ACT AUDITOR–GENERAL'S REPORT

2014-15 FINANCIAL AUDITS

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ACT Audit Office

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

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

ACT Audit Office undertakes audits on financial statements of Government agencies, and the whole-of-Government consolidated financial statements.

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

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

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ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

PA 15/08

Mrs Vicki Dunne MLA
Speaker
Legislative Assembly for the ACT
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Madam Speaker

I am pleased to forward to you a report titled '2014-15 Financial Audits' for tabling in the Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

M. Cooper.

Dr Maxine Cooper
Auditor-General
18 December 2015

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CONTENTS

Contributors to the 2014-15 financial audit program ..... **iii**

Summary **1**

Key findings 1

Recommendations 14

1 Results of the financial audit program **15**

Summary 15

Results of the audits 16

Results of the reviews of statements of performance 19

2 Audit findings **23**

Summary 24

Annual reporting 31

3 Computer information systems **33**

Summary 33

Environment controls 40

Application controls 55

4 The Territory's financial statements **65**

Summary 65

Operating results 69

Financial position 72

5 Audit results and findings on selected ACT Government and other entities **79**

ACT Insurance Authority 79

ACT Local Hospital Network Directorate 84

ActewAGL Joint Venture 87

ACTION 93

Canberra Institute of Technology 96

Chief Minister, Treasury and Economic Development Directorate 99

Community Services Directorate 108

Education and Training Directorate 111

Environment and Planning Directorate 116

Health Directorate 121

Housing ACT 126

Icon Water Limited 131
Justice and Community Safety Directorate 137
Land Development Agency 143
Superannuation Provision Account 147
Territory and Municipal Services Directorate 153
University of Canberra 158

Appendix A: Table of audit reports and reports of factual findings 169

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ACKNOWLEDGEMENTS

I wish to thank the above staff, contractors and consulting firms for their effort and tenacity in delivering the 2014-15 Financial Audit Program. I also wish to thank the Head of Service, Directors-General, Chief Executive Officers, Chief Finance Officers and all who provided assistance.

SUMMARY

The Audit Office issues independent audit reports containing opinions on the financial statements and reports of factual findings prepared by the ACT Government agencies and other entities in which the ACT Government has a direct financial interest. These reports are addressed to the members of the ACT Legislative Assembly and included in the annual reports of these agencies and other entities.

This report provides:

- a summary of the results of the audits of financial statements and reviews of statements of performance for the reporting periods ending 31 December 2014, 30 June 2015 and for periods within the 2014-15 financial year;
- the Audit Office's assessment of the overall quality and timeliness of reporting by agencies and other entities; and
- a summary of the major audit findings and information on progress made by agencies and other entities in resolving previously reported findings. These audit findings were identified by the Audit Office during the audits and reported to audited agencies and other entities.

Key findings

RESULTS OF THE FINANCIAL AUDIT PROGRAM	Paragraph
Results of the audits	
All 70 financial statements audited in 2014-15 materially complied with the relevant reporting and accounting requirements and presented a true and fair view of the financial position and performance of the reporting agencies.	1.12
No qualified audit reports were issued in 2014-15 (five were issued in 2013-14).	1.13
The matter that resulted in five qualified audit reports being issued in 2013-14 on the 2013-14 financial statements of the ACT Public Cemeteries Authority and the related Perpetual Care Trusts (Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust) was resolved in 2014-15. The Audit Office therefore issued unqualified audit reports on the 2014-15 financial statements of the Authority and the related Perpetual Care Trusts.	1.15

Results of the reviews of statements of performance

One of the 30 reports of factual findings issued on statements of performance in 2014-15 was qualified. 1.22

A qualified report of factual findings was issued on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014. The statement of performance prepared by the former Economic Development Directorate did not comply with Section 30(2) of the *Financial Management Act 1996* as targets for accountability indicators had not been established and reported against. 1.23

AUDIT FINDINGS

Paragraph

Status of audit findings

The performance of reporting agencies in resolving previously reported audit findings improved in 2014-15 as: 2.7

- 60 percent (74 of 124) of previously reported audit findings were resolved in 2014-15 compared to 52 percent (76 of 145) in 2013-14; and
- previously reported audit findings that were either partially resolved or not resolved decreased by 28 percent (19 audit findings) from 69 (44 partially resolved and 25 not resolved) in 2013-14 to 50 (28 partially resolved and 22 not resolved) in 2014-15.

