

**ACT AUDITOR-GENERAL'S REPORT**  
**2019-20 FINANCIAL AUDITS**  
**FINANCIAL RESULTS AND AUDIT FINDINGS**  
REPORT NO. 10 / 2020

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## ACT Audit Office

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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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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 '2019-20 Financial Audits - Financial Results and Audit Findings' for tabling in the ACT Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely



Michael Harris  
Auditor-General  
21 December 2020

*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

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

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

This report includes a discussion of the financial results of the Territory and reporting agencies that significantly affect these results for the year ended 30 June 2020, update on progress made by reporting agencies in resolving audit findings and an assessment of the accuracy of the financial and performance information included in reporting agencies' annual reports.

This is the second of the two audit reports on 2019-20 financial audits. The first audit report '2019-20 Financial Audits – Overview' (Report No. 9/2020) was tabled in the ACT Legislative Assembly on 27 November 2020.

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

## Conclusions

### THE TERRITORY'S FINANCIAL STATEMENTS

An unmodified auditor's report was issued on the Territory's 2019-20 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. In 2019-20, the Territory incurred a net operating balance deficit of \$961 million. This means that the Territory's expenses exceeded its revenue by \$961 million. The deficit in the net operating balance was \$543 million higher than the deficit anticipated in the budget. The Territory estimates net operating deficits will continue to be incurred for the next four years as expenses are forecasted to continue to exceed revenue.

The operating result is the net operating balance adjusted for other economic impacts. In the Territory, these impacts mainly relate to gains or losses on investments and the sale of non-financial assets, and revenue relating to land sales. In 2019-20, the Territory incurred an operating deficit of \$967 million. This was largely due to the net operating balance deficit, losses on investments and lower revenue from residential land sales. The Territory also estimates operating deficits to be incurred for the next four years.

The net assets of the Territory were \$13 579 million at 30 June 2020. This was below the budgeted amount mainly due to the higher than expected unfunded superannuation liability and borrowings obtained to support the Territory's response to the COVID-19 pandemic.

The Territory increased its borrowings in 2020 by \$2 550 million (57 percent) to \$7 026 million mainly to support ongoing investment in infrastructure projects and provide additional funding to support the Government's COVID-19 pandemic response. Total borrowings are projected to increase further to \$11 912 million in 2024.

The Territory had a strong capacity to pay its liabilities that are due within 12 months as it has a net short-term asset position of \$1 985 million at 30 June 2020. However, this is expected to steadily decline over future years to a net short-term asset position of \$480 million in 2024.

### AUDIT FINDINGS

#### Audit findings

The number of audit findings reported to agencies have increased from 44 in 2018-19 to 50 in 2019-20 largely due to an increase in the new audit findings. In 2019-20, 43 percent (19 of 44) of the previously reported audit findings were not resolved or only partially resolved. Agencies should give attention to promptly addressing these findings.

### **Financial and performance information in annual reports**

All reporting agencies included complete and accurate versions of their audited financial statements with the auditor's report, and the statement of performance with the limited assurance report, in their annual reports.

### **COMPUTER INFORMATION SYSTEMS**

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

Nevertheless there are control weaknesses that agencies need to address to further reduce the risk of errors and fraud in their financial information; unauthorised access to sensitive information; cyber security attacks; and the loss of data and the inability to promptly recover systems in the event of a major disruption or disaster.

# 1 THE TERRITORY'S FINANCIAL STATEMENTS

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

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

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

1.3 The key financial results from the Territory's audited 2019-20 financial statements are summarised in this chapter. This includes a discussion on:

- key operating results represented by the net operating balance and operating (deficit)/surplus. These provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time;
- long-term financial position represented by the net assets and unfunded liabilities. This provides an indication of the Territory's capacity to meet its financial obligations over the 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 2020-21 to 2023-24.

## Conclusion

An unmodified auditor's report was issued on the Territory's 2019-20 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. In 2019-20, the Territory incurred a net operating balance deficit of \$961 million. This means that the Territory's expenses exceeded its revenue by \$961 million. The deficit in the net operating balance was \$543 million higher than the deficit anticipated in the budget. The Territory estimates net operating deficits will continue to be incurred for the next four years as expenses are forecasted to continue to exceed revenue.

The operating result is the net operating balance adjusted for other economic impacts. In the Territory, these impacts mainly relate to gains or losses on investments and the sale of non-financial assets, and revenue relating to land sales. In 2019-20, the Territory incurred an operating deficit of \$967 million. This was largely due to the net operating balance deficit, losses on investments and lower revenue from residential land sales. The Territory also estimates operating deficits to be incurred for the next four years.

The net assets of the Territory were \$13 579 million at 30 June 2020. This was below the budgeted amount mainly due to the higher than expected unfunded superannuation liability and borrowings obtained to support the Territory's response to the COVID-19 pandemic.

The Territory increased its borrowings in 2020 by \$2 550 million (57 percent) to \$7 026 million mainly to support ongoing investment in infrastructure projects and provide additional funding to support the Government's COVID-19 pandemic response. Total borrowings are projected to increase further to \$11 912 million in 2024.

The Territory had a strong capacity to pay its liabilities that are due within 12 months as it has a net short-term asset position of \$1 985 million at 30 June 2020. However, this is expected to steadily decline over future years to a net short-term asset position of \$480 million in 2024.

## Summary

### Net operating balance

A net operating balance deficit of \$961 million was incurred by the Territory in 2019-20 as the cost of services delivered by the ACT Government (\$6 811 million) exceeded its revenue (\$5 850 million).

The net operating balance deficit (\$961 million) was higher than the budgeted deficit (\$418 million) by \$543 million (130 percent) due to higher than budgeted expenses and lower than budgeted revenue.

Higher expenses were mainly as a result of higher employee expenses associated with the ACT Government's response to the 2019-20 bushfires and COVID-19 pandemic related policies, and the surrender of Large-Scale Energy Generation Certificates to meet the Government's renewable energy targets consistent with the Government's decision to commence surrender of these certificates from 1 July 2019.

The lower than budgeted revenue was mainly due to the impacts of the COVID-19 pandemic, with lower than budgeted GST revenue grants resulting from a significant reduction in GST collected and passed on by the Commonwealth Government, lower land revenue from fewer residential land sales, and a decline in taxation revenue from providing support to businesses through taxation relief and fee waivers.

The Territory estimates net operating deficits will continue to be incurred for the next four years, with these peaking at \$1 214 million in 2020-21 before reducing to \$710 million in 2023-24, as the costs of delivering public services are estimated to continue to exceed projected revenue.

### Operating result

The Territory incurred an operating deficit of \$967 million compared to the budgeted operating deficit of \$147 million due to the higher than expected net operating balance deficit and less than expected other economic inflows from gains on investments and revenue from residential land sales.

The Territory also estimates operating deficits will continue to be incurred over the same period as the other economic flows are not projected to be sufficient to offset the net operating deficit. These deficits are estimated to peak at \$964 million in 2020-21 and gradually reduce over the future years to \$497 million in 2023-24.

### Financial position

The net assets of the Territory at 30 June 2020 (\$13 579 million) were \$4 361 million (24 percent) lower than budgeted (\$17 940 million) mainly due to the higher than budgeted unfunded superannuation liability as a result of using a lower discount rate to estimate the liability and additional borrowings obtained to support the Territory's response to the COVID-19 pandemic.

The Territory's borrowings have significantly increased in recent years, approximately doubling from \$3 441 million in 2018 to \$7 026 million in 2020. In 2020, the Territory increased its borrowings by \$2 550 million (57 percent) mainly to support ongoing investment in infrastructure projects as well as additional funding to support the Territory's COVID-19

pandemic response. Total borrowings are projected to increase further from \$7 026 million in 2020 by \$4 886 million (70 percent) to \$11 912 million in 2024.

The Territory has a sound net short-term assets position at 30 June 2020 with approximately \$2.10 in short-term assets to meet each dollar of its short-term liabilities. The Territory estimates this to decline over future years to approximately \$1.20 in short-term assets to meet each dollar of its short-term liabilities in 2024.

## Operating results

**Table 1-1 Operating results**

	Actual 2015-16 \$m	Actual 2016-17 \$m	Actual 2017-18 \$m	Actual 2018-19 \$m	Actual 2019-20 \$m	Budget 2019-20 \$m
Revenue	5 113	5 436	5 692	6 034	5 850	6 120
Expenses	(5 486)	(5 673)	(5 734)	(6 271)	(6 811)	(6 538)
<b>Net operating balance deficit</b>	<b>(373)</b>	<b>(237)</b>	<b>(42)</b>	<b>(237)</b>	<b>(961)</b>	<b>(418)</b>
Other economic inflows/(outflows)	2	333	289	35	(6)	271
<b>Operating (deficit)/surplus</b>	<b>(371)</b>	<b>95</b>	<b>247</b>	<b>(202)</b>	<b>(967)</b>	<b>(147)</b>

### 1.4 The Territory's main sources of revenue are:

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

### 1.5 The Territory's main expenses include employee and operational expenses, grants and purchased services and depreciation and amortisation.

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

- 1.7 The operating (deficit)/surplus is the sum of the net operating balance and other economic flows. Other economic flows mainly include:
- net gain/(loss) on financial assets and liabilities at fair value reflecting changes in market conditions that affect the value of investments;
  - net (loss) on the sale/(disposal) of non-financial assets mainly relating to the derecognition/revaluation of Large-Scale Energy Generation Certificates and the write-off of inventory (land transfers);
  - 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.

## 2019-20 operating results compared to budget estimates

### Net operating balance

- 1.8 The net operating balance deficit (\$961 million) in 2019-20 was higher than the budgeted deficit (\$418 million) by \$543 million (130 percent). This was mainly due to:
- higher than expected expenses (\$273 million) mainly from:
    - employee expenses of \$182 million (8 percent) largely resulting from the extension of temporary employment contracts and hiring additional staff under the ACT Government's response to the 2019-20 bushfires and COVID-19 pandemic; and
    - grant expenses of \$166 million (16 percent) associated with the surrender of Large-Scale Energy Generation Certificates to meet the Government's renewable energy targets consistent with the Government's decision to commence surrender of these certificates from 1 July 2019.
  - lower than expected revenue (\$270 million) mainly from:
    - taxation revenue mainly due to taxation relief provided to the ACT community and businesses because of the impacts of the COVID-19 pandemic;
    - land revenue (value-add component) due to lower residential land sales resulting from slower market conditions; and
    - commonwealth grants mainly due to a significant write-down in the national GST pool as a result of the COVID-19 pandemic.

### Operating deficit

- 1.9 The Territory incurred an operating deficit of \$967 million compared to the budgeted operating deficit of \$147 million mainly due to:
- higher than expected deficit in the net operating balance;

- a loss on financial assets, as a result of weaker investment market performance from the greater than expected market volatility due to the COVID-19 pandemic and global economic downturn; and
- lower than expected land related revenue (i.e. market gains on land sales and undeveloped land value) as previously discussed.

## 2019-20 operating results compared to prior year result

### Net operating balance

- 1.10 The net operating balance deficit in 2019-20 (\$961 million) increased from the deficit incurred in 2018-19 (\$237 million) by \$724 million (305 percent) due to an increase in expenses (\$540 million) and a decrease in revenue (\$184 million).
- 1.11 The increase in expenses of \$540 million (9 percent) resulted mainly from higher:
- grant expenses of \$231 million associated with the surrender of Large-Scale Energy Generation Certificates to meet the ACT Government's 2019-20 renewable energy targets as previously discussed;
  - employee expenses of \$220 million mostly due to pay increases under enterprise agreements and increased staff numbers;
  - depreciation and amortisation expenses of \$82 million mainly due to the recognition of right-of-use assets on 1 July 2019 following the implementation of new Australian Accounting Standard AASB 16: 'Leases'; and
  - supplies and services expenses of \$45 million mainly resulting from higher:
    - monthly service payments made to Canberra Metro for light rail operations in line with the agreement;
    - various operational expenses relating to the 2019-20 bushfire response, including medical and operational expenses mostly associated with aviation firefighting, accommodation, rent and hire expenses, repairs and maintenance costs; and
    - demand and cost of inventory purchases for personal protective equipment as a result of the Territory's response to the COVID-19 pandemic.
- 1.12 The decrease in revenue of \$184 million (3 percent) resulted mainly from lower:
- land revenue (value-add component) of \$224 million due mainly to lower residential land sales in 2019-20 compared to 2018-19; and
  - revenue from associates and joint ventures of \$30 million due to lower profits received from the ActewAGL Retail and Distribution Partnerships.

## Operating deficit

1.13 The Territory incurred an operating deficit of \$967 million in 2019-20 compared with the prior year operating deficit of \$202 million mainly due to:

- an increase in the net operating balance deficit by \$724 million as a result of the higher expenses and lower revenue as previously discussed;
- a decrease in other economic flows by \$41 million. This was mostly due to:
  - a net loss on financial assets largely as a result of weaker investment market performance from the greater than expected market volatility due to the COVID-19 pandemic and global economic downturn; and
  - decrease in land revenue mainly resulting from a decrease in land sales as previously discussed.

## Projected operating results

**Table 1-2 Projected operating results**

	Actual 2019-20 \$m	Estimate 2020-21 \$m	Estimate 2021-22 \$m	Estimate 2022-23 \$m	Estimate 2023-24 \$m
Revenue	5 850	5 954	6 228	6 653	6 762
Expenses	(6 811)	(7 168)	(7 194)	(7 400)	(7 472)
<b>Net operating balance deficit</b>	<b>(961)</b>	<b>(1 214)</b>	<b>(966)</b>	<b>(747)</b>	<b>(710)</b>
Other economic (outflows)/inflows	(6)	250	229	243	213
<b>Operating deficit</b>	<b>(967)</b>	<b>(964)</b>	<b>(737)</b>	<b>(504)</b>	<b>(497)</b>

Source: The estimates were obtained from the August 2020 Economic and Fiscal Update.

1.14 Table 1-2 shows that the Territory estimates net operating balance deficits will continue to be incurred for the next four years, with these peaking at \$1 214 million in 2020-21 before reducing to \$710 million in 2023-24, as the costs of delivering public services are estimated to exceed projected revenue.

1.15 The Territory also estimates operating deficits will continue to be incurred over the same period as the other economic flows are not projected to be sufficiently large to offset the net operating deficit. These deficits are estimated to peak at \$964 million in 2020-21 and gradually reduce over the future years to \$497 million in 2023-24.

## Financial position

**Table 1-3 Net assets**

At 30 June	Actual 2016 \$m	Actual 2017 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2020 \$m	Budget 2020 \$m
<b>Assets</b>						
Financial assets - Note 1	2 430	2 450	2 218	3 192	3 863	2 334
Property, plant and equipment	21 464	22 225	22 744	24 450	25 485	24 661
Other non-financial assets - Note 2	2 632	2 559	2 612	2 592	2 658	3 188
<b>Total assets</b>	<b>26 526</b>	<b>27 234</b>	<b>27 574</b>	<b>30 234</b>	<b>32 006</b>	<b>30 183</b>
<b>Liabilities</b>						
Borrowings	3 511	3 555	3 441	4 476	7 026	4 772
Unfunded superannuation - Note 3	7 330	4 865	5 746	7 583	7 798	3 632
Advances received, payables and finance leases	1 714	1 708	1 384	1 856	1 452	2 191
Employee benefits and other provisions	1 080	971	1 156	1 676	2 001	1 629
Other	9	48	43	31	150	19
<b>Total liabilities</b>	<b>13 644</b>	<b>11 147</b>	<b>11 770</b>	<b>15 622</b>	<b>18 427</b>	<b>12 243</b>
<b>Net assets</b>	<b>12 882</b>	<b>16 087</b>	<b>15 804</b>	<b>14 612</b>	<b>13 579</b>	<b>17 940</b>
<b>Ratio of assets to liabilities</b>	<b>1.9:1</b>	<b>2.4:1</b>	<b>2.3:1</b>	<b>1.9:1</b>	<b>1.7:1</b>	<b>2.5:1</b>

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.

1.16 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, intangibles and capital works in progress.

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

- 1.18 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 the Territory has in assets to meet its liabilities. It is considered that the Territory should have at least the same amount of assets to meet its liabilities. This can be expressed as a ratio of 1:1. Table 1-3 shows that the Territory has around \$1.70 in assets to meet each dollar of liabilities as at 30 June 2020.
- 1.19 Net assets of the Territory at 30 June 2020 (\$13 579 million) were lower than budgeted (\$17 940 million) by \$4 361 million (24 percent). This was mainly due 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 2020 compared to the higher long-term rate used to prepare the budget estimate. A rate of 1.73 percent was used to estimate the liability at 30 June 2020 compared with the rate of 5 percent used for the purposes of the budget; and
  - borrowings obtained to support the Territory's response to the COVID-19 pandemic that were not included in the budget.
- 1.20 Net assets of the Territory at 30 June 2020 (\$13 579 million) were lower than 30 June 2019 (\$14 612 million) by \$1 033 million (8 percent) mainly due to increase in borrowings of \$2 550 million largely to support ongoing investment in infrastructure projects as well as additional funding to support the Territory's response to the COVID-19 pandemic.
- 1.21 The net asset position of the Territory can fluctuate significantly from year to year due to changes in the discount rate used to estimate the present value of the Territory's unfunded superannuation liability.
- 1.22 The superannuation liability is estimated or 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. A lower discount rate increases the estimated superannuation liability and a higher rate decreases the estimated superannuation liability.
- 1.23 Further information on the Territory's superannuation liability, including the discount rate, can be found in the section on the Superannuation Provision Account in Chapter 4 of this report.

## Unfunded liabilities

**Table 1-4 Unfunded liabilities**

At 30 June	Actual 2016 \$m	Actual 2017 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2020 \$m	Budget 2020 \$m
<b>Liabilities</b>						
Unfunded superannuation - Note 1	7 330	4 865	5 746	7 583	7 798	3 632
Borrowings	3 511	3 555	3 441	4 476	7 026	4 772
Advances received, payables and finance leases	1 714	1 708	1 384	1 856	1 452	2 191
Other (including employee benefits)	1 089	1 019	1 199	1 707	2 151	1 648
<b>Total liabilities</b>	<b>13 644</b>	<b>11 147</b>	<b>11 770</b>	<b>15 622</b>	<b>18 427</b>	<b>12 243</b>
<b>Financial assets - Note 2</b>	<b>2 430</b>	<b>2 450</b>	<b>2 218</b>	<b>3 192</b>	<b>3 863</b>	<b>2 334</b>
<b>Unfunded liabilities</b>	<b>11 214</b>	<b>8 697</b>	<b>9 552</b>	<b>12 430</b>	<b>14 564</b>	<b>9 909</b>

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

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

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

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

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

1.26 Unfunded liabilities of the Territory at 30 June 2020 (\$14 564 million) were higher than budgeted (\$9 909 million) by \$4 655 million (47 percent). This was mainly due to:

- higher than estimated unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the liability at 30 June 2020 compared to the higher long-term rate used to prepare the budget estimate as previously discussed; and

- borrowings obtained to support the Territory's response to the COVID-19 pandemic that were not anticipated in the budget.

- 1.27 Unfunded liabilities of the Territory at 30 June 2020 (\$14 564 million) have increased from 30 June 2019 (\$12 430 million) by \$2 134 million (17 percent) mainly due to the additional borrowings obtained as discussed previously.
- 1.28 Similar to the net asset position of the Territory, the unfunded liabilities of the Territory can fluctuate significantly from year to year due to changes in the discount rate used to value the unfunded superannuation liability.
- 1.29 Table 1-4 also shows that the Territory's borrowings have significantly increased in recent years, approximately doubling from \$3 441 million in 2018 to \$7 026 million in 2020. In 2020, the Territory increased its borrowings by \$2 550 million (57 percent) mainly to support ongoing investment in infrastructure projects as well as additional funding to support the Government's COVID-19 pandemic response.

