ACT AUDITOR–GENERAL'S REPORT

# 2017-18 FINANCIAL AUDITS
# FINANCIAL RESULTS AND AUDIT FINDINGS

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**ACT Audit Office**

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

The Auditor-General is an Officer of the ACT Legislative Assembly.

The ACT Audit Office undertakes audits on financial statements of Government agencies, and the Territory's consolidated financial statements.

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

The Office acts independently of the Government and reports the results of its audits directly to the ACT Legislative Assembly.

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ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

PA 18/10

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

Dear Madam Speaker

I am pleased to forward to you an audit report titled '2017-18 Financial Audits - Financial Results and Audit Findings' for tabling in the ACT Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Ajay Sharma
Acting Auditor-General
13 December 2018

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

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# SUMMARY

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

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

This report includes a discussion of the financial results of the Territory and reporting agencies that significantly affect these results for the year ended 30 June 2018.

The ACT Audit Office (the Audit Office) reports audit findings identified during the audits of agency financial statements and reviews of agency statements of performance to those charged with governance of the agencies. A discussion of these findings provides insight into how the Audit Office contributes to improving agencies' internal controls, governance arrangements and reporting practices.

This is the second of the three audit reports on 2017-18 financial audits. The first audit report '2017-18 Financial Audits – Overview' (Report No. 11/2018) was tabled in the ACT Legislative Assembly on 21 November 2018. The third report on 'Computer Information Systems' will be published in 2019.

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

# Conclusions

## THE TERRITORY'S FINANCIAL STATEMENTS

An **unqualified audit report** was issued on the Territory's 2017-18 financial statements. This indicates that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The net operating balance measures the difference between the Territory's expenses and its revenue. The Territory incurred a net operating balance deficit in 2017-18, however this was less than the deficit anticipated in the budget. The Territory has incurred net operating deficits since 2011-12 and forecasts deficits in future years as the costs of delivering public services is estimated to continue to exceed revenue.

The operating result is the net operating balance adjusted for other economic impacts. In the Territory, these mainly relate to gains or losses on investments. An operating surplus was made by the Territory in 2017-18 compared to a budgeted deficit. This was largely due to a better than anticipated net operating balance and gains on investments.

While an operating surplus is budgeted for 2018-19, deficits are forecast for 2019-20 and 2020-21. Another surplus is not forecast until 2021-22. However, this depends on continued growth in revenue, constraining expenses to forecasted amounts and the generation of sufficient gains from investments to offset the estimated deficits in the net operating balance. As investment markets are volatile, the Territory's exposure to more or larger operating deficits in future years remain high.

The net assets of the Territory were $15 804 million at 30 June 2018. However, this was lower than anticipated in the budget mainly due to the higher than budgeted unfunded superannuation liability, which accounts for 49 percent of the Territory's liabilities.

The Territory had a strong capacity to pay its liabilities that were due within 12 months of 30 June 2018. Net short-term assets were $984 million at 30 June 2018, however, the Territory estimates this will significantly weaken to a net short-term liability position of $3 million by 30 June 2022.

## AUDIT FINDINGS

The number of audit findings reported to agencies have steadily decreased over the last three financial years. However, as 47 percent of previously reported audit findings were not resolved or were only partially resolved in 2017-18, agencies should give attention to promptly addressing these findings.

# 1 THE TERRITORY'S FINANCIAL STATEMENTS

1.1 The Australian Capital Territory Government's (the Territory's) financial statements includes the financial results of:

- ACT Government directorates;
- Territory authorities;
- companies controlled by the Territory; and
- the Territory's share of the financial results of joint ventures such as the ActewAGL Joint Venture and land joint ventures.

Entities whose financial results are combined to form the Territory's financial statements are listed in **Appendix B.**

1.2 The Territory's key financial results for 2017-18 are summarised in this chapter. This includes a discussion on:

- key operating results, represented by the net operating balance and operating surplus/(deficit). These provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time;
- long-term financial position represented by the net assets and unfunded liabilities. This provides an indication of the Territory's capacity to meet its financial obligations over the long-term;
- short-term financial position represented by the net short-term assets. This provides an indication of the Territory's capacity to meet its financial obligations over the short-term; and
- estimated financial results over the period 2018-19 to 2021-22.

# Conclusion

An **unqualified audit report** was issued on the Territory's 2017-18 financial statements. This indicates that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The net operating balance measures the difference between the Territory's expenses and its revenue. The Territory incurred a net operating balance deficit in 2017-18, however this was less than the deficit anticipated in the budget. The Territory has incurred net operating deficits since 2011-12 and forecasts deficits in future years as the costs of delivering public services is estimated to continue to exceed revenue.

The operating result is the net operating balance adjusted for other economic impacts. In the Territory, these mainly relate to gains or losses on investments. An operating surplus was made by the Territory in 2017-18 compared to a budgeted deficit. This was largely due to a better than anticipated net operating balance and gains on investments.

While an operating surplus is budgeted for 2018-19, deficits are forecast for 2019-20 and 2020-21. Another surplus is not forecast until 2021-22. However, this depends on continued growth in revenue, constraining expenses to forecasted amounts and the generation of sufficient gains from investments to offset the estimated deficits in the net operating balance. As investment markets are volatile, the Territory's exposure to more or larger operating deficits in future years remain high.

The net assets of the Territory were $15 804 million at 30 June 2018. However, this was lower than anticipated in the budget mainly due to the higher than budgeted unfunded superannuation liability, which accounts for 49 percent of the Territory's liabilities.

The Territory had a strong capacity to pay its liabilities that were due within 12 months of 30 June 2018. Net short-term assets were $984 million at 30 June 2018, however, the Territory estimates this will significantly weaken to a net short-term liability position of $3 million by 30 June 2022.

## Summary

**Net operating balance**

A net operating balance deficit of $42 million was incurred by the Territory in 2017-18 as the cost of services delivered by the ACT Government ($5 734 million) exceeded revenue ($5 692 million).

The net operating balance deficit ($42 million) was lower than the budgeted deficit ($331 million) by $289 million (87 percent) largely due to lower than budgeted expenses.

Net operating balance deficits have been incurred by the Territory since 2011-12. Deficits are also estimated by the ACT Government to continue over the forward years from 2018-19 to 2021-22 ranging from $131 million to $257 million, as the costs of delivering public services is estimated to continue to exceed revenue.

**Operating result**

An operating surplus of $247 million was made by the Territory compared to the budgeted operating deficit of $28 million mainly due to the lower than expected net operating balance deficit and higher than estimated other economic flows largely resulting from gains on investments.

The ACT Government estimates that an operating surplus of $103 million will be earned in 2018-19 followed by deficits of $71 million and $163 million in 2019-20 and 2020-21 respectively. A return to surplus of $25 million is not expected until 2021-22.

**Financial position**

The net assets of the Territory at 30 June 2018 ($15 804 million) were lower than budgeted ($18 378 million) by $2 574 million (14 percent) mainly due to the higher than budgeted unfunded superannuation liability.

The unfunded liabilities of the Territory at 30 June 2018 ($9 552 million) were higher than budgeted ($7 112 million) by $2 440 million (34 percent) mainly due to the higher than estimated unfunded superannuation liability, which accounts for 49 percent of the Territory's liabilities.

Unfunded liabilities are estimated by the ACT Government to remain largely consistent over the forward years to 30 June 2022.

The net short-term assets of the Territory at 30 June 2018 ($984 million) is higher than budgeted ($532 million) by $452 million (85 percent) indicating that the Territory has sufficient short-term financial assets to meet its short-term liabilities.

The ACT Government estimates the net short-term asset position to weaken significantly to a net short-term liability position of $3 million by 30 June 2022.

# Operating results

### Table 1-1 Operating results

| | Actual 2013-14 $m | Actual 2014-15 $m | Actual 2015-16 $m | Actual 2016-17 $m | Actual 2017-18 $m | Budget 2017-18 $m |
|---|---|---|---|---|---|---|
| | | | | | | |
| Revenue | 4 537 | 4 843 | 5 113 | 5 436 | 5 692 | 5 649 |
| Expenses | (4 846) | (5 489) | (5 486) | (5 673) | (5 734) | (5 980) |
| **Net operating balance (deficit)** | **(309)** | **(646)** | **(373)** | **(237)** | **(42)** | **(331)** |
| | | | | | | |
| Other economic inflows | 283 | 230 | 2 | 333 | 291 | 303 |
| **Operating (deficit)/surplus** | **(26)** | **(416)** | **(371)** | **95** | **247** | **(28)** |
| | | | | | | |

1.3 Main sources of revenue for the Territory are:

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

1.4 Major expenses for the Territory include employee related and operational expenditure, grants and purchased services and depreciation.

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

1.6 The operating surplus/(deficit) is the sum of the net operating balance and other economic flows. Other economic flows mainly include:

- gains/(losses) on investments reflecting changes in market conditions that affect the value of investments;
- land revenue (market gains on land sales). This is an estimate of the profit from land sales due to market price increases; and

- net land revenue (undeveloped land value). This is an estimate of the value of the land to the Territory at the time a decision is made to progress a development.

## 2017-18 operating results

1.7 A net operating balance deficit of $42 million was incurred by the Territory in 2017-18 as the cost of services delivered by the ACT Government ($5 734 million) exceeded revenue ($5 692 million).

1.8 An operating surplus of $247 million was made by the Territory mainly due to economic flows from gains on investments and revenue from land sales.

## 2017-18 operating results compared to budget estimates

### Net operating balance

1.9 The net operating balance deficit ($42 million) in 2017-18 was below the budgeted deficit ($331 million) by $289 million (87 percent) mainly due to lower than anticipated expenses ($246 million) as a result of:

- lower costs of land sold resulting from lower land sales; and
- the deferral of expenditure for the demolition of public housing buildings under the Public Housing Renewal Program to future years.

### Operating surplus/deficit

1.10 An operating surplus of $247 million was made by the Territory compared to the budgeted operating deficit of $28 million mainly due to:

- a lower than expected deficit in the net operating balance (as previously discussed); and
- higher than estimated economic flows from gains on investments as a result of better than expected conditions in investment markets.

## 2017-18 operating results compared to prior year results

1.11 The net operating balance deficit in 2017-18 ($42 million) decreased from the deficit incurred in 2016-17 ($237 million) by $195 million (82 percent) mainly due to the increase in revenue ($256 million) exceeding the increase in expenses ($61 million).

1.12 The increase in revenue of $256 million (5 percent) resulted mainly from higher:

- Commonwealth Government grants of $231 million (11 percent) as the Territory received higher:
  - GST revenue due to a higher share of the national GST revenue pool largely due to population growth; and
  - funding for public hospital services for increased services and disability care under the National Disability Insurance Scheme.
- gains from contributed assets of $59 million (155 percent) as the Territory received a higher number of large scale energy renewable certificate entitlements[1]; and
- sales of goods and services of $42 million (4 percent) mainly due to higher:
  - water sales revenue resulting from higher water consumption; and
  - fees from regulatory services largely as a result of fee increases.

These were partially offset by a decrease in land revenue (value-add component) of $110 million (26 percent) mostly due to lower land settlements.

1.13 The increase in expenses of $61 million was mainly due to higher supplies and services expenses of $59 million resulting from higher consultant and contractor costs for:

- planning and feasibility studies for the Light Rail Stage 2 project; and
- demolition of public housing buildings under the Public Housing Renewal program.

1.14 The Territory's operating surplus of $247 million in 2017-18 exceeded the prior year operating surplus of $95 million due to:

- a lower deficit in the net operating balance (as previously discussed); and
- other economic inflows ($291 million) mainly from gains on investments due to improved conditions in investment markets resulting in higher returns.

[1] Under the *Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011*, large-scale generators of electricity are required, after generating a sufficient amount of renewable energy into the electricity network, to create renewable energy certificates and surrender them at no cost. The value of these certificates is recorded as income.

## Projected operating results

### Table 1-2 Projected operating results

| | Actual 2017-18 $m | Budget 2018-19 $m | Estimate 2019-20 $m | Estimate 2020-21 $m | Estimate 2021-22 $m |
|---|---|---|---|---|---|
| | | | | | |
| Revenue | 5 692 | 6 077 | 6 209 | 6 489 | 6 754 |
| Expenses | (5 734) | (6 208) | (6 397) | (6 746) | (6 971) |
| **Net operating balance (deficit)** | **(42)** | **(131)** | **(188)** | **(257)** | **(217)** |
| | | | | | |
| Other economic inflows | 291 | 234 | 117 | 94 | 242 |
| **Operating surplus/(deficit)** | **247** | **103** | **(71)** | **(163)** | **25** |
| | | | | | |

Source: Budget and forward estimates were obtained from the 2018-19 Budget Papers.

1.15 Net operating balance deficits have been incurred by the Territory since 2011-12. Table 1-2 shows deficits are estimated by the ACT Government to continue over the forward years from 2018-19 to 2021-22 ranging from $131 million to $257 million, as the costs of delivering public services is estimated to exceed revenue. These past and estimated future deficits cover an eleven-year period.

1.16 The ACT Government estimates that an operating surplus of $103 million will be earned in 2018-19 followed by deficits of $71 million and $163 million in 2019-20 and 2020-21 respectively. The ACT Government estimates a return to surplus of $25 million in 2021-22.

Forecasted operating results depends on continued growth in revenue, constraining expenses to forecasted amounts and the generation of sufficient gains from investments to offset the estimated deficits in the net operating balance. As investment markets are volatile, the Territory's exposure to deficits in future years remain high.

# Financial position

### Table 1-3 Net assets

| At 30 June | Actual 2014 $m | Actual 2015 $m | Actual 2016 $m | Actual 2017 $m | Actual 2018 $m | Budget 2018 $m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Financial assets - Note 1 | 2 034 | 2 253 | 2 430 | 2 450 | 2 218 | 1 814 |
| Property, plant and equipment | 20 381 | 20 894 | 21 464 | 22 225 | 22 744 | 22 818 |
| Other non-financial assets - Note 2 | 1 893 | 2 410 | 2 632 | 2 559 | 2 612 | 2 672 |
| **Total assets** | **24 308** | **25 557** | **26 526** | **27 234** | **27 574** | **27 304** |
| **Liabilities** | | | | | | |
| Borrowings | 3 085 | 3 148 | 3 511 | 3 555 | 3 441 | 3 585 |
| Unfunded superannuation - Note 3 | 4 471 | 5 213 | 7 330 | 4 865 | 5 746 | 2 505 |
| Advances received, payables and finance leases | 765 | 1 445 | 1 714 | 1 708 | 1 384 | 1 731 |
| Employee benefits and other provisions | 784 | 1 055 | 1 080 | 971 | 1 156 | 1 087 |
| Other | 10 | 22 | 9 | 48 | 43 | 18 |
| **Total liabilities** | **9 115** | **10 883** | **13 644** | **11 147** | **11 770** | **8 926** |
| | | | | | | |
| **Net assets** | **15 193** | **14 674** | **12 882** | **16 087** | **15 804** | **18 378** |
| | | | | | | |
| **Ratio of assets to liabilities** | **2.7:1** | **2.3:1** | **1.9:1** | **2.4:1** | **2.3:1** | **3.1:1** |
| | | | | | | |

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

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

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

1.17 Assets of the Territory are largely comprised of:

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

1.18 Liabilities of the Territory largely include unfunded superannuation liabilities, borrowings and advances from the Commonwealth Government.

1.19 The capacity of the Territory to meet its obligations over the long-term can be assessed by evaluating the Territory's net asset position and ratio of assets to liabilities i.e. how much

assets the Territory has to meet its liabilities. It is considered that the Territory should have at least the same amount of assets to meet its liabilities. This can be expressed as a ratio of 1:1. Table 1-3 shows that the Territory has at least $2 or more in assets to meet each dollar of liabilities.

1.20 Net assets of the Territory at 30 June 2018 ($15 804 million) were lower than budgeted ($18 378 million) by $2 574 million (14 percent). This was due mainly to a higher than budgeted unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the liability at 30 June 2018 compared to the rate used to prepare the budget estimate. Further information on the Territory's superannuation liability, including the discount rate, can be found in the section on the Superannuation Provision Account in Chapter 3 of this report.