Financial and performance reporting

Quality of financial statements

The percentage of financial statements submitted by reporting agencies for audit that were rated as satisfactory or good increased from 81 percent (49 of 60[1]) in 2013-14 to 88 percent (54 of 62) in 2014-15. This improvement largely resulted from two reporting agencies improving the quality of six of the seven financial statements that were rated as unsatisfactory in 2013-14. 2.11

[1] To provide a good indication of the overall quality of reporting by agencies, the number of financial statements submitted by reporting agencies for audit excludes financial statements that were prepared for a special purpose, such as those prepared to acquit the spending of funding received from the Commonwealth Government.

Timeliness of financial statements

Compliance with the whole of government reporting timetable for financial statements remained high as 92 percent (33 of 36[2]) of the reporting agencies complied with the reporting timetable in 2014-15. It was 92 percent (35 of 38) in 2013-14. 2.15

Quality of statements of performance

The quality of the statements of performance submitted by agencies for review decreased in 2014-15 compared to 2013-14 as the percentage of statements of performance assessed as: 2.20

- good decreased from 69 percent (20 of 29) in 2013-14 to 47 percent (14 of 30) in 2014-15; and
- unsatisfactory increased from none in 2013-14 to 7 percent (two of 30) in 2014-15.

Timeliness of statements of performance

Compliance with the whole of government reporting timetable for statements of performance remained high in 2014-15 as 85 percent (22 of 26[3]) of the reporting agencies complied with the reporting timetable. It was 96 percent (27 of 28) in 2013-14. While 15 percent (four of 26) of the reporting agencies did not submit their statement of performance to the Audit Office on time in 2014-15, these were provided shortly after the due date. 2.24

Annual reporting

Timeliness of annual reports

All reporting agencies complied with the requirement of the Annual Report Directions issued under the *Annual Reports (Government Agencies) Act 2004* to place a copy of their annual report on the relevant website on the same day it was tabled in the ACT Legislative Assembly. 2.25

[2] To provide a good indication of the overall timeliness of reporting by agencies, the number of reporting agencies only includes reporting agencies that were required to comply with the whole of government reporting timetable for the year ended 30 June 2015.

[3] To provide a good indication of the overall timeliness of reporting by agencies, the number of reporting agencies only includes reporting agencies that were required to comply with the whole of government reporting timetable for the year ended 30 June 2015.

Inclusion of audited documents in annual reports

All reporting agencies included the correct version of their financial statements and statement of performance in their annual report. However: 2.27

- two agencies did not include the audit report on their financial statements;
- one agency did not include the full audit report on their financial statements; and
- two agencies did not include the report of factual findings on their statement of performance.

These reporting agencies subsequently corrected the printed and website versions of their annual report to include these reports.

COMPUTER INFORMATION SYSTEMS

Paragraph

Environment controls

Environment controls were assessed as satisfactory, however, there are several areas where improvements are needed. 3.7

Governance arrangements

System vendor support for operating systems

As system vendor support is only provided for a limited time, Shared Services has: 3.13

- developed and approved plans and strategies to anticipate any future loss of support for operating systems;
- upgraded its operating systems for which vendor support had ceased; and
- provided regular updates to ACT Government agencies on critical systems and applications that were operating without vendor support and sought to raise agency awareness of the associated risks.

Despite this, there are several ACT Government network servers that use operating systems which are no longer supported by the system vendor. Shared Services advised that it cannot require agencies to upgrade their operating systems which do not have vendor support.