## Projected unfunded liabilities

**Table 1-5 Projected unfunded liabilities**

At 30 June	Actual 2020 \$m	Estimate 2021 \$m	Estimate 2022 \$m	Estimate 2023 \$m	Estimate 2024 \$m
<b>Liabilities</b>					
Unfunded superannuation - Note 1	7 798	3 745	3 666	3 552	3 399
Borrowings	7 026	8 178	10 168	10 530	11 912
Advances received, payables and finance leases	1 452	1 701	1 700	1 860	2 013
Other liabilities (including employee benefits)	2 151	1 817	1 885	1 956	2 026
<b>Total liabilities</b>	<b>18 427</b>	<b>15 441</b>	<b>17 419</b>	<b>17 898</b>	<b>19 350</b>
<b>Financial assets - Note 2</b>	<b>3 863</b>	<b>3 411</b>	<b>3 911</b>	<b>3 268</b>	<b>3 771</b>
<b>Unfunded liabilities</b>	<b>14 564</b>	<b>12 030</b>	<b>13 508</b>	<b>14 630</b>	<b>15 579</b>

Source: The estimates were obtained from the August 2020 Economic and Fiscal Update.

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

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

- 1.30 Table 1-5 shows the Territory's estimated unfunded liabilities over the forward years to 2024. Unfunded liabilities at 30 June 2020 of \$14 564 million are estimated to fall to \$12 030 million in 2021 largely due to an estimated decrease in the unfunded

superannuation liability before rising to \$15 579 million in 2024 largely due to further increases in borrowings.

- 1.31 The unfunded superannuation liability at 30 June 2020 of \$7 798 million is estimated to decrease by \$4 053 million (52 percent) to \$3 745 million at 30 June 2021 and remain at this level through to 2024 mainly due to the use of a higher long-term discount rate to calculate the estimate of the liability as previously discussed.
- 1.32 Total borrowings are projected to increase from \$7 026 million in 2020 by \$4 886 million (70 percent) to \$11 912 million in 2024.

## Short-term financial position

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

At 30 June	Actual 2016 \$m	Actual 2017 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2020 \$m	Budget 2020 \$m
Short-term assets - Note 1	2 430	2 450	2 218	3 192	3 863	2 334
Short-term liabilities - Note 2	1 283	1 308	1 234	2 442	1 878	1 382
<b>Net short-term assets</b>	<b>1 147</b>	<b>1 142</b>	<b>984</b>	<b>750</b>	<b>1 985</b>	<b>952</b>
<b>Ratio of short-term assets to short-term liabilities</b>	<b>1.9:1</b>	<b>1.9:1</b>	<b>1.8:1</b>	<b>1.3:1</b>	<b>2.1:1</b>	<b>1.7:1</b>

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

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

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

- 1.33 The Territory's short-term financial position can be assessed by its capacity to meet its financial obligations over the short-term by comparing the Territory's short-term assets available to meet its short-term liabilities. It is considered that the Territory should have at least the same amount of short-term assets to meet its short-term liabilities. This can be expressed as a ratio of 1:1.
- 1.34 Table 1-6 shows that the Territory has a sound net short-term assets position of 2.1:1. This means that it has approximately \$2.10 in short-term assets to meet each dollar of its short-term liabilities.
- 1.35 Net short-term assets of the Territory at 30 June 2020 (\$1 985 million) were higher than budgeted net assets (\$952 million) by \$1 033 million (109 percent). However, this was mainly due to higher cash and deposits held by the Territory as a result of the borrowings obtained to fund the ACT Government's response to the COVID-19 pandemic.

- 1.36 Net short-term assets of the Territory at 30 June 2020 (\$1 985 million) have increased from 30 June 2019 (\$750 million) by \$1 235 million (165 percent) mainly due to the previously discussed higher cash and deposits.

## Projected short-term financial position

**Table 1-7** Projected net short-term assets

At 30 June	Actual 2020 \$m	Estimate 2021 \$m	Estimate 2022 \$m	Estimate 2023 \$m	Estimate 2024 \$m
Short-term assets - Note 1	3 863	3 411	3 911	3 268	3 771
Short-term liabilities - Note 2	1 878	2 255	2 865	2 529	3 291
<b>Net short-term assets</b>	<b>1 985</b>	<b>1 156</b>	<b>1 046</b>	<b>739</b>	<b>480</b>
<b>Ratio of short-term assets to short-term liabilities</b>	<b>2.1:1</b>	<b>1.5:1</b>	<b>1.4:1</b>	<b>1.3:1</b>	<b>1.2:1</b>

Source: The estimates were obtained from the August 2020 Economic and Fiscal Update and information provided by the Chief Minister, Treasury and Economic Development Directorate.

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

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

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

- 1.37 The Territory estimates that its net short-term assets position of 2.1:1 in 2020 will steadily decline over future years to a net short-term asset position of 1.2:1 in 2024.

## 2 AUDIT FINDINGS

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

## Conclusions

### **Audit findings**

The number of audit findings reported to agencies have increased from 44 in 2018-19 to 50 in 2019-20 largely due to an increase in the new audit findings. In 2019-20, 43 percent (19 of 44) of the previously reported audit findings were not resolved or only partially resolved. Agencies should give attention to promptly addressing these findings.

### **Annual reports**

All reporting agencies included complete and accurate versions of their audited financial statements with the auditor's report, and the statement of performance with the limited assurance report, in their annual reports.

## Summary

The Audit Office reported a total of 50 audit findings to agencies in 2019-20, of which 31 were new audit findings identified from the current year's financial statements audits and limited assurance engagements on statements of performance.

While the number of audit findings reported has decreased by 18 (26 percent) from 68 at the beginning of 2017-18 to 50 at 30 June 2020, it has increased from the 44 audit findings reported at 30 June 2019. Agencies will need to continue to implement audit recommendations in areas of internal controls, reporting practices and governance arrangements.

More than two thirds of all audit findings (68 percent or 34 of 50) in 2019-20 related to internal control deficiencies which presents a risk of error or fraud.

Agencies need to continue to give attention to addressing previously reported audit findings in a timely manner. In 2019-20, 43 percent (19 of 44) of the previously reported audit findings were not resolved or only partially resolved compared to 35 percent (22 of 63) in 2018-19.

## Status of audit findings

2.6 The Audit Office reported 50 audit findings to reporting agencies in 2019-20. The status of audit findings reported to agencies in audit management reports from 2017-18 to 2019-20 is shown in Table 2-1.

**Table 2-1 Status of audit findings**

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2017-18	68	(36)	16	16	31	63
2018-19	63	(41)	10	12	22	44
2019-20	44	(25)	11	8	31	50

Source: Audit Office records.

2.7 Audit findings have decreased by 18 (26 percent) from 68 at the beginning of 2017-18 to 50 at 30 June 2020. The reduction in audit findings is due to the number of previously reported audit findings resolved (102) exceeding the number of new audit findings (84) identified over the period from 2017-18 to 2019-20.

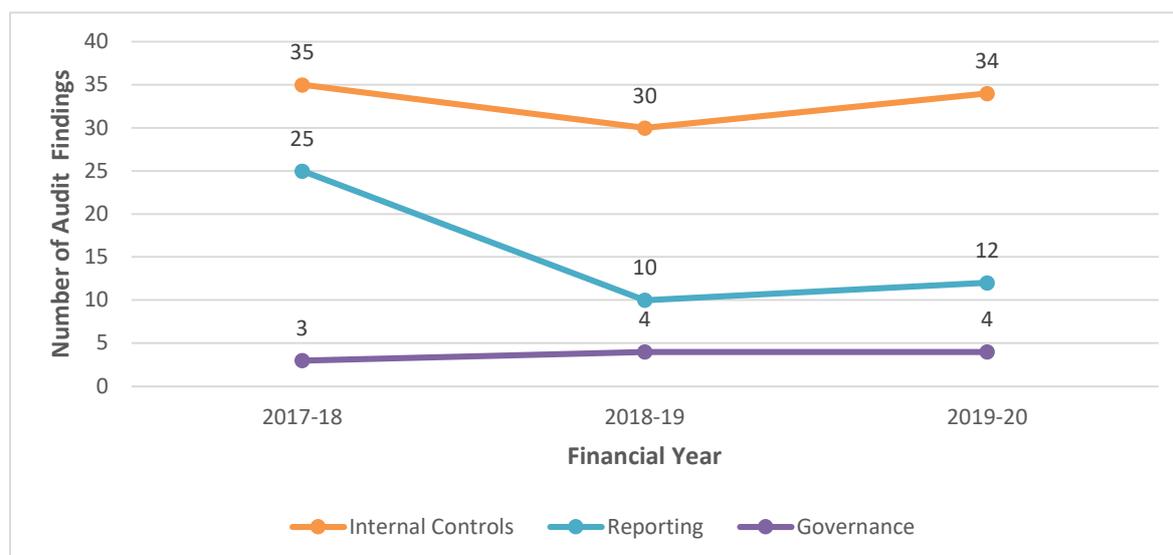
2.8 While the number of audit findings has declined since the beginning of 2017-18, it has increased from 44 in 2018-19 to 50 in 2019-20 due to:

- the increase in new audit findings (9) in 2019-20. Agencies need to continue to implement effective internal controls, reporting practices and governance arrangements to reduce the number of new audit findings being identified by the Audit Office; and
- 43 percent (19 of 44) of previously reported audit findings being not resolved or only partially resolved in 2019-20 compared to 35 percent (22 of 63) in 2018-19. Agencies need to continue to give attention to addressing previously reported audit findings in a timely manner.

## Categories of audit findings

2.9 Figure 2-1 shows the three categories of audit findings (internal controls, reporting and governance) reported to agencies in audit management reports from 2017-18 to 2019-20.

**Figure 2-1 Categories of audit findings**



Source: Audit Office records.

- 2.10 In 2019-20, more than half of the reported audit findings (68 percent or 34 of 50) related to deficiencies in internal controls. This indicates that agencies need to work on implementing and strengthening their processes and procedures around internal controls.
- 2.11 The number of audit findings relating to reporting practices has decreased from 25 in 2017-18 to 12 in 2019-20. This shows that agencies have made progress in their reporting practices during this period.
- 2.12 The number of governance related audit findings has slightly increased from 3 in 2017-18 to 4 in 2019-20.
- 2.13 Audit findings relating to deficiencies in internal controls reported in 2019-20 included a number of similar issues across agencies. These included findings relating to the:
- review of salary reports. The timely review of these reports including evidence of the review 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; and
  - preparation and review of reconciliations for revenue systems and cash receipt collections. 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.
- 2.14 Audit findings relating to deficiencies in agencies' financial and performance reporting practices in 2019-20 also included a number of similar issues. These included findings relating to:
- variance explanations in the financial statements. Explanation of major variances in the financial statements assists readers of the financial statements to better understand the financial results of an agency; and

- not measuring the results of accountability indicators in the statement of performance. Measuring and reporting the results for accountability indicators reduces the risk of non-compliance with the reporting requirements of the *Financial Management Act 1996*.

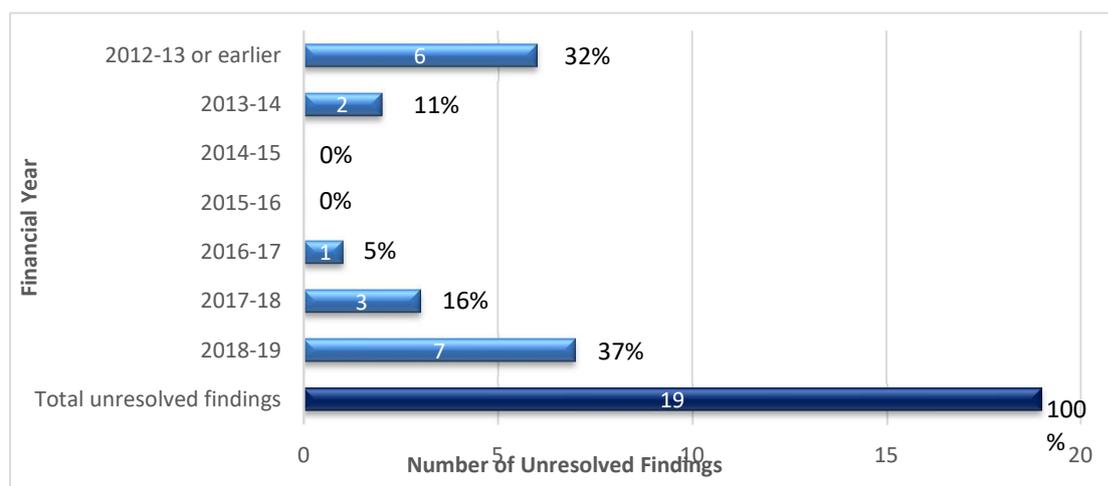
2.15 Further information on audit findings reported to individual agencies is provided later in this report in Section 4: 'Financial Results and Audit Findings of Selected Reporting Agencies'.

## Aging of unresolved audit findings

2.16 As of 30 June 2020, 19 (38 percent) of the 50 audit findings were previously reported to agencies and remained either partially resolved or not resolved (i.e. unresolved).

2.17 Figure 2-2 shows a breakdown of when these 19 unresolved audit findings were first reported to agencies.

**Figure 2-2 Aging of 2019-20 unresolved audit findings**



Source: Audit Office records.

2.18 Of the 19 unresolved audit findings, 6 (32 percent) were first reported to agencies seven or more years ago (2012-13 or earlier). All of these findings are in relation to internal controls deficiencies and were mostly 'disagreed', 'partially agreed', or 'noted' by agencies. Agencies do not fully agree with audit findings when they assess that adequate alternative processes or procedures are in place to mitigate the deficiencies identified by the Audit Office.

2.19 The auditor's reports on the financial statements of respective agencies were not modified as the findings did not have a material impact on their financial statements.

2.20 The 2 (11 percent) unresolved audit findings reported in 2013-14 relate to deficiencies in internal controls where agencies did not perform regular or timely review of salary reports. The respective agencies have 'agreed' to the audit recommendations and will be

addressing these control weaknesses to reduce the risk of incorrect or fraudulent salary payments not being promptly identified and addressed.

- 2.21 All audit findings reported in 2014-15 and 2015-16 have been resolved by agencies. This demonstrates that agencies have responded positively to audit recommendations and related matters where capable of being resolved without significant changes to processes or systems.
- 2.22 The remaining 11 (58 percent) unresolved audit findings reported in 2016-17, 2017-18 and 2018-19 mainly relate to deficiencies in:
- internal controls including weaknesses in the review of salary reports and controls over payment processes; and
  - reporting practices where the usefulness and clarity of accountability indicators reported in the statement of performance could be improved.
- 2.23 Agencies have 'agreed' to implement the audit recommendations from the Audit Office on audit findings reported in 2016-17, 2017-18 and 2018-19. The implementation of these recommendations will be followed up by the Audit Office as part of the 2020-21 financial statements audit.

## Financial and performance information in annual reports

- 2.24 Reporting agencies prepare their annual reports in accordance with the Annual Reports Directions issued by the Chief Minister, Treasury and Economic Development Directorate under the *Annual Reports (Government Agencies) Act 2004*.
- 2.25 Reporting agencies are responsible for ensuring their annual report includes:
- accurate and complete versions of their audited financial statements and where applicable, statement of performance; and
  - the complete auditor's report on the financial statements and where applicable, limited assurance report on the statement of performance.
- 2.26 The Audit Office is required by Australian Auditing Standard ASA 720: 'The Auditor's Responsibilities Relating to Other Information' to review the annual reports of reporting agencies to confirm that the:
- financial statements and statement of performance are accurate and complete;
  - complete auditor's report and limited assurance report have been included; and
  - relevant financial and performance information in the annual report is consistent with the audited financial statements and statement of performance.
- 2.27 All reporting agencies included complete and accurate versions of their audited financial statements with the auditor's report, and the statement of performance with the limited assurance report, in their annual reports.

## 3 COMPUTER INFORMATION SYSTEMS

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

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

### General controls over computer information systems

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

### Status of audit findings

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

**Table 3-1** Status of general controls audit findings

Year	Previously reported	Resolved	Partially resolved	Not resolved	New	Balance
2019-20	4	1	-	3	-	3
2018-19	7	(3)	2	2	-	4
2017-18	9	(3)	3	3	1	7
2016-17	13	(4)	5	4	-	9
2015-16	12	(3)	4	5	4	13

- 3.5 Of the four previously reported audit findings on general controls, one (25 percent) was resolved in 2019-20 and three were not resolved.
- 3.6 There were no new audit findings identified in general controls in 2019-20.
- 3.7 The number of general controls audit findings reported to agencies over the last four years has reduced from thirteen in 2015-16 to three in 2019-20. There has also only been one new audit finding identified during the last three years. This indicates that ACT Government agencies have made improvements in the general control environment over their computer information systems.

## Audit findings

- 3.8 Audit findings in relation to general controls over computer information systems were identified in the following areas:
- information security; and
  - change management.
- 3.9 These findings and the recommendations made to address them are discussed below.

## Information security

- 3.10 To protect the confidentiality, integrity, and availability of information held in computer systems, the security controls over these systems is an important part of every agency's protective security arrangements.
- 3.11 All agencies have a responsibility to consider how their information technology security arrangements may impact other agency's information security arrangements due to the interconnectivity of information systems across the ACT Government. For example, a weakness in one agency's information technology arrangements that affects the security of the ACT Government network, such as the use of generic user accounts, could also affect the security of other agency's information systems and data that are also accessed on that network.

- 3.12 One of the two previously reported weaknesses in controls over information security, regarding controls over the management of access to the ACT Government network (relating to inactive user accounts on the ACT Government Network and generic user accounts) is partially resolved and the other relating to application whitelisting, while progressed, is not yet resolved. These matters are discussed below.

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

#### *Inactive user accounts*

- 3.13 Inactive network user accounts pose a risk to the ACT Government and agencies as these accounts may belong to terminated employees (i.e. employees who have ceased employment) who no longer require and in fact are not permitted access to systems and data. Furthermore, these user accounts are more susceptible to being hacked as the activities undertaken using these accounts are more likely to go unnoticed. Therefore, user accounts that have not been used for a specified period (usually no more than 90 days) should be disabled.
- 3.14 Shared Services' ICT Security Policy states that ICT systems should ensure that a user's access is suspended after 90 days of inactivity.
- 3.15 Since 2015-16, the Audit Office has reported to Chief Minister, Treasury and Economic Development Directorate (Shared Services) that there were many inactive user accounts on the ACT Government network and has recommended that Shared Services disable inactive user accounts in accordance with its ICT Security Policy.
- 3.16 In response to this audit finding in the 2018-19 Interim Audit Management Report, Shared Services ICT advised that an automated process had been implemented to disable inactive user accounts. Despite the implementation of an automated solution, as at May 2020, there were still 3 408 inactive standard user accounts of which 411 users had never logged on to the network. Additionally, there were 131 inactive privileged user accounts of which 26 users had never logged on to the network.
- 3.17 Shared Services should implement the functionality that ensures users with inactivity over the period specified in its ICT Security Policy are promptly disabled from the ACT Government network
- 3.18 Shared Services agreed with the Audit Office's recommendations to address this weakness.

#### *Generic (shared) user accounts*

- 3.19 The use of generic (shared) user accounts should be avoided because these compromise IT security as they reduce management's ability to trace the actions of a user to a specific individual. However, if there is a strong business justification for their use, adequate controls should be implemented to minimise the risks associated with their use.

- 3.20 In 2018-19, the Audit Office reported that the ACT Health Directorate had 100 generic user accounts in use on the ACT Government network and that passwords for some of these generic user accounts had not been changed since 1999. Passwords are required to be changed every 180 days in accordance with the ACT Government's Password Standard.
- 3.21 In 2019-20, the Directorate addressed this weakness by completing reviews of their generic (shared) user accounts to reduce them to only those that are unavoidable and strengthened their controls over those that remain. These controls include, for example:
- executive level authorisation of risks and risk mitigation strategies (e.g. approval required by the Chief Information Officer);
  - generic user accounts are configured with the limited access privileges (e.g. specific application access only);
  - generic user accounts can only be accessed and logged into from specific workstations and facilities; and
  - regular password changes, where applicable.
- 3.22 This reduces the risk of unauthorised or fraudulent access to data and applications on the ACT Government network.