1.21 Net assets of the Territory at 30 June 2018 ($15 804 million) is consistent with that at 30 June 2017 ($16 087 million). The net asset position of the Territory has fluctuated significantly in recent years. The net asset position declined from $15 193 million at 30 June 2014 to $12 882 million at 30 June 2016 before increasing to $15 804 million at 30 June 2018. This is mainly due to fluctuations in the Territory's unfunded superannuation liabilities resulting from changes to the discount rate used to estimate the present value of the liability.

## Unfunded liabilities

### Table 1-4 Unfunded liabilities

| At 30 June | Actual 2014 $m | Actual 2015 $m | Actual 2016 $m | Actual 2017 $m | Actual 2018 $m | Budget 2018 $m |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Financial assets** | **2 034** | **2 253** | **2 430** | **2 450** | **2 218** | **1 814** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Unfunded superannuation - Note 1 | 4 471 | 5 213 | 7 330 | 4 865 | 5 746 | 2 505 |
| Borrowings | 3 085 | 3 148 | 3 511 | 3 555 | 3 441 | 3 585 |
| Advances received, payables and finances leases | 765 | 1 445 | 1 714 | 1 708 | 1 384 | 1 731 |
| Other (including employee benefits) | 794 | 1 077 | 1 089 | 1 019 | 1 199 | 1 105 |
| **Total liabilities** | **9 115** | **10 883** | **13 644** | **11 147** | **11 770** | **8 926** |
| | | | | | | |
| **Unfunded liabilities** | **7 081** | **8 630** | **11 214** | **8 697** | **9 552** | **7 112** |
| | | | | | | |

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

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

- net asset position because it assumes that the Territory's non-financial assets such as schools, hospitals and infrastructure assets are not generally readily available for sale to meet its liabilities; and
- net debt as this measure does not take into account the Territory's significant superannuation liability, which makes up 49 percent of the Territory's total liabilities.

As the Territory's total liabilities exceed its financial assets, the Territory is in an 'unfunded liability position'.

1.23 Unfunded liabilities of the Territory at 30 June 2018 ($9 552 million) were higher than budgeted ($7 112 million) by $2 440 million (34 percent). This was mainly due to a higher than estimated unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the liability at 30 June 2018 compared to the rate used to prepare the budget estimate.

1.24 Unfunded liabilities of the Territory at 30 June 2018 ($9 552 million) have increased from 30 June 2017 ($8 697 million) by $855 million (10 percent) mainly due to the increase in the unfunded superannuation liability; partially offset by lower borrowings largely due to the repayment of borrowings.

Unfunded liabilities of the Territory have increased since 2014. This has mainly resulted from an increase in:

- the unfunded superannuation liability of $1 275 million (29 percent) largely due to changes in assumptions, mainly the discount rate to estimate the present value of the liability; and
- advances received, payables and finance leases of $619 million (81 percent) largely due to advances (a loan) received from the Commonwealth for the Loose-Fill Asbestos Eradication Scheme.

## Projected unfunded liabilities

### Table 1-5 Projected unfunded liabilities

| At 30 June | Actual 2018 $m | Budget 2019 $m | Estimate 2020 $m | Estimate 2021 $m | Estimate 2022 $m |
|---|---|---|---|---|---|
| | | | | | |
| **Financial assets** | **2 218** | **1 724** | **1 617** | **1 634** | **1 518** |
| | | | | | |
| **Liabilities** | | | | | |
| Unfunded superannuation - Note 1 | 5 746 | 3 680 | 3 630 | 3 543 | 3 416 |
| Borrowings | 3 441 | 3 524 | 4 232 | 4 701 | 4 788 |
| Advances received, payables and finance leases | 1 384 | 1 963 | 1 861 | 1 748 | 1 632 |
| Other liabilities (including employee benefits) | 1 199 | 1 285 | 1 340 | 1 412 | 1 489 |
| **Total liabilities** | **11 770** | **10 452** | **11 063** | **11 404** | **11 325** |
| | | | | | |
| **Unfunded liabilities** | **9 552** | **8 728** | **9 446** | **9 770** | **9 807** |
| | | | | | |

Source: Budget and forward estimates were obtained from the 2018-19 Budget Papers.

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

1.25 Unfunded liabilities are estimated by the ACT Government to remain largely consistent over the forward years to 30 June 2022. Unfunded liabilities at 30 June 2018 of $9 552 million is estimated to increase to $9 807 million at 30 June 2022.

This is largely due to an estimated:

- increase in borrowings and a reduction in the financial assets of the Territory, partially offset by;
- decrease in the unfunded superannuation liability.

1.26 The estimated increase in borrowings of $1 347 million (39 percent) from $3 441 million at 30 June 2018 to $4 788 million at 30 June 2022 is mostly due to an estimated increase in market borrowings to fund expected capital expenditure in the forward years.

1.27 The unfunded superannuation liability at 30 June 2018 of $5 746 million is estimated to decrease by $2 330 million (41 percent) to $3 416 million at 30 June 2022 mainly due to the use of a higher discount rate to estimate this liability in the forward estimates compared to the rate used at 30 June 2018.

Further information on the superannuation liability of the Territory can be found in the section on the Superannuation Provision Account in Chapter 3 of this report.

## Net short-term assets

### Table 1-6 Net short-term assets

| At 30 June | Actual 2014 $m | Actual 2015 $m | Actual 2016 $m | Actual 2017 $m | Actual 2018 $m | Budget 2018 $m |
|---|---|---|---|---|---|---|
| | | | | | | |
| Short-term financial assets - Note 1 | 2 034 | 2 253 | 2 430 | 2 450 | 2 218 | 1 814 |
| Short-term liabilities - Note 2 | 1 128 | 1 403 | 1 283 | 1 308 | 1 234 | 1 282 |
| **Net short-term assets** | **906** | **850** | **1 147** | **1 142** | **984** | **532** |
| | | | | | | |
| **Ratio of short-term financial assets to short-term liabilities** | **1.8:1** | **1.6:1** | **1.9:1** | **1.9:1** | **1.8:1** | **1.4:1** |
| | | | | | | |

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

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

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

1.28 The capacity of the Territory to meet its obligations over the short-term can be assessed by comparing the short-term financial assets available to meet short-term liabilities.

Table 1-6 shows that the Territory is in a net short-term asset position as it has sufficient short-term financial assets to meet its short-term liabilities.

1.29 Net short-term assets of the Territory at 30 June 2018 ($984 million) were higher than budgeted ($532 million) by $452 million (85 percent). This was mainly due to higher than expected cash and deposits held by the Territory.

1.30 Net short-term assets of the Territory at 30 June 2018 ($984 million) have decreased from 30 June 2017 ($1 142 million) by $158 million mainly due to lower cash and deposits held by the Territory.

The net short-term asset position has fluctuated significantly in recent years. The net short-term asset position has increased from $906 million at 30 June 2014 to $1 147 million at 30 June 2016 before decreasing to $984 million at 30 June 2018. The increase in net short-term asset position over this period was $78 million (9 percent).

## Projected net short-term assets/(liabilities)

### Table 1-7 Projected net short-term assets/(liabilities)

| At 30 June | Actual 2018 $m | Budget 2019 $m | Estimate 2020 $m | Estimate 2021 $m | Estimate 2022 $m |
|---|---|---|---|---|---|
| | | | | | |
| Short-term financial assets - Note 1 | 2 218 | 1 724 | 1 617 | 1 634 | 1 518 |
| Short-term liabilities - Note 2 | 1 234 | 1 964 | 1 430 | 2 032 | 1 521 |
| **Net short-term assets/(liabilities)** | **984** | **(240)** | **187** | **(398)** | **(3)** |
| | | | | | |
| **Ratio of short-term assets to short-term liabilities** | **1.8:1** | **0.9:1** | **1.1:1** | **0.8:1** | **1.0:1** |
| | | | | | |

Source: Budget and forward estimates were obtained from the 2018-19 Budget Papers.

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

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

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

1.31 The ACT Government estimates that net short-term assets will significantly fluctuate in the forward years. The net short-term asset position is estimated to decrease from a net short-term asset position of $984 million at 30 June 2018 to a net short-term liability position of $3 million by 30 June 2022.

# 2 AUDIT FINDINGS

2.1 This Chapter provides an overview of the audit findings that have been identified by the Audit Office from the audit of agencies' financial statements and the review of their statements of performance.

2.2 Audit findings from the review of controls over computer information systems performed as part of financial audits are not included in this chapter as these findings will be separately reported in the report titled '2017-18 Financial Audits – Computer Information Systems' in 2019.

2.3 Audit findings include weaknesses in governance arrangements, deficiencies in internal controls, including those that could result in theft or fraud, and areas where reporting practices for the preparation and presentation of the financial statements and the statement of performance can be improved.

2.4 The Audit Office reports audit findings to those charged with governance of an agency as required under the Australian Auditing Standards[2]. Those charged with governance include Directors-General, Chairs of Governing Boards, Chief Executives and where applicable, the relevant Minister.

2.5 The audit findings are provided to agencies in an audit management report which includes a suggested timeframe to address audit findings (e.g. within 3, 6 or 12 months) and an update on the progress made by the agency in addressing any previously reported audit findings.

## Conclusion

The number of audit findings reported to agencies have steadily decreased over the last three financial years. However, as 47 percent of previously reported audit findings were not resolved or were only partially resolved in 2017-18, agencies should give attention to promptly addressing these findings.

[2] Australian Auditing Standards ASA 260: 'Communication with Those Charged with Governance' and ASA 265: 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management'.

## Summary

The Audit Office reported 63 audit findings to agencies in 2017-18, of which about half related to new audit findings identified from the current year's audits and half related to previously reported audit findings that were not resolved or only partially resolved.

More than half of all the audit findings (56 percent or 35 of 63) in 2017-18 related to deficiencies in internal controls with most of these presenting a risk of theft or fraud.

The number of audit findings reported to agencies has decreased by 16 (20 percent) from 79 in 2015-16 to 63 in 2017-18, reflecting implementation of recommendations by agencies to improve their governance arrangements, reporting practices and internal controls.

While the number of audit findings are declining, agencies need to continue to give attention to addressing previously reported audit findings in a timely manner as close to half of the previously reported audit findings in 2017-18 (47 percent or 32 of 68) were not resolved or only partially resolved.

## Status of audit findings

2.6 Table 2-1 shows the status of audit findings reported to agencies in audit management reports from 2015-16 to 2017-18.

### Table 2-1 Status of audit findings

| Year | Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---|---|---|---|---|---|---|
| 2015-16 | 87 | (49) | 16 | 22 | 41 | 79 |
| 2016-17 | 79 | (39) | 17 | 23 | 30 | 70 |
| 2017-18 | 68[3] | (36) | 16 | 16 | 31 | 63 |

Source: Audit Office records.

2.7 The Audit Office reported 63 audit findings to agencies in 2017-18, of which about half related to new audit findings identified from the current year's audits and half related to previously reported audit findings that were not resolved or only partially resolved.

2.8 The number of audit findings reported to agencies has decreased by 16 (20 percent) from 79 in 2015-16 to 63 in 2017-18, reflecting implementation of recommendations by agencies to improve their governance arrangements, reporting practices and internal controls.

2.9 The performance of agencies in resolving previously reported audit findings has remained largely consistent over the period from 2015-16 to 2017-18 with around 50 percent of previously reported audit findings being resolved each year.

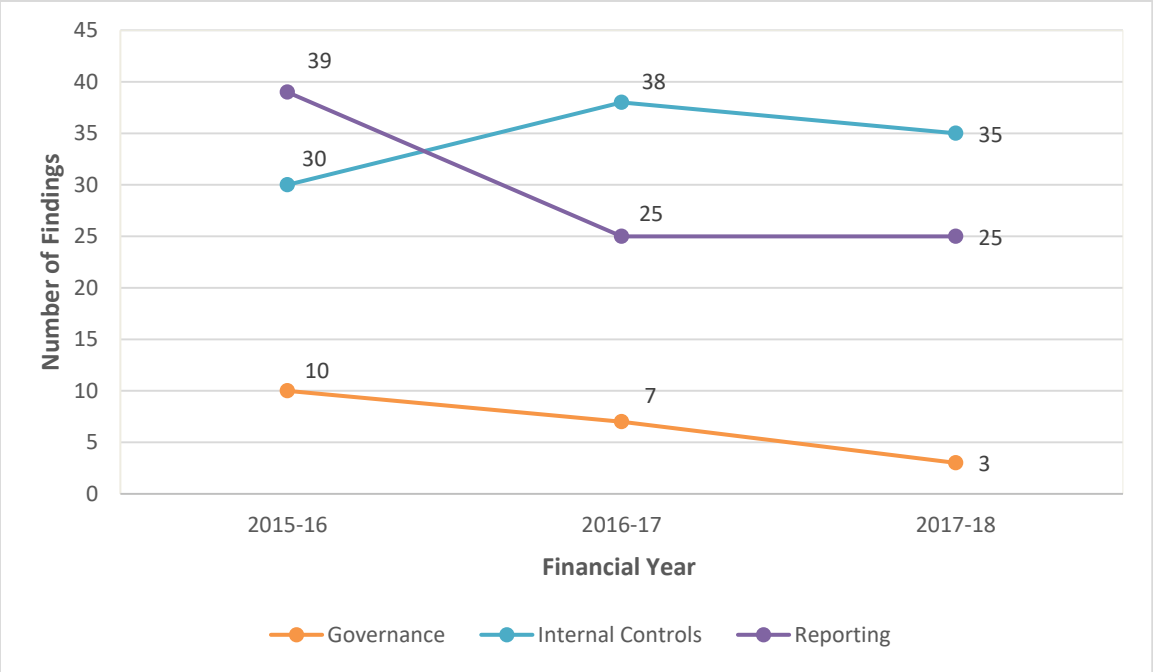
[3] Two previously reported audit findings relating to the former Land Development Agency have been removed as the Agency ceased operations in 2017-18.

2.10 While the number of audit findings are declining, agencies need to continue to give attention to addressing previously reported audit findings in a timely manner as close to half of the previously reported audit findings in 2017-18 (47 percent or 32 of 68) were not resolved or only partially resolved.

## Categories of audit findings

2.11 Figure 2-1 shows the three categories of audit findings reported to agencies in audit management reports from 2015-16 to 2017-18.

### Figure 2-1 Categories of audit findings




Source: Audit Office records.

2.12 The number of audit findings relating to internal controls has increased from 30 in 2015-16 to 35 in 2017-18. This indicates that agencies need to work on improving and strengthening their processes and procedures around internal controls to reduce these audit findings.

2.13 While the number of audit findings in relation to deficiencies in reporting practices have decreased from 39 in 2015-16 to 25 in 2016-17, there was no change to the number of findings in this category in 2017-18.

2.14 The steady reduction in the number of governance related audit findings from 10 in 2015-16 to 3 in 2017-18 indicates that agencies have made progress in implementing and maintaining effective governance arrangements during this period.

2.15 More than half of all the audit findings (56 percent or 35 of 63) in 2017-18 related to deficiencies in internal controls.

2.16 The audit findings relating to deficiencies in internal controls reported in 2017-18 included a number of similar issues, most including a risk of theft or fraud. In particular, these included findings relating to the:

- regular review of salary reports. Performing these reviews provides assurance that employees are being paid the correct amount and reduces the risk of incorrect or fraudulent salary payments not being promptly identified and addressed;
- independent review of journals used to record financial transactions in accounting systems. Undertaking these reviews reduces the risk of incorrect or fraudulent reporting of financial transactions; and
- preparation and review of reconciliations for bank accounts and revenue systems. Ensuring these reconciliations are regularly performed and independently reviewed in a timely manner reduces the risk of errors or irregularities, including fraud, in these financial records not being promptly identified and addressed.

2.17 The audit findings relating to opportunities for improvements in agencies' financial and performance reporting practices in 2017-18 also included a number of similar issues. In particular, these included findings on:

- assessing and disclosing, where material, the impact of applying accounting standards issued but not yet effective in future reporting periods. These disclosures are required by Australian Accounting Standards, where material, to assist readers of the financial statements to understand the financial and disclosure impact of applying these new standards in the future years;
- the quality of statements of performance in relation to the number of corrections and amendments to reported amounts or disclosures. A well prepared statement of performance reduces the risk of readers not being able to assess or understand the performance of the agency in delivering its outputs and services;
- the quality and timeliness of workpapers supporting statements of performance. Workpapers that have been well prepared and independently reviewed prior to the preparation of the statement of performance, reduces the risk of errors or omissions in the reported results for accountability indicators and delays in meeting annual reporting timeframes; and
- the clarity of accountability indicators. Accountability indicators and related targets that are clearly defined in agency budget papers and statements of performance reduces the risk of readers not being able to assess or understand the performance of the agency in delivering its outputs and services.

