$0.7 million (11.9 percent).

Short-term financial position

Table 6.36: Short-term financial position

	Actual 2009 \$m	Actual 2010 \$m	Budget 2010 \$m
Short-term assets	178.5	215.7	215.6
Short-term liabilities	(31.2)	(39.8)	(72.0)
Net short-term assets	147.3	175.9	143.6
Short-term liquidity ratio	5.7 to 1	5.4 to 1	3.0 to 1

- 6.170 The Authority's short-term financial position at 30 June 2010 continued to be strong and was better than anticipated in the budget.

Long-term financial position

Table 6.37: Long-term financial position

	Actual 2009 \$m	Actual 2010 \$m	Budget 2010 \$m
Total assets	375.2	345.7	304.0
Total liabilities	(367.2)	(344.3)	(305.9)
Net assets/(liabilities)	8.0	1.4	(1.9)
Ratio of total assets to total liabilities	1.0 to 1	1.0 to 1	1.0 to 1

6.171 The Authority’s long-term financial position at 30 June 2010 was in line with budget expectations. The Authority’s assets (\$345.7 million) are just sufficient to meet its liabilities (\$344.3 million).

Audit findings

Table 6.38: Status of audit findings (number of findings)

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

6.172 In 2008-09, the Audit Office reported that some of the Authority’s accountability indicators did not provide meaningful information on the performance of the Authority.

6.173 As in the previous year, the Audit Office found that the Authority did not include explanatory information in its 2009-10 statement of performance to assist readers in understanding all of its accountability indicators as recommended in Department of Treasury’s better practice guideline - ‘Statement of Performance for Agencies’.

6.174 The Authority has, however, amended some of the accountability indicators included in its 2010-11 Statement of Intent. This should improve the performance information included in the Authority’s 2010-11 statement of performance.

6.175 The Authority has agreed to address all audit findings.

JUSTICE AND COMMUNITY SAFETY

- 6.176 The Department of Justice and Community Safety aims to maintain a fair, safe and peaceful community in the ACT where people's rights and interests are respected and protected.
- 6.177 The Department provides a wide range of services, including the provision of legal advice and legislative drafting services, regulatory services, corrective services, law courts and tribunal and emergency services (Ambulance Service, Fire Brigade, Rural Fire Service and State Emergency Service).

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Department's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Department's net cost of services exceeded its budgeted cost by \$5.4 million (2.7 percent) due mainly to salary increases.
- The Department did not draw down \$23.5 million (50.4 percent) of the funds appropriated for capital works due mainly to delays in major projects relating to the Emergency Services Agency.
- Territorial expenses were in line with the budgeted cost.
- Payments to the Australian Federal Police for policing services increased by \$8.1 million (6.5 percent) from the prior year, mainly to fund certified agreement wage increases and budget initiatives such as the new Gungahlin police station and the installation of improved security monitoring at various sites in the Territory.
- The Department implemented a fraud and corruption control plan. This should provide greater assurance that the Department's key fraud risks will be appropriately managed and monitored.
- The Department improved the quality assurance processes applied to the reporting of performance information in its 2009-10 statement of performance and the usefulness of its performance indicators.
- The Department's controls over cash handling, certification of goods and services received, and leave records in the ACT Fire Brigade need to be improved, in some instances, to reduce the risk of errors, irregularities and fraud.

Financial results

Table 6.39: Key results – departmental

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(230.5)	(231.5)	(222.9)
Income	22.7	23.5	20.3
Net cost of services	(207.8)	(208.0)	(202.6)
Government contributions	186.1	182.7	186.0
Gains from contributed assets/asset transfers	4.0	3.1	-
Operating deficit	(17.7)	(22.2)	(16.6)
Capital injections	19.9	23.1	46.6

6.178 Most of the Department’s expenses are related to employees, computing and information technology, accommodation costs and depreciation. Income consists mainly of fees charged for fire protection and ambulance transport services.

6.179 Expenses exceeded the budgeted cost by \$8.6 million (3.8 percent) due mainly to increases in employee expenses. This was mainly associated with higher wages and salaries for ACT Intensive Care Paramedics (\$6.4 million), collective agreement and leave liability increases in areas such as the Emergency Services Agency, Office of Regulatory Services and Corrective Services. These higher employee costs were partially offset by lower supplies and services costs.

6.180 The Department’s net cost of services (\$208.0 million) was \$5.4 million (2.7 percent) higher than its budgeted cost (\$202.6 million). This was due to higher expenses referred to above; partially offset by an increase of \$3.2 million in income mainly from additional fire protection payments from the Commonwealth.

6.181 The Department did not draw down \$23.5 million (50.4 percent) of the funds appropriated for capital works. This was primarily due to delays in major projects such as:

- the relocation of the Emergency Services Agency’s headquarters to Fairbairn (\$10.0 million);
- the upgrade of communications and information technology for the Emergency Services Agency (\$4.2 million) partly as a result of the delays in relocating to Fairbairn;

- the ongoing vehicle replacement program (\$3.5 million); and
- the construction of new forensic medical centre (\$3.2 million) at Phillip.

Table 6.40: Key results – territorial

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Payments to the Australian Federal Police	123.9	132.0	132.0
Other expenses (legal expenses, damages and settlement payments)	11.3	6.5	6.4
	135.2	138.5	138.4

Source: Budget information was provided by the Department of Justice and Community Safety.

- 6.182 The Department’s territorial expenses consist largely of payments to the Australian Federal Police for the provision of policing services in the Territory.
- 6.183 Territorial expenses were in line with the budget.
- 6.184 Payments to the Australian Federal Police increased by \$8.1 million (6.5 percent) to fund wage increases and additional budget funding for the new Gungahlin police station and the installation of Closed Circuit Television security monitoring at various sites in the Territory.
- 6.185 Other expenses fell due to lower than expected legal expenses, damages and settlement payments on behalf of the Territory.

Audit findings

Table 6.41: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	New	Balance
4	(3)	1	7	8

- 6.186 The Audit Office found that the Department resolved most previously reported audit findings. In particular, the Department:
- improved the quality assurance processes applied to the reporting of performance information and had undertaken a review of its performance indicators to improve the usefulness of the information included in its 2009-10 statement of performance; and
 - has greater assurance that its fraud risks will be appropriately managed and monitored by implementing a fraud and corruption control plan.