### **Whitelisting of applications (finding not resolved)**

- 3.23 Application whitelisting allows only specified programs to operate on computer systems and prevents the operation of unauthorised or malicious programs (viruses) that may have been downloaded onto a computer from email attachments, portable storage devices or the internet. It reduces the risk of unauthorised access to systems and data from the exploitation of vulnerabilities by malicious programs (e.g. computer viruses).
- 3.24 Application whitelisting has been previously identified by the Australian Signals Directorate (ASD) as one of the essential eight mitigation strategies against targeted cyber security attacks.
- 3.25 Since 2014-15, the Audit Office has reported to Shared Services that application whitelisting has not been implemented for desktop or server computer systems operating on the ACT Government network. This increases the risk of unauthorised access to systems and data from the exploitation of vulnerabilities by malicious programs (e.g. computer viruses).
- 3.26 As of September 2020, Shared Services advised that all workstations on the Education network and over 90 percent of workstations on the ACT Government network (approximately 12 700 of 18 500 desktop computers) have had application whitelisting activated as part of the deployment of the Windows 10 Standard Operating Environment.
- 3.27 Shared Services advised in relation to server operating systems that application whitelisting is a part of the Windows Server 2019 Standard Operating Environment which will be rolled out for all new Windows server builds. However, there are challenges with

implementing server whitelisting for legacy Windows versions and Linux which carry significant risks to business availability and require further technical investigation. The Audit Office acknowledges that it may not be cost effective or technically feasible to implement whitelisting on some legacy Windows and Linux servers and that the re-platforming of these systems may be a more feasible approach.

- 3.28 Shared Services agreed with the Audit Office's recommendations to address this weakness.

### **Business continuity and disaster recovery arrangements**

- 3.29 Business continuity and disaster recovery arrangements provide assurance that computer information systems are:

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

- 3.30 A previously reported weakness in relation to the lack of duplicate information technology infrastructure has been resolved in 2019-20. This is discussed below.

### **Duplicate information technology infrastructure (finding resolved)**

- 3.31 Under the ACT Government's ICT Business System Criticality Guidelines, information technology infrastructure may be classified as 'Government Critical', 'Business Critical', or 'Business Operational and Administrative Services'. Information technology infrastructure mainly consists of data centres (servers, storage area networks and back-up media libraries) and communication networks.

- 3.32 The criticality of a system is determined by the ACT Government agency that 'owns' and has accountability for a system. A 'Government Critical' system is one which has been assessed as requiring:

...continuous availability. Breaks in service are intolerable, and immediately and significantly damaging. Availability is required at almost any price.

- 3.33 In prior years, the Audit Office reported that information technology infrastructure supporting Pathology Laboratory System, a system identified by the ACT Health Directorate as 'government critical', had not been duplicated at a site remote from the infrastructure's main location.

- 3.34 In 2019-20, the ACT Health Directorate resolved this audit finding by duplicating the infrastructure supporting the Pathology Laboratory System at a site remote from the infrastructure's main location. This provides assurance that the system is continuously available if there were to be an incident that destroyed or rendered the information technology infrastructure at the main site temporarily or permanently unavailable.

## Change management

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

### Reconciliation of system changes (finding not resolved)

- 3.37 Reconciling system changes recorded in audit logs to records of authorised changes in the change management system provides assurance that system performance problems or security vulnerabilities caused by unauthorised changes will be identified and rectified in a timely manner.
- 3.38 Since 2012-13, the Audit Office has reported to Shared Services that it has not performed reconciliations of changes recorded in audit logs to authorised change records in the change management system. This weakness continues to exist in 2019-20. This increases the risk that erroneous or fraudulent changes to critical systems will not be identified and rectified in a timely manner.
- 3.39 Shared Services previously advised that by 31 December 2018 it would implement a process within the change management system (Service Now) to integrate the configuration management database with the change management module to provide the ability to automate the comparison of configuration item record changes against authorised changes, therefore addressing this weakness.
- 3.40 In 2019-20, Shared Services advised that the implementation to allow this functionality was still being progressed but was yet to be finalised.
- 3.41 Shared Services partially agreed with the Audit Office's recommendation to address this weakness and advised:

The Shared Services Change Management team manually audits change requests regularly. If they discover unauthorised changes or categorisation anomalies, they seek clarification to educate and ensure agreed change management processes are adhered to.

Additionally, Shared Services ICT is currently in the process of upgrading the IT Service Management tool (ServiceNow) with a refreshed Configuration Management Database (CMDB). Shared Services are in discussions with the vendor to implement an automated process to discover unauthorised changes against Configuration Item records. The current project is set to deliver and implement the new CMDB in the 2021 calendar year. Post project implementation, Change Management will work to configure the unauthorised change functionality as a priority for early 2021.

## Controls over specific major applications

- 3.42 This section contains a summary of the findings identified during the Audit Office's review of controls over specific major financial applications used by agencies to record transactions included in their financial statements.
- 3.43 These controls include the policies, procedures and activities used to manage applications and their data and include, for example, controls over data entry and processing, user access, application changes, monitoring of user activities, and data backup and restoration.
- 3.44 Controls over computer information systems are an important means of providing reporting agencies with assurance that the:
- information used to prepare their financial statements is authentic, accurate and reliable;
  - applications operate as intended and in a consistent manner; and
  - information maintained by reporting agencies is secure.
- 3.45 Applications reviewed as part of the financial audits of ACT government agencies include:
- Accounts Payable Invoice Automation Solution (APIAS) – the system used by most ACT Government agencies to automate the recording and approval of supplies and services (administrative) expenditure. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system;
  - CHRIS21 – the human resource management information system used by most ACT Government agencies to process and record the salary payments and leave entitlements of ACT public servants. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system;
  - Cashlink – several agencies use this system to record amounts received from members of the public for taxes fees and fines. The Chief Minister, Treasury and Economic Development Directorate (Access Canberra) manages Cashlink;
  - Community 2011 – the system used by the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office) to record revenue such as general rates and land tax;
  - Homenet – the system used to process and record rental revenue from public housing tenants and to manage information on social and public housing services. Housing ACT is responsible for the management of Homenet;
  - Maze – the school administration system used by ACT public schools to process and record the revenue and expenses of schools. Maze is managed by the Education Directorate;
  - MyWay – the ticketing system used to process and record bus and light rail fare revenue. MyWay is managed by Transport Canberra Operations;

- ORACLE – the financial management information system used by most ACT Government agencies. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system;
- rego.act – the system used to record motor vehicle registrations, drivers' licences, traffic and parking infringement revenue. The Chief Minister, Treasury and Economic Development Directorate (Access Canberra) manages rego.act; and
- TRev – the system used by the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office) to record taxes and fee revenue (such as payroll tax and stamp duty).

## Status of audit findings

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

**Table 3-2 Status of audit findings by application**

Application	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
APIAS	3	(2)	-	1	-	1
CHRIS21	4	(2)	2	-	-	2
Community 2011	1	-	-	1	4	5
Maze	1	-	-	1	-	1
MyWay	1	(1)	-	-	-	-
ORACLE	1	-	-	1	-	1
TRev	2	(2)	-	-	-	-
Cashlink	-	-	-	-	2	2
<b>Total</b>	<b>13</b>	<b>(7)</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>12</b>

3.47 Of the thirteen previously reported audit findings, the Audit Office found that agencies had resolved seven (54 percent) and partially resolved two (15 percent) of these findings. The remaining four (31 percent) findings were not resolved.

3.48 Six new findings were identified by the Audit Office during its review in 2019-20. These were in relation to the Community 2011 and Cashlink applications.

3.49 The number of audit findings on controls over specific major applications remains fairly consistent compared to the findings identified in 2018-19.

## Audit findings

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

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

3.51 These findings in each of these categories are discussed below.

### Information security

3.52 Threats to the integrity, confidentiality and availability of information can occur due to electronic transactions (e-commerce) and security exposures such as viruses, intrusions and unauthorised releases of confidential information.

3.53 Information security controls are safeguards to avoid, detect, counteract or minimise security risks to computer information systems. Effective security controls need to be implemented over applications to ensure that:

- information recorded in computer applications is authentic (not fraudulent), accurate and available when required;
- the confidentiality and privacy of information stored on applications is maintained and information is only accessed by authorised users; and
- legislative and regulatory requirements and standards are complied with.

3.54 Weaknesses were identified in information security controls relating to user access management, monitoring of audit logs, generic user accounts, and segregation of duties for several applications. These are discussed below.

### User access management

3.55 To ensure there is an appropriate level of access to applications and information while preventing access by unauthorised users, user access needs to be effectively managed. This requires implementing policies and procedures for the creation, modification, revocation and regular review of user access so that:

- users only have a level of access that aligns with their roles and responsibilities; and
- the access of employees is promptly removed when no longer required (for example, departing employees).

### ***TRev (finding resolved)***

- 3.56 In 2019-20, the ACT Revenue Office resolved a previously reported weakness from 2018-19 relating to the management of user access by documenting its procedures for performing user access reviews for the TRev application. This reduces the risk of unauthorised and possibly fraudulent access to the TRev application and data.

### ***APIAS (finding resolved)***

- 3.57 In 2019-20, Shared Services resolved a previously reported weakness from 2018-19 relating to the review of user access by clearly documenting the name and the position of the reviewing officer, the date of the review and evidence that any errors or irregularities identified from the review have been investigated and resolved. This reduces the risk of unauthorised and possibly fraudulent access to APIAS application and data.

### ***Community 2011 (new finding)***

- 3.58 In 2019-20, the Audit Office reported to the ACT Revenue Office several weaknesses in relation to the management of user access for the Community 2011 application which increases the risk of unauthorised and fraudulent access to application and data. These included:
- the request form used to grant access to new users allows access to be granted based on another users' profile without consideration of their prior approved access (i.e. new users may be unintentionally granted a greater level of access privilege based on another user's approved access);
  - while Community 2011 is supported by a user access matrix (which defines system roles and functions assigned to business users and groups), it does not accurately reflect the current operating environment including the system access rights assigned to each system role or function, or business unit. Therefore, it is difficult to review whether the assignment of access privileges to a user is appropriate; and
  - procedures for the regular review of the appropriateness of user access do not identify which users have privileged user access rights to allow easy identification of users with inappropriate levels of access.
- 3.59 The ACT Revenue Office has agreed to address these weaknesses.

### **Monitoring of audit logs**

- 3.60 Audit logs are system-generated records of activities performed by users. These include, for example, details of users accessing a system, times, dates and locations of access and the various actions performed by users.
- 3.61 Monitoring of audit logs should be performed on a regular basis to reduce the risk of undetected erroneous or fraudulent changes being made to computer information systems and data.

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

***TRev (finding resolved)***

- 3.63 In 2019-20, the ACT Revenue Office resolved a previously reported weakness from 2017-18 relating to the monitoring of audit logs by documenting its procedures for the review of audit logs of activities performed by privileged users and performing regular reviews of these audit logs including documenting the results. This reduces the risk of undetected erroneous and fraudulent changes to the TRev application and data.

***APIAS (finding resolved)***

- 3.64 In 2019-20, Shared Services resolved a previously reported weakness from 2018-19 relating to the monitoring of audit logs of privileged users by:
- completing its risk assessment to determine what privileged user activities need to be monitored;
  - documenting its procedures for the independent review of audit logs of activities performed by privileged users; and
  - performing regular reviews of these audit logs and documenting the results.
- 3.65 This reduces the risk of undetected erroneous and fraudulent changes to the APIAS application and data.

***CHRIS21 (finding resolved)***

- 3.66 In 2019-20, Shared Services resolved a previously reported weakness from 2018-19 relating to the monitoring of audit logs by:
- reinstating logging of privileged users' activities for the CHRIS21 server and database;
  - documenting its procedures for the independent review of audit logs of these activities performed by privileged users; and
  - performing regular reviews of these audit logs and documenting the results.
- 3.67 This reduces the risk of undetected erroneous and fraudulent changes to the CHRIS21 application and data.

***Community 2011 (finding not resolved)***

- 3.68 Since 2013-14, the Audit Office has reported that the ACT Revenue Office has not documented the procedures for the review of audit logs of changes made by Community 2011 database administrators or performed reviews of these audit logs. In prior years, the ACT Revenue Office advised that the review of audit logs cannot be performed because

the current version of the Community 2011 system does not have the functionality to log changes made by the database administrators.

3.69 In 2018-19, the ACT Revenue Office agreed with the Audit Office's recommendation to:

- formally assess the risk associated with the Community 2011 system not being capable of logging changes made by database administrators. This assessment should be documented and used as a basis for the Directorate's decision about the timing of the upgrade or replacement of the Community 2011 system to provide this capacity; and
- assess whether other compensating controls or reviews can be implemented that may assist mitigate this risk until the system is upgraded or replaced.

3.70 These recommendations have not been implemented in 2019-20. This weakness increases the risk that erroneous or fraudulent changes will not be promptly detected and addressed.

3.71 The ACT Revenue Office has agreed to address this weakness.

#### ***Community 2011 (new finding)***

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

- an assessment has not been made to identify high risk transactions and changes performed by privileged users for monitoring;
- activities performed by privileged users are not being logged as the functionality to log changes made by the privileged users is turned off; and
- the audit logs are not reviewed by an independent officer due to the activities performed by privileged users not being logged.

3.73 The ACT Revenue Office has agreed with the recommendations provided by the Audit Office to address these weaknesses.

#### ***Maze (finding not resolved)***

3.74 Maze is the school administration system used by ACT public schools to process and record the revenue and expenses of schools.

3.75 Since 2011-12, the Audit Office has reported to the Education Directorate that Maze does not have the capability to generate audit logs on user access to the system and changes made to its data and therefore audit logs cannot be reviewed. This weakness continued to exist in 2019-20. This increases the risk that erroneous or fraudulent changes to the school administration system and data will not be promptly detected and rectified.

- 3.76 The Education Directorate has advised that it will address this weakness as part of the planned replacement of Maze with the new School Administration System which is expected to be operational in 2020-21.

#### **Cashlink (new finding)**

- 3.77 In 2019-20, the Audit Office reported to Access Canberra that there was no independent regular monitoring (i.e. on a quarterly basis) of privileged user access to the Cashlink receipting system (Cashlink) server and database in accordance with the Cashlink user access policy. In particular, the independent review had only been undertaken once in December 2019 to cover the entire financial year. This increases the risk that erroneous or fraudulent changes will not be promptly detected and addressed.
- 3.78 Access Canberra has agreed with the recommendations provided by the Audit Office to address this weakness.

#### **Generic (shared) user accounts**

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

#### **CHRIS21 (finding partially resolved)**

- 3.80 Since 2013-14, the Audit Office has reported to Shared Services that a few staff can make changes to EFT payment files (i.e. salary payments) from the CHRIS21 application before they are sent to the bank to be processed. Ideally, no user should have access to the directory that allows them to change the EFT payment files because this enables erroneous or fraudulent payments to be made. Shared Services advised this access is required for operational reasons.
- 3.81 Shared Services has partially resolved this finding in recent years by implementing mitigating controls, such as restricting access to only a few staff and performing reviews of audit logs of user activity in the directory containing EFT payment files. However, as the CHRIS21 EFT payment files can still be changed via a shared user account, it reduces management's ability to trace users' actions, including fraudulent changes, to a specific individual. This weakness continues to exist in 2019-20.
- 3.82 Due to limitations in CHRIS21, Shared Services has advised that they will address this weakness as part of the project to procure a new Human Resources Information Management System which is expected to be completed in 2021.

#### **Segregation of duties**

- 3.83 A key preventative control in mitigating the risks of unauthorised and potentially fraudulent activities in computer information systems is to segregate incompatible duties

between users. For example, duties assigned to users should be appropriately segregated so a single user cannot initiate and complete a transaction.

**ORACLE (finding not resolved)**

- 3.84 In 2017-18, the Audit Office reported to Shared Services that staff in the Financial Applications Support Team (FAST), who are the ORACLE system administrators, have the ability to create new user profiles in ORACLE without the need for secondary approval.
- 3.85 While ORACLE application controls require two user profiles to authorise updates to vendor records (e.g. bank account details) and to pay an invoice, the system administrators could create multiple user profiles without secondary approval to by-pass these controls. Therefore, system administrators could for example, make fraudulent payments by creating fictitious user profiles with the required functionality to update and approve changes to vendor records, and approve payments to a chosen bank account. On this basis, the Audit Office has recommended that Shared Services remove the ability of system administrators to create user profiles without secondary approval.
- 3.86 In 2018-19, the Shared Services advised that the current version of ORACLE does not have the functionality to restrict system administrators from creating user accounts without secondary approval and therefore they have introduced the following compensating controls to address this weakness:
- a manual form is required to be filled out to document the approval of new user accounts; and
  - a notification email is sent to all staff within FAST when a new user account is created or an existing user account has been modified by a system administrator.
- 3.87 The Audit Office assessed that while the compensating controls implemented by Shared Services provide a deterrent, system based preventative controls are more effective because they are consistently applied and can prevent unauthorised and fraudulent changes instead of identifying them after they occur. Therefore, the Audit Office recommended that in the absence of system based preventative controls Shared Services should:
- document its risk assessment in the ORACLE Security Risk Management Plan; and
  - include the requirement for system-based controls which would prevent a system administrator from being able to create and use multiple user accounts in any future upgrade or replacement of the ORACLE application.
- 3.88 In 2018-19, Shared Services agreed with the Audit Office's recommendations and advised a whole-of-government financial system feasibility study has commenced which may determine the future of the application. As of August 2020, while the feasibility study is progressing, the risk assessment is yet to be documented in the ORACLE Security Risk Management Plan.

- 3.89 In 2019-20, Shared Services agreed with the recommendations to address this weakness and advised that work is underway to document the risk assessment in the Security Risk Management Plan and that system based controls are included in the scope for any new future upgrade or replacement of the whole-of-government financial system.

### Business continuity and disaster recovery arrangements

- 3.90 A business continuity plan helps ensure an organisation's operations continue in the event of an unexpected incident or disaster that adversely affects critical systems, including the ability to use software or hardware and process data. Disaster recovery plans, which include backup and recovery processes, are procedures developed to restore critical systems with minimal (or no) loss of data or functionality.
- 3.91 Development of these plans provide assurance that ACT Government agencies will be able to respond to an incident or disaster and promptly recover its critical systems and data.
- 3.92 The effectiveness of business continuity and disaster recovery plans need to be regularly tested to help ensure that critical systems will be recovered, and operations promptly resumed if a disaster or other disruption were to occur.
- 3.93 Weaknesses identified in business continuity and disaster recovery arrangements relating to the Community 2011 application are discussed below.

#### *Community 2011 (new finding)*

- 3.94 In 2019-20, the Audit Office reported to the ACT Revenue Office several weaknesses in relation to the management of business continuity and disaster recovery arrangements for the Community 2011 application which increases the risk that they will not be able to resume operations, without the loss of information, in a timely manner in the event of major disruption or disaster. These included:
- the business continuity and disaster recovery plan does not reflect the current cloud-hosted environment including the backup and recovery options available for a cloud-hosted system as it is based on the previous standalone server environment used by Community 2011; and
  - the effectiveness of the business continuity and disaster recovery plan has not been tested since 2018.
- 3.95 The ACT Revenue Office has agreed with the recommendations provided by the Audit Office to address these weaknesses.

### Data processing

- 3.96 Data processing is important as the data contained in any IT system is only as good as the quality and accuracy of the data entered into it. Controls over data processing are therefore required to provide assurance over the completeness, accuracy, and validity of data within systems.

- 3.97 The manual entry of data from one system to another can be slow, resource intensive and prone to human error. Therefore, where possible, automated processes should be used to reduce the risk of error, save time and consequently reduce costs.
- 3.98 A weakness remains in data processing controls relating to the CHRIS21 application. This is discussed below.

#### ***CHRIS21 (finding partially resolved)***

- 3.99 Since 2015-16, the Audit Office has reported to Shared Services that CHRIS21 does not support the recording of timesheet and leave data (e.g. personal leave, annual leave and long service leave) for casual and shift workers. As a result, some ACT Government agencies use their own systems (e.g. PROACT (ACT Health Directorate) and KRONOS (Justice and Community Safety Directorate)) to record timesheet and leave data for casual and shift workers.
- 3.100 While timesheet data is uploaded into CHRIS21 from each of these systems largely via an automated process, leave data for the PROACT and KRONOS systems can only be manually entered by the Shared Services payroll team into CHRIS21.
- 3.101 In 2019-20, Shared Services partially resolved this finding by automating the process of importing leave data from the PROACT system into CHRIS21 for the majority of the casual and shift working staff. However, leave data from the KRONOS system is still manually entered into CHRIS21.
- 3.102 Shared Services has agreed with the recommendations provided by the Audit Office to address this weakness.