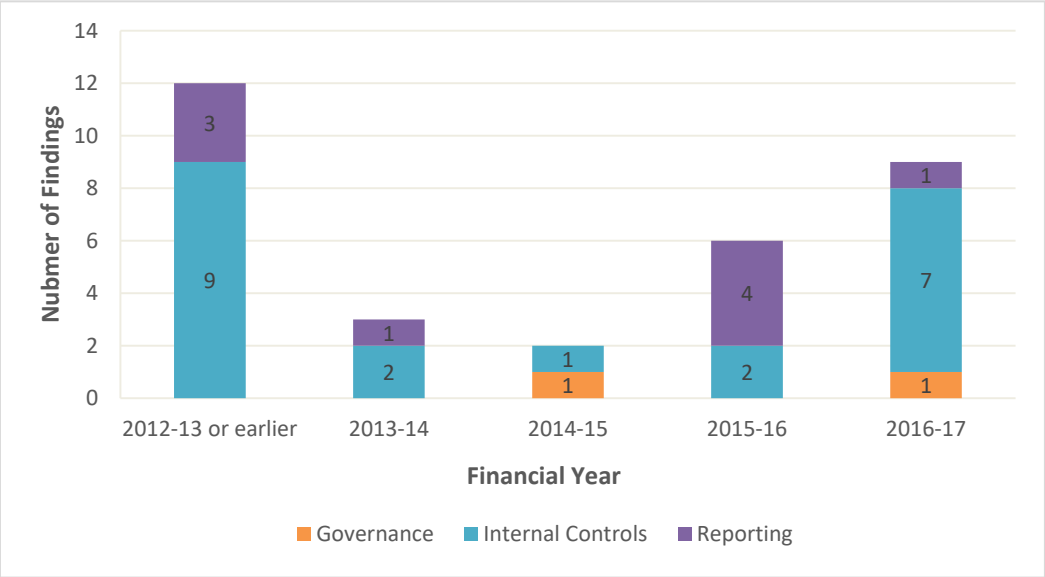
2.18 The audit findings relating to governance arrangements reported in 2017-18 related to the lack of testing of business continuity and disaster recovery arrangements and the updating of a fraud and corruption control policy and plan.

2.19 Further information on audit findings reported to agencies is provided later in this report in Section 3 'Financial Results and Audit Findings of Selected Reporting Agencies'.

# Aging of audit findings

2.20 As previously indicated, almost half of the audit findings reported in 2017-18 relate to matters reported to agencies in prior years. Figure 2-2 shows a breakdown by category of when these previously reported audit findings (32) were first reported to agencies.

### Figure 2-2 Aging of audit findings by category




Source: Audit Office records.

2.21 From the 32 previously reported audit findings that were partially resolved or not resolved:

- 66 percent (21 of 32) related to deficiencies in internal controls;
- 28 percent (9 of 32) related to reporting practices for the financial statements and statement of performance; and
- 6 percent (2 of 32) related to weaknesses in governance arrangements.

2.22 Of the 12 audit findings that were reported five or more years ago, agencies have 'disagreed', 'partially agreed' or 'agreed in principle' with most of these findings. This usually occurs where an agency considers that:

- they have adequate alternative processes in place to mitigate the deficiencies in internal controls identified by the Audit Office; or
- their accounting treatments and disclosures in their financial statements are appropriate and therefore have not agreed to address recommendations made by the Audit Office to improve reporting practices.

These matters did not have a material impact on the financial statements and as such the audit report on the financial statements for these agencies was not qualified.

# 3 FINANCIAL RESULTS AND AUDIT FINDINGS OF SELECTED REPORTING AGENCIES

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

## ACT Insurance Authority

3.2 The ACT Insurance Authority (the Authority) is the insurer of major risks faced by the Territory and ACT Government agencies. It purchases insurance from external insurance providers to cover catastrophic risks such as natural disasters and medical malpractice.

3.3 The Authority settles insurance claims on behalf of the Territory and ACT Government agencies, promotes better practices in risk management to ACT Government agencies, and provides advice to the Treasurer about the insurance and management of the Territory's risks.

### Summary

- The Audit Office issued an **unqualified audit report** on the Authority's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The Authority's operating surplus ($34 million) exceeded the budgeted operating surplus ($2 million) by $32 million mainly due to the lower than expected net insurance claims expense.
- The Authority had sufficient assets to meet estimated insurance claims liabilities at 30 June 2018.

## Financial results

### Table 3-1 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| Gross premiums | 51 | 51 | 51 |
| Net returns from investments | 10 | 11 | 12 |
| **Income** | **61** | **62** | **63** |
| | | | |
| Reinsurance expenses | (7) | (8) | (7) |
| Other | (3) | (3) | (3) |
| **Expenses** | **(10)** | **(11)** | **(10)** |
| | | | |
| Claims expense | (18) | (49) | (23) |
| Other | 1 | - | (4) |
| **Net insurance claims expenses** | **(17)** | **(49)** | **(27)** |
| | | | |
| **Operating surplus** | **34** | **2** | **26** |
| | | | |

3.4 Income consists of insurance premiums collected from ACT Government agencies and net returns from investments.

3.5 Expenses consist mainly of reinsurance premiums paid to external insurance providers and administration costs.

3.6 Net insurance claims expenses mostly consist of insurance claims settlement payments and changes in the estimate of insurance claims liabilities.

The estimate of insurance claims liabilities is affected by the quantity and type of insurance claims received, amounts paid to settle claims, and discount and inflation rates used to estimate the present value of future insurance claims payments.

The net insurance claims expense ($17 million) was $32 million (65 percent) lower than the budget estimate ($49 million). This was mainly due to a reduction in the value of estimated insurance claims liabilities resulting mostly from a lower than expected reported number of claims and lower inflation rates.

3.7 The Authority's operating surplus ($34 million) exceeded the budgeted operating surplus ($2 million) by $32 million mainly due to the lower than expected net insurance claims expense.

## Financial position

### Table 3-2 Net assets

| At 30 June | Actual 2018 $m | Budget 2018 $m |
|---|---|---|
| | | |
| Total assets | 375 | 375 |
| Total liabilities | (244) | (286) |
| **Net assets** | **131** | **89** |
| | | |
| **Ratio of total assets to total liabilities** | **1.5 to 1** | **1.3 to 1** |
| | | |

3.8 The Authority aims to hold sufficient assets to meet estimated insurance claims liabilities.

The Authority had sufficient assets to meet its liabilities at 30 June 2018. The Authority's net asset position at 30 June 2018 ($131 million) exceeded the budgeted net asset position ($89 million) by $42 million (47 percent).

# ACT Local Hospital Network Directorate

3.9 The ACT Local Hospital Network Directorate (the Directorate) is administered by the Director-General of the Health Directorate. Information on the Health Directorate is provided later in this chapter.

3.10 Public hospital services are funded under arrangements between Australian states and territories and the Commonwealth Government in accordance with the National Health Reform Agreement. Under these arrangements, public hospital services are funded through the National Health Funding Pool.

3.11 In the ACT, activity-based and block funding is paid from the National Health Funding Pool to the Directorate. The Directorate purchases public hospital services using these funds from four ACT public hospital providers (Canberra Hospital and Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre).

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($1 009 million) was consistent with the budgeted cost ($1 019 million) and exceeded the prior year's cost ($970 million) by $39 million (4 percent) mainly due to higher public hospital services purchased by the Directorate.

## Financial results

### Table 3-3 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (1 114) | (1 120) | (1 071) |
| Cross-border health revenue | 105 | 101 | 101 |
| **Net cost of services** | **(1 009)** | **(1 019)** | **(970)** |
| | | | |
| Amounts received from the Commonwealth Government to fund public hospital services | 386 | 363 | 344 |
| Amounts received from the ACT Government to fund public hospital services | 630 | 656 | 630 |
| **Operating surplus** | **7** | **-** | **4** |
| | | | |

3.12 Expenses mainly consist of payments made to:

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

3.13 Cross-border health revenue is received to cover the costs of treating interstate residents in the ACT public health system.

3.14 The net cost of the Directorate's services ($1 009 million) was consistent with the budgeted cost ($1 019 million) and exceeded the prior year's cost ($970 million) by $39 million (4 percent) mainly due to higher public hospital services (primarily relating to mental health and emergency department services) purchased by the Directorate.

3.15 Amounts received from the Commonwealth Government to fund public hospital services ($386 million) were slightly higher than the budgeted amount ($363 million) largely due to one-off amounts received for higher than estimated public hospital services provided in prior years.

Funding under the National Health Reform Agreement is initially paid based on estimated levels of public hospital services to be provided by the states and territories. In subsequent periods, adjustments to the funding provided are made following verification of the actual levels of public hospital services provided.

3.16 Amounts received from the ACT Government to fund public hospital services ($630 million) were slightly lower than the budgeted amount ($656 million) as the higher than expected funding provided by the Commonwealth Government meant that a lower contribution by the ACT Government was required.

# ActewAGL Joint Venture

3.17 The ActewAGL Joint Venture (ActewAGL) sells energy (electricity and gas) and owns and operates the energy networks which provide energy to customers in the ACT and surrounding regions. It consists of the ActewAGL Retail Partnership and ActewAGL Distribution Partnership.

3.18 The Territory's 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership is held by Icon Water Limited (Icon Water) through its subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited. Icon Water is discussed later in this chapter.

## Summary

- The Audit Office issued **unqualified audit reports** on the 2017-18 financial statements of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's profit in 2017-18 ($186 million) was $12 million (7 percent) higher than the profit generated in 2016-17 ($174 million) mainly due to increased revenue from energy sales, solar and energy storage system installations.
- ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2018.
- ActewAGL resolved the two audit findings reported last year relating to the ActewAGL Retail Partnership's billing system, and bank and debtor reconciliations.
- Two audit findings were identified during the 2017-18 audit relating to weaknesses in user access management for disabling information technology network user accounts for terminated employees, and user access reviews for key information technology applications.

## Financial results

### Table 3-4 Key results

| | Actual 2017-18 $m | Actual 2016-17 $m |
|---|---|---|
| | | |
| Income | 935 | 847 |
| Expenses | (749) | (673) |
| **Profit** | **186** | **174** |
| | | |
| **Distributions paid to partners** | **133** | **126** |
| **Distributions paid to Icon Water (50 percent)** | **67** | **63** |
| | | |

3.19 Income largely comes from the sale and distribution of energy (electricity and gas).

3.20 Expenses mainly consist of energy purchases and network distribution costs, employment costs, payments to subcontractors and depreciation and amortisation expenses.

3.21 ActewAGL's profit in 2017-18 ($186 million) was $12 million (7 percent) higher than the profit generated in 2016-17 ($174 million) mainly due to increased revenue from energy sales, solar and energy storage system installations.

3.22 Distributions paid by ActewAGL to Icon Water in 2017-18 ($67 million) were $4 million (6 percent) more than in the prior year ($63 million) due to the higher profits generated in 2017-18.

## Financial position

### Table 3-5 Net short-term assets

| **At 30 June** | **Actual 2018 $m** | **Actual 2017 $m** |
|---|---|---|
| | | |
| Short-term assets | 290 | 300 |
| Short-term liabilities | 214 | 224 |
| **Net short-term assets** | **76** | **76** |
| | | |
| **Ratio of short-term assets to short-term liabilities** | **1.4 to 1** | **1.3 to 1** |
| | | |

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

3.23 ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2018.

## Audit findings

### Table 3-6 Status of audit findings

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

3.24 ActewAGL resolved the two audit findings reported last year by:

- removing the ability for users to cancel (i.e. delete) a billing exception (e.g. unusual energy or water consumption identified by the billing system) in the ActewAGL Retail Partnership's billing system without follow-up and investigation. This reduces the risk of inaccurate customer billings; and
- performing monthly bank and debtor reconciliations for the ActewAGL Retail Partnership in a timely manner. This reduces the risk of errors in the financial statements.

3.25 The two new audit findings identified during the 2017-18 audit related to weaknesses in user access management processes for:

- disabling user access to the ActewAGL Corporate Information Technology Network (IT network) for terminated employees. Twenty eight employees terminated between 1 July 2017 and 31 March 2018 had active user accounts on the IT network in May 2018.

  When user access for terminated employees is not promptly disabled there is a higher risk of:

  - inappropriate, unauthorised and/or fraudulent access to the network and systems; and
  - a terminated employee's unique user account being compromised and used inappropriately by an existing employee. This will significantly limit management's ability to trace any inappropriate, irregular or fraudulent activities to an individual user.

  Management subsequently disabled the user accounts of the terminated employees and checked these user accounts were not inappropriately used after employees' termination dates.

  ActewAGL advised:

  > Management is currently working to strengthen existing processes for notifications regarding departing employees to ensure that access to all network and related application systems is promptly disabled upon termination.

- performing user access reviews for key information technology applications which provide assurance that access to these applications is appropriate.

  In particular, there was insufficient evidence of user access reviews, including documentation of the review, the outcome of the review (e.g. evidence of the follow-up, investigation and action taken) and formal sign-off by the person who undertook the review.

  Furthermore, the reviews performed did not always consider the appropriateness of users' access and role in the system, only their employment status (e.g. an active employee would be deemed as appropriate).

  These weaknesses increase the risk of inappropriate, unauthorised and/or fraudulent access to key information technology applications.

  ActewAGL advised:

  > Management are currently developing a common user access review process for key IT applications including the review of higher risk user accounts (e.g. accounts with privileged access rights). This will ensure that adequate controls, including supporting documentation, are in place that provides a clear audit trail with respect to the appropriateness of user access.

# ACTION

3.26 ACTION operates a public bus network including school, special needs transport, community transport, management of the ACT rural schools bus contract and charter hire buses in the ACT. ACTION is part of the Transport Canberra and City Services Directorate but is a separate entity for financial reporting purposes.

## Summary

- The Audit Office issued an **unqualified audit report** on ACTION's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- ACTION's net cost of services ($129 million) aligned with the budgeted cost ($126 million).
- Capital injections were $6 million or 27 percent lower than budgeted ($22 million) mainly due to delays in the purchase and assembly of new buses.
- In 2017-18, ACTION resolved two previously reported audit findings relating to the authorisation of hospitality expenditure and reviews of journals entered into the accounting system. One finding relating to the reconciliations of cash fares collected by bus drivers was partially resolved.
- One new audit finding was identified in 2017-18 relating to the reviews of salary reports.

## Financial results

### Table 3-7 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (160) | (155) | (150) |
| Income | 31 | 29 | 32 |
| **Net cost of services** | **(129)** | **(126)** | **(118)** |
| | | | |
| Government contributions | 113 | 113 | 108 |
| Other gains from assets received | 12 | - | - |
| Loss on revaluation of buses | - | - | (5) |
| **Operating deficit** | **(4)** | **(13)** | **(15)** |
| | | | |
| Capital injections | 16 | 22 | 12 |
| | | | |

3.27 ACTION's expenses mainly consist of employee and bus operating costs, including fuel, maintenance and insurance costs.

3.28 ACTION's income is mostly from fares charged to people travelling on the bus network.

3.29 ACTION's net cost of services ($129 million) aligned with the budgeted cost ($126 million).

3.30 Government contributions ($113 million) were consistent with the budgeted amount ($113 million).

3.31 Other gains from assets received ($12 million) mainly resulted from the unexpected transfer of land and buildings from the Chief Minister, Treasury and Economic Development Directorate on 1 July 2017 for construction of a new bus depot.

3.32 Capital injections were $6 million or 27 percent lower than budgeted ($22 million) mainly due to delays in the purchase and assembly of new buses.

## Audit findings

### Table 3-8 Status of audit findings

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

3.33 ACTION resolved two of the three previously reported audit findings and partially resolved one audit finding.

3.34 ACTION resolved two previously reported audit findings which were first reported in 2016-17 by having:

- hospitality expenditure approved by an authorised person prior to the expenditure being incurred and retaining documented evidence of approval as required by its guidelines. This reduces the risk of unauthorised or inappropriate hospitality expenditure; and
- journal entries used to record transactions in the accounting system reviewed by an independent officer and retaining documented evidence of these reviews. This reduces the risk of erroneous and fraudulent financial reporting.