- 6.187 In 2009-10, the Audit Office found that:
- controls over the collection, recording and reconciliation of cash receipts at the Office of Regulatory Services need to be improved to reduce the risk of errors, irregularities and fraud in relation to cash receipts and the associated records;
 - there was often insufficient documentary evidence of the satisfactory receipt of goods and services prior to payments being made. This leads to a higher risk of erroneous, irregular or fraudulent payments; and
 - leave taken in the ACT Fire Brigade was not always being recorded in the leave records. As in previous years, the ACT Fire Brigade has advised that the range of measures to improve its processes for the recording of leave is progressing more slowly than originally planned.
- 6.188 The Department has advised the Audit Office that the controls over the collection, recording and reconciliation of cash receipts at the Office of Regulatory Services have been strengthened.
- 6.189 While the Department found no instances where goods or services were not satisfactorily received, the Department has advised that it has requested an update of the generic Accounts Payable Invoice Cover Sheet supplied by Shared Services to provide a section for sign-off of satisfactory receipt of goods and services to strengthen controls in this area.
- 6.190 The Department advised that the remaining audit findings will be addressed in 2010-11.

LAND DEVELOPMENT AGENCY (INCLUDING LAND JOINT VENTURES)

6.191 The Land Development Agency (LDA) develops and sells land on behalf of the ACT Government. LDA also manages the ACT Government's interest in the Forde, Woden East and Crace land joint ventures.

KEY ISSUES

Land Development Agency

- The Audit Office issued an unqualified audit report on LDA's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- LDA's operating profit (\$77.4 million) exceeded the budgeted profit (\$39.5 million) by \$37.9 million (95.9 percent). This result was due mainly to a downwards revision in the project cost estimates for developments, lower than expected cost of land sales and additional returns from joint ventures.
- LDA's reporting on the non-financial aspects of its performance was improved by the inclusion of a more meaningful set of non-financial performance indicators in its statement of performance. Despite this improvement, the Audit Office found that LDA needs to improve its processes for preparing its statement of performance.
- Aspects of LDA's internal audit arrangements could be improved.

Land Joint Ventures

- The Audit Office issued unqualified audit reports on the financial statements of the Forde, Woden East and Crace land joint ventures.

Financial results

Table 6.42: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Income	234.5	318.4	379.4
Expenses	(177.6)	(225.1)	(329.3)
Share of operating profit from land joint ventures accounted for using the equity method	14.4	19.3	6.4
Operating profit before income tax expense	71.3	112.6	56.5
Income tax expense	(21.2)	(35.2)	(17.0)
Operating profit	50.1	77.4	39.5

- 6.192 Most of LDA's income and expenses consist of land sales and the associated costs of these sales.
- 6.193 LDA's income was \$61.0 million (16.1 percent) below the budgeted amount as planned sales of residential, commercial and industrial sites in Barton, Canberra City, Hawker, Hume, Isaacs, Kingston Foreshore and Flemington Road did not occur as expected.
- 6.194 Expenses were \$104.2 million (31.6 percent) lower than the budgeted cost. In particular, the cost of land sold was \$96.7 million (32.9 percent) lower than expected because of:
- a reduction in the cost of each block of land sold as a result of a revision to the cost estimates of a number of developments; and
 - fewer land sales than anticipated.
- 6.195 LDA's share of operating profit from the land joint ventures (\$19.3 million) was significantly higher than the budgeted profit (\$6.4 million) due mainly to unanticipated land sales in the Crace Joint Venture.
- 6.196 As a result of lower expenses and reduced total income, LDA's operating profit (\$77.4 million) exceeded the budgeted profit (\$39.5 million) by \$37.9 million (95.9 percent).

Land Joint Ventures

- 6.197 LDA manages the ACT Government's interest in three joint ventures related to the development and sale of land in the suburbs of Forde, Crace and Woden East.

Forde

- 6.198 The Forde Joint Venture commenced operations in May 2005. LDA and Forde Developments Pty Limited each contributed 50 percent of the Forde Joint Venture's capital.
- 6.199 In 2009-10, the joint venture partners contributed an additional \$15.8 million for the development of land in the northern part of the suburb of Forde. LDA's share in the Forde Joint Venture at 30 June 2010 was \$5.2 million.
- 6.200 There were 264 settlements in Forde in 2009-10 (2008-09: 223 settlements).
- 6.201 The Audit Office issued unqualified audit reports on the Forde Joint Venture's half and full-year financial statements.

Woden East

- 6.202 The Woden East Joint Venture was formed for the development and sale of land in Woden East and commenced operations in November 2006. LDA and Woden East Developments Pty Limited each contributed 50 percent of the Woden East Joint Venture's capital.
- 6.203 LDA's interest in the Woden East Joint Venture at 30 June 2010 was \$3.3 million.
- 6.204 The Joint Venture is still in its development phase and no land had been sold as at 30 June 2010.
- 6.205 The Audit Office issued an unqualified audit report on the Woden East Joint Venture's financial statements.

Crace

- 6.206 The Crace Joint Venture commenced operations in January 2008 and was formed for the development and sale of land in Crace (North Canberra). LDA and Crace Developments Pty Limited each contributed 50 percent of the Crace Joint Venture's capital.
- 6.207 LDA's interest in the Crace Joint Venture at 30 June 2010 was \$23.3 million.
- 6.208 There were 124 settlements in Crace in 2009-10 (2008-09: none).
- 6.209 The Audit Office issued unqualified audit reports on the Crace Joint Venture's half and full year financial statements.

Audit findings

Table 6.43: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
2	(2)	5	5

- 6.210 LDA resolved all previously reported audit findings. In particular, LDA improved the non-financial performance indicators included in its statement of performance so that readers of the statement could make a more meaningful assessment of LDA's performance.
- 6.211 LDA improved its non-financial performance indicators in 2009-10. However, the statement of performance submitted to the Audit Office for review needed to be improved because:
- the results for some targets, which were included in the statement of intent, were excluded from the statement of performance; and
 - LDA did not always clearly explain how the reported result was measured or estimated.
- 6.212 Although LDA subsequently corrected its statement of performance for these issues, the Audit Office has recommended that LDA follow the presentation recommended in the better practice guideline - 'Statement of Performance for Agencies' issued by the Department of Treasury.
- 6.213 The Audit Office also found that LDA's internal audit arrangements could be improved by the development of an internal audit charter and implementation of quality assurance reviews on the work of audit contractors.
- 6.214 LDA has advised that it intends to address these audit findings.