#### **Change management processes**

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

3.106 While weaknesses in change management controls were addressed in relation to the MyWay application, some weaknesses remain in the APIAS application. These are discussed below.

#### *MyWay (finding resolved)*

3.107 In 2019-20, Transport Canberra Operations resolved a previously reported weakness from 2016-17 relating to the changes made to MyWay by manually recording the changes made in the MyWay Change Register and verifying to approved change requests. This reduces the risk of unauthorised, erroneous or fraudulent changes being made to the MyWay application and its data.

#### *APIAS (finding not resolved)*

3.108 Since 2017-18, the Audit Office reported to Shared Services that there was no process in place for the third-party service provider supporting APIAS to send system generated audit logs of changes made to APIAS to Shared Services for reconciliation to approved changes recorded in the change management system.

3.109 In 2018-19, Shared Services advised that the system does not have the capacity to produce a system generated log of changes and agreed to Audit Office's recommendation to.

- assess the risk of not reconciling system generated audit logs of changes made to APIAS to approved changes in the change management system and document this in the APIAS System Risk Management Plan; and
- assess whether other compensating controls or reviews can be implemented that may assist to mitigate the risk.

3.110 These recommendations have not been implemented in 2019-20. This increases the risk of erroneous or possibly fraudulent changes to APIAS.

3.111 Shared Services has agreed to address this weakness and advised that the identification of risks and the process to mitigate the risks will be incorporated into the APIAS Security Risk Management Plan.

### **Governance arrangements**

3.112 Governance arrangements relate to the processes used by agencies to manage their computer applications to achieve their objectives in an efficient and effective manner. They include, for example, security risk management plans which outline how security risks will be managed for applications; and vendor support agreements for applications and the operating systems that support them.

3.113 While a weakness in governance arrangements relating to the CHRIS21 application was addressed in 2019-20, some new weaknesses were identified in relation to the Community 2011 and Cashlink applications. These are discussed below.

### Security Risk Management Plans

- 3.114 A Security Risk Management Plan (formally known as an ICT Security plan) sets out an entity's arrangements for managing security over a computer information system. The plan addresses how an entity identifies, analyses and prioritises information technology security threats (for example unauthorised access to information) and what resources will be allocated to manage the risks of these threats.
- 3.115 The ACT Government's ICT Security Policy mandates that agencies must formally assess security risks by developing a security risk management plan for business critical systems. The plan should be reviewed every three years, or when a significant change has occurred in the business, technology or security environment.

### *Chris21 (finding resolved)*

- 3.116 In 2019-20, Shared Services resolved a previously reported weakness from 2018-19 by reviewing and updating the security risk management plan for CHRIS21 to ensure it is current in accordance with the ACT Government's ICT Security Policy. This reduces the risk that arrangements for managing security threats over CHRIS21 will be ineffective where the plan is not current.

### *Community 2011 (new finding)*

- 3.117 In 2019-20, the Audit Office reported to the ACT Revenue Office that the security risk management plan for the Community 2011 application does not reflect the current system architecture, with outdated systems and interfaces being referenced. In addition, the supporting risk register includes risk treatments without identified action plans, owners or due dates.
- 3.118 There is a higher risk that arrangements for managing security threats over Community 2011 will not be effective where the security risk management plan and supporting risk register is not up to date and complete.
- 3.119 The ACT Revenue Office has agreed with the recommendations provided by the Audit Office to address this weakness.

### Unsupported operating system

- 3.120 System vendors usually provide support for major operating systems. This support may include, among other things, releasing 'patches' which protect systems from known security vulnerabilities, or fix errors and address system performance issues.
- 3.121 This support is usually for a limited time as newer versions of operating systems are developed by the vendor. Operating systems should be upgraded to newer versions before vendors cease providing support for operating systems to provide assurance that servers, applications and data are protected from any security or performance weaknesses.

**Cashlink (new finding)**

- 3.122 In 2019-20, the Audit Office reported to Access Canberra that the Cashlink application is hosted on a server using the Microsoft Windows Server 2008 operating system which Microsoft ceased providing support for in January 2020.
- 3.123 The Australian Signals Directorate (the Australian Government Defence agency responsible for Government cyber security) recommends that entities implement specific mitigation strategies to reduce the likelihood of malicious code reaching Microsoft Windows Server 2008. These strategies, for example, could include implementing application controls such as Microsoft's AppLocker or Enhanced Mitigation Experience Toolkit (EMET).
- 3.124 The Audit Office noted that the Directorate has applied a security software product (Trend Deep Security) to reduce the security vulnerabilities associated with using an unsupported operating system, however, the Directorate has not implemented the strategies recommended by the Australian Signals Directorate to sufficiently safeguard the Cashlink application and data.
- 3.125 The use of an unsupported operating system on the server hosting Cashlink increases the risk that the Cashlink application and data will be exposed to security vulnerabilities.
- 3.126 Access Canberra has agreed with the recommendations provided by the Audit Office to address this weakness.

## 4 FINANCIAL RESULTS AND AUDIT FINDINGS OF SELECTED REPORTING AGENCIES

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

### ACT Health Directorate

- 4.3 The ACT Health Directorate (Directorate) was established on 1 October 2018 as a result of *Administrative Arrangement 2018 (No.2)* which separated the former Health Directorate into two Directorates, the ACT Health Directorate and Canberra Health Services.
- 4.4 The Directorate is responsible for:
- planning and development of health strategy and policy;
  - management, monitoring and reporting of public health services;
  - operating, managing and maintaining all critical health information systems and software used by Canberra Health Services;
  - providing grants to non-government organisations to provide alcohol and drug counselling and other health services; and
  - administration of the ACT Local Hospital Network Directorate. Information on the ACT Local Hospital Network Directorate is provided later in this chapter.

## Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$247 million) was in line with the budgeted amount (\$250 million).
- Government contributions (\$227 million) were consistent with the budgeted amount (\$229 million).
- Capital injections (\$19 million) were \$64 million (77 percent) lower than budgeted (\$83 million) mainly due to the unexpected transfer of funding for the:
  - Surgical Procedures Interventional Radiology and Emergency Centre to Major Projects Canberra as a result of *Administrative Arrangement 2019 (No.1)*; and
  - expansion of the Centenary Hospital for Women and Children to Canberra Health Services as they are now responsible for undertaking this project.
- The Directorate resolved one of the two previously reported audit findings relating to the review of salary reports.
- One audit finding from 2018-19 relating to credit card acquittals was partially resolved.

## Financial results

**Table-4-1 Key results**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m Note 1
Expenses	(267)	(275)	(232)
Income	20	25	15
<b>Net cost of services</b>	<b>(247)</b>	<b>(250)</b>	<b>(217)</b>
Government contributions	227	229	194
<b>Operating deficit</b>	<b>(20)</b>	<b>(21)</b>	<b>(23)</b>
<b>Capital injections</b>	<b>19</b>	<b>83</b>	<b>8</b>

Note 1: The actual 2018-19 results reflect the Directorate's operations for the nine-month period from 1 October 2018 to 30 June 2019.

- 4.5 The Directorate's expenses mostly relate to employees, grants to third-party health service providers and information technology systems support, licence costs and amortisation costs.
- 4.6 The Directorate's income primarily consists of grants and contributions from funding received from the ACT Local Hospital Network Directorate and grants from Commonwealth and non-government organisations to provide public health services.
- 4.7 The net cost of the Directorate's services (\$247 million) was in line with the budgeted amount (\$250 million).
- 4.8 Government contributions (\$227 million) were consistent with the budgeted amount (\$229 million).
- 4.9 Capital injections (\$19 million) were \$64 million (77 percent) lower than budgeted (\$83 million) mainly due to the unexpected transfer of funding for the:
- Surgical Procedures Interventional Radiology and Emergency Centre to Major Projects Canberra as a result of *Administrative Arrangement 2019 (No.1)*; and
  - expansion of the Centenary Hospital for Women and Children to Canberra Health Services as they are now responsible for undertaking this project.

## Audit findings

**Table 4-2 Status of audit findings**

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

- 4.10 The Directorate resolved one previously reported audit finding by reviewing cost centre salary reports in a timely manner. This provides the Directorate with increased assurance that its employee expenses are appropriate and irregularities (including possibly fraudulent payments) will be promptly detected and investigated.
- 4.11 The Directorate partially resolved the other previously reported audit finding relating to credit card acquittals by suspending credit cards where acquittals are not completed within the required timeframe. However, some acquittals were not performed in a timely manner. This increases the risk that erroneous or inappropriate (including possible fraudulent) use of credit cards will not be promptly detected and investigated.
- 4.12 The Directorate agreed to address this audit finding.
- 4.13 No new audit findings were identified in 2019-20.

## ACT Insurance Authority

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

### Summary

- The Audit Office issued an unmodified auditor's report on the Authority's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The Authority incurred an operating deficit of \$3 million compared to the budgeted operating surplus of \$4 million mainly due to lower returns from investments and higher than anticipated net insurance claims expenses.
- The Authority had sufficient assets to meet estimated insurance claims liabilities at 30 June 2020.

## Financial results

Table 4-3 Key results

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Gross premiums	46	46	51
Net returns from investments	11	16	31
<b>Income</b>	<b>57</b>	<b>62</b>	<b>82</b>
Net incurred claims	(51)	(48)	(59)
Reinsurance and other expenses	(9)	(10)	(10)
<b>Expenses</b>	<b>(60)</b>	<b>(58)</b>	<b>(69)</b>
<b>Operating (deficit)/surplus</b>	<b>(3)</b>	<b>4</b>	<b>13</b>
Capital distributions to the ACT Government	-	-	70

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

- 4.17 Income (\$57 million) was lower than the budgeted amount (\$62 million) by \$5 million (8 percent) due to lower than estimated returns from investments because of volatile market conditions.
- 4.18 Net incurred claims are made up of insurance claims expenses consisting of insurance claims settlement payments, changes in the actuarial estimate of insurance claims liabilities less claim related recoveries from third parties.
- 4.19 The estimate of insurance claims liabilities is affected by the quantity and type of insurance claims received, amounts paid to settle claims, and discount and inflation rates used to estimate the present value of future insurance claims payments.
- 4.20 Net incurred claims (\$51 million) were higher than the budget amount (\$48 million) by \$3 million (6 percent). This was mainly due to higher than anticipated actuarially estimated insurance claims liabilities resulting from several large property and public liability claims during the year, partially offset by a claim related to recovery for the 2020 bushfires.
- 4.21 The Authority incurred an operating deficit of \$3 million compared to the budgeted operating surplus of \$4 million mainly due to lower revenue and higher expenses.

## Financial position

**Table 4-4 Net assets**

<b>At 30 June</b>	<b>Actual 2020 \$m</b>	<b>Budget 2020 \$m</b>	<b>Actual 2019 \$m</b>
Total assets	357	348	326
Total liabilities	(288)	(266)	(254)
<b>Net assets</b>	<b>69</b>	<b>82</b>	<b>72</b>
<b>Ratio of total assets to total liabilities</b>	<b>1.2 to 1</b>	<b>1.3 to 1</b>	<b>1.3 to 1</b>

- 4.22 The Authority aims to hold sufficient assets to meet estimated insurance claims liabilities.
- 4.23 The Authority continued to have sufficient assets to cover its liabilities at 30 June 2020. Its net asset position at 30 June 2020 (\$69 million) is lower than the budgeted net asset position (\$82 million) by \$13 million (16 percent) largely due to higher than expected actuarially estimated insurance claims liabilities related to higher than expected claims during the year.

## ACT Local Hospital Network Directorate

- 4.24 The ACT Local Hospital Network Directorate (Directorate) is administered by the Director-General of the ACT Health Directorate. Information on the ACT Health Directorate was provided earlier in this chapter.
- 4.25 Public hospital and health services are jointly funded by the Australian states and territories and the Commonwealth Government through the National Health Funding Pool in accordance with the National Health Reform Agreement. In the ACT, this funding is paid to the Directorate to purchase public hospital services from ACT public hospital providers (Canberra Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre).
- 4.26 The Directorate also has arrangements in place with the other Australian states and the Northern Territory for cross-border (interstate) health costs. Cross-border health costs relate to interstate residents treated in ACT public hospitals and ACT residents treated in interstate public hospitals.
- 4.27 In March 2020, in response to the COVID-19 pandemic all Australian states and territories and the Commonwealth Government signed the National Partnership on COVID-19 Response Agreement. Under this agreement the state or territory government and the Commonwealth Government will each pay half the cost of treating patients diagnosed with COVID-19 in that state or territory. This also covers activities designed to prevent the spread of COVID-19.

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$1 329 million) exceeded its budgeted cost (\$1 195 million) by \$134 million (11 percent) mainly due to higher than anticipated:
  - payments to Canberra Health Services and Calvary Public Hospital to manage and respond to the COVID-19 pandemic, including the care and treatment of COVID-19 infected patients; and
  - demand and cost of public hospital and health services purchased by the Directorate.

## Financial results

**Table 2-5 Key results**

	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>	<b>Actual 2018-19 \$m</b>
Expenses	(1 446)	(1 306)	(1 193)
Cross-border health revenue	117	111	120
<b>Net cost of services</b>	<b>(1 329)</b>	<b>(1 195)</b>	<b>(1 073)</b>
Amounts received from the Commonwealth Government to fund public hospital services	470	424	413
Amounts received from the ACT Government to fund public hospital services	869	771	655
<b>Operating surplus/(deficit)</b>	<b>10</b>	<b>-</b>	<b>(5)</b>

4.28 Expenses primarily consist of payments to:

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

4.29 The Directorate earns cross-border health revenue from treating residents from other Australian states and the Northern Territory in ACT public hospitals.

4.30 The net cost of the Directorate's services (\$1 329 million) exceeded its budgeted cost (\$1 195 million) by \$134 million (11 percent) mainly due to higher than anticipated:

- payments to Canberra Health Services and Calvary Public Hospital to manage and respond to the COVID-19 pandemic, including the care and treatment of COVID-19 infected patients; and
- demand and cost of public hospital and health services purchased by the Directorate.

4.31 Amounts received from the Commonwealth and ACT Governments to fund public hospital services exceeded the budgeted amounts by \$46 million (11 percent) and \$98 million (13 percent) respectively to cover the higher than anticipated expenses mentioned above.

## ActewAGL Joint Venture

- 4.32 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.
- 4.33 The Territory's 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership is held by Icon Water Limited (Icon Water) through its subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited. Icon Water is discussed later in this chapter.

### Summary

- The Audit Office issued unmodified auditor's reports on the 2019-20 financial reports of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's profit in 2019-20 (\$115 million) was \$61 million (35 percent) lower than the profit generated in 2018-19 (\$176 million) mainly due to an increase in expenses related to feed-in tariff support payments made to large scale renewable energy generators and decreased income from energy sales mainly as a result of lower energy consumption.
- ActewAGL had sufficient short-term assets to meet its short-term liabilities at 30 June 2020.
- ActewAGL resolved four of the five previously reported audit findings and partially resolved the remaining audit finding. The resolved audit findings related to user access procedures for operating systems and databases, user access reviews for key financial application systems, segregation of duties for reviewing changes to the financial accounting system, and monitoring user access to the electronic funds transfer file generated from the payroll system. The partially resolved audit finding related to monitoring of privileged user activities for key financial application systems.
- No new audit findings were identified during the 2019-20 audits.

## Financial results

**Table 4-6 Key results**

	Actual 2019-20 \$m	Actual 2018-19 \$m
Income	932	961
Expenses	(817)	(785)
<b>Profit</b>	<b>115</b>	<b>176</b>
Distributions paid to partners	92	118
Distributions paid to Icon Water (50 percent)	46	59

- 4.34 Most of ActewAGL's income comes from the sale and distribution of energy (electricity and gas).
- 4.35 Expenses largely consist of energy purchases and network distribution costs, employment costs, depreciation and amortisation, and other operating costs.
- 4.36 ActewAGL's profit in 2019-20 (\$115 million) was \$61 million (35 percent) lower than in 2018-19 (\$176 million) mainly due to an increase in expenses related to feed-in tariff support payments made to large scale renewable energy generators and decreased income from energy sales mainly as a result of lower energy consumption.
- 4.37 Distributions paid to Icon Water (\$46 million) decreased by \$13 million (22 percent) from the prior year (\$59 million) due to the lower profit in 2019-20.

## Financial position

**Table 4-7 Net short-term assets**

At 30 June	Actual 2020 \$m	Actual 2019 \$m
Short-term assets	298	309
Short-term liabilities	231	221
<b>Net short-term assets</b>	<b>67</b>	<b>88</b>
<b>Ratio of short-term assets to short-term liabilities</b>	<b>1.3 to 1</b>	<b>1.4 to 1</b>

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

4.38 ActewAGL had sufficient short-term assets to meet its short-term liabilities at 30 June 2020.

## Audit findings

**Table 4-8 Status of audit findings**

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

4.39 ActewAGL resolved four of the five previously reported audit findings by:

- updating its user access procedures to ensure that user access reviews are performed for the operating system and databases supporting key financial application systems (billing, payroll and financial accounting systems). This has reduced the risk of unauthorised access to the operating system and databases which support the systems;
- ensuring that user access reviews are performed for the ActewAGL Distribution billing system in accordance with its updated user access procedures. This has reduced the risk of unauthorised access to the system;
- implementing a control to periodically review changes made to the financial accounting system. This has reduced the risk of unauthorised changes being made, given adequate segregation of duties does not exist within the change management process for this system as there are two users with access to both develop and implement changes to the system; and
- logging and monitoring users who access the electronic funds transfer file that is generated from the payroll system to upload into the electronic banking platform to process payroll payments. This has reduced the risk of unauthorised modifications being made to the file and consequently fraudulent payments.

4.40 ActewAGL partially resolved a previously reported audit finding relating to the adequacy of the monitoring of privileged user activity for key application systems by implementing a control to periodically review activities performed by privileged users within the operating systems that support these systems. However, privileged user activity is not currently monitored within the key application systems.

ActewAGL advised:

Management is currently designing monitoring controls to periodically review activities performed by privileged users within key financial application systems using a risk based approach.

4.41 No new audit findings were identified during the 2019-20 audits.

## Canberra Health Services

4.42 Canberra Health Services (Directorate) provides public hospital, clinical and medical services to residents of the ACT and the surrounding region. It is primarily funded by money received from the ACT Local Hospital Network Directorate. Information on the ACT Local Hospital Network Directorate is discussed earlier in this chapter.

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- Expenses (\$1 420 million) were \$195 million (16 percent) higher than budgeted (\$1 225 million) mainly due to higher than expected employee expenses and supplies and services expenses.
- Income (\$1 355 million) exceeded the budgeted amount (\$1 181 million) by \$174 million (15 percent) mainly due to:
  - additional funding provided by the ACT Local Hospital Network Directorate to meet the higher than cost of providing public hospital and healthcare services; and
  - unbudgeted income received free of charge for computer information systems support services provided by the ACT Health Directorate.
- The Directorate did not draw down \$4 million (6 percent) of its budgeted capital injections mostly due to the impact of the COVID-19 pandemic resulting in deferrals and delays on some capital works projects.
- The Directorate resolved four of the five previously reported audit findings relating to:
  - evidence on the preparation and review of monthly bank reconciliations;
  - approval of its 'Fraud and Corruption Control Plan';
  - timely completion of credit card acquittals; and
  - approval of purchase orders by officers within their delegated financial limits.
- The Directorate did not resolve one previously reported audit finding relating to the review of salary reports.
- One new audit finding was identified in 2019-20 relating to variance explanations in the financial statements.

## Financial results

**Table 4-9 Key results**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Expenses	(1 420)	(1 225)	(1 354)
Income	1 355	1 181	1 150
<b>Net cost of services</b>	<b>(65)</b>	<b>(44)</b>	<b>(204)</b>
Government contributions	-	-	102
<b>Operating deficit</b>	<b>(65)</b>	<b>(44)</b>	<b>(102)</b>
Capital injections	66	70	75

4.43 The Directorate's expenses mostly relate to employees, medical, clinical and pharmaceutical supplies, computer information systems support services from the ACT Health Directorate, contract medical and nursing staff services and depreciation of assets.