Externally hosted websites

Shared Services ICT Security performs quarterly penetration testing for internally hosted websites to assess their strength against malicious attacks. However, it advised that it does not have the authority to impose the same level of security on websites which are maintained on infrastructure that is not owned or operated by the ACT Government. 3.18

Alternative information technology infrastructure arrangements

Alternative information technology infrastructure (e.g. data centre) arrangements are not provided for all critical systems that require a high level of availability. This presents a risk that information technology infrastructure will not be available, in a timely manner, if there were to be an incident which destroyed or rendered information technology infrastructure unavailable for an extended period of time. 3.25

Shared Services advised that it cannot require ACT Government agencies to have alternative information technology infrastructure (e.g. data centre) arrangements for their critical systems. 3.26

Shared Service's Quality Management System

Documents in the Quality Management System were not reviewed and updated in accordance with required timeframes. When this occurs, there is a risk that the documentation in the Quality Management System will not reflect the procedures, processes and practices that are being used. 3.30

Information security management processes

Password controls

Shared Services reduced the risk of inappropriate access, including unauthorised or fraudulent access, to the ACT Government's network, applications and data by implementing the ACT Government Password Standard. This included: 3.35

- requiring users to use a ten digit password with a combination of uppercase and lowercase letters, numbers and special characters; and
- continuing to perform regular audits of the complexity of passwords for compliance with the ACT Government Password Standard.

Security over access to data centres

Shared Services performed a review of access by its staff to data centres which was aimed at: 3.38

- removing access by staff who no longer needed it; and
- restricting access by staff to those areas of the data centres that were needed to enable duties to be performed.

However, at two data centres:

- 23 percent (15 of 65) of staff at one data centre and 22 percent (16 of 72) of staff at the other had access even though they were no longer employed by Shared Services; and
- an excessive number of spare access passes were being kept for temporary use.

This presents a risk of irregular access (including unauthorised, inappropriate or fraudulent access) to data centres. 3.39

Access to the ACT Government network

While Shared Services reviewed privileged user accounts, this was confined to user accounts in the Shared Services' operations team and did not cover privileged user accounts in other areas of the ACT Government. Furthermore: 3.43

- some privileged user accounts did not have a mandatory requirement to have a password when the user account was created; and
- 20 percent of the privileged user accounts were not used in 2014-15. This indicates these accounts are not needed and should have been deactivated.

Furthermore, Shared Services did not undertake: 3.44

- six-monthly reviews of standard user access to the ACT Government network; or
- a review of active generic accounts so that functionality which permits the confidentiality or integrity of critical data to be compromised could be disabled.

These weaknesses present a risk of unauthorised (including fraudulent) access to applications and data on the ACT Government network. 3.45

Management of patches to applications

Shared Services maintained its sound approach to patching operating systems, however, applications were not routinely patched. Additionally, there was no documented or defined patch management strategy that outlined the planned approach for patching. Furthermore, key financial systems were not being routinely scanned to identify security vulnerabilities. 3.49

This presents a risk that ACT Government systems will be susceptible to security vulnerabilities and of data being lost through cyber security intrusions. 3.50

Whitelisting of applications

Shared Services does not have a strategy for the whitelisting of applications on server or desktop operating environments in the ACT Government network. 3.53

This presents a risk that systems may be compromised by the exploitation of vulnerabilities or introduction of malicious programs (viruses). 3.54

Security of information

In 2013-14, Shared Services launched a trial of a document security classification system for Microsoft Office documents. The system was expected to be available for use by ACT Government agencies in July 2014. Although the new security classification system is available to be used or enforced, its application in all ACT Government agencies has not been mandated. A whole of government policy is recommended so that the new security classification system is effectively implemented by ACT Government agencies. 3.58

Business continuity and disaster recovery arrangements

Shared Services Information and Communication Technology (ICT) performed backup and recovery procedures to facilitate the continuation of operations and access to data. However: 3.62

- the restoration of data from backup files was not being periodically tested to minimise the risk of loss of service and/or corruption of business and financial data; or
- disaster recovery exercises were not undertaken for applications assessed to be ‘government-critical’ or ‘business-critical’ in 2014-15.