3.35 ACTION partially resolved one audit finding which was first reported in 2014-15 by having the reconciliations between the cash fares collected by bus drivers and cash fares recorded in ACTION's ticketing system (MyWay) signed by the preparing and reviewing officers. However, some reconciliations were not reviewed in a timely manner.

3.36 One new audit finding was identified in 2017-18. ACTION did not always perform reviews of salary reports in a timely manner or retain the evidence of these reviews. This increases the risk of incorrect or fraudulent employee payments not being detected and addressed in a timely manner.

3.37 ACTION has agreed to address all audit findings.

# Canberra Institute of Technology

3.38 The Canberra Institute of Technology provides vocational education services to domestic and international students and training programs to organisations in the public and private sectors.

## Summary

- The Audit Office issued an **unqualified audit report** on the Canberra Institute of Technology's 2017 financial statements and an **unqualified report of factual findings** on its 2017 statement of performance.
- The Canberra Institute of Technology's net cost of services ($80 million) was consistent with the budgeted cost ($83 million).
- The Canberra Institute of Technology resolved one of the two previously reported audit findings. The finding resolved related to the review of workpapers supporting its statement of performance.
- The remaining previously reported audit finding relating to its Chief Executive Financial Instructions was partially resolved.
- Two new audit findings were identified during the 2017 audit relating to workpapers supporting related party disclosures and the testing of backup files for the student information system (Banner).

## Financial results

### Table 3-9 Key results (calendar years)

| | Actual 2017 $m | Budget 2017 $m | Actual 2016 $m |
|---|---|---|---|
| | | | |
| Expenses | (115) | (117) | (112) |
| Income | 35 | 34 | 41 |
| **Net cost of services** | **(80)** | **(83)** | **(71)** |
| | | | |
| Government contributions | 70 | 70 | 70 |
| **Operating deficit** | **(10)** | **(13)** | **(1)** |
| | | | |

3.39 Expenses mainly consist of employee related expenses and operating expenditure such as information technology and consultancy costs.

3.40 Income is primarily generated from providing education and training services.

3.41 The Canberra Institute of Technology's net cost of services ($80 million) was consistent with the budgeted cost ($83 million).

## Audit findings

### Table 3-10 Status of audit findings

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

3.42 The Canberra Institute of Technology resolved one previously reported audit finding, which was first reported in 2014, by having the workpapers supporting its statement of performance reviewed by someone independent of the preparer of the information. This reduces the risk of errors or fraudulent reporting of results in the statement of performance.

3.43 The Canberra Institute of Technology partially resolved one previously reported audit finding, which was first reported in 2015, by updating its financial management policies and procedures that were past their review date. However, not all of these policies and procedures were finalised and approved before year end.

3.44 Two new audit findings were identified in 2017 as the:

- workpapers supporting related party disclosures in the financial statements did not include a comprehensive assessment of whether Cabinet Ministers and some senior executives were part of the Canberra Institute of Technology's key management personnel. This increases the risk of incorrect disclosures in the financial statements; and
- testing of the restoration of the student information system (Banner) and data from backup tapes was not conducted. This increases risk of data being unrecoverable and the restoration of normal operations being delayed.

3.45 The Canberra Institute of Technology has agreed to address these audit findings.

# Chief Minister, Treasury and Economic Development Directorate

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

- coordinating the Territory's budget process and financial management;
- providing information and communication technology, publishing and recordkeeping, human resources, and finance services (shared services) across the ACT Government;
- collecting and managing the Territory's taxation revenue;
- promoting tourism, managing ACT arts facilities, facilitating sporting and major events;
- promoting business development and investment programs; and
- providing customer and regulatory services through Access Canberra.

3.47 Under changes to administrative arrangements on 1 July 2017, responsibility for:

- sportsground operations transferred from the Directorate to the Transport Canberra and City Services Directorate; and
- land development, urban renewal and public housing renewal functions transferred from the Directorate to the Environment, Planning and Sustainable Development Directorate.

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($340 million) was $30 million (8 percent) below the budgeted cost ($370 million) mainly due to lower than expected expenses.
- Government contributions ($303 million) were $33 million (10 percent) below the budgeted amount ($336 million) mainly due to the Directorate not drawing appropriation for grants and information technology related projects.
- One of the three previously reported audit findings was resolved by the Directorate improving the clarity of explanatory information for the accountability indicators included in its budget papers.
- One audit finding relating to quality and timeliness of the statement of performance remained partially resolved, and one audit finding relating to the review of salary reports remained unresolved.
- Two new audit findings were identified during the 2017-18 audit relating to the usefulness of accountability indicators reported in the statement of performance, and the year-end reconciliation of taxes, duties and levies revenue.

## Financial results

### Table 3-11 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses excluding assets transferred to other ACT Government agencies | (627) | (657) | (688) |
| Income | 287 | 287 | 290 |
| **Net cost of services** | **(340)** | **(370)** | **(398)** |
| | | | |
| Government contributions | 303 | 336 | 323 |
| Other gains | 11 | - | 11 |
| Assets transferred to other ACT Government agencies | (42) | (3) | (64) |
| **Operating deficit** | **(68)** | **(37)** | **(128)** |
| | | | |

3.48 Expenses, excluding assets transferred to other ACT Government agencies, largely consist of costs of employees, consultants, contractors and professional services, information technology and office equipment, property services, repairs and maintenance and depreciation. Expenses also include grants paid to major sporting, business, industry, and tourism and event organisations.

3.49 Income mainly consists of amounts received from other ACT Government agencies for providing services relating to property management, information and communication technology, procurement, human resources, finance, publishing and records management and amounts received from non-ACT Government sources relating to sporting and tourism events.

3.50 The Directorate's net cost of services ($340 million) was $30 million (8 percent) below the budgeted amount ($370 million). This was mainly due to lower expenses for:

- grants relating to the restructure fund for ACT Government agencies and for vocational education which are now expected to be paid in 2018-19; and
- supplies and services resulting from delays in planned Information Technology related projects.

3.51 Government contributions ($303 million) were $33 million (10 percent) below the budgeted amount ($336 million) mainly due to the Directorate not drawing down appropriations for grants and information technology related projects as previously discussed.

3.52 Other gains ($11 million) consisted mostly of properties transferred to the Directorate from other ACT Government agencies.

3.53 Assets transferred to other ACT Government agencies ($42 million) consisted mostly of:

- completed roads and stormwater infrastructure capital works transferred to the Transport Canberra and City Services Directorate; and
- land and buildings transferred to ACTION for a new bus depot.

3.54 The Directorate's territorial operations mainly consist of revenue from Commonwealth Government grants and taxes, fees and fines. This revenue is discussed in Chapter 1: 'The Territory's financial statements'.

## Audit findings

### Table 3-12 Status of audit findings

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

3.55 One of the three previously reported audit findings was resolved, one remained partially resolved and one was not resolved. Two new audit findings were identified during the 2017-18 audit.

3.56 The Directorate resolved one audit finding that was first reported in 2013-14 by improving the explanatory information included in the budget papers to more clearly define and explain its accountability indicators and related targets. This provides more assurance that the results of the accountability indicators reported in the statement of performance can be verified and are accurate.

3.57 One audit finding relating to the quality and timeliness of the Directorate's statement of performance that was first reported in 2015-16 remained partially resolved. The Directorate has partially resolved this audit finding from 2016-17 onwards by providing its draft statement of performance to the Audit Office for review by the date included in the whole of government reporting timetable.

However, the quality of the statement of performance needs to be improved as variance explanations were not always informative as they did not always clearly explain the reasons for the variance and contained terms that are unlikely to be understood by readers outside of the Directorate.

3.58 The Directorate did not resolve one audit finding relating to the review of the fortnightly salary reports. Since 2013-14, the Audit Office has reported there was not always evidence that reviews of salary reports were being performed, or those reviews that were performed were not always conducted in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.

3.59 Two new audit findings were identified during the 2017-18 audit. The:

- accountability indicators included in the budget papers and reported in the Directorate's statement of performance may not always provide readers with useful information about the Directorate's performance as they measure activities being performed rather than the effectiveness and efficiency (outcomes) of the Directorate delivering its outputs; and
- Directorate did not perform a year-end reconciliation of taxes, duties and levies revenue recorded in the revenue recording system (TRev) to the revenue recorded in the general ledger (Oracle) prior to preparing its financial statements. This increases the risk of errors in the financial statements and irregularities (including fraud) not being identified in a timely manner.

3.60 The Directorate has agreed to address these audit findings.

# Community Services Directorate

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

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements.
- The **unqualified report of factual findings** issued by the Audit Office on the Directorate's 2017-18 statement of performance contained a 'negative finding' as the Directorate did not measure a result for the accountability indicator 'Coordinate Connect and Participate Expo – Number of people attending' in accordance with the *Financial Management Act 1996*. This was due to the Directorate not having a method to measure a result for this indicator.
- Expenses ($263 million) exceeded the budgeted amount ($257 million) by $6 million mainly due to higher costs relating to contractors and consultants for early intervention services, legal matters relating to child and youth protection, and employees relating to higher redundancy payments, employee entitlements and full time equivalent staff numbers.
- Income ($9 million) exceeded the budgeted amount ($3 million) by $6 million mainly due to higher than estimated resources received free of charge relating to legal services and grants from the Commonwealth Government to fund capacity building of disability support service providers in the Territory.
- The Directorate resolved one previously reported audit finding relating to its business continuity framework.
- The Directorate did not resolve one previously reported audit relating to the timely review of salary reports.
- One new audit finding was identified in 2017-18 relating to the accountability indicator 'Coordinate Connect and Participate Expo – Number of people attending'.

## Financial results

### Table 3-13 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (263) | (257) | (286) |
| Income | 9 | 3 | 15 |
| **Net cost of services** | **(254)** | **(254)** | **(271)** |
| | | | |
| Government contributions | 253 | 253 | 277 |
| Asset transfers to other agencies | - | - | (1) |
| **Operating (deficit)/surplus** | **(1)** | **(1)** | **5** |
| | | | |

3.62 Expenses mainly comprise employee expenses, administrative costs (i.e. rent, information technology, legal costs and contractor and consultant costs), payments to the Commonwealth Government for the National Disability Insurance Scheme (NDIS), and payments to non-government organisations for services such as out-of-home care for children and child protection programs.

Expenses ($263 million) exceeded the budgeted amount ($257 million) by $6 million mainly due to higher than estimated:

- contractor and consultant costs to identify improvements in the delivery of early intervention services to vulnerable children and their families;
- legal expenses relating to child and youth protection matters; and
- employee expenses mainly as a result of higher than expected redundancy payments, employee entitlements and a higher than expected number of full time equivalent staff.

3.63 Income mainly includes:

- reimbursements received from non-government organisations for unspent grant funding;
- resources received free of charge from other ACT Government entities for legal services; and
- grants from the Commonwealth Government to fund capacity building of disability support service providers in the Territory.

Income ($9 million) exceeded the budgeted amount ($3 million) by $6 million mainly due to higher than estimated resources received free of charge relating to legal services and

grants from the Commonwealth Government for capacity building of disability support service providers in the Territory.

3.64 The net cost of the Directorate's services ($254 million) and Government contributions ($253 million) were consistent with the budgeted amounts.

## Audit findings

### Table 3-14 Status of audit findings

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

3.65 The Directorate resolved one of the two previously reported audit findings from 2016-17 by reviewing and approving its 'Business Continuity Framework' in 2018. This provides the Directorate with increased assurance that its business continuity plans will operate effectively in the event of a major disruption or disaster.

The audit finding that was not resolved related to the review of some salary reports in a timely manner. These reports should be reviewed in a timely manner to promptly identify and correct erroneous or possible fraudulent salary payments.

3.66 One new audit finding was identified in 2017-18 relating to the accountability indicator 'Coordinate Connect and Participate Expo – Number of people attending'. The Directorate did not develop a method to measure a result for this accountability indicator and the estimated result included in the statement of performance submitted to the Audit Office for review could not be independently verified.

The Directorate subsequently amended its statement of performance to report that a result was 'not measured' and disclosed that:

> This measure was not measured as a system was not in place to count the number of people attending the Connect and Participate Expo. The Directorate will determine a method for counting attendance at this non-ticketed event for future reporting periods.

As a result was not measured for this accountability indicator, a negative finding was included in the unqualified report of factual findings on the Directorate's statement of performance.

When the method for measuring a result for an accountability indicator it not settled prior to the accountability indicator being included in the budget papers, there is a higher risk that the result will be incorrectly measured, or will be unable to be measured.

3.67 The Directorate has agreed to address the audit findings.

# Education Directorate

3.68 The Education Directorate (the Directorate) provides public school education and early childhood education services, regulates education and childcare services, and registers non-government schools and home educators across the Territory.

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($737 million) was largely consistent with the budgeted cost ($740 million).
- Government contributions ($662 million) were $8 million below the budgeted amount ($670 million) mainly due to delays with finalisation of the new non-teaching staff enterprise agreement and lower than expected workers compensation insurance costs.
- Capital injections received by the Directorate ($96 million) exceeded the budgeted amount ($86 million) by $10 million (12 percent) mainly due to upgrades to public school infrastructure and information and communication technology projects that were not anticipated in the budget.
- Grants to non-government schools ($295 million) were $12 million (4 percent) higher than the budgeted amount ($283 million) mainly due to additional funding provided by the Commonwealth Government under the National Education Reform Agreement.
- The Directorate did not resolve the two previously reported audit findings relating to the review of salary reports and audit logs for its schools administration system.

## Financial results

### Table 3-15 Key results - controlled

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (781) | (782) | (729) |
| Income | 44 | 42 | 42 |
| **Net cost of services** | **(737)** | **(740)** | **(687)** |
| | | | |
| Government contributions | 662 | 670 | 628 |
| **Operating deficit** | **(75)** | **(70)** | **(59)** |
| | | | |
| **Capital injections** | **96** | **86** | **26** |
| | | | |

3.69 Expenses mainly consist of employee expenses, school operating costs, depreciation expenses, and supplies and services expenses including school repairs and maintenance costs.

3.70 Income consists mainly of international student tuition fees, voluntary contributions by parents to schools and funding received from the Commonwealth Government for various school programs.

3.71 The net cost of the Directorate's services ($737 million) was largely consistent with the budgeted cost ($740 million).

3.72 Government contributions ($662 million) were $8 million below the budgeted amount ($670 million), mainly reflecting undrawn appropriation due to delays in finalisation of the new non-teaching staff enterprise agreement, and lower than expected workers compensation insurance costs.

3.73 Capital Injections received by the Directorate ($96 million) exceeded the budgeted amount ($86 million) by $10 million (12 percent) mainly due to upgrades to public school infrastructure and information and communication technology projects that were not anticipated in the budget.

### Table 3-16 Key results - Territorial expenses

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Grants to non-government schools | 295 | 283 | 272 |
| Other grants | 1 | 1 | 1 |
| **Total expenses** | **296** | **284** | **273** |
| | | | |

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

3.74 Territorial expenses mostly consist of grants paid to non-government schools. The Directorate receives funding from the ACT Government and Commonwealth Government to provide these grants. The grants are based on the number of student enrolments to fund specific projects.

3.75 Grants paid to non-government schools ($295 million) were $12 million (4 percent) higher than the budgeted amount ($283 million) mainly due to additional funding provided by the Commonwealth Government under the National Education Reform Agreement.

## Audit findings

### Table 3-17 Status of audit findings

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

3.76 The Directorate did not resolve the two previously reported audit findings relating to:

- the review of salary reports which has been reported since 2013-14. Salary reports distributed to schools and business units did not always have evidence of review. When these reports are not evidenced as being reviewed there is a higher risk that incorrect or fraudulent salary payments will not be promptly detected and addressed.

  The Directorate agreed to this audit finding and advised that it is working on continued system improvements in this area.

- the Directorate's school administration system (Maze), as it does not have the capability to generate audit logs showing the activities of users accessing the system and its data. The Directorate also does not have a documented policy for the review of audit logs. This increases the risk that that erroneous or fraudulent changes to the system or data will not be promptly detected and rectified. This audit finding was first reported in 2011-12.

  The Directorate advised that it will address this weakness as part of its replacement of the school administration system in 2018-19.