4.44 Expenses (\$1 420 million) were \$195 million (16 percent) higher than budgeted (\$1 225 million) mainly due to higher than expected:

- employee expenses primarily due to an increase in employees to:
  - meet the growth in demand for public hospital and healthcare services;
  - manage and respond to the COVID-19 pandemic including the treatment of COVID-19 infected patients; and
- supplies and services expenses mainly from unbudgeted:
  - cost of computer information systems support services provided by the ACT Health Directorate. These services are provided to the Directorate free of charge but are required to be recorded as an expense in the financial statements; and
  - expenses related to the COVID-19 pandemic response, including the set up and operation of the COVID-19 Surge Centre to provide additional capacity for an expected increase in COVID-19 infected patients.

- 4.45 The Directorate's income is primarily from grants and contributions from the ACT Local Hospital Network Directorate for providing public hospital services. The Directorate no longer receives Government contributions in form of appropriation.
- 4.46 The Directorate also earns revenue from charging fees for providing health related services (including fees for certain patient procedures and medical tests and for the use of public hospital facilities by private doctors) as well as from the sale of medical, clinical and pharmaceutical supplies.
- 4.47 Income (\$1 355 million) exceeded the budgeted amount (\$1 181 million) by \$174 million (15 percent) mainly due to:
- additional funding provided by the ACT Local Hospital Network Directorate to:
    - meet the higher than expected cost of providing public hospital and healthcare services;
    - manage and respond to the COVID-19 pandemic including treating and reducing the spread of COVID-19; and
  - unbudgeted income for computer information systems support services provided by the ACT Health Directorate. These services are received free of charge but are required to be recorded as income in the financial statements.
- 4.48 The net cost of the Directorate's services (\$65 million) was \$21 million (48 percent) higher than the budgeted cost (\$44 million) due to the unexpected increase in expenses being greater than the unexpected increase in income.
- 4.49 The Directorate did not draw down \$4 million (6 percent) of its budgeted capital injections mostly due to the impact of the COVID-19 pandemic resulting in deferrals and delays on some capital works projects.

## Audit findings

**Table 4-10 Status of audit findings**

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

- 4.50 The Directorate resolved four of the five previously reported audit findings by:
- retaining evidence of the preparation and review of monthly bank reconciliations for the Pathology and Patient Billing systems bank accounts. This reduces the risk that errors or irregularities in bank reconciliations will not be promptly identified and addressed;
  - finalising and approving its 'Fraud and Corruption Control Plan'. This provides the Directorate with assurance that it has adequate procedures and processes in place to manage and address fraud and corruption;

- completing credit card acquittals in a timely manner. This reduces the risk that erroneous or fraudulent use of credit cards will not be promptly detected and investigated; and
- ensuring purchase orders used to authorise payments are approved by a delegate within their financial delegation limits. This reduces the risk of erroneous or fraudulent transactions occurring by ensuring staff only approve expenditure within their delegated financial limits.

4.51 The Directorate did not resolve one previously reported audit finding that was first reported in 2016-17 relating to the review of salary reports. Salary reports did not always have evidence of review or the review was not always conducted in a timely manner. This increases the risk that errors or irregularities (including possibly fraudulent payments) in salary reports will not be promptly detected and investigated.

4.52 One new audit finding was identified in 2019-20 relating to variance explanations in the draft financial statements. The Directorate did not provide reasons for some of the major variances between the current year and prior year amounts in the draft financial statements. This increases the risk that readers of the financial statements will not understand the financial results of the Directorate where major variance explanations are not provided. Variance explanations were subsequently included in the certified financial statements.

4.53 The Directorate agreed to address these audit findings.

## Canberra Institute of Technology

4.54 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 unmodified auditor's report on the Canberra Institute of Technology's 2019 financial statements and an unmodified limited assurance report on its 2019 statement of performance.
- The Canberra Institute of Technology's net cost of services (\$84 million) was consistent with the budgeted cost (\$85 million).
- The Canberra Institute of Technology resolved the one previously reported audit finding relating to workpapers supporting its statement of performance.
- No new audit findings were identified in 2019.

## Financial results

Table 4-11 Key results (calendar years)

	Actual 2019 \$m	Budget 2019 \$m	Actual 2018 \$m
Expenses	(123)	(121)	(121)
Income	39	36	36
<b>Net cost of services</b>	<b>(84)</b>	<b>(85)</b>	<b>(85)</b>
Government contributions	74	74	72
<b>Operating deficit</b>	<b>(10)</b>	<b>(11)</b>	<b>(13)</b>

4.55 Expenses mainly consist of operating costs such as employee, information technology, and contractor and consultancy expenses.

4.56 Income is mainly earned from providing education and training services.

4.57 The Canberra Institute of Technology's net cost of services (\$84 million) was consistent with the budgeted cost (\$85 million).

## Audit findings

**Table 4-12 Status of audit findings**

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

- 4.58 In 2018, the Audit Office reported that the workpapers supporting the Canberra Institute of Technology's statement of performance did not contain sufficient information from surveys undertaken by an external service provider during the year to allow independent verification of reported results for two accountability indicators.
- 4.59 In 2019, the Canberra Institute of Technology resolved this audit finding by ensuring that workpapers supporting the reported results for the accountability indicators in its statement of performance contained sufficient information from surveys undertaken by an external service provider during the year to allow independent verification of reported results. This reduces the risk of errors in the statement of performance and delays in completing the limited assurance engagement for the statement of performance.
- 4.60 No new audit findings were identified in 2019.

## Chief Minister, Treasury and Economic Development Directorate

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

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

4.62 The Directorate's operations also included the operations of the Office of the Work Health and Safety Commissioner (Worksafe ACT) created on 30 April 2020 under the *Work Health and Safety Act 2011*. Worksafe ACT did not report separately for the period until 30 June 2020 as it was not created as an Authority under the *Financial Management Act 1996* until 1 July 2020.

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$425 million) was \$6 million below the budgeted cost (\$431 million) mainly due to lower than expected expenses.
- Government contributions (\$397 million) were \$18 million higher than the budgeted amount (\$379 million). This was due to the Directorate receiving additional appropriation mainly related to meeting the costs of the ACT Government's COVID-19 pandemic response policies, funding for supporting tourism and event venues and the transfer of unspent funding from 2018-19.
- Two previously reported audit findings relating to the review of salary reports and the usefulness of accountability indicators reported in the statement of performance were not resolved.
- One new audit finding was identified in 2019-20 relating to accounting workpapers prepared by the Directorate to support its financial statement balances.

## Financial results

**Table 4-13 Key results**

	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>	<b>Actual 2018-19 \$m</b>
Expenses excluding assets transferred to other ACT Government agencies	(693)	(700)	(668)
Income	268	269	304
<b>Net cost of services</b>	<b>(425)</b>	<b>(431)</b>	<b>(364)</b>
Government contributions	397	379	321
Other gains	-	-	4
Assets transferred to other ACT Government agencies	(2)	(7)	(22)
<b>Operating deficit</b>	<b>(30)</b>	<b>(59)</b>	<b>(61)</b>

- 4.63 The Directorate's expenses, excluding assets transferred to other ACT Government agencies, mainly consist of expenses related to employees, consultants, contractors and professional services, information technology and office equipment, property services, repairs and maintenance and depreciation. Expenses also include grants paid to major sporting teams, business, industry, tourism and event organisations.
- 4.64 Expenses, excluding assets transferred to other ACT Government agencies (\$693 million) were \$7 million below the budgeted amount (\$700 million) largely due to unbudgeted transfer of the whole of government capital works function to the newly established Major Projects Canberra under changed administrative arrangements, which resulted in a reduction of various operating expenses including contractor and consultant costs.
- 4.65 This was partially offset by higher employee expenses mostly due to higher leave liabilities and employing additional staff associated with the ACT Government's COVID-19 related policies.
- 4.66 Income is mainly derived from providing property management, information and communication technology, procurement, human resources, finance, publishing and records management services to other ACT Government agencies. Income is also received from non-ACT Government sources, mainly relating to sporting and tourism events.
- 4.67 Income (\$268 million) was materially consistent with the budgeted amount (\$269 million).
- 4.68 The Directorate's net cost of services (\$425 million) was \$6 million below the budgeted amount (\$431 million), mainly due to lower than expected expenses as previously discussed.

- 4.69 Government contributions (\$397 million) were \$18 million higher than the budgeted amount (\$379 million). This was mainly due to additional appropriation received:
- to meet additional costs associated with the ACT Government’s COVID-19 pandemic response policies;
  - for supporting tourism and major event venues; and
  - from the transfer of funding from 2018-19 to 2019-20 due to delays in the progress of various infrastructure and information technology projects.
- 4.70 The Directorate’s territorial operations mainly consist of revenue from Commonwealth Government grants and taxes, fees and fines. This revenue is discussed in Chapter 1: ‘The Territory’s financial statements’.

## Audit findings

**Table 4-14 Status of audit findings**

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

- 4.71 Two previously reported audit findings remained not resolved in 2019-20.
- 4.72 The Directorate did not resolve an audit finding relating to the timely review of fortnightly salary reports that has been reported since 2013-14. Although there was an overall improvement in the timeliness of reviews performed due to the use of a new electronic review process in 2019-20, some payroll report reviews were not performed in a timely manner. The lack of timely review of payroll reports increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
- 4.73 The Directorate has agreed to address this audit finding.
- 4.74 An audit finding that was first reported in 2017-18 relating to the usefulness of accountability indicators included in the statement of performance remains not resolved. Although the Directorate reviewed its accountability indicators and changed some accountability indicators in the 2019-20 Budget Papers, there continues to be some accountability indicators that may not provide readers with useful information about the Directorate’s performance as they measure routine activities performed rather than the efficiency or effectiveness of its key activities.
- 4.75 The Directorate agreed to address this audit finding and advised:
- A significant review of the Directorate’s accountability indicators intended to inform the suite of indicators to be used in the 2020-21 Budget was discontinued with the advent of the COVID-19 pandemic and the subsequent deferral of the ACT Budget. The Directorate now expects to undertake this review ahead of the 2021-22 Budget, with changes to apply to the 2021-22 indicators.

- 4.76 One new audit finding was identified in 2019-20. Accounting workpapers provided by the Directorate to support financial statement balances did not always include sufficient information to enable someone other than the preparer to easily understand them. This also increases the time needed to complete the audit.
- 4.77 The Directorate has agreed to address this finding by ensuring that workpapers prepared to support future financial statement audits contain additional explanatory and/or contextual information intended to assist the audit process.

## Community Services Directorate

4.78 The Community Services Directorate (Directorate) provides a range of services including 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 unmodified auditor's report on Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$200 million) was \$10 million (5 percent) higher than the budgeted net cost of services (\$190 million).
- Government contributions (\$199 million) exceeded the budgeted amount (\$186 million) by \$13 million (7 percent) as the Directorate received Treasurer's advance for Economic Survival Package relating to COVID-19 pandemic and for higher than expected out-of-home care payments.
- Territorial payments represent ACT Government's contributions (\$155 million) to the Commonwealth Government for the National Disability Insurance Scheme and were largely in line with the budgeted amounts.

## Financial results

Table 4-15 Key results

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Expenses	(208)	(193)	(279)
Income	8	3	6
<b>Net cost of services</b>	<b>(200)</b>	<b>(190)</b>	<b>(273)</b>
Government contributions	199	186	267
Gains	-	2	-
<b>Operating deficit</b>	<b>(1)</b>	<b>(2)</b>	<b>(6)</b>

4.79 Expenses mainly comprise employee expenses, payments to non-government organisations for services such as out-of-home care for children and child protection programs, and administrative costs (i.e. rent, information technology, legal costs and, contractor and consultant costs).

- 4.80 Expenses (\$208 million) exceeded the budgeted amount (\$193 million) by \$15 million mainly due to higher than expected:
- grants and purchased services as a result of additional grant payments to non-for-profit organisations as part of the Economic Survival Package relating to COVID-19 pandemic; and higher demand for out-of-home-care services for children who are unable to live with their primary caregivers;
  - employee expenses from a greater than expected rate used to estimate the present value of long service leave liabilities and recruiting for vacant positions and additional staff in response to COVID-19 pandemic; and
  - supplies and services expenses resulting from higher costs associated with information technology support services and system implementation charges.
- 4.81 Income mainly includes:
- resources received free of charge from other ACT Government entities mainly for legal services, finance and human resources;
  - rental income from Affordable Rental Scheme properties relating to housing needs of older and low income Canberrans and income generated from the National Multicultural Festival; and
  - grants from the Commonwealth Government and the ACT Government to fund various programs.
- 4.82 Income (\$8 million) exceeded the budgeted amount (\$3 million) by \$5 million mainly due to higher than expected resources received free of charge from legal, finance, human resources and records management services, as well as renting out stalls during the National Multicultural Festival and rental from tenants.
- 4.83 The net cost of the Directorate's services (\$200 million) was \$10 million (5 percent) higher than the budgeted net cost of services (\$190 million) as higher expenses exceeded the higher income.
- 4.84 Government contributions (\$199 million) exceeded the budgeted amount (\$186 million) by \$13 million (7 percent). This resulted from the Directorate receiving Treasurer's advance for Economic Survival Package relating to COVID-19 pandemic and to cover higher than expected out-of-home-care payments.
- 4.85 The transition of disability, therapy and early intervention services previously provided by the Directorate to the National Disability Insurance Scheme (NDIS) was completed in 2018-19. From 2019-20, the ACT Government entered into the NDIS Bilateral Agreement initiated by the Commonwealth where financial contributions are now classified as Territorial transactions as discussed below.

**Table 4-16 Key results – territorial expenses**

<b>Grants and Purchased Services</b>	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>
Grants and Purchased Services – National Disability Insurance Scheme	155	158
<b>Total</b>	<b>155</b>	<b>158</b>

4.86 Territorial expenses relate to the financial contributions of ACT Government to the Commonwealth Government for the Territory's cost of the NDIS. In 2019-20, these expenses were largely in line with the budgeted amounts.

## Education Directorate

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

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$874 million) was above the original budgeted cost (\$835 million) by \$39 million mainly due to higher than expected employee expenses.
- Government contributions (\$773 million) exceeded the original budgeted amount (\$760 million) by \$13 million mainly due to higher than expected staff costs.
- Grants to non-government schools (\$341 million) were \$25 million higher than the original budgeted amount (\$316 million) primarily due to advance payment of Commonwealth government grants associated with the National School Reform Bilateral Agreement and funding to improve school hygiene in response to COVID-19 pandemic.
- The Directorate partially resolved an audit finding relating to the review of salary reports and did not resolve an audit finding relating to the review of audit logs for its school administration system. Two new audit findings were identified in relation to bank signatories and not measuring a result in accordance with the *Financial Management Act 1996* in the statement of performance for an accountability indicator.

## Financial results

**Table 4-17 Key results – controlled**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Expenses	(914)	(886)	(843)
Income	40	51	43
<b>Net cost of services</b>	<b>(874)</b>	<b>(835)</b>	<b>(800)</b>
Government contributions	773	760	709
Gains	4	-	-
<b>Operating deficit</b>	<b>(97)</b>	<b>(75)</b>	<b>(91)</b>
Capital injections	91	92	90

- 4.88 Expenses mainly consist of employee expenses, depreciation expenses, school operating costs, and supplies and services expenses including property maintenance and materials and services.
- 4.89 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.
- 4.90 The net cost of the Directorate's services (\$874 million) was \$39 million above the budgeted cost (\$835 million) mainly due to higher than expected employee expenses (including superannuation expenses) of \$29 million. This was mostly due to higher staff numbers to meet increased student enrolments and responding to COVID-19 pandemic, a higher than expected rate used to estimate the present value of long service leave liabilities and a sign-on bonus as part of the Teaching Staff Enterprise Agreement.
- 4.91 Government contributions (\$773 million) exceeded the budgeted amount (\$760 million) by \$13 million. This was mainly due to higher than expected staff costs as a result of higher student enrolments and cost of responding to COVID-19 pandemic.
- 4.92 The Directorate reported a gain of \$4 million from a block of land and building improvements received free of charge which were not anticipated in the budget.
- 4.93 Capital Injections (\$91 million) were consistent with the budgeted amount (\$92 million).

**Table 4-18 Key results – territorial expenses**

	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>	<b>Actual 2018-19 \$m</b>
Grants to non-government schools	341	316	317
<b>Total expenses</b>	<b>341</b>	<b>316</b>	<b>317</b>

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

- 4.94 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.
- 4.95 Grants paid to non-government schools (\$341 million) were \$25 million higher than the budgeted amount (\$316 million). This represented higher than expected grants from the Commonwealth government due to advance payment of Commonwealth government grants associated with the National School Reform Bilateral Agreement and funding to improve school hygiene in response to COVID-19 pandemic.

## Audit findings

**Table 4-19 Status of audit findings**

<b>Previously Reported</b>	<b>Resolved</b>	<b>Partially Resolved</b>	<b>Not Resolved</b>	<b>New</b>	<b>Balance</b>
2	-	1	1	2	4

- 4.96 One of the two previously reported audit findings was partially resolved, and one was not resolved.
- 4.97 The Directorate partially resolved an audit finding relating to the timely review of salary reports which was first reported in 2013-14. The Directorate ensured that salary reports have been independently reviewed by schools and business units. However, reviews were not always performed in a timely manner. Salary reports should be reviewed in a timely manner to promptly identify and correct erroneous or possible fraudulent salary payments.
- 4.98 The Directorate did not resolve an audit finding relating to the audit logs in the school administration system which was first reported in 2011-12. The Directorate has been unable to implement audit logs for the system and there is no policy for monitoring the activity of users by the review of audit logs. This increases the risk that erroneous or fraudulent changes to the application and data will not be promptly detected and rectified.
- 4.99 The Directorate has advised that this weakness will be addressed during the replacement of the school administration system in 2020-21.

4.100 Two new audit findings were identified in 2019-20 as:

- bank signatories who can make payments using cheques or electronic funds transfer from the Directorate's bank accounts are sometimes not current ACT Government employees. Whilst payments require authorisation of two bank signatories, this increases the risk of fraudulent payments being made from the Directorate's bank accounts; and
- a result was not measured in accordance with the *Financial Management Act 1996* in the statement of performance for the accountability indicator: '*Disability Education - Individual Learning Plans completed for students in special and mainstream schools who access special education service*'. The Directorate advised:

The shift to remote learning as part of the ACT Government's response to the COVID-19 pandemic occurred at the time this annual Individual Learning Plans (ILPs) Audit would usually be conducted and at a time where the Education Directorate was supporting schools to prioritise a focus on the immediate learning and wellbeing needs of students.

This impacted the timeframes for the conduct of the ILPs Audit. The return to face-to-face learning has now provided an opportunity for a continuation of the ILP audit process. An ILP audit will be undertaken in 2021 and results will be provided in the next reporting period.

4.101 The Directorate has agreed to address all audit findings.

## Environment, Planning and Sustainable Development Directorate

- 4.102 The Environment, Planning and Sustainable Development Directorate (Directorate) is responsible for developing and implementing plans and policies that address strategies of ACT Government, climate change, housing and building, indicative land release program, reserves management and urban renewal.
- 4.103 The Directorate manages parks and reserves across the ACT and is responsible for the delivery of the ACT Government's Loose-Fill Asbestos Insulation Eradication Scheme. The Directorate also has the responsibility for urban renewal including the Public Housing Renewal Taskforce and land supply and policy functions including affordable housing.

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$196 million) was higher than the budgeted costs (\$167 million).
- Government contributions (\$136 million) was lower than the budgeted contributions (\$151 million) mainly due to the impact of the COVID-19 pandemic that delayed some deliverables such as purchasing affected properties under the Loose-Fill Asbestos Insulation Eradication Scheme.
- The Directorate did not draw down \$26 million (46 percent) of budgeted capital injections mainly due to delays in projects including acquisition and demolition of properties under the Loose-Fill Asbestos Insulation Eradication Scheme.
- The Directorate resolved two findings relating to the review of salary reports and reporting of results for accountability indicators. One finding relating to the arrangements for the sale of rural land inventory was subsumed into a new audit finding in 2019-20.