LEGAL AID COMMISSION

6.215 The Legal Aid Commission provides legal services to disadvantaged people, including those with difficulty in accessing private legal services. These services include the provision of legal information, legal advice, duty lawyer services, grants for legal assistance and community legal education. The Commission's services are provided through its offices in Civic and the Domestic Violence Unit located in the ACT Magistrates Court and Youth Law Centre.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Commission's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Commission's net cost of services was in line with its budgeted cost.
- The Commission resolved nearly all previously reported control weaknesses by improving its fraud and debtor management arrangements and controls over salary and leave records.
- The Commission's processes for preparing its financial statements need significant improvement.

Financial results

Table 6.44: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(9.9)	(10.4)	(10.5)
Income	2.1	2.0	2.0
Net cost of services	(7.8)	(8.4)	(8.5)
Government contributions	7.6	9.1	8.0
Operating (deficit)/surplus	(0.2)	0.7	(0.5)

6.216 The Commission's expenses are mostly comprised of employee related expenses, referrals to private legal practitioners, rent and legal disbursements.

6.217 The Commission's income consists mainly of interest received from the Statutory Interest Account maintained by the Law Society of the ACT.

6.218 The Commission's net cost of services (\$8.4 million) was in line with its budgeted cost (\$8.5 million) with income and expenses being close to their budgeted amounts.

Audit findings

Table 6.45: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
7	(6)	1	8	9

- 6.219 The Commission resolved nearly all previously reported audit findings. In particular, the Commission:
- improved its arrangements for the identification and management of fraud by the development and approval of a fraud policy and fraud control plan. The Commission used a specialist in risk management to assist in the identification of key risks;
 - developed and documented policies and procedures for the write-off of debtors; and
 - strengthened controls over the salary and leave records. This reduces the risk of erroneous or fraudulent payments to employees and errors in the financial statements.
- 6.220 Nearly all new audit findings refer to significant errors in the financial statements provided by the Commission. Although these errors were corrected during the audit process, they indicate that the processes implemented by the Commission for preparing its financial statements need significant improvement.
- 6.221 The Commission has indicated that it is addressing these audit findings by instituting a comprehensive review of its reporting systems and processes.

SHARED SERVICES CENTRE

6.222 The Shared Services Centre (Shared Services) provides information and communication technology (ICT), procurement, human resource, finance, publishing and records management services to ACT Government departments and agencies.

KEY ISSUES

- The Audit Office issued an unqualified audit report on Shared Services' 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- Shared Services' net cost of services was \$6.9 million (48.6 percent) below the budgeted cost due mainly to higher revenue from the provision of ICT services to agencies and lower than anticipated depreciation and amortisation in 2009-10.
- Shared Services resolved all previously reported audit findings. This included improving documentation supporting the results of reported performance indicators and the accuracy of asset records.
- Shared Services needs to clarify and settle its charging arrangements with agencies for funding the future replacement of assets.
- To reduce the risk of errors, irregularities and fraud, Shared Services needs to improve controls over the disposal of ICT assets.

Financial results

Table 6.46: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(170.3)	(178.9)	(170.4)
Income	156.9	171.6	156.2
Net cost of services	(13.4)	(7.3)	(14.2)
Government revenue	5.7	5.8	5.8
Operating deficit	(7.7)	(1.5)	(8.4)

6.223 Shared Services' expenses mainly consist of employee, contractor and consultants costs, ICT costs and depreciation of ICT assets.

6.224 Expenses were \$8.5 million (5.0 percent) higher than the budgeted amount due to higher contractor and project expenditure to meet higher ICT project activity undertaken by agencies. This higher expenditure was partially offset by a lower than anticipated depreciation and amortisation expenses due to assets being purchased later than anticipated in the budget.

- 6.225 Most of Shared Services' income is derived from fees charged for ICT, human resource, finance, and procurement services.
- 6.226 Income exceeded the budgeted amount by \$15.4 million (9.9 percent). This was mainly due to higher income from increased ICT project activity and greater agency demand for ICT services (for example, telephone, desktop services, storage etc).
- 6.227 Shared Services' net cost of services (\$7.3 million) was \$6.9 million (48.6 percent) below the budgeted cost (\$14.2 million) due mainly to higher revenue from the provision of ICT services to agencies and lower than expected depreciation and amortisation expenditure, as mentioned above.

Audit findings

Table 6.47: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
4	(4)	4	4

- 6.228 Shared Services addressed all previously reported audit findings. In particular, Shared Services:
- improved documentation supporting the results of performance measures;
 - improved the accuracy of its asset records; and
 - reduced the risk of unauthorised access to the ACT Government network by removing the privileged access for former employees of Shared Services.
- 6.229 In 2009-10, the Audit Office found that Shared Services incorrectly recognised revenue in advance as a liability in its financial statements for the component of charges levied by Shared Services that referred to the future replacement of assets.
- 6.230 Although the financial statements were corrected for this error, Shared Services needs to clarify and settle its charging arrangements with agencies for funding the future replacement of assets, particularly, if it wishes to recognise such liabilities in the future.
- 6.231 The Audit Office also found that:
- there were no formal policies and procedures for the disposal of ICT assets; and
 - documentation supporting the disposal did not clearly identify the approving officer or the assets specifically approved to be disposed of.
- 6.232 These control weaknesses increase the risk of inappropriate disposal of assets.
- 6.233 Shared Services has agreed to address these audit findings.

SUPERANNUATION PROVISION ACCOUNT

- 6.234 The Superannuation Provision Account manages the defined benefit employer superannuation liabilities of the Territory and manages the investment of funds set aside to meet these liabilities.
- 6.235 The Superannuation Provision Account has a long term strategic target of fully funding the Territory's superannuation liabilities under the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) by 30 June 2030. This funding will be provided from investment returns and annual budget capital injections.¹⁵
- 6.236 The Territory is responsible for reimbursing the Commonwealth Government for superannuation benefits paid to the members of CSS and PSS for services provided by members from 1 July 1989. The Commonwealth is liable for all benefits incurred prior to that date. The CSS and PSS were closed to new members from 1 July 1990 and 1 July 2005 respectively. These schemes were replaced with fully funded accumulation plans for new employees.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the 2009-10 financial statements of the Superannuation Provision Account and an unqualified report of factual findings on its 2009-10 statement of performance.
- The Superannuation Provision Account's operating deficit of \$163.7 million was significantly better than the budgeted and prior year deficits of \$213.1 million and \$564.4 million respectively. This improved result reflects much better conditions in investment markets during 2009-10.
- The long-term rate of return achieved on the superannuation investments of CPI plus 4.2 percent (net of fees) continues to be below the targeted long-term rate of return of CPI plus 5 percent (net of fees).
- The Superannuation Provision Account's financial position continued to weaken in 2009-10 with the unfunded superannuation liability being significantly higher than the amount in the prior year, and anticipated in its budget. This was mainly due to a fall in the 10-year Commonwealth Government bond yield which is used as the discount rate to estimate the present value of the superannuation liability.
- The unfunded superannuation liability does not present a significant threat to the Territory's finances in the short-term. Nevertheless, significant increases in capital injections may be required to achieve the long-term objective of fully funding the superannuation liability by the year 2030.
- The Department of Treasury plans to review its funding strategy for the superannuation liability in 2011-12.