Shared Services have advised that they cannot require ACT Government agencies that 'own' the critical systems to implement effective business continuity arrangements. A whole of government approach is recommended so that business continuity arrangements provide assurance that critical systems are: 3.64

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

Change management processes

Shared Services did not: 3.71

- log changes to critical software or hardware for high risk or suspicious changes; or
- perform reviews of changes made to critical software or hardware to check that all changes were authorised.

This presents a risk of erroneous or fraudulent changes being made to critical hardware or software. 3.72

Contract management arrangements

While an annual analysis of expenditure records is occurring to identify new or amended information and communication technology contracts under the responsibility of the Information and Communication Technology (ICT) Contract and Licensing section, the current contract management guidelines and procedures have not been updated to provide guidance on the need for this analysis. 3.79

Project management arrangements

No significant weaknesses in project management arrangements used to initiate, plan and complete an information technology project were identified in 2014-15. 3.83

Application controls

Data processing controls

No significant weaknesses in data processing controls were identified in 2014-15. 3.89

Information security management

Management of user access

There was an improvement in the management of user access for Maze, MyWay, Cashlink and Territory Revenue System. However, management of user access in relation to one application (Oracle Financials) needed to be improved by reducing the number of logons for three individual users from two to one[4]. 3.96

Reviewing of audit logs

Directorates improved their processes for reviewing audit logs for several applications (Maze, Cashlink, MyWay, Territory Revenue System and Homenet[5]). However, it is recommended that practices for reviewing audit logs for two applications be improved by: 3.110

- ensuring that the System Security Plan defines the requirements for logging and monitoring of changes to the database server and having approved procedures for the review of audit logs (Community 2011[6]); and
- logging the activities of privileged users and routine monitoring of their financial transactions by a team that is independent of the privileged users. Furthermore, there should be independent monitoring of creation of user accounts and changes to user roles and authorisations for privileged users in the Financial Applications Support Team to minimise the risk of users being able to perform incompatible functions (Oracle Financials).

Password controls over access to key systems, application and data

In 2014-15, the Chief Minister, Treasury and Economic Development Directorate reduced the risk of irregular access, which may be erroneous or fraudulent, to the TM1[7] application and data by increasing the level of password complexity required to access TM1 to comply with the ACT Government Password Standard. 3.119

[4] These applications (i.e. Maze, MyWay, Cashlink, Territory Revenue System and Oracle Financials) are described on page 55.

[5] The Homenet application is described on page 55.

[6] The Community 2011 application is described on page 55.

[7] The TM1 application is described on page 55.

Business continuity and disaster recovery arrangements

Three Directorates should improve their processes so that their business continuity plans and disaster recovery arrangements are effective by: 3.124

- having an approved and tested business continuity and disaster recovery plan (rego.act[8]);
- testing the restoration of data from backup files (Community 2011, Territory Revenue System and Homenet); and
- ensuring that business continuity and disaster recovery plans reflect the current recovery arrangements. These should also be updated, approved and tested (MyWay and TM1).

Change management processes

The Territory and Municipal Services Directorate implemented new procedures for making changes to MyWay. These include a plan for testing of changes with the results of testing changes (including the success or failure of changes) to MyWay being documented. 3.141

This reduces the risk of changes to MyWay not operating as intended and disruption to services that rely on MyWay. 3.142

Change management requests for changes to Oracle Financials were not always tracked prior to the implementation of the change. This presents a risk: 3.143

- that the changes made in Oracle Financials may not have been successfully tested prior to their release into production; and
- of Oracle Financials not operating as intended and of disruption to operations that rely on Oracle Financials.

THE TERRITORY'S FINANCIAL STATEMENTS

Paragraph

Operating results

The Territory incurred a deficit in the net operating balance (i.e. expenses exceeded revenue) of $646 million in 2014-15. This exceeded the budgeted deficit ($537 million) by $109 million and prior year's deficit ($309 million) by $337 million. 4.5

[8] The rego.act application is described on page 55.