## Financial results

**Table 4-20 Key results**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Expenses	(291)	(187)	(243)
Income	95	20	82
<b>Net cost of services</b>	<b>(196)</b>	<b>(167)</b>	<b>(161)</b>
Government contributions	136	151	131
Gains	31	16	26
<b>Operating deficit</b>	<b>(29)</b>	<b>0</b>	<b>(4)</b>
<b>Capital injections</b>	<b>31</b>	<b>57</b>	<b>126</b>

- 4.104 Expenses mainly consist the cost of derecognising Large-Scale Generation Certificates (LSGCs) intangible assets, employee costs, supplies and services costs, and grants and purchased services.
- 4.105 Expenses (\$291 million) were higher than the budgeted cost (\$187 million) by \$104 million (56 percent) mainly due to the cost of derecognising LSGCs intangible assets (\$92 million) which was not anticipated in the budget.
- 4.106 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 these certificates to the Directorate. An expense is recorded when LSGCs are surrendered to the ACT Government to assist in meeting renewable energy targets.
- 4.107 Total income (\$95 million) was substantially (\$75 million) higher than the budgeted amount (\$20 million). This was mainly due to the right to receive LSGCs not anticipated in the budget (\$71 million). LSGCs are received at no cost to the Directorate from large-scale generators of electricity and the value of these certificates are recorded as income.
- 4.108 The net cost of the Directorate's services (\$196 million) was larger than the budgeted amount (\$167 million) by \$29 million (17 percent). This was primarily due to the cost of derecognising LSGCs, partially offset by the income from the right to receive new certificates in 2019-20.

- 4.109 Government contributions (\$136 million) were lower than the budgeted contributions (\$151 million) mainly due to the impact of COVID-19 pandemic that delayed some deliverables such as purchasing affected properties under the Loose-Fill Asbestos Insulation Eradication Scheme.
- 4.110 Gains (\$31 million) were higher than the budgeted amount (\$16 million) mainly due to reversal of provisions (liability) relating to the Loose-Fill Asbestos Insulation Eradication Scheme. Costs associated with the purchases, demolition and land remediation are recorded as a liability with a corresponding expense in the operating statement. The adequacy of these provisions is assessed annually, and a gain is recorded when the re-assessed balance of the provision is lower than previously recorded.
- 4.111 Capital injections (\$31 million) were lower than the budgeted amounts (\$57 million) as the Directorate did not draw down \$26 million (46 percent) mostly due to the reduced number of acquisition and demolition of properties under the Loose-Fill Asbestos Insulation Eradication Scheme.

**Table 4-21 Key results – territorial income**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Fees	12	11	17
Land revenue	16	42	21
Other	7	10	7
<b>Total income</b>	<b>35</b>	<b>63</b>	<b>45</b>

- 4.112 The Directorate collects fees and land revenue on behalf of the Territory. Fees mostly consist of amounts charged for development applications and lease variations. Land revenue is received from leasing Territorial land and transferring land to the Suburban Land Agency and City Renewable Authority.
- 4.113 Land revenue (\$16 million) was \$26 million (62 percent) lower than the budgeted amount (\$42 million) due to lower than expected land transferred to the Suburban Land Agency, as a result of subdued customer demand.

## Audit findings

**Table 4-22 Status of audit findings**

Previously Reported	Resolved or subsumed	New	Balance
3	(3)	1	1

4.114 The Directorate resolved two previously reported audit findings by:

- reviewing salary reports in a timely manner. The timely review of salary reports provides the Directorate with assurance that incorrect employee payments or irregularities (including possibly fraudulent payments) will be promptly detected and investigated; and
- reporting results for all accountability indicators in the statement of performance submitted for audit as required by the *Financial Management Act 1996*.

4.115 A previously reported audit finding relating to the arrangements for rural land sales was subsumed into a new audit finding. Since 2016-17, the Audit Office has reported that the arrangements and responsibilities relating to the rural land transactions between the Directorate and other ACT Government entities are not clearly defined and documented.

4.116 In 2019-20, the Directorate assessed the accounting treatment relating to rural land transactions with the assistance of external accounting experts. This assessment was reviewed by an expert engaged by the Audit Office. The review indicated that the Directorate needs to develop an accounting policy in accordance with relevant Australian Accounting Standards.

4.117 A new audit finding was raised in 2019-20 to capture this further work and the requirement to finalise remaining arrangements and reporting of rural land transfers.

## Housing ACT

4.118 Housing ACT provides secure and affordable housing that addresses the needs of socially and financially disadvantaged families. This includes the provision of support and assistance to those trying to sustain a tenancy in the private market through a range of programs. As part of these programs Housing ACT 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 unmodified auditor's report on Housing ACT's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of Housing ACT's services (\$126 million) was \$18 million (17 percent) higher than the budgeted cost (\$108 million) due mainly to higher than anticipated expenses.
- The value of Housing ACT's property portfolio at 30 June 2020 (\$5 485 million) exceeded the value at 30 June 2019 (\$5 430 million) mainly due to additional dwellings received under the Public Housing Renewal Taskforce program.
- Housing ACT resolved two of the three previously reported audit findings. Audit findings relating to the timeliness of preparing and reviewing monthly revenue reconciliations and the processes for identifying and disclosing related party transactions were resolved in 2019-20. An audit finding relating to the financial delegation being inconsistent with payment approval process in the tenant management system remained unresolved.
- In 2019-20, a new audit finding was identified relating to two accountability indicators where results were not measured in the statement of performance as required by the *Financial Management Act 1996*.

## Financial results

Table 4-23 Key results

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Expenses	(221)	(206)	(208)
Income	95	98	99
<b>Net cost of services</b>	<b>(126)</b>	<b>(108)</b>	<b>(109)</b>
Government contributions	56	51	49
Gains from disposal and remeasurement of assets	4	4	2
<b>Operating deficit</b>	<b>(66)</b>	<b>(53)</b>	<b>(58)</b>

- 4.119 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.
- 4.120 Expenses (\$221 million) were higher than the budget (\$206 million) by \$15 million (7 percent) mainly due to higher than expected:
- repairs and maintenance work, including preventative measures to meet bushfire threat, remediation work from hailstorm damage and callouts from tenants during the COVID-19 pandemic;
  - one-off payment to eligible housing tenants as part of the Economic Survival Package relating to COVID-19 pandemic; and
  - demolition and subsequent writing down of the value of dwellings for redevelopment purposes.
- 4.121 Income consists mainly of rent received from public housing tenants. Income (\$95 million) was slightly below the budgeted amount (\$98 million) mainly as a result of less than expected reimbursements owed from tenants for tenant responsible maintenance.
- 4.122 The net cost of Housing ACT's services (\$126 million) was \$18 million (17 percent) higher than the budgeted cost (\$108 million) due mainly to the higher than anticipated expenses.

## Property Portfolio

**Table 4-24 Number and value of land and dwellings**

At 30 June	Actual 2018	Actual 2019	Actual 2020
Number of land parcels – Note 1	6 876	6 877	6 868
<b>Land value (\$m)</b>	<b>\$3 721</b>	<b>\$3 864</b>	<b>\$3 863</b>
Number of dwellings – Note 1	11 903	11 582	11 704
<b>Dwellings value (\$m)</b>	<b>\$1 510</b>	<b>\$1 566</b>	<b>\$1 622</b>
<b>Total value of land and dwellings (\$m)</b>	<b>\$5 231</b>	<b>\$5 430</b>	<b>\$5 485</b>

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

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

- 4.123 The value of property portfolio at 30 June 2020 (\$5 486 million) exceeded the value at 30 June 2019 (\$5 430 million) by \$56 million mainly due to additional dwellings received by Housing ACT under the Public Housing Renewal Taskforce program.

## Audit findings

**Table 4-25 Status of audit findings**

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

4.124 Housing ACT resolved two of the three previously reported audit findings by:

- establishing processes for identifying and disclosing related party transactions in financial statements when key management personnel do not provide written confirmations. This provides assurance that the disclosure of transactions between Housing ACT and its key management personnel is complete and accurate in accordance with Australian Accounting Standard AASB 124: 'Related Party Transactions'; and
- preparing and reviewing monthly reconciliations on a timely basis between rent recorded in Housing ACT's tenant management system and the financial management system. This provides more assurance that the financial information recorded in two systems are consistent and reduces the risk of errors and irregularities (including fraud).

4.125 One audit finding that required financial delegations to reflect the payment approval processes in Housing ACT's tenant management system was not resolved in 2019-20. Housing ACT has advised that it has engaged a consultant to undertake a performance audit on the approval processes in the tenant management system and the audit finding will be addressed following the conclusion of this audit.

4.126 In 2019-20, a new audit finding was identified relating to two accountability indicators where results were not measured in the statement of performance as required by the *Financial Management Act 1996*.

4.127 Housing ACT advised that the information required to report a result for these indicators was due from the National Social Housing Survey (NSHS). This survey was not undertaken in 2019-20 by the Federal Government as a result of the COVID-19 pandemic. Housing ACT is undertaking a review of its accountability indicators, to ensure an alternate measurement method is in place so that future results are not impacted by further delays in completion of the NSHS.

## Icon Water Limited

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

### Summary

- The Audit Office issued unmodified auditor's reports on the 2019-20 financial reports of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- Icon Water's operating profit (\$80 million) was \$7 million (8 percent) lower than the prior year profit (\$87 million) mainly due to decreased profits received from ActewAGL and an increase in various expenses, which was mostly offset by an increase in water sales and gifted asset revenue.
- Icon Water's share of profit from ActewAGL in 2019-20 (\$58 million) decreased by \$30 million (34 percent) from the prior year (\$88 million).
- Dividends paid to the ACT Government in 2019-20 decreased by \$13 million from \$71 million in 2018-19 to \$58 million in 2019-20 reflecting the lower operating profit.
- Icon Water had sufficient short-term assets to cover its short-term liabilities at 30 June 2020.
- Two new audit findings were identified during the 2019-20 audit. These findings related to weaknesses in controls for user access reviews and segregation of duties for developing and implementing changes to Icon Water's works and asset management system.

## Financial results

**Table 4-26 Key results**

	Actual 2019-20 \$m	Actual 2018-19 \$m
Revenue excluding share of profit from ActewAGL	384	343
Share of profit from ActewAGL	58	88
<b>Revenue</b>	<b>442</b>	<b>431</b>
Expenses	(325)	(303)
<b>Operating profit before income tax expense</b>	<b>117</b>	<b>128</b>
Income tax expense	(37)	(41)
<b>Operating profit</b>	<b>80</b>	<b>87</b>
<b>Dividends paid to the ACT Government</b>	<b>58</b>	<b>71</b>

Note 1: The financial information is for Icon Water Limited and Controlled Entities.

4.130 Revenue mostly consists of water supply and sewerage charges and Icon Water's share of profit from ActewAGL. Revenue excluding Icon Water's share of profit from ActewAGL (\$384 million) was \$41 million (12 percent) higher than the prior year amount (\$343 million). This was mainly due to:

- an increase in water sales due to an increase in water consumption in combination with an increase in charges in accordance with the Independent Competition and Regulatory Commission pricing schedule for 2019-20; and
- a higher value of gifted assets received from private sector developers and the Suburban Land Agency.

4.131 Icon Water's share of profit from ActewAGL in 2019-20 (\$58 million) decreased by \$30 million (34 percent) from the prior year (\$88 million) as ActewAGL recorded a lower profit in 2019-20.

4.132 Expenses comprises mainly of business operating costs, interest costs incurred on borrowings, employee expenses and depreciation. Expenses (\$325 million) were \$22 million (7 percent) higher than the prior year amount (\$303 million) mainly as a result of higher:

- interest costs as a result of new borrowings taken out during the year and higher costs of borrowing;

- depreciation and amortisation mainly due to recording leased right-of-use assets (and related depreciation) following the implementation of new Australian Accounting Standard AASB 16: 'Leases' from 1 July 2019, and commencing amortisation of a new works and asset management system;
- information technology costs primarily related to licensing and related network costs for the new works and asset management system; and
- employee expenses due to a reduction in labour costs capitalised as assets and enterprise agreement pay rises.

4.133 Income tax expense (\$37 million) was lower than the prior year expense (\$41 million) by \$4 million (10 percent) due to a lower taxable profit.

4.134 Icon Water's operating profit (\$80 million) was \$7 million (8 percent) lower than the prior year profit (\$87 million) due largely to decrease in profits received from ActewAGL and higher expenses, mostly offset by higher revenue as previously discussed.

4.135 Dividends paid to the ACT Government decreased by \$13 million (18 percent) from \$71 million in 2018-19 to \$58 million in 2019-20 reflecting the lower operating profit.

## Financial position

**Table 4-27 Net short-term assets/(liabilities)**

At 30 June	Actual 2019-20 \$m	Actual 2018-19 \$m
Short-term assets	116	129
Short-term liabilities including dividend payable to the ACT Government	(92)	(433)
<b>Net short-term assets/(liabilities)</b>	<b>24</b>	<b>(304)</b>
<b>Ratio of short-term assets to short-term liabilities</b>	<b>1.3 to 1</b>	<b>0.3 to 1</b>

4.136 Icon Water's short-term financial position at 30 June 2020 (net short-term assets of \$24 million) is much stronger than the position at 30 June 2019 (net short-term liabilities of \$304 million). Icon Water had sufficient short-term assets to meet its short-term liabilities at 30 June 2020.

4.137 The improved short-term financial position at 30 June 2020 was mainly the result of Icon Water refinancing two borrowings totalling \$299 million that were due to mature within 12 months of 30 June 2019 with a new long-term borrowing during 2019-20.

## Audit findings

**Table 4-28 Status of audit findings**

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

4.138 Two new audit findings were identified in 2019-20 relating to controls for:

- User access reviews for Icon Water's works and asset management system to check that access rights align with the job responsibilities of users. While periodic user access reviews were performed for privileged users, the reviews were not performed for all other users. This increases the risk of unauthorised access to the system.

Icon Water agreed to address this audit finding and advised that it will perform periodic user access reviews, using a risk-based approach, for all users. Icon Water advised it has now implemented a control to periodically check all user access.

- Segregation of duties for developing and implementing changes in the works and asset management system. Some users have access to both develop changes to the system and implement them which means changes can be implemented without testing and approval. Further, there is no formal monitoring of changes to detect whether these users have made unauthorised changes to the system. This increases the risk that unauthorised changes will be made to the system.

Icon Water agreed to address this audit finding and advised that it has now implemented a control to periodically check that changes were approved in line with its change management process.

## Justice and Community Safety Directorate

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

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$381 million) was slightly higher than the budgeted cost (\$378 million) mainly due to higher than anticipated expenses, partially offset by higher revenue.
- Payments to the Australian Federal Police for policing services (\$170 million) were consistent with the budgeted amount (\$170 million).
- The Directorate's public private partnership commitments for the new ACT Courts and Tribunal facilities were \$363 million at 30 June 2020, \$44 million higher than the \$319 million at 30 June 2019. Completion of Stage 2 of the facilities in 2019-20 reduced capital commitments, but increased operating commitments for things such as maintenance, cleaning and security costs.
- The Directorate resolved one previously reported audit finding relating to bank signatories.
- Two new audit findings were identified during the 2019-20 audit relating to the year-end reconciliation of courts fees and fines revenue and the quality of variance explanations in the draft financial statements submitted for audit.

## Financial results

**Table 4-29 Key results**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Expenses	(426)	(408)	(364)
Income	45	30	34
<b>Net cost of services</b>	<b>(381)</b>	<b>(378)</b>	<b>(330)</b>
Government contributions	347	341	299
<b>Operating deficit</b>	<b>(34)</b>	<b>(37)</b>	<b>(31)</b>
Capital injections	23	34	23

4.142 Expenses (\$426 million) largely consist of employee expenses and supplies and services costs associated with the provision of justice services, corrective services, courts and tribunal, and emergency services. This was \$18 million (4 percent) higher than the budgeted amount (\$408 million) largely due to higher than expected:

- employee expenses mainly resulting from salary increases, employing more staff; higher long service leave liabilities and higher overtime and allowance payments associated with the 2019-20 bushfire response; and
- emergency services operating costs, particularly aviation firefighting services for the 2019-20 bushfires.

These were partially offset by lower depreciation and amortisation expenses mainly associated with depreciation expected to be recorded for leased Emergency Services Agency accommodation in the budget was instead recognised by the Chief Minister, Treasury and Economic Development Directorate (ACT Property Group) due to a subsequent change in ACT Government Accounting Policy.

- 4.143 Income is mainly derived from providing legal and emergency services (e.g. ambulance transport and fire protection related services), and cost recoveries. Income (\$45 million) was \$15 million (50 percent) higher than budgeted amount (\$30 million) mainly due to higher:
- aviation charges recovered from other states for the 2019-20 bushfire response;
  - demand for professional legal services; and
  - grants and contributions due to the change in funding arrangements for shared services finance and human resources services which are provided to the Directorate free of charge from 2019-20 as the appropriation for these services is now provided directly to the Chief Minister, Treasury and Economic Development Directorate.
- 4.144 Directorate's net cost of services (\$381 million) was slightly higher than the budgeted cost (\$378 million) mainly due to higher than anticipated expenses, partially offset by higher income as previously discussed.
- 4.145 Government contributions (\$347 million) were \$6 million higher than the budgeted amount (\$341 million) mainly due to additional funding provided to cover the costs of the 2019-20 bushfire response.
- 4.146 Capital injections (\$23 million) were lower than the budgeted amount (\$34 million) by \$11 million (32 percent). This was mainly due to funding not drawn down due to delays in completing work on projects at the Alexander Maconochie Centre, for Emergency Services Agency station upgrades and vehicle replacements, and at ACT Courts Facilities.

**Table 4-30 Key results – Territorial expenses**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Payments to the Australian Federal Police (AFP) - Note 1	170	170	167
Other expenses - Note 2	25	23	21
<b>Total expenses</b>	<b>195</b>	<b>193</b>	<b>188</b>

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

Note 2: Other expenses exclude transfers to Government.

- 4.147 Territorial expenses mainly consist of payments to the Australian Federal Police to provide policing services. Payments to the Australian Federal Police (\$170 million) were consistent with the budgeted amount (\$170 million).

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

	Capital Commitments		Operating Commitments		Total (excluding GST)	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Within one year	-	-	18	6	18	6
Later than one year but not later than five years	-	6	72	27	72	33
Later than five years	-	113	273	167	273	280
<b>Total Public Private Partnership Commitments - Note 1</b>	<b>-</b>	<b>119</b>	<b>363</b>	<b>200</b>	<b>363</b>	<b>319</b>

Source: Note 28: 'Commitments' to the Directorate's 2019-20 financial statements.

Note 1: Total Public Private Partnership Commitments excludes finance lease commitments. All commitments are exclusive of GST.

4.148 At 30 June 2020, the Directorate had \$363 million in commitments relating to the public private partnership with a private sector consortium (Juris Partnership) to construct, operate and maintain the new ACT Courts and Tribunal facilities. This was \$44 million higher than the \$319 million of commitments at 30 June 2019. Completion of Stage 2 of the facilities in 2019-20 reduced capital commitments, but increased operating commitments for things such as maintenance, cleaning and security costs.

## Audit findings

**Table 4-32 Status of audit findings**

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

4.149 The Directorate resolved one previously reported audit finding by removing the bank signatories that were no longer employed by the Directorate in a timely manner. This reduces the risk of fraudulent payments being made from the Directorate's bank accounts.

4.150 Two new audit findings were identified in 2019-20. These were the:

- Directorate did not perform a year-end reconciliation of courts fees and fines revenue recorded in the courts management system to the revenue recorded in the general ledger prior to preparing its financial statements. This increases the risk of errors in the financial statements and irregularities not being identified in a timely manner; and

- variance explanations provided in the Directorate's draft financial statements submitted for audit needed significant improvement during the audit as they were often unclear or not informative as they did not disclose the main reasons for variances between actual results and prior year's results and budgeted results. Readers of the financial statements are less likely to understand the financial results of the Directorate if explanations of major variances are not clear, understandable and informative to disclose the main reasons for variances.

4.151 The Directorate has agreed to address these audit findings.

## Major Projects Canberra

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

4.153 Functions transferred to the Directorate included the:

- Light Rail Project delivery function from the Transport Canberra and City Services Directorate;
- delivery of the Surgical Procedures Interventional Radiology and Emergency (SPIRE) Centre from the ACT Health Directorate; and
- Infrastructure Delivery Partners function from the Chief Minister, Treasury and Economic Development Directorate.