3.77 No new audit findings were identified in 2017-18.

# Environment, Planning and Sustainable Development Directorate

3.78 The Environment, Planning and Sustainable Development Directorate (the Directorate) is responsible for developing and implementing policies and programs that address environment protection and sustainability, climate change, nature conservation, heritage, water and energy security, sustainable urban design, sustainable transport and spatial planning.

3.79 The Directorate also manages parks and reserves across the ACT and is responsible for the delivery of the ACT Government's Loose-Fill Asbestos Insulation Eradication Scheme.

3.80 Responsibility for urban renewal including the Public Housing Renewal Taskforce and land supply and policy functions including affordable housing were transferred to the Directorate from the Chief Minister, Treasury and Economic Development Directorate and former Land Development Agency under *Administrative Arrangement 2017 (No 1)* on 1 July 2017.

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($56 million) was $97 million (63 percent) below the budgeted amount ($153 million) due to higher than budgeted income and lower than budgeted expenses.
- Government contributions ($122 million) were lower than the budgeted amount ($157 million) by $35 million (22 percent) mainly reflecting undrawn appropriation due to delays in the demolition of public housing assets under the Public Housing Renewal Program (PHRP). Under the PHRP, the Directorate has the responsibility for managing the demolition works for the Territory's public housing assets, preparing them for sale or redevelopment.
- The Directorate did not draw down $104 million (32 percent) of budgeted capital injections mainly due to delays in construction work under the PHRP.
- The Directorate partially resolved one previously reported audit finding relating to its arrangements for the sale and recording of rural land and did not resolve one previously reported audit finding relating to the review of salary reports in a timely manner.
- One new audit finding was identified in 2017-18 relating to the clarity of performance targets for two new accountability indicators.

## Financial results

### Table 3-18 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (156) | (186) | (120) |
| Income | 100 | 33 | 59 |
| **Net cost of services** | **(56)** | **(153)** | **(61)** |
| | | | |
| Transfers to Government | (67) | (45) | (44) |
| Government contributions | 122 | 157 | 101 |
| Other gains | 76 | 54 | 51 |
| **Operating surplus** | **75** | **13** | **47** |
| | | | |
| **Capital Injections** | **223** | **327** | **69** |
| | | | |

3.81 Expenses mainly consist of employee costs, costs of consultants and contractors used for the demolition of public housing buildings under the Public Housing Renewal Program (PHRP), feasibility studies and planning projects, repairs and maintenance, information technology and office equipment costs, and office accommodation costs.

Expenses ($156 million) were lower than the budgeted cost ($186 million) by $30 million (16 percent) mainly due to less than anticipated contractor costs due to delays in the demolition of public housing buildings under the PHRP. Under the PHRP, the Directorate has the responsibility for managing the demolition works for the Territory's public housing assets and preparing them for sale or redevelopment.

3.82 Income largely consists of revenue relating to renewable energy certificates. Under the *Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011*, large-scale generators of electricity are required, after generating a sufficient amount of renewable energy into the electricity network, to create renewable energy certificates and surrender them to the Directorate at no cost. The value of these certificates is recorded as income. Income is also obtained from funding received for developing renewable energy storage and from the sale of timber.

Income ($100 million) exceeded the budgeted amount ($33 million) by $67 million (205 percent). This was mainly due to higher than budgeted income from renewable energy certificates as a higher than anticipated number of certificates were received.

3.83 The net cost of the Directorate's services ($56 million) was $97 million (63 percent) below the budgeted amount ($153 million) due to the lower than budgeted expenses and higher than budgeted income.

3.84 Government contributions ($122 million) were lower than the budgeted amount ($157 million) by $35 million (22 percent) mainly reflecting undrawn appropriation due to delays in the demolition of public housing assets under the PHRP.

3.85 Other gains of $76 million and Transfers to Government expenses of $67 million were higher than the respective budgeted amounts (of $54 million and $45 million) mainly due to higher than expected sale prices for remediated blocks of land under the Loose-Fill Asbestos Insulation Eradication Scheme and the associated transfer of these amounts to Government.

3.86 The Directorate did not draw down $104 million (32 percent) of budgeted capital injections mainly due to delays in construction work under the PHRP.

### Table 3-19 Key results – Territorial income

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Fees and fines | 17 | 31 | 32 |
| Land revenue | 22 | 21 | 39 |
| Other | 7 | 3 | 4 |
| **Total income** | **46** | **55** | **75** |
| | | | |

3.87 The Directorate collects fees and fines, and land revenue on behalf of the Territory. Fees and fines mostly consists of amounts charged for development applications and lease variations. Land revenue is received from leasing Territorial land and selling land to the Suburban Land Agency.

Fees and fines revenue ($17 million) was $14 million (45 percent) lower than the budgeted amount ($31 million) mostly due to lower lease variation charges as fewer than expected applications were received for Crown lease variations.

## Audit findings

### Table 3-20 Status of audit findings

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

3.88 The Directorate partially resolved one of the two previously reported audit findings from 2016-17 by clarifying its arrangements for the sale and recording of rural land sales in a memorandum of understanding with the Suburban Land Agency, however, these arrangements are yet to be finalised.

The audit finding that was not resolved related to the reviews of salary reports in a timely manner. Salary reports should be reviewed in a timely manner to promptly identify and correct erroneous or possible fraudulent salary payments.

The Directorate has agreed to address these findings.

3.89 One new audit finding was identified in 2017-18 relating to two new accountability indicators as their performance targets had not been clearly defined and explained in the Directorate's budget papers. This increases the risk that readers of the statement of performance will not be able to understand the Directorate's performance in relation to these indicators.

The Directorate has advised this audit finding has been addressed as the two accountability indicators have been discontinued in the Directorate's 2018-19 Budget Papers.

# Health Directorate

3.90 The Health Directorate (the Directorate) provides public health services such as hospital and extended care services, manages public health risks and promotes health and early care interventions in the ACT.

3.91 Public hospital services provided by the Directorate are mostly funded by amounts received from the ACT Local Hospital Network Directorate. Information on funding provided by the ACT Local Hospital Network Directorate is discussed earlier in this report.

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($347 million) was $16 million below the budgeted cost ($363 million) due to slightly lower than expected expenses.
- Government contributions ($266 million) were $47 million (15 percent) below the budgeted amount ($313 million) mainly due to:
  - the reclassification of appropriations to the Directorate's Territorial operations to pay for capital upgrades to Calvary Public Hospital and Winnunga Nimmityjah Aboriginal Health Service;
  - cash reserves being used to pay expenses instead of drawing down appropriations; and
  - appropriations for expected salary increases not being required as a new staff enterprise agreement was not finalised by the end of 2017-18.
- The Directorate did not draw down $54 million (34 percent) of its budgeted capital injections ($157 million). The Directorate has advised this was largely due to changes to the timing to defer the commencement and completion of several infrastructure and capital upgrade projects to 2018-19.
- The Directorate resolved four previously reported audit findings relating to business continuity plans, the review of monthly finance reports, approval of expenses by a financial delegate and authorisation of travel and hospitality expenditure. One finding relating to credit card acquittals was partially resolved and one finding relating to the review of salary reports was not resolved.
- Two new audit findings were identified in 2017-18 relating to preparing and reviewing bank reconciliations and updating the Directorate's 'Fraud and Corruption Control Policy' and 'Fraud and Corruption Control Plan'.

## Financial results

### Table 3-21 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (1 376) | (1 387) | (1 328) |
| Income | 1 029 | 1 024 | 998 |
| **Net cost of services** | **(347)** | **(363)** | **(330)** |
| | | | |
| Government contributions | 266 | 313 | 291 |
| **Operating deficit** | **(81)** | **(50)** | **(39)** |
| | | | |
| **Capital injections** | **103** | **157** | **146** |
| | | | |

3.92 The Directorate's expenses mainly consist of employee expenses, costs of medical and pharmaceutical supplies, information technology systems support and computer equipment costs, and providing grants to third party health service providers.

3.93 The Directorate's income largely consists of funds received from the ACT Local Hospital Network Directorate for providing public hospital services in the ACT. The Directorate also earns revenue from charging fees for providing health related services and from the sale of medical and pharmaceutical supplies.

3.94 The net cost of the Directorate's services ($347 million) was $16 million below the budgeted cost ($363 million) due to slightly lower than expected expenses and slightly higher than expected income.

3.95 Government contributions ($266 million) were $47 million (15 percent) below the budgeted amount ($313 million) mainly due to:

- the reclassification of appropriations to the Directorate's Territorial operations to pay for capital upgrades to Calvary Public Hospital and Winnunga Nimmityjah Aboriginal Health Service;
- cash reserves being used to pay expenses instead of drawing down appropriations; and
- appropriations for expected salary increases not being required as a new staff enterprise agreement was not finalised by the end of 2017-18.

3.96 The Directorate did not draw down $54 million (34 percent) of its budgeted capital injections ($157 million). The Directorate has advised this was largely due to changes to the timing to defer the commencement and completion of several infrastructure and capital upgrade projects to 2018-19. These included:

- building infrastructure and facilities upgrades at Canberra Hospital;
- the installation of new computer information systems and the upgrade of old legacy systems; and
- construction of the University of Canberra Public Hospital carpark.

## Audit findings

### Table 3-22 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---|---|---|---|---|---|
| 6 | (4) | 1 | 1 | 2 | 4 |

3.97 The Directorate resolved four of the six previously reported audit findings, partially resolved one audit finding and did not resolve one audit finding.

3.98 The Directorate resolved four audit findings by:

- reviewing its business continuity plans for the major information technology applications that impact on its financial statements and testing their effectiveness (first reported in 2016-17). This reduces the risk that the Directorate will be unable to promptly recover and restore these applications and related data in the event of a major disaster or disruption;
- documenting the review of monthly finance reports by senior management (first reported in 2016-17). This reduces the risk that the financial operations of the Directorate will not be effectively monitored and managed;
- documenting the approval of travel and hospitality expenditure by a delegate (i.e. an authorised person) prior to the expense being incurred, as required by travel and hospitality procedures (first reported in 2016-17). This reduces the risk of unauthorised or inappropriate travel or hospitality expenditure; and
- documenting the approval of expenses by a financial delegate prior to payment (first reported in 2015-16). This reduces the risk of payment errors and fraud.

3.99 The Directorate partially resolved one audit finding which has been reported since 2012-13 by updating its corporate credit card procedures. However, not all credit cards:

- had the acquittal performed in a timely manner; and
- were subsequently suspended and cancelled as required by the corporate credit card procedures when the acquittal was not performed within the required timeframe.

3.100 One audit finding, reported since 2016-17 relating to the review of salary reports was not resolved, as there was not always evidence that reviews of salary reports were being performed or they were not being performed in a timely manner. This increases the risk of incorrect or possibly fraudulent payments to employees not being promptly identified and addressed.

3.101 Two new audit findings were identified in 2017-18, as:

- monthly bank reconciliations were not being prepared and reviewed in a timely manner for several bank accounts for the Pathology and Patient Billing system. This increases the risk that errors or irregularities in the bank reconciliations will not be identified, investigated and addressed; and
- the 'Fraud and Corruption Control Policy' and 'Fraud and Corruption Control Plan' were due to be reviewed by December 2016. The Directorate has less assurance that its processes for addressing fraud and corruption will be effective when its fraud and corruption policy and plan are not kept up to date.

3.102 The Directorate has agreed to address all audit findings.

# Housing ACT

3.103 Housing ACT aims to provide secure and affordable housing that addresses the needs of socially and financially disadvantaged families. It also manages arrangements with organisations that provide services to people who have become or are at risk of becoming homeless.

## Summary

- The Audit Office issued an **unqualified audit report** on Housing ACT's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of Housing ACT's services ($84 million) was $21 million (20 percent) below the budgeted cost ($105 million) due to lower than anticipated expenses and higher than anticipated income.
- The value of Housing ACT's property portfolio at 30 June 2018 ($5 231 million) exceeded the value at 30 June 2017 ($4 975 million) by $256 million (5 percent) mainly due to an upward revaluation of land.
- Housing ACT resolved two of the three previously reported audit findings. The findings resolved related to accounting workpapers supporting balances in the financial statements and the use of Cabcharge taxi e-tickets. One audit finding relating to the review of salary reports was not resolved.
- Two new audit findings were identified during 2017-18 in relation to the timeliness of monthly reconciliations of rental revenue and disclosing the impact of accounting standards issued but not yet applied.

## Financial results

### Table 3-23 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (189) | (203) | (180) |
| Income | 101 | 97 | 98 |
| Gain from the sale of properties | 4 | 1 | 4 |
| **Net cost of services** | **(84)** | **(105)** | **(78)** |
| | | | |
| Government contributions | 47 | 47 | 44 |
| Other gains | 1 | - | 2 |
| Losses from transferring assets to other entities | (3) | - | (8) |
| **Operating deficit** | **(39)** | **(58)** | **(40)** |
| | | | |

3.104 Expenses mainly consist of public housing property management costs, employee expenses and grants paid to organisations that provide services to people who have become or are at risk of becoming homeless. Property management costs include repairs and maintenance costs, water and sewerage charges, rates and depreciation of public housing properties.

Expenses ($189 million) were lower than the budgeted cost ($203 million) by $14 million (7 percent) mainly due to lower depreciation expenses as fewer than expected public housing properties were transferred to the Suburban Land Agency under the Public Housing Renewal Program (PHRP). When public housing properties are identified for transfer under the PHRP, the depreciation for the buildings is accelerated to reflect their remaining shorter useful life as they are no longer available for public housing purposes.

3.105 Income consists mainly of rent received from public housing tenants. Income ($101 million) slightly exceeded the budgeted amount ($97 million) mainly as a result of higher than anticipated goods and services tax credits received from the Australian Taxation Office for providing accommodation services to people with disabilities.

3.106 The net cost of Housing ACT's services ($84 million) was $21 million (20 percent) below the budgeted cost ($105 million) due to the lower than anticipated expenses and higher than anticipated income.

## Property Portfolio

### Table 3-24 Number and value of land and dwellings

| At 30 June | Actual 2016 | Actual 2017 | Actual 2018 |
|---|---|---|---|
| | | | |
| Number of land parcels – Note 1 | 6 771 | 6 880 | 6 876 |
| **Land value ($m)** | **$3 343** | **$3 530** | **$3 721** |
| | | | |
| Number of dwellings – Note 1 | 11 658 | 11 821 | 11 903 |
| **Dwellings value ($m)** | **$1 337** | **$1 445** | **$1 510** |
| | | | |
| **Total value of land and dwellings ($m)** | **$4 680** | **$4 975** | **$5 231** |
| | | | |

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

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

3.107 The value of Housing ACT's property portfolio at 30 June 2018 ($5 231 million) exceeded the value at 30 June 2017 ($4 975 million) by $256 million (5 percent) mainly due to an upward revaluation of land in 2017-18.

## Audit findings

### Table 3-25 Status of audit findings

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

3.108 Housing ACT resolved two of the three audit findings reported in 2016-17 by:

- providing accounting workpapers supporting balances in the financial statements that were complete and included sufficient information to enable someone other than the preparer to understand; and
- recording the destination and purpose of travel for each Cabcharge taxi e-ticket in a log book and requiring officers receiving Cabcharge taxi e-tickets to sign the log book when these tickets are issued to them.

One audit finding relating to the review of salary reports was not resolved as there was not always evidence that reviews of salary reports were being performed. This increases the risk of incorrect or fraudulent salary payments not being promptly identified and investigated.

3.109 Two new audit findings were identified in 2017-18. Housing ACT did not:

- always prepare and review monthly reconciliations between rent received from public housing tenants and its financial management information system in a timely manner. This increases the risk that any errors and irregularities (including fraud) in revenue records will not be promptly identified and resolved; and
- disclose the impact of applying accounting standards issued but not yet effective in future periods, where material, in its financial statements submitted for audit. This indicates that current financial reporting processes do not provide sufficient assurance that impacts of applying accounting standards issued but not yet effective in future reporting periods, where material, will be identified and disclosed in the financial statements as required by Australian Accounting Standards.

3.110 Housing ACT agreed to address these audit findings.

# Icon Water Limited

3.111 Icon Water Limited (Icon Water) provides water, sewerage and related services and manages its 50 percent interest in the ActewAGL Joint Venture (ActewAGL) energy business. ActewAGL is discussed earlier in this chapter.

3.112 Icon Water's two subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited, hold a 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership respectively.