The larger than expected deficit in the net operating balance was due mainly to: 4.6

- the unbudgeted payment of grants to purchase properties affected by the Loose-Fill Asbestos Eradication Scheme ($336 million); and
- unanticipated employee and superannuation expenses (an increase of $144 million) due mainly to:
  - the difference between the current interest rate (4.08 percent) used to estimate the present value of the superannuation liability and the long-term rate (six percent) used to prepare the budget estimate of the present value of this liability; and
  - an increase in staff numbers.

The Territory's net operating balance has declined from a small surplus of $1.0 million in 2010-11 (a breakeven result) to a deficit of $646 million in 2014-15 as the costs of providing services by the ACT Government have exceeded revenue increases. In 2014-15, these higher costs included the cost of the Loose-Fill Asbestos Eradication Scheme ($336 million). 4.8

The Territory incurred an operating deficit of $415 million in 2014-15. This exceeded the budgeted deficit ($359 million) by $56 million and prior year's deficit ($26 million) by $389 million. 4.11

The larger than expected operating deficit was mainly due to the unbudgeted payment of grants to purchase properties affected by loose-fill asbestos and higher employee and superannuation expenses. The Chief Minister, Treasury and Economic Development Directorate has advised that 'the consolidated budget estimates were updated for the payment of grants affected by loose-fill asbestos in the 2014-15 Budget Review'. 4.12

There has been a decline in the Territory's net operating result from an operating surplus of $123 million in 2010-11 to an operating deficit of $415 million in 2014-15. This was due to the costs of services provided by the ACT Government exceeding the revenue increases over this period. 4.13

The Territory estimates that it will incur another operating deficit in 2015-16 of $391 million before generating an operating surplus of $17 million in 2016-17, an operating deficit of $24 million in 2017-18 and then an operating surplus of $188 million in 2018-19. The achievement of an operating surplus of $188 million in 2018-19 depends on achieving the planned large reduction in the deficits in the net operating balance and generating a large increase in other economic inflows in 2018-19. 4.15

A surplus of $188 million in 2018-19 depends on: 4.16

- achieving the planned large reduction of $430 million (an average annual decrease of 16.5 percent) in the deficits incurred in the net operating balance from $646 million in 2014-15 to $216 million in 2018-19; and

- generating a large increase in other economic flows in 2018-19. This large increase from the amount generated in 2013-14 and the forward years leading up 2018-19 depends on achieving budgeted gains on the sale of remediated land that the Territory acquired as part of the Loose-Fill Asbestos Eradication Scheme.

The planned deficits in the net operating balance and small operating results over the forward years from 2015-16 to 2018-19 mean that, if unexpected adverse events occur, the Territory is exposed to a risk of incurring large deficits. This can be addressed by raising taxes and rates, reducing or reprioritising expenses, increasing borrowings or selling assets and/or absorbing deficits. 4.17

Financial position

Assets to liabilities coverage

The Territory's net assets ($14 674 million) at 30 June 2015 were less than the budgeted amount ($17 062 million) by $2 388 million due mainly to a higher than expected unfunded superannuation liability. 4.18

The increase of $3 767 million (an average annual increase of 4.3 percent) in the Territory's assets from $21 735 million at 30 June 2011 to $25 502 million at 30 June 2015 was mainly due to: 4.20

- upward revaluations of property, plant and equipment and the Territory's investment in the ActewAGL Joint Venture due to an increase in the valuation of ActewAGL's property, plant and equipment; and
- capital expenditure on property, plant and equipment (in particular, land, buildings and infrastructure assets). In 2014-15, the Territory also purchased properties as part of the Loose-Fill Asbestos Insulation Eradication Scheme.