### Summary

- The Audit Office issued an unmodified auditor's report on Major Projects Canberra's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- Major Projects Canberra was established on 1 July 2019 as a result of changes to administrative arrangements therefore no budget or prior year figures are included in its financial statements.
- The net cost of Major Projects Canberra's services for the year was \$18 million.
- Major Projects Canberra did not draw down \$77 million of the capital injections appropriated for the year mainly due to the deferral of payments for capital infrastructure projects including the SPIRE Centre at Canberra Hospital (\$51 million) and Light Rail Stage 2 (\$21 million) to 2020-21.
- Four audit findings were identified during the 2019-20 audit relating to the review of salary reports, accounting workpapers supporting the financial statements, accounting for capital works in progress and non-compliance with the whole of government reporting timetable for the statement of performance.

## Financial results

**Table 4-33 Key results**

	<b>Actual 2019-20 \$m</b>
Expenses	(33)
Income	15
<b>Net cost of services</b>	<b>(18)</b>
Government contributions	11
<b>Operating deficit</b>	<b>(7)</b>
<b>Capital injections</b>	<b>71</b>

- 4.154 As Major Projects Canberra was established on 1 July 2019 no budget or prior year figures are included in its financial statements.
- 4.155 Major Projects Canberra's expenses mainly consist of employee expenses, supplies and services expense and amortisation of computer information systems.
- 4.156 Major Projects Canberra's income is mostly derived from providing capital works project management services to other ACT Government agencies.
- 4.157 The net cost of Major Projects Canberra's services for 2019-20 was \$18 million.
- 4.158 Government contributions were \$11 million and mainly consisted of appropriation transferred from other ACT Government agencies due to changes to administrative arrangements and a one-off Treasurer's Advance.
- 4.159 Major Projects Canberra drew down \$71 million of the \$148 million appropriated in capital injections in 2019-20. Capital injections of \$77 million or 52 percent was not drawn down mainly due to the deferral of payments for capital infrastructure projects including the SPIRE Centre at Canberra Hospital (\$51 million) and Light Rail Stage 2 (\$21 million) to 2020-21.

## Audit findings

4.160 Four audit findings were identified during the year for Major Projects Canberra. They relate to:

- the review of salary reports. There was not always evidence of the reviews being performed, and those reviews that were performed were not always conducted in a timely manner. This increases the risk that errors or irregularities (including fraud) in salary reports will not be promptly detected and resolved;
- accounting workpapers supporting the financial statements. The accounting workpapers provided to support financial statement balances did not always include sufficient information or were not provided in a format that was easy to understand. This increases the risk of errors in the financial statements and delays in completion of the audit;
- accounting for capital works in progress. Major Projects Canberra did not have a procedure for assessing the appropriateness of capitalisation of costs and clarification was required during the audit to verify the appropriateness of capitalised costs. This increases the risk of expenditure being incorrectly capitalised resulting in a non-compliance with Australian Accounting Standard AASB 116: 'Property, Plant and Equipment' and financial statements being materially misstated; and
- non-compliance with the Whole-of-Government reporting timetable for the statement of performance. The statement of performance was certified on 4 November 2020 after the required date of 29 September 2020 under the Chief Minister, Treasury and Economic Development Directorate's Whole-of-Government reporting timetable. Non-compliance with the timetable caused delays in completing the limited assurance engagement.

## Public Sector Workers Compensation Fund

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

### Summary

- The Audit Office issued an unmodified auditor's report on the Fund's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The Fund's operating surplus (\$17 million) exceeded the budgeted operating surplus (\$6 million) by \$11 million largely due to lower than expected expenses.
- The Fund had sufficient assets to meet estimated workers' compensation claims liabilities at 30 June 2020. However, this is largely dependent on the Fund receiving cash from Comcare under the transitional arrangements of the Territory's self-insurance licence.
- The Fund resolved one of the two previously reported audit findings relating to its risk management arrangements. The previously reported audit finding relating to internal controls implemented by the Fund's contracted claims management service provider was partially resolved.

## Financial results

**Table 4-3 Key results**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m Note 1
Workers' compensation premium contributions	56	56	21
Other revenue	5	6	3
<b>Income</b>	<b>61</b>	<b>62</b>	<b>24</b>
Claims related expenses	(43)	(56)	(34)
Supplies and services	(1)	-	(1)
<b>Expenses</b>	<b>(44)</b>	<b>(56)</b>	<b>(35)</b>
<b>Operating surplus/(deficit)</b>	<b>17</b>	<b>6</b>	<b>(11)</b>

Note 1: The Actual 2018-19 results reflect the Fund's operations for the four-month period from 1 March 2019 to 30 June 2019.

- 4.163 The Fund's income mostly consists of workers' compensation premium contributions collected from ACT Government agencies.
- 4.164 Income (\$61 million) was materially consistent with the budgeted amount (\$62 million).
- 4.165 Expenses are mostly claims related expenses consisting of payments of workers' compensation claims, changes in the actuarial estimate of workers' compensation claim liabilities and payments to the Fund's claims management service provider.
- 4.166 Claims related expenses (\$43 million) were \$13 million (23 percent) lower than the budget amount (\$56 million) mainly due to a lower than budgeted actuarially estimated workers' compensation claim liabilities resulting from lower inflation and discount rates used to measure the present value of future payments.
- 4.167 The Fund's operating surplus (\$17 million) exceeded the budgeted operating surplus (\$6 million) mainly due to lower than anticipated claims expenses.

## Financial position

**Table 4-4 Net assets**

At 30 June	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Total assets - Note 1	393	363	387
Total liabilities	(374)	(344)	(385)
<b>Net assets</b>	<b>19</b>	<b>19</b>	<b>2</b>
<b>Ratio of total assets to total liabilities</b>	<b>1.1 to 1</b>	<b>1.1 to 1</b>	<b>1.0 to 1</b>

Note 1: Total assets includes compensation receivable from Comcare which was estimated at \$311 million on a central estimate basis at 30 June 2020. Central estimate basis means there is an equal probability that the estimate will be above or below the actual amount.

4.168 The Fund had sufficient assets to meet its liabilities at 30 June 2020. However, this is largely dependent on the Fund receiving compensation from Comcare under the transitional arrangements of the Territory's self-insurance licence for the workers' compensation liabilities the Fund acquired on 1 March 2019.

## Audit findings

**Table 4-36 Status of audit findings**

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

4.169 The Fund resolved one of the two previously reported audit findings by performing a risk assessment and establishing a risk register for its overall operations. This will provide more assurance that the Fund will effectively anticipate, manage and address significant risks relating to its operations.

4.170 The Fund partially resolved one previously reported audit finding relating to internal controls implemented by its contracted claims management service provider for claims payments by formalising the financial management arrangements and appointing an independent auditor to test whether the internal controls were operating effectively. However, the audit did not cover the full financial year and therefore the Fund does not have sufficient assurance that the controls operated effectively throughout the financial year.

- 4.171 The Fund partially agreed with this audit finding and advised that whilst the Fund will ensure future audits of internal controls are scheduled to take place as close as 30 June each year, the audits may be completed earlier to meet the requirements of the agreement with the contracted claims management service provider and will not cover the full financial year.
- 4.172 The Audit Office further recommended that the Fund review the agreement to change this requirement or explore other ways of obtaining assurance that the internal controls being relied upon were operatively effectively for the period not covered by the controls audit.

## Suburban Land Agency

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

### Summary

- The Audit Office issued an unmodified auditor’s report on the Suburban Land Agency’s 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- Land sales revenue (\$200 million) was \$235 million (54 percent) below the budgeted amount (\$435 million), mainly due to lower demand for single residential blocks of land in the suburbs.
- Gross profit on land sales (\$132 million) was \$158 million (55 percent) below the budgeted gross profit (\$290 million) mainly due to lower land sales revenue (\$235 million), partially offset by lower cost of land sold (\$77 million).
- Operating profit (\$67 million) was \$99 million (60 percent) below the budgeted amount (\$166 million) mainly due to the lower gross profit on land sales (\$132 million).
- The Suburban Land Agency resolved all previously reported audit findings by:
  - approving and testing effectiveness of its Business Continuity Plan;
  - preparing sufficient accounting workpapers and providing adequate disclosures in the financial statements for the going concern basis for the preparation of the financial statements; and
  - reporting a result for all accountability indicators included in its statement of intent.
- No new audit findings were identified in 2019-20.

## Financial results

**Table 4-37 Key results**

	Actual 2019-20 \$m	Budget 2019-20 \$m	Actual 2018-19 \$m
Land sales revenue	200	435	484
Cost of land sold	(68)	(145)	(102)
<b>Gross profit on land sales</b>	<b>132</b>	<b>290</b>	<b>382</b>
Other income	14	10	62
Inventory write-down	(1)	-	(129)
Other expenses	(45)	(65)	(42)
<b>Operating profit before income tax equivalents expense</b>	<b>99</b>	<b>237</b>	<b>273</b>
Income tax equivalents expense	(32)	(71)	(82)
<b>Operating profit</b>	<b>67</b>	<b>166</b>	<b>191</b>

4.175 Land sales revenue (\$200 million) was \$235 million (54 percent) below the budgeted amount (\$435 million) mainly due to:

- lower demand for single residential blocks of land in the suburbs including Taylor, Throsby and North Coombs and North Wright (\$188 million). The initial impact of the COVID-19 pandemic also contributed to this lower demand; and
- delays in the sale of former public housing site at Braddon (and former ACT Government building at Lyneham (\$47 million). Under the Asset Recycling Initiative, Suburban Land Agency is responsible for the sale of these sites and return the sale proceeds to the ACT Government to fund infrastructure projects.

4.176 Cost of land sold (\$68 million) was \$77 million (53 percent) below the budgeted amount (\$145 million) due to lower than budgeted land sales, as discussed above.

4.177 Gross profit on land sales (\$132 million) was \$158 million (55 percent) below the budgeted gross profit (\$290 million) due to lower than budgeted land sales revenue (\$235 million) partially offset by lower than budgeted cost of land sold (\$76 million).

4.178 Other expenses largely consist of employee costs, supplies and services expenses including costs of engaging consultants and contractors for land development activities, and selling and marketing expenses.

- 4.179 Other expenses (\$45 million) was \$20 million (31 percent) below the budgeted amount (\$65 million) mainly due to lower than expected supplies and services expenses. This was mainly due to a decrease in project related expenses, including professional fees, selling and marketing expenses as a result of lower land sales and delayed commencement of land development activities.
- 4.180 Income tax equivalents expense (\$32 million) was \$39 million (55 percent) below the budgeted amount (\$71 million) due to the lower than expected operating profit before income tax equivalents.
- 4.181 Operating profit (\$67 million) was \$99 million (60 percent) below the budgeted amount (\$166 million) mainly due to the lower than expected gross profit on land sales.

## Audit findings

**Table 4-38 Status of audit findings**

Previously Reported	Resolved	New	Balance
3	(3)	-	-

- 4.182 The Suburban Land Agency resolved all of the three previously reported audit findings by:
- approving and testing the effectiveness of its Business Continuity Plan. This provides assurance that critical operations will resume in the event of a disruption or disaster;
  - preparing sufficient accounting workpapers and providing adequate disclosures in the financial statements for the going concern basis of preparation of the financial statements. Where the going concern assessment is adequately documented and disclosed, there is an increased assurance that the financial statements will comply with Australian Accounting Standard AASB 101: 'Presentation of Financial Statements'; and
  - reporting a result for all accountability indicators included in its statement of intent. This ensures compliance with the *Financial Management Act 1996* and allows readers of the statement of performance to assess the performance of the Suburban Land Agency.
- 4.183 No new audit findings were identified in 2019-20.

## Superannuation Provision Account

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

### Summary

- The Audit Office issued an unmodified auditor's report on the Superannuation Provision Account's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The operating deficit (\$429 million) was higher than the budget (\$243 million) by \$186 million (77 percent) mainly due to a lower net gain on the fair value of investments as a result of a lower than estimated return on financial investments.
- The unfunded superannuation liability at 30 June 2020 (\$7 734 million) was higher than budgeted (\$3 634 million) by \$4 100 million (113 percent) mainly due to the lower discount rate (1.73 percent) used to estimate the present value of the superannuation liability than the discount rate assumption used to prepare the budget estimate (5 percent).
- Annual cash payments required to discharge the superannuation obligations are projected to increase significantly over future years, peaking at \$674 million in 2043 and then reducing until fully paid.
- The Superannuation Provision Account will continue to rely on budget appropriation funding to meet annual cash payments for the Territory's superannuation obligations until the liability is fully funded.

## Financial Results

**Table 4-39 Key results**

	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>	<b>Actual 2018-19 \$m</b>
Income	81	107	102
Net gain on the fair value of investments	1	198	206
Expenses	(511)	(548)	(543)
<b>Operating deficit</b>	<b>(429)</b>	<b>(243)</b>	<b>(235)</b>

- 4.187 Income largely consists of distributions from investments and interest income. Income (\$81 million) was \$26 million (24 percent) lower than budgeted (\$107 million) as net distributions received on investments were lower than estimated.
- 4.188 The net gain in the fair value of investments (\$1 million) was lower than budgeted (\$198 million) by \$197 million (99 percent) due to a lower than estimated return on financial investments.
- 4.189 Expenses mainly consist of superannuation costs associated with the estimated growth in the superannuation liability. The superannuation expense was lower than budgeted by \$37 million (7 percent) primarily as a result of lower than estimated interest costs. Interest cost is the change in the present value of the superannuation liability due to the past accrued liability being one year closer to settlement.
- 4.190 The operating deficit (\$429 million) was higher than budgeted (\$243 million) by \$186 million (76 percent) mainly due to the lower than estimated net gain on the fair value of investments.

## Actual unfunded superannuation liability

**Table 4-40 Actual financial position**

At 30 June	Actual 2017 \$m	Actual 2018 \$m	Actual 2019 \$m	Actual 2020 \$m	Budget 2020 \$m
Financial assets – Note 1	3 720	4 000	4 237	<b>4 322</b>	4 432
Superannuation liability	(8 574)	(9 736)	(11 774)	<b>(12 056)</b>	(8 066)
<b>Unfunded superannuation liability</b>	<b>(4 854)</b>	<b>(5 736)</b>	<b>(7 537)</b>	<b>(7 734)</b>	<b>(3 634)</b>
<b>Investments to superannuation liability</b>	<b>0.4 to 1</b>	<b>0.4 to 1</b>	<b>0.4 to 1</b>	<b>0.4 to 1</b>	<b>0.5 to 1</b>

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Budget figures were obtained from 2019-20 Budget Papers.

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

- 4.191 The Superannuation Provision Account's financial assets which consist of cash at bank, investment distributions receivable and investments, are not sufficient to cover the superannuation liability, therefore a substantial component of the liability is unfunded.
- 4.192 The superannuation liability is valued to present value using a Commonwealth Government bond (discount) interest rate at the end of the financial year. This valuation is sensitive to changes in the discount rate due to the long-term settlement period of the liability. Therefore, the rate used to calculate the present value of the superannuation liability has a significant impact on its estimated value. A lower discount rate increases the estimated superannuation liability and a higher rate decreases the estimated superannuation liability.
- 4.193 The unfunded superannuation liability at 30 June 2020 (\$7 734 million) was substantially higher than budgeted (\$3 634 million) by \$4 100 million (113 percent) mainly due to the lower discount rate (1.73 percent) used to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate (5 percent).
- 4.194 The Superannuation Provision Account uses a long-term average discount rate in the budget and forward year estimates to remove significant valuation volatility resulting from changes in the Commonwealth Government bond (discount) interest rate from year to year.
- 4.195 The unfunded superannuation liability at 30 June 2020 (\$7 734 million) increased from the unfunded position at 30 June 2019 (\$7 537 million) by \$197 million (3 percent) mainly due to the lower discount rate (1.73 percent) used to estimate the present value of the superannuation liability compared to the rate used at 30 June 2019 (1.92 percent).

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

4.197 The Superannuation Provision Account advised that:

The unfunded superannuation liability position has been impacted by domestic interest rates trending down over the last four years to be at historic lows. Australian Accounting Standard AASB 119 requires that the discount rate used to value defined benefit obligations for public sector funds be based on the prevailing market yield on a Commonwealth Government bond with matching (similar) duration. The actual discount rates have been trending lower than the long-term budget interest rate assumption (5 percent) to estimate the superannuation liability. The historical actual discounts rates since 2016 have been:

30 June 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020
2.69%	3.51%	3.11%	1.92%	1.73%

The long-term budget discount rate assumption used to estimate the superannuation liability was reduced from 6 percent to 5 percent from 1 July 2018.

The superannuation liability valuation estimate 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 4-41 Estimated forward years financial position**

At 30 June	Actual 2020 \$m	Estimate 2021 \$m	Estimate 2022 \$m	Estimate 2023 \$m
Financial assets – Note 1	4 322	4 754	5 098	5 468
Superannuation liability	(12 056)	(8 303)	(8 526)	(8 731)
<b>Unfunded superannuation liability</b>	<b>(7 734)</b>	<b>(3 549)</b>	<b>(3 428)</b>	<b>(3 263)</b>
<b>Investments to superannuation liability</b>	<b>0.4 to 1</b>	<b>0.6 to 1</b>	<b>0.6 to 1</b>	<b>0.6 to 1</b>

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Forward estimate figures were obtained from the 2019-20 Budget Papers.

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

4.198 The unfunded superannuation liability position is estimated to decrease substantially from \$7 734 million at 30 June 2020 to an estimated \$3 263 million by 30 June 2023 as reported in the forward estimates. This is due to:

- an increase in financial assets of \$1 146 million (27 percent) over the forward years from the current balance of \$4 322 million to \$5 468 million by 30 June 2023; and
- a reduction in the superannuation liability by \$3 325 million (28 percent) from \$12 056 million in the current year to \$8 731 million by 30 June 2023.

4.199 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.

4.200 The Superannuation Provision Account advised that:

A long-term average discount rate assumption of 5 percent is being used to estimate the superannuation liability valuation and superannuation expense projections over the 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 4-42 Future superannuation cash payments schedule**

Year ended 30 June	Nominal terms \$m
2021	309
2025	393
2031	520
2037	629
2043 (peak)	674
2050	624
2055	537
2059	452

Source: Information above was obtained from the 'Report on Actuarial Investigation as at 30 June 2019' prepared by the Territory's consulting actuary, Willis Tower Watson. The actuarially assessed amounts are represented in nominal terms (i.e. not adjusted for inflation).

4.201 The annual cash payments required to meet superannuation obligations are projected to increase significantly in future years, peaking at \$674 million in 2043 and then reducing over the years until fully paid. This reflects when employees, who are members of the CSS and PSS, are expected to retire over the next two decades. For many members, the retirement benefits provided under these defined benefit schemes will be taken as indexed pensions and will continue throughout their lives and that of their surviving spouses.

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

## Transport Canberra and City Services Directorate

- 4.203 Transport Canberra and City Services Directorate (Directorate) is responsible for Canberra's municipal services and public transport planning functions. The Directorate also operates linen cleaning services and the Yarralumla Nursery.
- 4.204 From 1 July 2019, the light rail operations function was transferred from the Directorate to Transport Canberra Operations. Transport Canberra Operations is a business unit of the Directorate and a separate entity for financial reporting purposes.
- 4.205 From 1 July 2019, the light rail delivery function was transferred to Major Projects Canberra as a result of *Administrative Arrangements 2019 (No.1)*.

### Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of the Directorate's services (\$606 million) was \$18 million (3 percent) higher than the budgeted cost (\$588 million) mainly due to higher than expected expenses.
- Capital injections (\$157 million) were \$118 million (43 percent) lower than the budgeted amount (\$275 million). This was mainly due to deferrals and delays of several capital infrastructure projects.
- The Directorate partially resolved one previously reported audit finding relating to the review of salary reports.
- Two new audit findings were identified during the 2019-20 audit relating to reconciliations of the waste management system and the finance system not being prepared and reviewed in a timely manner, and the duplication of accountability indicators for Output Class 1.1: Transport Canberra.