¹⁵ Page 190 of 2010-11 Budget Paper No. 4: Budget Estimates.

Financial results

Table 6.48: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Income	127.5	93.1	66.0
Expenses	(332.1)	(379.1)	(373.2)
Net (losses)/gains on the fair value of investments	(361.5)	120.4	88.9
Net cost of services	(566.1)	(165.6)	(218.3)
Government contributions	1.7	1.9	5.2
Operating deficit	(564.4)	(163.7)	(213.1)

- 6.237 The Superannuation Provision Account's income consists mainly of dividends and interest generated from investments set aside to meet the Territory's superannuation liabilities.
- 6.238 Income was \$27.1 million (41.1 percent) higher than anticipated due mostly to higher interest and dividends received from investments.
- 6.239 The Superannuation Provision Account's expenses consist mostly of superannuation liability expenses and costs associated with managing its investments. In 2009-10, these expenses were slightly higher than the budgeted cost.
- 6.240 The investments held by the Superannuation Provision Account are subject to market risk. Consequently, the value of these investments fluctuates depending on the conditions that exist in investment markets.
- 6.241 In 2009-10, net gains on the fair value of investments were \$120.4 million. This represents a significantly better gain than was anticipated in the budget (\$88.9 million) and a substantial improvement on the loss incurred in 2008-09 (\$361.5 million). These significantly improved results reflect much improved conditions in investment markets.
- 6.242 The Superannuation Provision Account's operating deficit of \$163.7 million was significantly better than the budgeted and prior year deficits of \$213.1 million and \$564.4 million respectively.
- 6.243 As disclosed in the Superannuation Provision Account's 2009-10 statement of performance, notwithstanding the improved investment performance in 2009-10, the long-term rate of return on superannuation investments of CPI plus 4.2 percent (net

of fees) continues to be below the targeted long-term rate of return of CPI plus 5.0 percent (net of fees).

Financial position

Table 6.49: Financial position

As at 30 June	Actual 2008 \$m	Actual 2009 \$m	Actual 2010 \$m	Budget 2010 \$m
Investments	2 023.4	1 809.0	2 019.4	1 968.4
Superannuation liability	(3 120.7)	(4 061.5)	(4 603.3)	(4 059.5)
Unfunded superannuation liability	(1 097.3)	(2 252.5)	(2 583.9)	(2 091.1)
Investments to superannuation liability	0.65 to 1	0.45 to 1	0.44 to 1	0.48 to 1

6.244 As in previous years, the Superannuation Provision Account continues to have insufficient investments set aside to fully meet the superannuation liability.

6.245 The above table shows that the Superannuation Provision Account's financial position continues to weaken because the increase in the estimated superannuation liability exceeded the increase in the value of investments. The fall in the 10-year Commonwealth Government bond yield which is used as the discount rate to estimate the present value of the superannuation liability, is the major reason for the increase in this estimated liability.

Future superannuation obligations

6.246 The following table shows an actuarial assessment of the estimated annual amounts payable to meet superannuation payments in nominal and real terms in future years.

Table 6.50: Future superannuation payments schedule

Year Ending 30 June	Nominal Terms ¹⁶ \$m	Real Terms ¹⁷ \$m
2011	115.5	115.5
2017	232.6	200.6
2023	342.3	254.6
2029	454.0	291.1
2035	551.9	305.1
2041	587.3	280.0
2047	562.6	231.3

Source: Information on future superannuation payments was obtained from ACT Treasury which is based on work performed by Territory's consulting actuary, Russell Investment Group.

6.247 The annual cash payments to meet the Territory's superannuation obligations are expected to increase steadily for many years due to:

- the relatively short period of the Territory's responsibility for employees' superannuation. The Territory's share of the liability will grow significantly as the proportion of years of service with the ACT Public Service becomes a larger proportion of the total years of service provided by its employees; and
- the age profile of the Territory's employees. Over the next few decades, many employees will be reaching their retirement age. The Territory will then be required to pay superannuation entitlements that have been accrued over the employees' years of service. For many employees, the retirement benefits provided under the defined benefit schemes will be taken as indexed pensions that will continue over the lives of the members and their surviving spouses.

¹⁶ Nominal Terms refers to the value of future superannuation payments in today's money.

¹⁷ Real Terms refers to the value of future superannuation payments in nominal terms adjusted for inflation.

Unfunded superannuation liability

Table 6.51: Projected unfunded superannuation liability

As at 30 June	Budget 2011 \$m	Budget 2012 \$m	Budget 2013 \$m	Budget 2014 \$m
Investments	2 275.0	2 437.9	2 601.0	2 762.8
Superannuation liability	(4 281.7)	(4 533.4)	(4 781.2)	(5 023.5)
Unfunded superannuation liability	(2 006.7)	(2 095.5)	(2 180.2)	(2 260.7)
Investments to superannuation liability	0.53 to 1	0.54 to 1	0.54 to 1	0.55 to 1
Capital contributions	140.5	144.0	147.6	151.3

Source: 2010-11 Budget Paper No. 4: Budget Estimates, page 194.

6.248 Although the investments are expected to increase, the unfunded superannuation liability is also expected to increase steadily over the next few years.

6.249 The unfunded superannuation liability does not present a significant threat to the Territory's finances in the short-term as most of this liability will not need to be met for many years. Nevertheless, significant increases in capital injections may be required to achieve the long-term objective of fully funding the superannuation liability by the year 2030.

6.250 The Department of Treasury plans to review its funding strategy for the superannuation liability in 2011-12.

Audit findings

Table 6.52: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
1	(1)	0	0

6.251 The Superannuation Provision Account addressed the one previously reported audit finding in 2009-10. No new audit findings were identified during the audit.