## Summary

- The Audit Office issued **unqualified audit reports** on the 2017-18 financial statements of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- Icon Water's operating profit ($108 million) was $11 million (11 percent) higher than the previous year's profit ($97 million) mainly due to an increase in water revenue and profits received from ActewAGL.
- Icon Water's share of profit from ActewAGL in 2017-18 ($93 million) increased by $5 million (6 percent) from the prior year ($88 million).
- Dividends paid to the ACT Government in 2017-18 increased by $15 million from $79 million in 2016-17 to $94 million in 2017-18.
- Icon Water had sufficient short-term assets to cover its short-term liabilities at 30 June 2018.
- Icon Water resolved the one audit finding reported last year relating to the incorrect billing of some large commercial customers.
- One audit finding was identified during the 2017-18 audit relating to controls over manual journals entered into Icon Water's accounting system.

## Financial results

### Table 3-26 Key results

| | Actual 2017-18 $m | Actual 2016-17 $m |
|---|---|---|
| | | |
| Revenue excluding share of profit from ActewAGL | 362 | 342 |
| Share of profit from ActewAGL | 93 | 88 |
| **Revenue** | **456** | **430** |
| | | |
| Expenses | (300) | (290) |
| **Operating profit before income tax expense** | **155** | **140** |
| | | |
| Income tax expense | (47) | (43) |
| **Operating profit** | **108** | **97** |
| | | |
| **Dividends paid to the ACT Government** | **94** | **79** |
| | | |

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

3.113 Revenue mostly consists of charges for water supply, sewerage services and Icon Water's share of profit from ActewAGL. Revenue excluding Icon Water's share of profit from ActewAGL ($362 million) was $20 million (6 percent) higher than the prior year's amount ($342 million). This was mainly due to an increase in water revenue from an increase in water consumption.

3.114 Icon Water's share of profit from ActewAGL in 2017-18 ($93 million) increased by $5 million (6 percent) from the prior year ($88 million).

3.115 Expenses largely consist of business operating costs, interest costs incurred on borrowings, employee expenses and depreciation. Total expenses ($300 million) were $10 million (3 percent) higher than the prior year's amount ($290 million).

3.116 Income tax expense ($47 million) was higher than the prior year's expense ($43 million) by $4 million (9 percent) due to higher taxable profits.

3.117 Icon Water's operating profit ($108 million) was $11 million (11 percent) higher than the prior year's profit ($97 million) mainly due to an increase in revenue as previously discussed.

3.118 Dividends paid to the ACT Government increased by $15 million (19 percent) from $79 million in 2016-17 to $94 million in 2017-18.

## Financial position

### Table 3-27 Net short-term assets/(liabilities)

| At 30 June | Actual 2018 $m | Actual 2017 $m |
|---|---|---|
| | | |
| Short-term assets | 137 | 133 |
| Short-term liabilities including dividend payable to the ACT Government | (128) | (506) |
| **Net short-term assets/(liabilities)** | **9** | **(373)** |
| | | |
| **Ratio of short-term assets to short-term liabilities** | **1.1 to 1** | **0.3 to 1** |
| | | |

3.119 Icon Water had sufficient short-term assets to meet its short-term liabilities at 30 June 2018.

Icon Water's short-term financial position at 30 June 2018 is much stronger than the position at 30 June 2017 (net short-term liabilities of $373 million). This is mainly due to Icon Water refinancing a medium-term borrowing ($299.5 million) and a short-term borrowing ($69.4 million) with a new long-term borrowing (non-current) during 2017-18.

## Audit findings

### Table 3-28 Status of audit findings

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

3.120 Icon Water resolved the one audit finding reported last year relating to the incorrect billing of some large commercial customers by:

- establishing a process to inspect replacement water meters provided by a supplier and updating the billing system if the replacement meter differs to that previously installed at a property; and
- checking that all premises which had a water meter replaced have been correctly recorded in the billing system.

This reduces the risk that commercial customers will be incorrectly billed as a result of the billing system not correctly recording the type of water meter installed.

3.121 One new audit finding was identified during the 2017-18 audit.

During August and September 2017, one employee entered some manual journals which had not been evidenced as reviewed and approved by a separate person prior to entry into the accounting system.

There is a higher risk of errors in, or fraudulent manipulation of, financial records supporting the financial statements when manual journals are not reviewed and approved by a separate person prior to entry into the accounting system.

Icon Water management subsequently reviewed all manual journals processed during the financial year by the same person to ensure the supporting working papers were appropriate, accurate and complete.

# Justice and Community Safety Directorate

3.122 The Justice and Community Safety Directorate (the Directorate) provides courts, corrections, justice, legal, emergency and policing services.

3.123 The Directorate's operations also include services provided by the Director of Public Prosecutions and ACT Human Rights Commission.

3.124 Policing services provided by the Australian Federal Police are purchased through the Directorate's territorial operations.

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($301 million) was slightly below the budgeted cost ($312 million).
- The Directorate did not drawdown $17 million (40 percent) of its capital injections largely due to delays in several information and communication technology and capital projects.
- Payments to the Australian Federal Police for policing services ($159 million) largely aligned with the budgeted payments ($161 million).
- At 30 June 2018, the Directorate had $691 million in commitments relating to the public-private partnership with a private sector consortium (Juris Partnership) for construction of the new ACT Courts and Tribunal facilities.
- The Directorate resolved one of the four previously reported audit findings. The finding resolved related to errors in the statement of performance and non-compliance with the whole of government reporting timetable.
- Two previously reported audit findings relating to the review of salary reports and the reconciliation of daily takings of court fees and fines were not resolved.
- One previously reporting audit finding relating to the financial reporting requirements for the public-private partnership remained partially resolved due to the ongoing need for the Directorate to comply with existing reporting requirements and assess future new reporting requirements.
- One new audit finding relating to bank signatories was identified in 2017-18.

## Financial results

### Table 3-29 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (336) | (339) | (321) |
| Income excluding gains from assets received | 35 | 27 | 36 |
| **Net cost of services** | **(301)** | **(312)** | **(285)** |
| | | | |
| Government contributions | 268 | 281 | 254 |
| Gain from assets received | 2 | - | 4 |
| **Operating deficit** | **(31)** | **(31)** | **(27)** |
| | | | |
| **Capital injections** | **25** | **42** | **30** |
| | | | |

3.125 Expenses mostly consist of employee expenses and the cost of supplies and services associated with the provision of justice services, corrective services, courts and tribunal, and emergency services. Expenses ($336 million) were largely consistent with the budgeted amount ($339 million).

3.126 Income mainly comprises fees received for legal and emergency services (e.g. providing ambulance transport and fire protection services). Income ($35 million) was slightly higher than the budgeted amount ($27 million).

3.127 The net cost of the Directorate's services ($301 million) was slightly below the budgeted cost ($312 million).

3.128 Capital injections ($25 million) were lower than the budgeted amount ($42 million) by $17 million (40 percent). The Directorate did not fully draw down its capital injections largely due to delays in several information and communication technology and capital projects, including the ACT Corrective Services' information management project, Emergency Services Agency information and communication technology projects (e.g. Territory Radio Network), and ACT Courts and Tribunal's public-private partnership project and new case management system.

### Table 3-30 Key results – Territorial expenses

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Payments to the Australian Federal Police | 159 | 161 | 156 |
| Other expenses | 20 | 18 | 16 |
| **Total expenses** | **179** | **179** | **172** |
| | | | |

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

3.129 Territorial expenses consist mainly of payments to the Australian Federal Police to provide policing services. Payments to the Australian Federal Police ($159 million) were close to the budgeted payments ($161 million).

### Table 3-31 ACT Courts and Tribunal Project – Public-Private Partnership Commitments

| | Finance Lease Commitments $m | Capital Commitments $m | Operating Commitments $m | Total (excluding GST) $m |
|---|---|---|---|---|
| | | | | |
| Within one year | 8 | - | 4 | 12 |
| Later than one year but not later than five years | 60 | 5 | 26 | 91 |
| Later than five years | 300 | 114 | 174 | 588 |
| **Total Public Private Partnership Commitments** | **368** | **119** | **204** | **691** |
| | | | | |

Source: Note 27: 'Commitments' to the Directorate's 2017-18 financial statements.

3.130 At 30 June 2018, the Directorate had $691 million in commitments for the public-private partnership with a private sector consortium (Juris Partnership) to design, construct, operate, maintain and finance the new ACT Courts and Tribunal facilities.

3.131 The Directorate will record the assets and corresponding liabilities relating to this project from the date the new facilities are complete and ready to use.

## Audit findings

### Table 3-32 Status of audit findings

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

3.132 The Directorate resolved one of the four previously reported audit findings, partially resolved one audit finding and did not resolve two audit findings.

3.133 The Directorate resolved one audit finding which was reported in 2016-17 by:

- ensuring there were no errors in the reported results for accountability indicators in its statement of performance; and
- complying with the Chief Minister, Treasury and Economic Development Directorate's whole-of-government reporting timetable for providing its certified statement of performance to the Audit Office.

3.134 One audit finding that was first reported in 2015-16 relating to the financial reporting requirements for the public-private partnership for the new ACT Courts and Tribunal remains partially resolved due the ongoing need for the Directorate to comply with existing reporting requirements and assess future new reporting requirements.

The Directorate partially resolved this audit finding in 2016-17 by obtaining accounting advice on a refinancing gain associated with the partnership under existing reporting requirements.

In 2017-18, the Directorate was required by Australian Accounting Standard AASB 108:'Accounting Policies, Changes in Accounting Estimates and Errors' to disclose the estimated impact on its financial statements for the public-private partnership from the future application of the new Australian Accounting Standard AASB 1059: 'Service Concession Arrangements: Grantor'. AASB 1059 will apply to the Directorate from the reporting period beginning 1 July 2020.

The Directorate disclosed information about its initial assessment of the impact of the new accounting standard in its 2017-18 financial statements, but is yet to perform a detailed assessment of the public-private partnership to determine the reporting requirements of the new standard. To minimise the risk of errors in the financial statements, the Directorate should perform a detailed assessment of the public-private partnership and ensure appropriate accounting policies and treatments are developed and applied prior to the implementation date of the new accounting standard.

The Directorate has agreed to address this audit finding.

3.135 The Directorate did not resolve two previously reported audit findings relating to:

- the review of salary reports which has been reported since 2015-16. In particular, there was not always evidence that reviews of salary reports were being performed; or for reviews that were performed, they were not completed in a timely manner. This increases the risk that incorrect or fraudulent salary payments will not be promptly detected and addressed; and

- reconciliations of daily takings of court fees and fines to the record of takings in the MAX revenue system. These reconciliations were not always reviewed by an independent officer which increases the risk of errors and fraud not being detected in a timely manner. This audit finding was first reported in 2016-17.

The Directorate has agreed to address these audit findings.

3.136 One new audit finding was identified during the 2017-18 audit relating to bank signatories. Bank signatories are those staff members who are authorised to make payments using cheques or electronic funds transfer from the Directorate's bank accounts. Bank signatories had not been removed in a timely manner when they were no longer employed by the Directorate. This increases the risk of fraudulent payments being made from the Directorate's bank accounts.

The Directorate has agreed to address this audit finding.

# Suburban Land Agency

3.137 The Suburban Land Agency was established effective 1 July 2017 following the transfer of functions from the former Land Development Agency under the *City Renewal Authority and Suburban Land Agency Act 2017*.

3.138 The Suburban Land Agency develops and sells suburban residential, commercial and industrial land on behalf of the ACT Government.

## Summary

- The Audit Office issued an **unqualified audit report** on the Suburban Land Agency's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- Gross profit on land sales ($326 million) was $93 million (22 percent) below the budgeted gross profit ($419 million) due to lower than budgeted land sales revenue mainly as a result of unanticipated delays in settlement of land, partially offset by lower than budgeted costs of acquiring and developing land.
- Operating profit ($161 million) was $82 million (34 percent) below the budgeted amount ($243 million) mainly due to the lower than expected gross profit on land sales.
- Three audit findings were identified during the 2017-18 audit relating to the timely review of some salary reports, the quality of the draft statement of performance and the timeliness and quality of workpapers supporting the statement of performance.

## Financial results

### Table 3-33 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m |
|---|---|---|
| | | |
| Land sales revenue | 388 | 576 |
| Cost of acquiring and developing land | (62) | (157) |
| **Gross profit on land sales** | **326** | **419** |
| | | |
| Other income – Note 1 | 10 | 21 |
| Inventory write-down | (77) | (40) |
| Other expenses | (29) | (53) |
| **Operating profit before income tax equivalents expense** | **230** | **347** |
| | | |
| Income tax equivalents expense | (69) | (104) |
| **Operating profit** | **161** | **243** |
| | | |

Note 1: Other income includes share of operating profit from land joint ventures.

3.139 Land sales revenue ($388 million) was $188 million (33 percent) below the budgeted amount ($576 million) mainly due to unanticipated delays in settlement of land:

- relating to public housing and ACT Government buildings under the Asset Recycling Initiative. In particular, the settlement of public housing blocks in Red Hill did not occur before the year-end; and
- in Throsby and Denman Prospect.

Under the Asset Recycling Initiative, the Suburban Land Agency is responsible for the sale of land based assets and return of the sale proceeds to the ACT Government to fund infrastructure projects.

3.140 Cost of acquiring and developing land ($62 million) was $95 million (61 percent) below the budgeted amount ($157 million) due to lower than budgeted land sales.

3.141 Gross profit on land sales ($326 million) was $93 million (22 percent) below the budgeted gross profit ($419 million) due to lower than budgeted land sales revenue ($188 million) partially offset by lower than budgeted costs of acquiring and developing land ($95 million).

3.142 Inventory write-down ($77 million) exceeded the budgeted amount ($40 million) by $37 million (93 percent) due to a higher than expected amount of land received from other ACT Government agencies under the Asset Recycling Initiative.

The Suburban Land Agency writes down the value of land received free of charge from other ACT Government agencies to zero to comply with Australian Accounting Standard AASB 102: 'Inventories'. Under AASB 102, land received as inventories is to be measured at the lower of its cost and net realisable value. As there is no cost to the Suburban Land Agency for the land transferred, these are recorded at 'nil' value.

3.143 Other expenses ($29 million) largely consist of employee costs, costs of engaging consultants and contractors and the cost of supplies and services associated with land development activities. This was $24 million (45 percent) below the budgeted amount ($53 million) mainly due to lower than expected:

- contractor and consultant costs for pre-development activities for future estate developments; and
- selling expenses (e.g. conveyancing services, cost of holding sales events) relating to the lower amount of land sales.

3.144 Income tax equivalents expense ($69 million) was $35 million (34 percent) below the budgeted amount ($104 million) due to the lower than expected operating profit before income tax equivalents.

3.145 Operating profit ($161 million) was $82 million (34 percent) below the budgeted amount ($243 million) mainly due to the lower than expected gross profit on land sales.

## Audit findings

3.146 Three audit findings were identified during the 2017-18 audit relating to the:

- timely review of some salary reports. These reports should be reviewed in a timely manner to promptly identify and correct erroneous or possible fraudulent salary payments;
- quality of the draft statement of performance. The draft statement of performance submitted for review was incomplete and targets for some accountability indicators were presented in a manner that was inconsistent with the Suburban Land Agency's statement of intent. Furthermore, results for two accountability indicators did not facilitate a meaningful comparison with their targets. These matters were corrected during the review; and
- timeliness and quality of workpapers supporting the statement of performance. Workpapers supporting the reported results in the statement of performance were not prepared when the draft statement was provided to the Audit Office for review. While workpapers were subsequently prepared and provided for review after being requested by the Audit Office, these workpapers:
    - were not independently reviewed by a person other than the preparer; and
    - did not always support the reported results for accountability indicators or did not always contain sufficient information to explain how the targets and reported results for accountability indicators were calculated.

This increases the risk of errors in the statement of performance and the Suburban Land Agency not meeting the whole of government reporting timetable.

3.147 The Suburban Land Agency agreed to the audit findings and advised that it has already commenced a number of processes to address all of the findings.

# Superannuation Provision Account

3.148 The Superannuation Provision Account administers investments set aside to meet the defined benefit employer superannuation liabilities of the Territory. These defined benefit superannuation liabilities relate to:

- current and former ACT Government employees who are members of Commonwealth Government defined benefit superannuation schemes; and
- eligible Members of the Legislative Assembly who are entitled to the Legislative Assembly Members' Superannuation Scheme.