The short-term financial position of the Territory at 30 June 2015 is stronger than the position anticipated in the budget but weaker than the position that existed at 30 June 2014. The Territory had $1.57 in short-term assets available to cover each dollar of short-term liabilities at 30 June 2015 compared to $1.80 at 30 June 2014. This weaker position is due mainly to liabilities incurred to acquire asbestos affected properties and pay for the costs of the land remediation under the Loose-Fill Asbestos Insulation Eradication Scheme. 4.23

Short-term assets to short-term liabilities coverage

The Territory's short-term financial position is expected to significantly weaken from a net asset position of $795 million at 30 June 2015 to net liability position of $331 million at 30 June 2019. 4.24

Financial assets to liabilities coverage

The long-term financial position of the Territory is much weaker than the budgeted and prior year positions and has significantly weakened since 30 June 2011. 4.27

Unfunded liabilities at 30 June 2015 ($8 630 million) exceeded the budgeted unfunded liabilities ($6 004 million) and unfunded liabilities at 30 June 2014 ($7 081 million) by $2 626 million and $1 549 million respectively. Unfunded liabilities have increased by $5 125 million (an average annual increase of 36.6 percent) from $3 505 million at 30 June 2011 to $8 630 million at 30 June 2015. 4.28

The expected strengthening in the Territory's long-term financial position over the forward years of 2015-16 to 2018-19 is based on the assumption that there will be a substantial decrease in the unfunded superannuation liability from that which existed at 30 June 2015. This decrease is assumed to be sufficient to counter the expected large increase in borrowings to fund major capital works projects in the Territory's Infrastructure Program. 4.30

The large decrease in the unfunded superannuation liability of $2 473 million (an average annual decrease of 13.3 percent) from $5 158 million at 30 June 2015 to $2 415 million at 30 June 2019 depends significantly on the rate used to measure the present value of superannuation payments in these future years. 4.31

Borrowings are expected to increase significantly by $1 779 million (an average annual increase of 9.7 percent) from $4 593 million at 30 June 2015 to $6 372 million at 30 June 2019 to fund major capital works projects in the Territory's Infrastructure Program. These projects include the Territory's light rail project, construction of the ACT Court facilities, and duplication of major roads in Gungahlin (Horse Park Drive and Gundaroo Drive) and Tuggeranong (Ashley Drive). 4.32

Recommendations

The following recommendations relate to significant findings in the report. Recommendations relating to other report findings have been provided to agency heads, governing boards and relevant Ministers through audit management reports.

RECOMMENDATION 1	(CHAPTER 3) SYSTEM VENDOR SUPPORT FOR OPERATING SYSTEMS

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy to guide the upgrading of operating systems for which vendor support has ceased. This should include specifying when upgrades are to occur.

RECOMMENDATION 2	(CHAPTER 3) EXTERNALLY HOSTED WEBSITES

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy for managing security vulnerabilities relating to externally hosted websites.

RECOMMENDATION 3	(CHAPTER 3) ALTERNATIVE INFORMATION TECHNOLOGY INFRASTRUCTURE ARRANGEMENTS

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy for alternative information technology infrastructure arrangements for critical systems.

RECOMMENDATION 4	(CHAPTER 3) SECURITY OF INFORMATION

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government policy on the introduction of the new security classification system.

RECOMMENDATION 5	(CHAPTER 3) BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government policy on business continuity arrangements, which provide assurance that critical 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.

RECOMMENDATION 6	(CHAPTER 3) BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

ACT Government agencies should have business continuity plans and disaster recovery arrangements that are up-to-date.

1 RESULTS OF THE FINANCIAL AUDIT PROGRAM

1.1 The *Financial Management Act 1996* requires the Audit Office to audit the financial statements and review the statements of performance of ACT Government directorates and authorities.

1.2 The Audit Office also performs audits under other legislation or reporting requirements, such as the *Corporations Act 2001*, joint venture agreements, trust deeds and Commonwealth Government funding agreements.