TERRITORY AND MUNICIPAL SERVICES

- 6.252 The Department of Territory and Municipal Services (TAMS) provides a diverse range of services to the ACT community. These include the provision of public transport, libraries, Canberra Connect shopfronts, ranger, waste management and linen services.
- 6.253 TAMS is also responsible for the development, management and maintenance of the Territory's large infrastructure asset base including buildings, roads, bridges, streetlights, stormwater systems, paths, parks, nature reserves and sportsgrounds.
- 6.254 The ACT Property Group was transferred from TAMS to the newly established Department of Land and Property Services on 1 December 2009 and Tourism was transferred to the Chief Minister's Department on 11 November 2009 under Administrative Arrangement Orders.

KEY ISSUES

- The Audit Office issued an unqualified audit report on TAMS' 2009-10 financial statements.
- The Audit Office issued a qualified report of factual findings on TAMS' 2009-10 statement of performance because three performance indicators were not measured as required by the *Financial Management Act 1996*.
- TAMS' net cost of services exceeded its budgeted cost by \$28.8 million (7.0 percent). This was mainly due to additional depreciation expenses resulting from asset transfers and revaluations.
- TAMS addressed most previously reported audit findings. However, TAMS needs to improve:
 - its business continuity arrangements as many of TAMS' business units have not finalised and tested business continuity plans; and
 - the processes for reviewing salary reports to reduce the risk of undetected errors, irregularities and fraud in relation to employee payments.
- TAMS improved aspects of its business planning, fraud control and business continuity arrangements.
- Notwithstanding improvements to TAMS' business continuity arrangements, TAMS' business units have not finalised and tested business continuity plans.
- Although TAMS has improved its reviews of salary reports, these reviews need to be performed more consistently to reduce the risk of undetected errors, irregularities and fraud in relation to employee payments.
- TAMS reduced the risk of material errors in its financial statements by improving the methods used to value its infrastructure assets and asset records.
- TAMS has improved its processes for reporting the results of several performance indicators. However, further improvements are needed to adequately address the risk of material reporting errors.

Financial results

Table 6.53: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(561.9)	(518.7)	(514.2)
Income	115.0	81.0	105.3
Net cost of services	(446.9)	(437.7)	(408.9)
Government contributions	301.1	303.3	312.6
Net gains from asset transfers and revaluations	95.9	67.0	46.8
Operating deficit	(49.9)	(67.4)	(49.5)
Capital injections	127.2	207.0	273.8

- 6.255 TAMS' major expenses mainly consist of repairs and maintenance and operating costs associated with building and facilities, depreciation and amortisation, employee costs, grants and purchased services.
- 6.256 Expenses (\$518.7 million) were close to the budgeted amount (\$514.2 million).
- 6.257 Income was \$24.3 million (23.1 percent) below budget estimates. TAMS' income is mainly derived from fees charged for its property management and linen services. The budget estimates were based on the assumption that TAMS would earn 12 months of rent from the ACT Property Group. TAMS only earned five months of rent because the ACT Property Group was transferred to the new Department of Land and Property Services on 1 December 2009. (This reduction in revenue was largely offset by a reduction in associated expenses).
- 6.258 TAMS' net cost of services (\$437.7 million) exceeded its budgeted cost (\$408.9 million) by \$28.8 million (7.0 percent) due mainly to additional depreciation expenses resulting from asset transfers and revaluations.
- 6.259 Net gains from asset transfers and revaluations were \$20.2 million (43.2 percent) higher than expected due mainly to unanticipated gains on infrastructure assets transferred to TAMS from the Land Development Agency.
- 6.260 TAMS did not draw down \$66.8 million (24.4 percent) of the funds appropriated for capital works. This was a result of delays in major road projects including airport roads and Kings Highway and Molonglo arterial road projects.

Audit findings

Table 6.54: Status of audit findings (number of findings) – Note 1

Previously Reported	Resolved	Not Resolved	New	Balance
20	(14)	6	9	15

Note 1: Audit findings relating to the Rego.act and RAPS applications are not included in this table. These findings are discussed in Chapter 4.

- 6.261 TAMS addressed most previously reported audit findings.
- 6.262 TAMS reduced the risk of material misstatements in its financial statements by improving the methods used to value its infrastructure assets.
- 6.263 The Audit Office found that TAMS also improved important aspects of its governance arrangements. In particular, TAMS:
- implemented approved business plans for each business unit and monitored progress against these plans. This provides increased assurance that business units will achieve the goals set out in these plans;
 - improved arrangements to address fraud risks by updating the relevant policy. Implementation of this policy should provide more assurance that the processes for the prevention and detection of fraud and corruption are effective; and
 - approved and tested several business continuity plans. This should provide increased assurance that critical systems will recover and operations will resume promptly, should a disaster or some other adverse event occur. However, many business units have not finalised and tested their business continuity plans.
- 6.264 TAMS implemented a more consistent review of salary reports by business units. However, there was often no evidence that a significant proportion of salary reports were being reviewed to reduce the risk of undetected errors, irregularities and fraud in relation to employee payments.
- 6.265 TAMS significantly reduced the risk of material reporting errors by improving the methods used to calculate the results for several performance indicators. In particular, TAMS addressed deficiencies in the methods used to measure results based on customer satisfaction surveys.
- 6.266 Notwithstanding improvements on significant aspects of TAMS' reporting of performance indicators, some deficiencies remain. The Audit Office:
- issued a qualified report of factual findings on TAMS' statement of performance because TAMS did not measure results for three of its performance indicators as required by the *Financial Management Act 1996*; and

- found several instances where the results for performance indicators did not agree to the supporting records. Although these errors were corrected, they indicate improvements to TAMS' reporting processes are needed to reduce the risk of material reporting errors.
- 6.267 In 2009-10, the Audit Office identified some weaknesses in TAMS' governance arrangements. In particular, the Office identified that TAMS' risk register does not specifically identify the information technology risks faced by TAMS and aspects of TAMS' internal audit arrangements could be improved.
- 6.268 The Audit Office also recommended improvements to methods used by TAMS for accounting for certain assets and maintenance of asset records.

TREASURY

6.269 The Department of Treasury (Treasury) is responsible for managing the overall financial, budget, revenue and economic management functions of the Territory. Treasury is also responsible for collecting taxes, fees and fines on behalf of the Territory.

KEY ISSUES

- The Audit Office issued an unqualified audit report on Treasury's 2009-10 financial statements and an unqualified report of factual findings on its 2009-10 statement of performance.
- Treasury's net cost of services in 2009-10 was \$35.2 million, and was below the budgeted cost of \$44.7 million by 21.3 percent due mainly to lower than anticipated expenditure from the Restructure Fund and Capital Improvement Project Fund.