The Commonwealth Superannuation Corporation (CSC) administers the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) and makes superannuation benefits payments to the eligible ACT Government employees. The Territory reimburses CSC for the employer-financed share of the superannuation benefits paid for current and former ACT Government employees from 1 July 1989. The superannuation liabilities incurred before this date are covered by the Commonwealth Government.

The CSS and PSS were closed to new members from 1 July 1990 and 1 July 2005 respectively. The Public Sector Superannuation Accumulation Plan (PSSap) was offered to employees from 1 July 2005 until 7 October 2006 when this scheme was closed. New employees are offered superannuation accumulation schemes of their choice.

## Summary

- The Audit Office issued an **unqualified audit report** on the Superannuation Provision Account's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net gain on the fair value of investments ($242 million) was higher than budgeted ($172 million) by $70 million (41 percent) due to better than expected performance of the financial investment assets. This also resulted in the operating deficit ($163 million) being lower than budgeted ($228 million) by $65 million (29 percent).
- The unfunded superannuation liability at 30 June 2018 ($5 736 million) was higher than budgeted ($2 490 million) by $3 246 million (130 percent) largely due to the use of a lower discount rate (3.1 percent) to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate (6.0 percent).
- Annual cash payments required to meet superannuation obligations are projected to increase significantly over the years, peaking in 2043 at $665 million and then reducing until fully paid. The Superannuation Provision Account will continue to rely on budget funding to meet annual cash payments for the Territory's superannuation obligations until the liability is fully funded.

## Financial Results

### Table 3-34 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Income | 115 | 101 | 114 |
| Net gain on the fair value of investments | 242 | 172 | 237 |
| Expenses | (520) | (501) | (614) |
| **Operating deficit** | **(163)** | **(228)** | **(263)** |
| | | | |

3.149 Income largely consists of dividends and distributions from investments. Income ($115 million) was $14 million (14 percent) higher than budgeted ($101 million) as dividends and distributions received on investments were higher than estimated.

3.150 The net gain in the fair value of investments ($242 million) was higher than budgeted ($172 million) by $70 million (41 percent) due to the better than expected performance of the financial investment assets.

3.151 Expenses, which were largely consistent with the budget, mainly consist of superannuation costs associated with the estimated growth in the superannuation liability.

3.152 The Superannuation Provision Account's operating deficit ($163 million) was lower than budgeted ($228 million) by $65 million (29 percent) mainly due to the higher than expected gains on investments, as discussed previously.

## Unfunded superannuation liability

### Table 3-35 Actual financial position

| At 30 June | Actual 2015 $m | Actual 2016 $m | Actual 2017 $m | Actual 2018 $m | Budget 2018 $m |
|---|---|---|---|---|---|
| | | | | | |
| Financial assets – Note 1 | 3 342 | 3 447 | 3 720 | **4 000** | 3 878 |
| Superannuation liability | (8 490) | (10 718) | (8 574) | **(9 736)** | (6 368) |
| **Unfunded superannuation liability** | **(5 148)** | **(7 271)** | **(4 854)** | **(5 736)** | **(2 490)** |
| | | | | | |
| **Investments to superannuation liability** | **0.4 to 1** | **0.3 to 1** | **0.4 to 1** | **0.4 to 1** | **0.6 to 1** |
| | | | | | |

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Budget figures were obtained from 2017-18 Budget Papers.

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

3.153 The Superannuation Provision Account's financial assets which consist of cash at bank, investment distributions receivable and investments, are not sufficient to cover the superannuation liability, therefore a substantial component of the liability is unfunded.

3.154 The superannuation liability is valued to present value using the Commonwealth Government bond (discount) rate at the end of the financial year. This valuation is sensitive to changes in the discount rate due to the long-term settlement period of the liability. Therefore, the rate used to calculate the present value of the superannuation liability has a significant impact on its estimated value. The use of a lower discount rate increases and a higher rate decreases the estimated superannuation liability respectively.

3.155 The unfunded superannuation liability at 30 June 2018 ($5 736 million) was substantially higher than budgeted ($2 490 million) by $3 246 million (130 percent) largely due to the use of a lower discount rate (3.1 percent) to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate (6.0 percent).

The Superannuation Provision Account uses a long-term average discount rate in the budget and forward year estimates to remove significant valuation volatility resulting from changes in the Commonwealth Government bond (discount) rate from year to year.

The unfunded superannuation liability at 30 June 2018 ($5 736 million) increased from the unfunded position at 30 June 2017 ($4 854 million) by $882 million (18 percent) mainly due to the use of a lower discount rate (3.1 percent) to estimate the present value of the superannuation liability compared to the rate used at 30 June 2017 (3.5 percent).

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

3.156 The Superannuation Provision Account advised that:

> The unfunded superannuation liability position has been volatile since 30 June 2014 due to historic low domestic interest rates with the required use of lower discount rates than the long-term budget interest rate assumption (6 percent) to estimate the superannuation liability. The historical actual discounts rates since 2014 have been:

| 30 June 2014 | 30 June 2015 | 30 June 2016 | 30 June 2017 | 30 June 2018 |
|---|---|---|---|---|
| 4.08% | 3.66% | 2.69% | 3.51% | 3.11% |

> The long-term budget interest rate assumption to estimate the superannuation liability has been reduced to 5 per cent from 1 July 2018.
>
> The superannuation liability valuation is sensitive to changes in the discount rate. The level and volatility of domestic interest rates in the future will continue to significantly impact the estimated superannuation liability valuations.

## Projected unfunded superannuation liability

### Table 3-36 Budgeted financial position

| At 30 June | Actual 2018 $m | Budget 2019 $m | Budget 2020 $m | Budget 2021 $m | Budget 2022 $m |
|---|---|---|---|---|---|
| | | | | | |
| Financial assets – Note 1 | **4 000** | 4 136 | 4 435 | 4 756 | 5 100 |
| Superannuation liability | **(9 736)** | (7 804) | (8 051) | (8 284) | (8 500) |
| **Unfunded superannuation liability** | **(5 736)** | **(3 668)** | **(3 616)** | **(3 528)** | **(3 400)** |
| | | | | | |
| **Investments to superannuation liability** | **0.4 to 1** | **0.5 to 1** | **0.6 to 1** | **0.6 to 1** | **0.6 to 1** |
| | | | | | |

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Budget figures were obtained from the 2018-19 Budget Papers.

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

3.157 The unfunded superannuation liability position is estimated to decrease substantially over the forward years from $5 736 million at 30 June 2018 to $3 400 million by 30 June 2022. This is due to:

- an increase in financial assets of $1 100 million (27 percent) over the forward years from the current balance of $4 000 million to $5 100 million by 30 June 2022; and
- a reduction in the superannuation liability by $1 236 million (13 percent) from $9 736 million in the current year to $8 500 million by 30 June 2022.

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

The Superannuation Provision Account advised that:

> A long-term average discount rate assumption of 5 percent is now being used to estimate the superannuation liability valuation and superannuation expense projections over the 2018-19 Budget and forward years.
>
> The superannuation liability is a long-term liability and the use of an estimated long-term average discount rate assumption is appropriate.

### Table 3-37 Future superannuation cash payments schedule

| Year ended 30 June | Nominal terms $m |
|---|---|
| 2019 | 269 |
| 2025 | 393 |
| 2031 | 519 |
| 2037 | 623 |
| 2043 (peak) | 665 |
| 2049 | 625 |
| 2055 | 524 |
| 2057 | 483 |

Source: Information above was obtained from the 'Report on a sensitivity analysis for the CSS and PSS liabilities as at 30 June 2017' prepared by the Territory's consulting actuary, Willis Tower Watson. The actuarially assessed amounts are represented in nominal terms (i.e. not adjusted for inflation).

3.159 Over future years, the annual cash payments required to meet superannuation obligations are projected to increase significantly, peaking in 2043 at $665 million and then reducing over the years until fully paid. This reflects when employees, who are members of the CSS and PSS, are expected to retire over the next two decades. For many members, the retirement benefits provided under these defined benefit schemes will be taken as indexed pensions and will continue throughout their lives and that of their surviving spouses.

3.160 The Superannuation Provision Account will continue to rely on budget funding to meet the projected significant increase in annual cash payments for the Territory's superannuation obligations until the liability is fully funded. The timing of when the superannuation liability becomes fully funded is subject to the achievement of estimated investment returns and the projected cash payments not significantly increasing beyond the estimated amounts in future years.

# Transport Canberra and City Services Directorate

3.161 The Transport Canberra and City Services Directorate (the Directorate) is responsible for providing Canberra's public transport and municipal services, as well as overseeing the construction and operation of the light rail project. The Directorate also operates laundry services and the Yarralumla Nursery.

3.162 Under changes to administrative arrangements effective from 1 July 2017, the Directorate was transferred responsibilities for:

- sports ground management from the Chief Minister, Treasury and Economic Development Directorate; and
- transport planning and reform from the Environment, Planning and Sustainable Development Directorate.

## Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2017-18 financial statements and an **unqualified report of factual findings** on its 2017-18 statement of performance.
- The net cost of the Directorate's services ($537 million) was higher than the budgeted cost ($494 million) by $43 million (9 percent) mainly due to higher depreciation of assets and the expensing of costs for roads projects that did not meet the definition of an asset under Australian Accounting Standards.
- Capital injections ($157 million) were $59 million or 27 percent lower than the budgeted amount ($216 million). This was mainly due to:
  - delays in completing work on current infrastructure projects and planning and construction work on new infrastructure projects; and
  - funding set aside to meet unexpected costs relating to the light rail project not being required in 2017-18 and deferred to 2018-19.
- At 30 June 2018, the Directorate had $1 649 million in commitments relating to the light rail project.
- The Directorate resolved five previously reported audit findings relating to independence of its internal audit function, monthly reconciliations between the finance and waste management systems, authorisation of travel and hospitality expenditure, valuation of infrastructure assets, and explanatory information in its statement of performance.
- Two previously reported audit findings relating to explanatory information in its financial statements and accounting for the light rail project were partially resolved.
- One audit finding relating to the reviews of weekly waste management fee reconciliations was not resolved.
- Two new audit findings were identified in 2017-18 relating to the reviews of salary reports and documentation supporting the results of two accountability indicators included in the Directorate's statement of performance.

## Financial results

### Table 3-38 Key results

| | Actual 2017-18 $m | Budget 2017-18 $m | Actual 2016-17 $m |
|---|---|---|---|
| | | | |
| Expenses | (583) | (530) | (554) |
| Income | 46 | 36 | 44 |
| **Net cost of services** | **(537)** | **(494)** | **(510)** |
| | | | |
| Government contributions | 334 | 335 | 299 |
| Other gains including infrastructure asset transfers | 105 | 84 | 135 |
| **Operating (deficit)** | **(98)** | **(75)** | **(76)** |
| | | | |
| **Capital injections** | **157** | **216** | **139** |
| | | | |

3.163 The Directorate's expenses mainly consist of depreciation of infrastructure assets, contractor and consultant expenses, repairs and maintenance costs, employee expenses and payments to ACTION for bus services.

Expenses ($583 million) exceeded the budgeted cost ($530 million) by $53 million (10 percent) mainly due to higher than expected:

- depreciation resulting from higher than expected asset values from valuations undertaken in the prior year and the unbudgeted transfer of infrastructure assets from other ACT Government agencies and private developers;
- expensing of capital costs for roads projects that did not meet the definition of an asset under Australian Accounting Standards;
- design works costs relating to stage two of the light rail network and City to the Lake project; and
- water charges for sports ground maintenance.

3.164 Income is mostly derived from providing laundry and linen cleaning services, collecting fees for the disposal of waste at the Territory's landfill sites and the sale of plants from Yarralumla Nursery.

Income ($46 million) exceeded the budgeted amount ($36 million) by $10 million (28 percent) as the Directorate earned higher than anticipated fees from:

- the disposal of asbestos contaminated waste at the Territory's landfill sites; and
- permit applications to use public land for events.

3.165 The net cost of the Directorate's services ($537 million) was higher than the budgeted cost ($494 million) by $43 million (9 percent) mainly due to the expensing of costs for roads projects that did not meet the definition of an asset under Australian Accounting Standards and higher depreciation of assets.

3.166 Government contributions ($334 million) were consistent with the budgeted amount ($335 million).

3.167 Other gains primarily consist of infrastructure assets (mainly roads, stormwater systems, footpaths and cycle paths) transferred to the Directorate from other ACT Government agencies and private land developers. Other gains ($105 million) were $21 million (25 percent) higher than budgeted ($84 million) mainly due to the higher than expected transfer of infrastructure assets largely from Molonglo, Taylor and Throsby and unexpected transfer of assets (mainly roads) from the Chief Minister, Treasury and Economic Development Directorate.

3.168 Capital injections ($157 million) were $59 million or 27 percent lower than the budgeted amount ($216 million). This was mainly due to:

- delays in completing work on current infrastructure projects and planning and construction work on new infrastructure projects; and
- funding set aside to meet unexpected costs relating to the light rail project not being required in 2017-18 and deferred to 2018-19.

### Table 3-39 Light Rail Project - Public-Private Partnership Commitments

| | Finance Lease Commitments $m | Operating Commitments $m | Total (excluding GST) $m |
|---|---|---|---|
| Within one year | 390 | 21 | 411 |
| Later than one year but not later than five years | 114 | 107 | 221 |
| Later than five years | 433 | 584 | 1 017 |
| **Total commitments** | **937** | **712** | **1 649** |
| | | | |

Source: Note 29: 'Commitments' to the Directorate's audited 2017-18 financial statements.

3.169 At 30 June 2018, the Directorate had commitments of $1 649 million for the design, construction, operation, maintenance and financing of the light rail project.

3.170 The Directorate will record the assets and corresponding liabilities relating to this project from the date the project is completed and ready to use.

## Audit findings

### Table 3-40 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---|---|---|---|---|---|
| 8 | (5) | 2 | 1 | 2 | 5 |

3.171 The Directorate resolved five previously reported audit findings by:

- updating its Internal Audit Charter to include safeguards so that operational areas under the responsibility of the Chief Audit Executive are independently reviewed and receive sufficient coverage by internal audit (first reported in 2009-10);
- reviewing monthly reconciliations between the waste management and finance system for the revenue collected at landfill sites in a timely manner (first reported in 2016-17). This reduces the risk that errors and irregularities in revenue records will not be promptly identified, investigated and resolved;
- having travel and hospitality expenditure approved by a delegate (i.e. an authorised person) before the expenditure is incurred and retaining documented evidence of approval as required by its guidelines (first reported in 2016-17). This reduces the risk of unauthorised or inappropriate hospitality or travel expenditure;
- correctly valuing a selection of its infrastructure assets that were due to be revalued (first reported in 2014-15). This reduces the risk of material errors in the financial statements of the Directorate; and
- including explanatory information on how the customer satisfaction accountability indicators were measured in the Directorate's statement of performance (first reported in 2015-16). This reduces the risk that readers of the statement of performance will not understand the results of these accountability indicators.

3.172 The Directorate partially resolved two previously reported audit findings that were first reported in 2015-16 by:

- improving explanations in its financial statements for major variances between the current year, budget and prior year results that were not clear and informative or did not disclose the main reasons for the variances. However, a few explanations still required improvement to ensure readers of the statements would be able to understand the key reasons for major variances in financial results;
- obtaining accounting advice to correctly record transactions for the light rail project in 2016-17 and disclosing information about its initial assessment of the impact of a new accounting standard on the light rail project in its 2017-18 financial statements.

  The status of this audit finding remains partially resolved due to the ongoing need for the Directorate to assess the impact of the new accounting standard that will apply from reporting period beginning 1 July 2020. To minimise the risk of errors in the financial statements, the Directorate should perform a detailed assessment of the

impact of the new accounting standard and develop appropriate accounting policies and treatments prior to the implementation date of the new standard.

3.173 The Directorate did not resolve one audit finding that was first reported in 2015-16 as weekly reconciliations of revenue recorded in the waste management fee system to the money collected were not always reviewed in a timely manner. This increases the risk that errors or irregularities (including fraud) in the reconciliations will not be promptly identified, investigated and resolved.