1.3 This chapter summarises the results of audits of financial statements and reviews of statements of performance.

Summary

Key findings

	Paragraph
Results of the audits	
All 70 financial statements audited in 2014-15 materially complied with the relevant reporting and accounting requirements and presented a true and fair view of the financial position and performance of the reporting agencies.	1.12
No qualified audit reports were issued in 2014-15 (five were issued in 2013-14).	1.13
The matter that resulted in five qualified audit reports being issued in 2013-14 on the 2013-14 financial statements of the ACT Public Cemeteries Authority and the related Perpetual Care Trusts (Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust) was resolved in 2014-15. The Audit Office therefore issued unqualified audit reports on the 2014-15 financial statements of the Authority and the related Perpetual Care Trusts.	1.15

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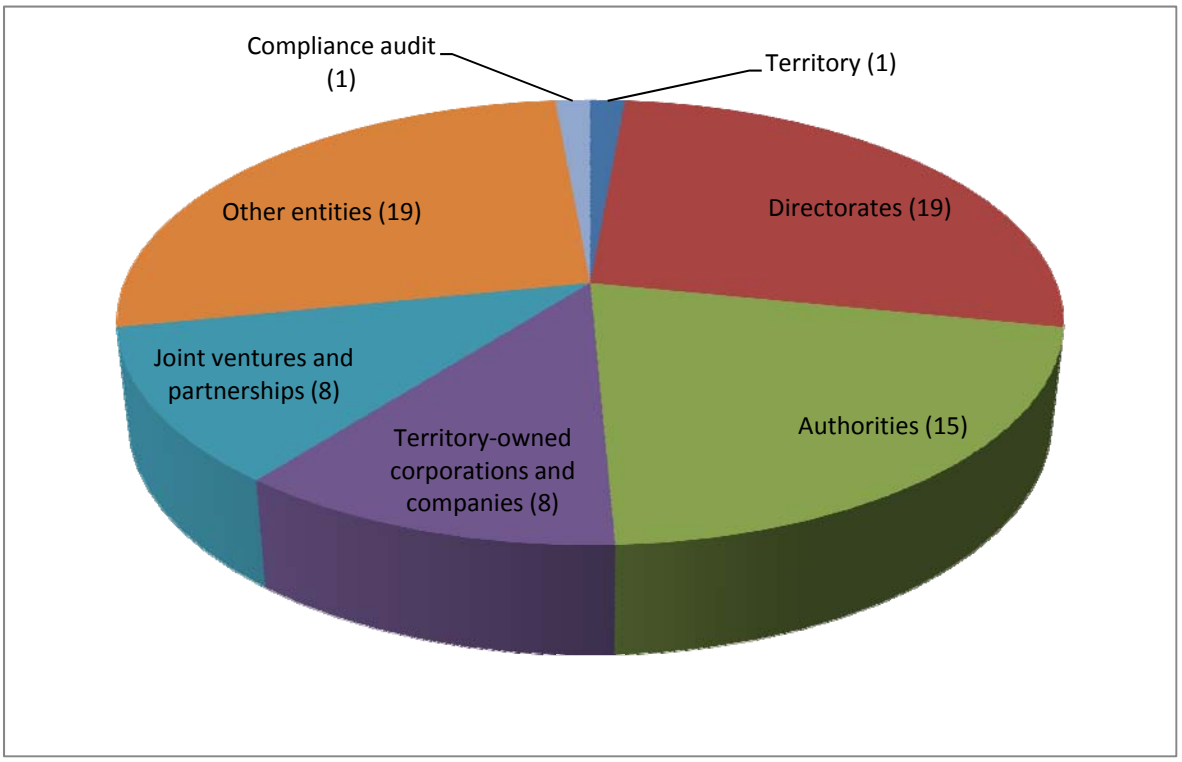
One of the 30 reports of factual findings issued on statements of performance in 2014-15 was qualified. 1.22

A qualified report of factual findings was issued on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014. The statement of performance prepared by the former Economic Development Directorate did not comply with Section 30(2) of the *Financial Management Act 1996* as targets for accountability indicators had not been established and reported against. 1.23

Results of the audits

Figure 1-1 Number of audit reports



1.4 The Audit Office completed audits of 70 financial statements as part of the 2014-15 financial audit program and one compliance audit (paragraph 1.7).