## Financial results

**Table 4-43 Key results**

	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>	<b>Actual 2018-19 \$m</b>
Expenses	(658)	(641)	(696)
Income	52	53	51
<b>Net cost of services</b>	<b>(606)</b>	<b>(588)</b>	<b>(645)</b>
Government contributions	412	406	358
Contributed assets from other ACT Government entities and private developers	82	89	51
<b>Operating deficit</b>	<b>(112)</b>	<b>(93)</b>	<b>(236)</b>
<b>Capital injections</b>	<b>157</b>	<b>275</b>	<b>599</b>

- 4.206 The Directorate's expenses mainly consist of depreciation of infrastructure assets, contractor and consultant expenses, repairs and maintenance costs, employee expenses and payments to Transport Canberra Operations for public transport services.
- 4.207 Expenses (\$658 million) was \$17 million (3 percent) higher than the budgeted amount (\$641 million) mainly due to higher than expected expensing of capital works in progress primarily associated with utilities (e.g. water, gas, electricity etc) diversion and landscaping for infrastructure projects that did not meet the asset recognition criteria under the Australian Accounting Standards.
- 4.208 The Directorate's income is mostly derived from providing linen cleaning services, collecting fees for the disposal of contaminated waste at the Territory's landfill sites and the sale of plants from Yarralumla Nursery. Income (\$52 million) was consistent with the budgeted amount (\$53 million).
- 4.209 The net cost of the Directorate's services (\$606 million) was \$18 million (3 percent) higher than budgeted cost (\$588 million) mainly due to higher than expected expenses.
- 4.210 Government contributions (\$412 million) were \$6 million (1 percent) higher than budgeted (\$406 million) mainly due to a one-off Treasurer's Advance to subsidise Transport Canberra Operations. Contributed assets from other ACT Government entities and private developers primarily consist of infrastructure assets (mainly roads, stormwater systems, footpaths and cycle paths) transferred to the Directorate.

- 4.211 Contributed assets (\$82 million) were \$7 million (8 percent) lower than the budgeted amount (\$89 million) primarily due to less than expected activity from private developers during the year.
- 4.212 Capital injections (\$157 million) were \$118 million (43 percent) lower than the budgeted amount (\$275 million). This was mainly due to:
- deferrals and delays of several capital infrastructure projects including the construction of the new Woden bus depot, infrastructure for active travel and rehabilitation of landfill sites; and
  - the transfer of funding for the light rail project to Major Projects Canberra under *Administrative Arrangements 2019 (No.1)*.

## Audit findings

**Table 4-5 Status of audit findings**

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

- 4.213 The Directorate partially resolved one previously reported audit finding relating to the review of salary reports first reported in 2017-18 by retaining evidence of the reviews. However, not all salary reports were reviewed in a timely manner. This increases the risk that errors or irregularities (including fraud) in salary reports will not be promptly detected and resolved.
- 4.214 Two new audit findings were identified in 2019-20 as:
- the Directorate did not prepare and review reconciliations of the waste management system and the finance system in a timely manner; and
  - accountability indicators reported in Output Class 1.1 of the Directorate's statement of performance were duplicated in Transport Canberra Operations' statement of performance. Where the Directorate and Transport Canberra Operations report the same accountability indicators, both entities are unable to clearly articulate to the readers of these statements as to which entity is responsible for delivering the outputs.
- 4.215 The Directorate agreed to address these audit findings and advised:
- The importance of the timely and accurate completion of revenue reconciliations along with the provision of its evidence will be reiterated to the ACT NoWaste team to ensure revenue reconciliations are performed and reviewed on time. In addition, the Directorate's internal compliance team will ensure periodic compliance checks are undertaken.

## Transport Canberra Operations

- 4.216 Transport Canberra Operations (formerly ACTION) is a business unit of the Transport Canberra and City Services Directorate (Directorate) and a separate entity for financial reporting purposes.
- 4.217 Transport Canberra Operations' primary business is to provide public transport services to the ACT community. From 1 July 2019, Transport Canberra Operations received the light rail operations function from the Directorate.
- 4.218 Transport Canberra Operations is a Public Trading Enterprise for whole-of-government reporting purposes and is subject to the National Tax Equivalents Regime.

### Summary

- The Audit Office issued an unmodified auditor's report on Transport Canberra Operations' 2019-20 financial statements and an unmodified limited assurance report on its 2019-20 statement of performance.
- The net cost of Transport Canberra Operations' services (\$221 million) was slightly higher than the budgeted cost (\$212 million).
- Transport Canberra Operations' operating deficit before tax equivalents (\$34 million) aligned with the budgeted deficit (\$32 million).
- Capital injections (\$33 million) were \$52 million (61 percent) lower than budgeted (\$85 million) mainly due to deferrals and delays of bus procurement, the Woden bus depot and the transfer of responsibilities for residual construction of Light Rail Stage 1 to Major Projects Canberra under *Administrative Arrangements 2019 (No.1)*.
- At 30 June 2020, Transport Canberra Operations had \$665 million in commitments for the public-private partnership with the Canberra Metro consortium to operate and maintain the light rail project compared to the commitment of \$692 million at 30 June 2019.
- Transport Canberra Operations resolved one previously reported audit finding from 2017-18 relating to the review of salary reports. One audit finding from 2018-19 relating to the reconciliation of the MyWay system, bank account and ORACLE finance system was not resolved.

## Financial results

**Table 4-45 Key results**

	<b>Actual 2019-20 \$m</b>	<b>Budget 2019-20 \$m</b>	<b>Actual 2018-19 \$m</b>
Expenses	(248)	(243)	(166)
Income	27	31	30
<b>Net cost of services</b>	<b>(221)</b>	<b>(212)</b>	<b>(136)</b>
Government contributions	187	180	122
<b>Operating deficit before income tax equivalents</b>	<b>(34)</b>	<b>(32)</b>	<b>(14)</b>
Income tax equivalents income	10	-	-
<b>Operating deficit</b>	<b>(24)</b>	<b>(32)</b>	<b>(14)</b>
<b>Capital injections</b>	<b>33</b>	<b>85</b>	<b>17</b>

- 4.219 Transport Canberra Operations' expenses mainly consist of employee costs, light rail operational service payments made to Canberra Metro and bus operating costs including fuel, maintenance and insurance costs.
- 4.220 Expenses (\$248 million) were \$5 million (2 percent) higher than the budgeted amount (\$243 million) mainly due to higher than expected employee expenses resulting from higher staff numbers required for the new bus network and additional weekend bus services. This was partially offset by lower than expected supplies and services due mainly to lower fuel prices and consumption, and lower insurance expenses for the light rail.
- 4.221 Transport Canberra Operations' income is primarily from fares charged to people travelling on the public transport network.
- 4.222 Income (\$27 million) was \$4 million (13 percent) lower than the budgeted amount (\$31 million) primarily due to lower than expected number of passengers using public transport as a result of the COVID-19 pandemic since March 2020.
- 4.223 The net cost of Transport Canberra Operations' services (\$221 million) was \$9 million (4 percent) higher than budgeted cost (\$212 million) due to higher than expected expenses and lower than expected income.

- 4.224 Government contributions (\$187 million) were \$7 million (4 percent) higher than budgeted (\$180 million) mainly due to a one-off Treasurer's Advance to fund the previously discussed shortfall in income.
- 4.225 The operating deficit before income tax equivalents of \$34 million was consistent with the budgeted deficit of \$32 million.
- 4.226 Transport Canberra Operations recorded an unbudgeted income tax equivalents income of \$10 million as the movements in tax associated balances resulting from the transfer of light rail operations were not anticipated in the budget.
- 4.227 Capital injections (\$33 million) were \$52 million (61 percent) lower than budgeted (\$85 million) mainly due to deferrals and delays of bus procurement, the Woden bus depot and the transfer of responsibilities for residual construction of Light Rail Stage 1 to Major Projects Canberra under *Administrative Arrangements 2019 (No.1)*.

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

	Operational Commitments (excluding GST)	
	2020 \$m	2019 \$m
Within one year	26	26
Later than one year but not later than five years	117	113
Later than five years	522	553
<b>Total Public Private Partnership Commitments</b>	<b>665</b>	<b>692</b>

Source: Note 21: 'Commitments' of Transport Canberra Operations' audited 2019-20 financial statements and Note 29: 'Commitments' of the Directorate's audited 2018-19 financial statements.

- 4.228 Transport Canberra Operations received light rail operations function from the Directorate on 1 July 2019. As a result of this transfer, commitments for operational payment to Canberra Metro were transferred to Transport Canberra Operations.
- 4.229 At 30 June 2020, Transport Canberra Operations had \$665 million in commitments for the public-private partnership with the Canberra Metro consortium to operate and maintain the light rail project compared to \$692 million in commitments at 30 June 2019.

## Audit findings

**Table 4-47 Status of audit findings**

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

- 4.230 Transport Canberra Operations resolved one previously reported audit finding first reported in 2017-18 by reviewing salary reports in a timely manner. This provides Transport Canberra Operations with increased assurance that its employee expenses are appropriate and irregularities (including possibly fraudulent payments) will be promptly detected and investigated.
- 4.231 One previously reported audit finding from 2018-19 remained not resolved as Transport Canberra Operations did not always perform monthly reconciliations between the MyWay system, bank account and ORACLE finance system in a timely manner. This increases the risk that errors and irregularities in MyWay revenue will not be promptly identified and resolved.
- 4.232 Transport Canberra Operations agreed to address this audit finding and advised:
- There were significant staff departures during 2019-20 which resulted in monthly revenue reconciliations not being completed in a timely manner. Directorate's Finance will ensure timely completion of these reconciliations in 2020-21.
- 4.233 No new audit findings were identified in 2019-20.

## University of Canberra

4.234 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.

4.235 In 2019, the University controlled:

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

4.236 The Audit Office audited the 2019 financial statements of:

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

### Summary

- The Audit Office issued an unmodified auditor's report on the 2019 financial statements of the University.
- The University's 2019 consolidated operating surplus (\$19 million) was consistent with the prior year surplus (\$19 million).
- The University had consolidated net short-term liabilities of \$62 million at 31 December 2019. It disclosed in its financial statements that it can meet these short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. The University will need to continue to carefully manage its cash flows to meet these short-term liabilities. This will be particularly challenging given the impact of COVID-19 pandemic on the University's operations after balance date.
- Three of the four previously reported audit findings were partially resolved. Two relating to weaknesses over computer information systems and one relating to payroll payment controls.
- One audit finding relating to a weakness in payroll controls over the review of salary reports remains unresolved.

- Six new audit findings were identified in 2019. Two findings related to internal controls over financial management policies and procedures; and student fee reconciliations, one finding related to improving financial reporting processes to resolve long-standing credit balances in student and sponsor fee accounts, and four findings related to control weaknesses over computer information systems.

## Financial results

**Table 4-48 Key results (calendar years)**

University of Canberra Group – Note 1	Actual 2019 \$m	Actual 2018 \$m
Income	319	311
Expenses	(300)	(292)
<b>Operating surplus</b>	<b>19</b>	<b>19</b>

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

- 4.237 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 (\$319 million) was materially consistent with the prior year amount (\$311 million).
- 4.238 Expenses consists mainly of employee costs, administrative expenses, and depreciation and amortisation. Expenses (\$300 million) were largely consistent with the prior year amount (\$292 million).
- 4.239 The University's 2019 operating surplus (\$19 million) was consistent with the prior year surplus (\$19 million).

## Financial position

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

<b>University of Canberra Group – Note 1</b> <b>At 31 December</b>	<b>Actual 2019 \$m</b>	<b>Actual 2018 \$m</b>
Short-term assets - Note 2	23	26
Short-term liabilities - Note 3	85	61
<b>Net short-term liabilities</b>	<b>(62)</b>	<b>(35)</b>
<b>Ratio of short-term assets to short-term liabilities</b>	<b>0.3 to 1</b>	<b>0.4 to 1</b>

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

Note 2: Short-term assets (\$23 million) consist of current assets (\$27 million) as presented in the Statement of Financial Position minus restricted cash and investments (\$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 and investments were subtracted from current assets as these funds cannot be used to pay liabilities.

Note 3: Short-term liabilities (\$85 million) are less than current liabilities (\$95 million) presented in the Statement of Financial Position. Short-term liabilities only include liabilities expected to be paid within 12 months as this provides a better indication of the short-term asset coverage.

4.240 At 31 December 2019, the University's consolidated short-term liabilities (\$85 million) exceeded its short-term assets (\$23 million) by \$62 million (278 percent). The amount by which short-term liabilities exceeded short-term assets increased from \$35 million at 31 December 2018 to \$62 million at 31 December 2019.

4.241 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. The net short-term liability position means that the University will need to continue to carefully manage its cash flows to meet its short-term liabilities. This will be particularly challenging given the impact of COVID-19 pandemic on the University's operations after balance date.

## Audit findings

**Table 4-50 Status of audit findings**

<b>Previously Reported</b>	<b>Resolved</b>	<b>Partially Resolved</b>	<b>Not Resolved</b>	<b>New</b>	<b>Balance</b>
4	-	3	1	6	10

4.242 Three of the four previously reported audit findings are partially resolved, and one was not resolved. Six new audit findings were identified during the audit of the 2019 financial statements.

4.243 The University partially resolved one audit finding first reported in 2018 relating to controls over payroll electronic funds transfer payment files. In 2018, some users had inappropriate access to the network folder where they were saved and there are no restrictions preventing changes being made to the payment files. The University restricted access to this folder in 2019, however changes can still be made to the payments files and access to the folder is not monitored. This presents a higher risk of fraudulent or erroneous salary payments. The University agreed to address this audit finding and advised that it is in the process of implementing an automated control to encrypt these payment files.

4.244 Two other previously reported audit findings that have been reported since 2006 remain partially resolved. In prior years, the University:

- restricted system administrators from making changes to their computers, however other users can make changes to their computers where the user submits a request for local administrator rights and this is approved. The University's controls over providing local administrator rights are inadequate as there was not always an apparent business need for providing this access to some users, nor was there evidence that the software installed by users with this access is security assessed or subject to ongoing security patching. This increases the risk that the computers of the users holding local administrator privileges could be compromised and introduce security threats to the University network which could remain undetected.

The University has partially agreed to resolve this finding subject to the results of a risk benefit analysis of options available to manage local administrator rights.

- 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 non-administrator users are changing their passwords every six months as required by the University's policy for passwords (ITM Policy Manual) or introduced other password controls such as multi-factor authentication. Where users are not forced to regularly change their passwords and the absence of other password controls increases the risk of user accounts being compromised.

The University disagreed with the recommendation to enforce regular password changes and has advised that it will continue to rely on computer-enforced strong passwords. The University agreed with the recommendation to implement multi-factor authentication. The Audit Office expects that the implementation of multi-factor authentication should reduce the risk of user accounts being compromised from not enforcing regular password changes.

4.245 One previously reported audit finding relating to payroll controls for the review of fortnightly salary reports was not resolved. Since 2012, the Audit Office has reported that these reviews were not always documented or performed in a timely manner. This presents a risk of undetected erroneous or fraudulent payments to employees.

The University has partially agreed with this audit finding and has advised that it will take steps to improve the completion and timeliness of these reviews.

4.246 Six new audit findings were identified in 2019 relating to:

- the review of financial management policies and procedures. Some policies were out of date as they referred to processes or systems that are no longer used or positions of approving officers that no longer exist. This increases the risk that such policies and procedures will not be adequately or consistently applied, which in turn increases the risk of irregularities and fraud.

The University has agreed to address this audit finding.

- reconciliations of student fee revenue between the University's student administration system and financial management system, which were not always prepared and reviewed on a timely basis. This increases the risk that errors and irregularities (including fraud) in student fee revenue may not be identified in a timely manner.

The University has agreed to address this audit finding.

- the University's general information technology controls as compared to those recommended in the Essential Eight mitigation strategies set out by the Australian Cyber Security Centre (ACSC). In particular, controls have not been implemented that mitigate against malware being executed by malicious actors, such as application whitelisting (permitting only specified applications to operate on systems) and application hardening (disabling internet browser add-ons and unneeded program features). This presents a higher risk that the University's information technology network environment and applications could be compromised.

The University agreed to address recommendations relating to implementing application hardening. The University partially agreed to recommendations to implement application whitelisting subject to completing a risk benefit analysis.

- management of privileged users (administrator) accounts<sup>1</sup>. In particular, the University had not documented its procedures for managing privileged user access, placed appropriate restrictions on privileged user accounts and regularly monitored the activities of these users. This increases the risk of inappropriate use of privileged accounts and these accounts being compromised.

The University has agreed to address recommendations relating to documenting procedures and monitoring of privileged user activities. The University partially agreed with one recommendation related to restrictions on privileged user accounts subject to completing a risk benefit analysis.

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<sup>1</sup> Privileged user (administrator) access provides these users with considerable access within an entity's network and applications, and the ability to perform higher risk activities in applications without approval.

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

The University has agreed to address this audit finding.

- long-standing credit balances in many student and sponsor fee accounts recorded in the student administration system. These credit balances are money received by the University more than three years ago that need to be reviewed and corrected against a receivable in the system or a refund provided to the relevant student or sponsor. These credit balances are potentially misstatements in the financial statements.

The University has agreed to address this audit finding.

## APPENDIX A: KEY TERMS

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

### Financial statements

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

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

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

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

### Auditor's reports on financial statements

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

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

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

### Statements of performance

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

The statement of performance is also required to include explanations for significant variances between actual and planned performance for each accountability indicator. Accountability indicators are set by the reporting agency and included in its Budget Papers or Statement of

Intent presented to the ACT Legislative Assembly and may provide information on the number, quality and timeliness of services provided.

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

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

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

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

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

### Limited assurance reports on statements of performance

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

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

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

### Materiality

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

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

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

### **Rounding**

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

### **Misstatements**

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

### **Net assets**

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

### **Net operating balance**

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

### **Operating results**

The operating surplus/(deficit) is the sum of the net operating balance and other economic flows. Other economic flows mainly comprise gains/(losses) on investments and land revenue<sup>2</sup>. 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.

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<sup>2</sup> Land revenue included in other economic flows is the combination of market gains on land sales and the undeveloped land value.

### **Present value**

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

### **Discount rate**

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

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

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The following agencies are included in the Territory's financial statements<sup>3</sup>.

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

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<sup>3</sup> Note 3 on page 18 of the 2019-20 Australian Capital Territory Government Consolidated Annual Financial Statements.

Superannuation Provision Account  
Territory Banking Account  
Transport Canberra and City Services Directorate  
Transport Canberra Operations

## Audit reports

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

<b>Reports Published in 2020-21</b>	
Report No.09 – 2020	2019-20 Financial Audits - Overview
Report No.08 – 2020	Annual Report 2019-20
Report No.07 - 2020	Management of Care for People Living with Serious and Continuing Illness
<b>Reports Published in 2019-20</b>	
Report No. 06 - 2020	Transfer of Workers' Compensation Arrangements from Comcare
Report No. 05 - 2020	Management of Household Waste Services
Report No. 04 - 2020	Residential Land Supply and Release
Report No. 03 - 2020	Data Security
Report No. 02 - 2020	2018-19 Financial Audits Computer Information Systems
Report No. 01 - 2020	Shared Services Delivery of HR and Finance Services
Report No. 11 - 2019	Maintenance of ACT Government School Infrastructure
Report No. 10 - 2019	2018-19 Financial Audits – Financial Results and Audit Findings
Report No. 09 – 2019	2018-19 Financial Audits Overview
Report No. 08 – 2019	Annual Report 2018-19
<b>Reports Published in 2018-19</b>	
Report No. 07 – 2019	Referral processes for the support of vulnerable Children
Report No. 06 – 2019	ICT Strategic Planning
Report No. 05 – 2019	Management of the System-Wide Data Review implementation program
Report No. 04 – 2019	2017-18 Financial Audits - Computer Information Systems
Report No. 03 – 2019	Access Canberra Business Planning and Monitoring
Report No. 02 – 2019	Recognition and implementation of obligations under the <i>Human Rights Act 2004</i>
Report No. 01 – 2019	Total Facilities Management Procurement
Report No. 12 – 2018	2017-18 Financial Audits Financial Results and Audit Findings
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
<b>Reports Published in 2017-18</b>	
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