3.174 Two new audit findings were identified in 2017-18 as the Directorate did not:

- always perform the reviews of salary reports in a timely manner or retain evidence of the reviews. This increases the risk that incorrect or possible fraudulent salary payments to employees will not be promptly detected and addressed; and
- retain sufficient supporting documentation to allow independent verification of the results for two accountability indicators included in its statement of performance. The Directorate subsequently provided sufficient supporting records to verify the results for these accountability indicators. Where the reported results for accountability indicators are not supported by sufficient documentation, there is a higher risk of:
    - errors or fraudulent reporting of the results; and
    - the Directorate being unable to report a result that could be independently verified resulting in a qualification of the report of factual findings on its accountability indicators.

3.175 The Directorate has agreed to address all audit findings.

# University of Canberra

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

3.177 In 2017, the University controlled:

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

3.178 The Audit Office audited the 2017 financial statements of:

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

## Summary

- The Audit Office issued an **unqualified audit report** on the 2017 financial statements of the University.
- The 2017 operating surplus ($2 million) was $5 million (71 percent) lower than the 2016 operating surplus ($7 million). This was mainly due to higher employee expenses and payments to other educational institutions under a partnership program for providing degrees.
- The University had net short-term liabilities of $28 million at 31 December 2017. It disclosed in its financial statements that it can meet these short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. While this is the case, it will need to continue to carefully manage its finances to meet these short-term liabilities.
- One of the nine previously reported audit findings was resolved. This finding related to recording a grant receivable from the Commonwealth Government in compliance with Australian Accounting Standards.
- Five audit findings remain partially resolved. Two relate to control weaknesses over key corporate computer systems, two to the quality of financial reporting and one to a

weakness in payment controls.

- Three audit findings remain unresolved. Two relate to non-compliance with Australian Accounting Standards and one to a weakness in payroll controls.

## Financial results

### Table 3-41 Key results (calendar years)

| **University of Canberra Group – Note 1** | **Actual 2017 $m** | **Actual 2016 $m** |
|---|---|---|
| | | |
| Income | 294 | 283 |
| Expenses | (292) | (276) |
| **Reported operating surplus** | **2** | **7** |
| | | |

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

3.179 Income mainly consists of Commonwealth Government financial assistance for student places, higher education loan programs, research activities, domestic and international student fees, and revenue from providing student accommodation.

Income ($294 million) exceeded the prior year amount ($283 million) by $11 million (4 percent) mainly due to an increase in Commonwealth Government financial assistance resulting from higher domestic student numbers and an increase in funding for research projects and a student accommodation facility (UC Lodge).

3.180 Expenses consists mainly of employee costs, other expenses, depreciation and amortisation. Other expenses include payments made to other educational institutions for teaching courses to undergraduate students that lead to degrees awarded by the University. Expenses ($292 million) exceeded the prior year amount ($276 million) by $16 million (6 percent). This was mainly due to higher:

- employee costs ($4 million) mostly resulting from a pay rise under the University's Enterprise Agreement and an increase in the number of staff; and
- payments to other educational institutions ($3 million) for teaching courses to undergraduate students that lead to degrees awarded by the University due to an increase in student numbers.

3.181 The University's 2017 operating surplus ($2 million) was $5 million (71 percent) lower than the 2016 operating surplus ($7 million). This is due to the higher expenses exceeding the increased revenue.

## Financial position

### Table 3-42 Net short-term liabilities (calendar years)

| **University of Canberra Group – Note 1**<br>**At 31 December** | **Actual 2017 $m** | **Actual 2016 $m** |
|---|---|---|
| | | |
| Short-term assets - Note 2 | 38 | 40 |
| Short-term liabilities - Note 3 | 66 | 59 |
| **Net short-term liabilities** | **(28)** | **(19)** |
| | | |
| **Ratio of short-term assets to short-term liabilities** | **0.6 to 1** | **0.7 to 1** |
| | | |

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

Note 2: Short-term assets ($38 million) consist of current assets ($42 million) as presented in the Statement of Financial Position minus restricted cash ($4 million) held in the University of Canberra Royal Institute of Public Administration Research Fund and WJ Weeden Post-Graduate Scholarship Trust Fund. Restricted cash was subtracted from current assets as this cash cannot be used to pay liabilities.

Note 3: Short-term liabilities ($66 million) are less than current liabilities ($77 million) presented in the Statement of Financial Position. Short-term liabilities only include liabilities expected to be paid within 12 months as this provides a better indication of the short-term asset coverage.

3.182 At 31 December 2017, the University's short-term liabilities ($66 million) exceeded its short-term assets ($38 million) by $28 million (74 percent). The amount by which short-term liabilities exceeded short-term assets increased from $19 million at 31 December 2016 to $28 million at 31 December 2017.

The University's financial statements disclose that the University can meet its short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. While this is the case, the net short-term liability position means that the University will need to continue to carefully manage its finances to meet its short-term liabilities.

## Audit findings

### Table 3-43 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---|---|---|---|---|---|
| 9 | (1) | 5 | 3 | - | 8 |

3.183 One of the nine previously reported audit findings was resolved, five were partially resolved and three were not resolved. No new audit findings were identified during the audit of the 2017 financial statements.

3.184 One previously reported audit finding was resolved by the University. In prior years, the Audit Office assessed that the University's recording of a grant receivable from the Commonwealth Government for the establishment and operation of the Centre for Quality Teaching and Learning and related allowance for impairment did not comply with the Australian Accounting Standard AASB 1004: 'Contributions'.

In 2017, the University removed the grant receivable and related allowance for impairment after a settlement was reached between the University and Commonwealth Government.

3.185 Five audit findings remain partially resolved. In prior years, the University:

- restricted system administrators from installing changes to their desktop computers, however other users can install changes to their desktop computers where the University has assessed that this is consistent with their roles and responsibilities and an 'acknowledgement of responsibility' form is submitted by the relevant user. This presents a risk that these other users could make unauthorised and unintended changes to key corporate computer systems.

  This finding has been reported to the University since 2006. However, the University has advised that it does not intend to impose further restrictions on other users as it considers its systems are not at any appreciable risk from permitting other users to install changes to their desktop computers;

- implemented automated computer system controls that force system administrators to regularly change their passwords, however, these controls only apply to administrators and not to all users. Furthermore, the University has not implemented a system to check whether these users are changing their passwords every eight weeks as required by the University's policy for passwords (ITM Policy Manual). This increases the risk of unauthorised and possibly fraudulent access to systems.

  This finding has been reported to the University since 2006. However, the University has advised that it will continue to rely on computer-enforced strong passwords to restrict access. The Audit Office considers that better management of changes to passwords is needed to prevent passwords from being discovered and to safeguard computer systems from unauthorised and possibly fraudulent access;

- clearly disclosed material restrictions imposed by the ACT Treasurer on the use of debt facilities to meet its short-term liability obligations, however the University has not disclosed the amount of its net short-term liability position in the financial statements. The Audit Office considers that it would be better practice to disclose the amounts in the financial statements, rather than users needing to calculate the amounts from information provided in the financial statements

  This finding has been reported to the University since 2012. However, the University has advised that it does not intend to disclose this information in its financial statements;

- included more information in the Council Report on the financial performance, financial position, cash flows, liquidity position of the University along with other matters that would assist readers to understand the financial and operating results of the University. However, the Audit Office considers this information should be further improved by providing more information on challenges faced by the University especially that of meeting short-term liabilities.

  This finding has been reported to the University since 2013. However, the University has advised that it does not intend to provide more information on challenges in the Council Report; and

- updated its Accounts Payable Policy to require the satisfactory receipt of goods and services to be evidenced on invoices from suppliers before payments are made. However, the University advised that:

  > … if an invoice has been duly authorised by the financial delegate it is not sent back by Finance and Business Services to the relevant Faculty or Business Unit if it has not also been signed off as goods receipted where the amount is less than $5 000.

  The Audit Office considers that this does not sufficiently address the risk of payment errors or fraud for invoices below $5 000 as financial delegates could, for example, fraudulently certify the satisfactory receipt of goods and services and approve invoices for payment. Payments could also be made for goods and services that have not been provided or were not satisfactory.

  This finding has been reported to the University since 2009. However, the University has advised that it has assessed the risk of payment errors or fraud to be low for payments under $5 000.

3.186 Three previously reported audit findings have not been resolved. These relate to:

- payroll controls for the review of fortnightly salary reports. Since 2012, the Audit Office has reported that these reviews were not always documented or performed in a timely manner.

  This presents a risk of undetected erroneous or fraudulent payments to employees. The University has partially agreed with this audit finding and has advised that it will take steps to improve this process.

- recording fees receivable from domestic and continuing international students in accordance with Australian Accounting Standards.

  The University obtained advice on the accounting treatment and accounted for fees receivable from domestic and continuing international students in accordance with this advice in 2013. After reviewing the accounting advice received by the University and its accounting treatment, the Audit Office concluded that the University's accounting treatment is incorrect. However, the University disagrees with this audit finding as it considers that its accounting treatment is appropriate.

- recording income from the transfer of National Rental Affordability Scheme (NRAS) entitlements to a third party in accordance with Australian Accounting Standards.

The University is eligible to receive financial assistance from the Commonwealth Government for participating in NRAS by providing affordable rental dwellings to eligible low-to-moderate income tenants.

In 2014, the University entered into an arrangement with a third party to transfer its NRAS entitlements (i.e. an income stream) from the Commonwealth Government to the third party, in exchange for an upfront payment (a financial liability).

Under the University's accounting policy, which is supported by external accounting advice, it reduces the financial liability and progressively recognises income under Australian Accounting Standard AASB 118: 'Revenue'.

The Audit Office considers the extinguishment of a financial liability and recognition of associated income should be accounted for under the Australian Accounting Standard that applies to financial instruments (AASB 139: 'Financial Instruments: Recognition and Measurement') and not that which applies to revenue (AASB 118: 'Revenue').

After reviewing the accounting advice received by the University and its accounting treatment, the Audit Office concluded that the University's accounting treatment does not comply with AASB 139. Under AASB 139, the University should not reduce the financial liability and recognise income until after the end of NRAS period (i.e. 30 April each year). This audit finding was first reported in 2014. However, the University disagrees with this audit finding as it considers the accounting policy adopted by the University is appropriate.

3.187 The audit report on the financial statements was not qualified for the above areas of non-compliance with the Australian Accounting Standards as they did not cause the financial statements to be materially misstated.

# APPENDIX A: KEY TERMS

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

## Financial statements

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

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

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

Audit reports are issued on a reporting agency's financial statements after the completion of an audit.

## Audit reports on financial statements

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

An audit report with a qualified (negative) audit opinion is issued where the Audit Office:

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

Few qualified (negative) audit opinions are issued because reporting agencies agree to amend their financial statements before the audit is completed.

## Statements of performance

Statements of performance show the results of a reporting agency's accountability indicators (performance measures) and related performance targets. This facilitates an assessment of the reporting agency's performance in providing public services by enabling the actual performance to be compared to planned (targeted) levels of performance. Statements of performance also include explanations for material variances between actual and planned performance for each accountability indicator.

Accountability indicators are set by the reporting agency during the budget process and may provide information on the number, quality and timeliness of services provided.

Reports of factual findings are issued on a reporting agency's statement of performance after the Audit Office has completed a review of the reported results. These reports inform the ACT Legislative Assembly and community members as to whether the Audit Office has identified any matters which indicate that the reported results of these accountability indicators have not been accurately reported.

## Reports of factual findings on statements of performance

An unqualified (positive) report of factual findings is issued where no matters have come to the Audit Office's attention which indicate the results of the accountability indicators reported in the statement of performance are not fairly presented.

An unqualified report of factual findings may include a 'negative finding' where the reporting agency has not complied with the requirements of the Financial Management Act 1996 to establish accountability indicators and targets, or measure a result, for one or more of its accountability indicators.

A qualified (negative) report of factual findings will be issued where a reported result of an accountability indicator is not accurate or cannot be independently verified.

## Materiality

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

Where misstatements are identified but their combined effect is not material, the Auditor-General is required to provide an unqualified (positive) audit report or unqualified (positive) report of factual findings.

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

## Rounding

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

## Misstatements

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

## Net assets

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

## Net operating balance

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

## Operating results

The operating surplus/(deficit) is the sum of the net operating balance and other economic flows. Other economic flows mainly comprise gains/(losses) on investments and land revenue[4]. These gains/(losses) mostly reflect changes in market conditions that affect the value of investments and land.

## Net cost of services

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

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

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

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

The following agencies are included in the Territory's financial statements[5].

ACT Audit Office
ACT Compulsory Third Party Insurance Regulator
ACT Electoral Commission
ACT Executive
ACT Gambling and Racing Commission
ACT Insurance Authority
ACT Local Hospital Network Directorate
ACT Public Cemeteries Authority
ACTION
Canberra Institute of Technology
Chief Minister, Treasury and Economic Development Directorate
CIT Solutions Pty Limited
City Renewal Authority
Community Services Directorate
Cultural Facilities Corporation
Education Directorate
Environment, Planning and Sustainable Development Directorate
Health Directorate
Housing ACT
Icon Water Limited
Independent Competition and Regulatory Commission
Justice and Community Safety Directorate
Legal Aid Commission (ACT)
Lifetime Care and Support Fund
Office of the Legislative Assembly
Public Trustee and Guardian
Suburban Land Agency
Superannuation Provision Account
Territory Banking Account
Transport Canberra and City Services Directorate

[5] Note 3 on page 18 of the 2017-18 Australian Capital Territory Government Consolidated Annual Financial Statements.

## Audit reports

| Reports Published in 2018-19 | |
|---|---|
| Report No. 11 – 2018 | 2017-18 Financial Audits - Overview |
| Report No. 10 – 2018 | Annual Report 2017-18 |
| Report No. 09 – 2018 | ACT Health's management of allegations of misconduct and complaints about inappropriate workplace behaviour |
| **Reports Published in 2017-18** | |
| Report No. 08 – 2018 | Assembly of rural land west of Canberra |
| Report No. 07 – 2018 | Five ACT public schools' engagement with Aboriginal and Torres Strait Islander students, families and community |
| Report No. 06 – 2018 | Physical Security |
| Report No. 05 – 2018 | ACT clubs' community contributions |
| Report No. 04 – 2018 | 2016-17 Financial Audits – Computer Information Systems |
| Report No. 03 – 2018 | Tender for the sale of Block 30 (formerly Block 20) Section 34 Dickson |
| Report No. 02 – 2018 | ACT Government strategic and accountability indicators |
| Report No. 01 – 2018 | Acceptance of Stormwater Assets |
| Report No. 11 – 2017 | 2016-17 Financial Audits – Financial Results and Audit Findings |
| Report No. 10 – 2017 | 2016-17 Financial Audits – Overview |
| Report No. 09 – 2017 | Annual Report 2016-17 |
| Report No. 08 – 2017 | Selected ACT Government agencies' management of Public Art |
| **Reports Published in 2016-17** | |
| Report No. 07 – 2017 | Public Housing Renewal Program |
| Report No. 06 – 2017 | Mental Health Services – Transition from Acute Care |
| Report No. 05 – 2017 | Maintenance of Selected Road Infrastructure Assets |
| Report No. 04 – 2017 | Performance information in ACT public schools |
| Report No. 03 – 2017 | 2015-16 Financial Audits – Computer Information Systems |
| Report No. 02 – 2017 | 2016 ACT Election |
| Report No. 01 – 2017 | WorkSafe ACT's management of its regulatory responsibilities for the demolition of loose-fill asbestos contaminated houses |
| Report No. 11 – 2016 | 2015-16 Financial Audits – Financial Results and Audit Findings |
| Report No. 10 – 2016 | 2015-16 Financial Audits – Audit Reports |
| Report No. 09 – 2016 | Commissioner for International Engagement – Position Creation and Appointment Process |
| Report No. 08 – 2016 | Annual Report 2015-16 |
| Report No. 07 – 2016 | Certain Land Development Agency Acquisitions |
| **Reports Published in 2015-16** | |
| Report No. 06 – 2016 | Management and administration of credit cards by ACT Government entities |
| Report No. 05 – 2016 | Initiation of the Light Rail Project |
| Report No. 04 – 2016 | The management of the financial arrangements for the delivery of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme |
| Report No. 03 – 2016 | ACT Policing Arrangement |
| Report No. 02 – 2016 | Maintenance of Public Housing |
| Report No. 01 – 2016 | Calvary Public Hospital Financial and Performance Reporting and Management |
| Report No. 10 – 2015 | 2014-15 Financial Audits |

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