Financial results

Table 6.55: Key results

	Actual 2008-09 \$m	Actual 2009-10 \$m	Budget 2009-10 \$m
Expenses	(35.5)	(37.6)	(46.1)
Income	2.7	2.4	1.4
Net cost of services	(32.8)	(35.2)	(44.7)
Government contributions	32.4	32.9	42.5
Operating deficit	(0.4)	(2.3)	(2.2)

6.270 Treasury's expenses mainly consist of employee costs, supplies and services expenses and payments to agencies from:

- the Restructure Fund for restructuring initiatives that are expected to achieve cost savings or for other costs for which a longer-term budget or economic efficiency can be demonstrated; or
- the Capital Improvement Project Fund to assist agencies to meet urgent, unforeseen, or other identified capital works.

6.271 Treasury's net cost of services was \$9.5 million (21.3 percent) below the budgeted cost due mainly to lower than expected claims from the Restructure Fund and Capital Improvement Project Fund by agencies.

- 6.272 Government contributions were lower than expected as Treasury did not draw down unneeded appropriated funding from the two Funds discussed above.
- 6.273 Treasury’s territorial operations mainly consist of revenue from taxes, fees and fines, Commonwealth grants and dividends. These are discussed in Chapter 5 of this report.

Audit findings

Table 6.56: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	New	Balance
2	(1)	1	0	1

- 6.274 One audit finding was not resolved during the reporting period.
- 6.275 Treasury has provided the following comments:

Treasury notes the status of audit findings by the Audit Office in the above table.

In response to the previously reported audit finding in relation to the independence of the internal audit function, Treasury introduced additional controls to further strengthen its existing internal audit arrangements. Under these revised arrangements, the Internal Audit Manager reports all internal audit related matters directly to the Director, Office of the Under Treasurer, instead of the Chief Finance Officer.

This new control along with the continuing measures, ensure that the present arrangements provide reasonable assurance on the independence and effectiveness of the internal audit function.

- 6.276 The Audit Office acknowledges that there are aspects of the Department’s internal audit arrangements that support the independence of the internal audit function. However, in the Office’s opinion, the measures referred to by the Department, while positive, do not fully address the inherent weakness in the present arrangements that result from the Internal Audit Manager also being the Department’s Financial Controller and, in that capacity, reporting to the Department’s Chief Finance Officer.

UCU LTD

- 6.277 UCU Ltd is a wholly-owned subsidiary of the University of Canberra. The Company operates the union shop, post office, coffee shop, recreation centre and functions and catering service (including campus food outlets).
- 6.278 There were no significant changes to UCU Ltd's operations during the year other than closure of the UC Bar.

KEY ISSUES

- The Audit Office issued an unqualified audit report on UCU Ltd's 2009 financial statements.
- UCU Ltd incurred an operating deficit of \$0.3 million in 2009 (\$0.3 million in 2008).
- UCU Ltd improved its financial reporting arrangements, however, there is scope for further improvement.
- UCU Ltd implemented policies for the management and disclosure of related party transactions, and hence reduced the risk of inappropriate or fraudulent transactions.
- UCU Ltd's business continuity and internal audit arrangements were ineffective.
- The Audit Office identified significant weaknesses in internal controls relating to cash, inventory and plant and equipment. These weaknesses exposed UCU Ltd to a higher risk of errors, irregularities and fraud.

Financial results

Table 6.57: Key results (calendar years)

	Actual 2008 \$m	Actual 2009 \$m
Income	5.2	4.8
Expenses	(5.5)	(5.1)
Operating deficit	(0.3)	(0.3)

- 6.279 UCU Ltd's income is obtained from the sale of food, beverage and general merchandise, hire of sport and recreation facilities, provision of conference and catering services, academic dress hire, subscriptions and staging of events. Most expenses consist of employee costs and cost of goods sold.
- 6.280 Income and expenses decreased from the previous year's amounts as sales revenue and related costs fell following the closure of the UC Bar and the change of the annual Stonefest event from a two-day to a one-day event.

6.281 UCU Ltd's operating deficit of \$0.3 million in 2009 was unchanged from the deficit incurred in 2008.

Audit findings

Table 6.58: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
10	(7)	2	1	6	9

6.282 UCU Ltd resolved most previously reported audit findings, and also improved its reporting arrangements.

6.283 UCU Ltd implemented policies for the management of related party transactions. This reduces the risk of inappropriate or fraudulent transactions and provides assurance that related party transactions are properly disclosed in the financial statements.

6.284 UCU Ltd had not resolved some previously reported audit findings. UCU Ltd did not:

- perform a review of the variances between inventory records and the physical stock counts. There is a higher risk of errors and fraud when there is no evidence of the analysis and proper investigation of stocktake variances;
- finalise or test its business continuity plan. The finalisation, approval and testing of the business continuity plan will provide UCU Ltd with more assurance that critical systems will be able to be recovered and operations will be resumed in a timely manner in the event of a disaster or other adverse event; and
- provide sufficient information in its financial statements on the extent to which the University of Canberra is supporting UCU Ltd's operations. The value of the office and other resources provided free of charge by the University was not measured and disclosed.

6.285 The Audit Office found that UCU Ltd's internal audit function is ineffective. UCU Ltd does not have a strategic audit plan that identifies high risk areas along with proposed audits to address such risks, and no internal audits were performed during 2009.

6.286 The Audit Office also identified significant weaknesses in internal controls in:

- cash and inventory and the associated records at the Stonefest event; and
- equipment and inventory assets.

6.287 These weaknesses increase the risk of errors, irregularities and/or fraud and the risk of the financial statements being materially misstated.

6.288 UCU Ltd has agreed to address all audit findings.

UNIVERSITY OF CANBERRA

6.289 The University of Canberra provides graduate and post-graduate education to students from Australia and overseas and performs various research and consultancy activities. The University operates under the *University of Canberra Act 1989*.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the University's 2009 financial statements.
- The University's operating surplus increased from \$0.2 million in 2008 to \$1.7 million in 2009.
- The University's progress in addressing previously reported audit findings, particularly in relation to computer information systems, continues to be slow with several weaknesses not being addressed in a timely manner.

Financial results

Table 6.59: Key results (calendar years)

	Actual 2008 \$m	Actual 2009 \$m
Income	138.1	158.6
Expenses	(137.9)	(156.9)
Operating surplus	0.2	1.7

6.290 The University's income consists mainly of financial assistance provided by the Commonwealth Government and student fees and charges.

6.291 The University's income increased by \$20.5 million (14.8 percent) from the prior year due mainly to:

- additional Commonwealth Government financial assistance for an increase in Commonwealth Government-funded student places and new capital initiatives from the Commonwealth Government Department of Education Employment and Workplace Relations (DEEWR). Capital funding was mainly for a new learning and teaching hub and the construction of micro-simulation centre for National Centre for Social and Economic Modelling (NATSEM); and
- a rise in student fees and charges stemming from increases in course fees and number of full fee paying students.

6.292 The University's expenses are mostly represented by employee, contractors and consultants and other administrative costs.

6.293 Expenses increased by \$19.0 million (13.8 percent) from the prior year due mainly to:

- higher employee benefits and on-costs due to pay rises for staff under the University’s staff agreement;
- payments of redundancy and voluntary separation packages for some academic staff and a number of general staff members mainly as a result of the outsourcing of some of the University’s functions;
- an increase in international agent commissions for promoting the University overseas; and
- higher costs associated with the outsourcing of some financial processing and communication technology functions.

6.294 The University’s operating surplus increased from \$0.2 million in 2008 to \$1.7 million in 2009.

Audit findings

Table 6.60: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
17	(6)	5	6	8	19

6.295 The University resolved six (35 percent) and partially resolved five (29 percent) of the 17 previously reported audit findings during the reporting period.

6.296 The University has made some progress in addressing previously reported weaknesses in its internal controls and governance arrangements. The University:

- improved the effectiveness of its internal audit function by developing an internal audit plan and performing internal audits. This provides the University with more assurance that its internal controls are adequate and operating effectively; and
- completed its risk management plans and risk registers, and hence improved its processes for managing its risks.

6.297 The Audit Office also found that some aspects of the University’s controls over computer information systems had improved. In particular:

- the performance of critical applications was being monitored and evidenced as such. This provides the University with greater assurance that these applications will operate as intended; and
- the risk of unauthorised access to key applications was reduced by the strengthening of access controls.

Table 6.61: Progress in addressing audit findings (number of findings)

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved
2009	17	(6)	5	6
2008	24	(8)	7	9

6.298 The above table shows that the University's progress in addressing many previously reported audit findings continues to be slow with several weaknesses, particularly in relation to information technology systems, not being addressed in a timely manner since first reported to the University.

6.299 In relation to the University's internal controls, the Audit Office found that the University had not:

- implemented effective processes for the review of payroll reports;
- finalised its policy for tender and contract management; and
- implemented adequate controls over the changing of vendor details in its financial management system.

6.300 The University has advised that the audit findings relating to tender and contract management and changing vendor details were addressed since the end of the reporting period.

6.301 In relation to the University's control over its information technology systems, the Audit Office again noted that:

- access to some critical systems was not being subject to regular review and approval and evidenced as such;
- business continuity arrangements remain in draft form and have not been approved and tested;
- important policies and plans relating to computer information systems, including security and network operations policies, have not been completed and approved; and
- there were weaknesses in password controls for some key systems and applications.

6.302 The Audit Office has recommended that the University address these weaknesses in a timely manner to reduce the risk of errors, irregularities and fraud and to provide the University with greater assurance over the security and continuity of its operations in the event of a disaster or other adverse event.

6.303 In 2009, the Audit Office found that:

- the University's processes for monitoring the resolution of audit findings were not fully effective with several audit findings being 'closed' on the internal audit recommendations register even though they had not been resolved;
- there was often no clear indication on the supporting payment documentation that goods and services had been satisfactorily received prior to payment. In addition, there was a lack of segregation of incompatible functions because the person authorising payments was also certifying the receipt of goods and services. These weaknesses significantly increase the risk of payment errors, irregularities and fraud;
- there were no documented policies for making changes to key business applications. Where change management policies are not documented, there is a higher risk of applications not operating as intended, disruptions to operations and unauthorised and possibly fraudulent changes being made to applications; and
- policies covering the use of information were out of date. This presents a higher risk that information will be inappropriately used or disclosed.

6.304 The Audit Office also found material errors in financial statements provided to the Office by the University. Although these errors were corrected during the audit process, they indicate that the University's processes for preparing its financial statements need to be improved.

6.305 The University has agreed to address most of the audit recommendations.

APPENDIX A 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*, *Territory-owned Corporations Act 1990*, *Annual Reports (Government Agencies) Act 2004* and *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 public scrutiny of the financial and operational performance of agencies in the public sector.

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

Significant 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, its departments and authorities.

Among other things, this Act requires the Territory, its departments and authorities to prepare annual financial statements and statements of performance (departments and authorities only) that can be readily compared to budget. These statements are required to be examined by the Audit Office.

This Act requires financial statements to be prepared in accordance with generally accepted accounting practices consisting of 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. Consequently, the Audit Office performs the audit of the financial statements of these corporations under the Corporations Act.

The Corporations Act requires financial statements of these corporations 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 annual financial statements and statements of performance and accompanying audit opinions on financial statements and reports of factual findings on statements of performance are published in agencies' annual reports.

Auditor-General Act 1996

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

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

FINANCIAL AUDITING

Purpose of a financial audit

The Legislative Assembly and the community rely on the Audit 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 Audit Office are required to be performed in accordance with the Australian Auditing Standards.

Public reporting

Audit reports

The main visible outcome of the Audit Office's examination of financial statements or statements of performance is an independent written opinion.

The audit report on financial statements includes an opinion on whether the financial statements fairly present the financial results of the reporting agency in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia.

A report of factual findings on a statement of performance advises readers whether any matters have come to the attention of the Audit Office that would indicate that the statement of performance does not fairly present the performance reported in the statement.

Audit reports and reports of factual findings are published in agencies' annual reports and accompany the audited financial statements and statements of performance.

Types of opinion

Under Australian Auditing Standards, audit reports and reports of factual findings may include modified or unmodified opinions.

Unmodified opinions

An unmodified (unqualified) audit opinion is issued when the Audit Office is satisfied, in all material respects, that the financial statements or statement of performance is in accordance with the relevant reporting requirements and fairly reflects the agency's financial results (financial statements) and performance (statement of performance).

Modified opinions

A modified opinion may be issued either to highlight a matter affecting the financial statements or statement of performance or where the Audit Office is unable to express an unqualified opinion.

The types of modified opinions are briefly explained below.

An 'emphasis of matter' paragraph is included in the report where the Audit Office needs to emphasise matters that are relevant to users of the financial statements or statement of performance. An emphasis of matter paragraph can be included in either an unqualified or a qualified audit opinion.

A 'qualified opinion' indicates the financial statements or statement of performance are in accordance with the relevant accounting standards and/or other mandatory reporting requirements 'except for' certain matter(s) etc.

An 'adverse opinion' is issued where the effect of a disagreement with management on accounting requirements or omissions, errors and misstatements in data provided are so material and pervasive that the financial statements or statement of performance as a whole are misleading or of little use.

A 'disclaimer of opinion' is issued where a limitation on the scope of the audit exists that is so material and pervasive that an opinion is unable to be formed.

Few opinions are modified. Before expressing a modified opinion, the Audit Office is required by the Australian Auditing Standards to take reasonable steps to be in a position to express an unmodified opinion. Potential audit modifications are usually averted through consultation with the agency. In almost all cases, agencies will amend the financial statements and statements of performance through this consultative process before they are published. However, unresolved differences of opinion occasionally arise between an agency and the Audit Office on significant matters resulting in a modification of the audit opinion.

Modified opinions are not necessarily a reflection on the integrity or quality of an agency's management because agencies are required to form their own views on their financial statements and statements of performance.

Other reporting

The main purpose of an audit of financial statements or review of a statement of performance is to express an independent opinion on the financial statements and statement of performance.

Other significant matters, such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during these audits or reviews. The Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for the governance of the agency. Those responsible for governance generally include chief executives, chief executive officers, governing boards and the relevant ministers.

Matters reported in these audit 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) or 'on going' (that is, have been reported for a number of years) that further public reporting is warranted to facilitate an appropriate level of accountability to the Legislative Assembly and the wider community.

APPENDIX B SCOPE OF A FINANCIAL AUDIT

Purpose

The main purpose of the work performed by the Audit Office is to provide an impartial opinion to the Legislative Assembly on whether the financial statements and statements of performance of the Territory and its agencies present a true and fair view of reported performance.

This work is 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 Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for governance of the agency.

The Expectation Gap

The auditing profession recognises that an expectation gap may exist because users of the financial statements and statement of performance and the accompanying opinion on these reports issued by the Audit Office may tend to believe the auditor's roles and responsibilities are greater than they actually are.

Users of financial statements and statements of performance therefore need to have a clear understanding of the respective responsibilities of management of the agency and the Audit Office. Key elements of these responsibilities are:

- The agency's management is responsible for maintaining adequate accounting and other records and preparing the financial statements and statements of performance.
- The agency's management is responsible for maintaining a system of internal controls to prevent or detect errors, irregularities and fraud.
- The Audit Office is required to form an opinion on whether the financial statements prepared by management present a view that is consistent with the Office's understanding of the agency's financial position, its operations and cash flows in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia. Similarly, the Audit Office is required to form an opinion on whether the performance indicators included in agencies' statement of performance fairly present the reported performance.
- The financial statements and statements of performance for departments and authorities include budget information. In examining these reports, the Audit Office 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.

- The Audit Office does not examine every transaction of the agency, as this would be prohibitively expensive and time consuming. The Office performs system checks and examination of a sample of transactions for all items that are considered material and/or of higher risk. These are items that, if materially misstated as a result of an error or fraud, could adversely affect decisions made by users of financial statements or statements of performance.
- The report provides users of financial statements and statements of performance with reasonable assurance that they are free of material errors. However, the examination cannot provide a guarantee of absolute accuracy of every amount and disclosure made in the financial statements and statement of performance.
- An audit report on financial statements and report of factual findings on a statement of performance do not express a view on the efficiency and effectiveness with which the agency conducts its affairs, nor do they guarantee an agency's future viability.
- The Audit Office does not express a view on the prudence of decisions made by an agency's management.
- The Audit Office does not attest to the information accompanying the financial statements or statement of performance provided by management to explain the performance of an agency. The Office is only required to check the information in any accompanying analysis is not materially inconsistent with the information reported in the reports.
- The Audit Office's responsibility is confined to providing an opinion on an agency's financial statements and statement of performance. The audit opinion only considers whether the financial statements and statement of performance comply with the provisions of the legislation that apply directly to the financial statements and statement of performance.

AUDIT REPORTS

Reports Published in 2010-11

Report No. 10 / 2010	2009-10 Financial Audits
Report No. 9 / 2010	Follow-up Audit - Courts Administration
Report No. 8 / 2010	Delivery of Mental Health Services to Older Persons
Report No. 7 / 2010	Management of Feedback and Complaints
Report No. 6 / 2010	Annual Report 2009-10
Report No. 5 / 2010	Delivery of ACTION Bus Services

Reports Published in 2009-10

Report No. 4 / 2010	Water Demand Management: Administration of Selected Initiatives
Report No. 3 / 2010	Delivery of Budget Initiatives
Report No. 2 / 2010	Student Support Services for Public High Schools
Report No. 1 / 2010	Performance Reporting
Report No. 8 / 2009	2008-09 Financial Audits
Report No. 7 / 2009	Annual Report 2008-09
Report No. 6 / 2009	Government Office Accommodation
Report No. 5 / 2009	Administration of employment issues for staff of Members of the ACT Legislative Assembly

Reports Published in 2008-09

Report No. 4 / 2009	Delivery of Ambulance Services to the ACT Community
Report No. 3 / 2009	Management of Respite Care Services
Report No. 2 / 2009	Follow-up Audit: Implementation of Audit Recommendations on Road Safety
Report No. 1 / 2009	Road Projects: Fairbairn Avenue Upgrade and Horse Park Drive
Report No. 8 / 2008	2007-08 Financial Audits
Report No. 7 / 2008	Proposal for a Gas-Fired Power Station and Data Centre – Site Selection Process
Report No. 6 / 2008	Annual Report 2007-08
Report No. 5 / 2008	Administration of the <i>Freedom of Information Act 1989</i>
Report No. 4 / 2008	Maintenance of Public Housing

Reports Published in 2007-08

Report No. 3 / 2008	Records Management in ACT Government Agencies
Report No. 2 / 2008	Management of Calvary Hospital Agreements
Report No. 1 / 2008	Chris21 Human Resource Management System: Procurement and Implementation
Report No. 8 / 2007	2006-07 Financial Audits
Report No. 7 / 2007	The Aged Care Assessment Program and the Home and Community Care Program
Report No. 6 / 2007	Annual Report 2006-07
Report No. 5 / 2007	The FireLink Project

Details of reports published prior to 2006-07 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:

ACT Auditor-General's Office
Level 4, 11 Moore Street
Canberra City ACT 2601

or

PO Box 275
CIVIC SQUARE ACT 2608

Phone (02) 62070833 / Fax (02) 62070826

Copies of reports are also available from the
ACT Auditor-General's Office Homepage: <http://www.audit.act.gov.au>