1.5 The 2014-15 financial audit program consisted of audits of financial statements with years ending 31 December 2014, 30 June 2015 and for periods within the 2014-15 financial year.

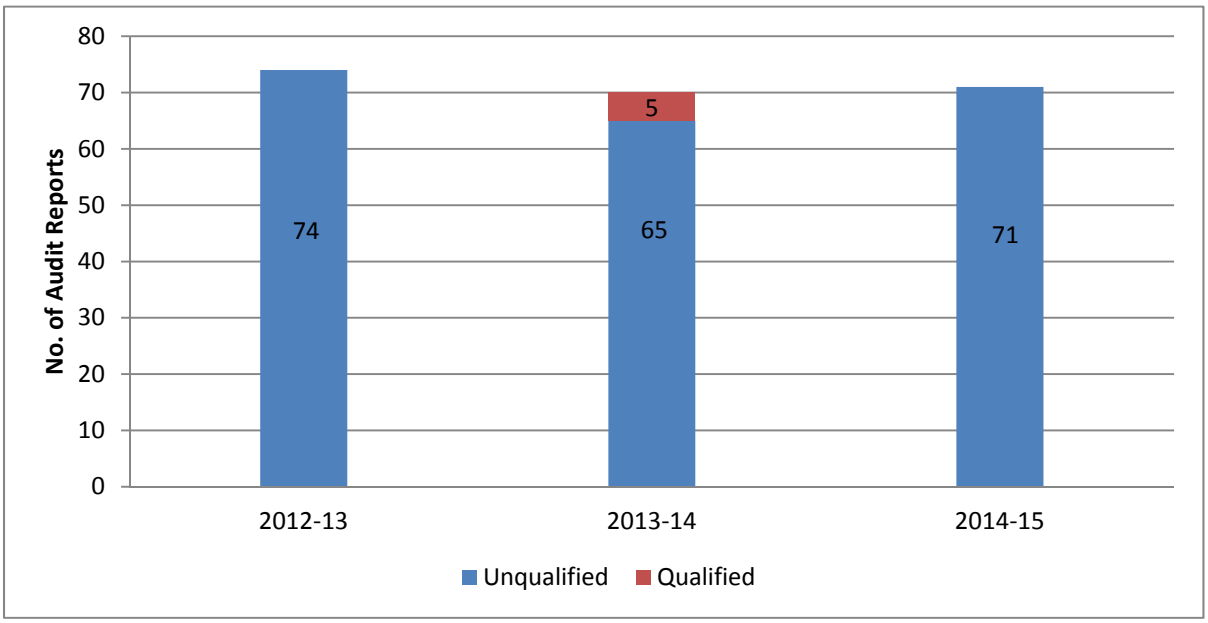
1.6 The 2014-15 financial audit program comprised audits of financial statements of directorates (19), authorities (15), Territory-owned corporations and companies (8), joint ventures and partnerships (8), other entities (19) and the Territory (1).

1.7 An audit of compliance by the Public Trustee for the ACT with the 'Public Ancillary Fund Guidelines 2011' (the Guidelines) issued under the *Taxation Administration Act 1953* for the Capital Region Community Foundation Gift Fund (the Fund) was also completed.

1.8 This audit is performed because the Public Trustee for the ACT must comply with the Guidelines for the Fund to retain its status as a 'deductible gift recipient'. This allows donors to claim an income tax deduction for their gifts to the Fund.

1.9 A list of the audit reports issued by the Audit Office in 2014-15 is in Appendix A on pages 169 to 172.

Figure 1-2 Number of unqualified and qualified audit reports



1.10 The number of audit reports issued in 2014-15 (71) exceeded the number issued in 2013-14 (70). This was due to the:

- audits of the financial statements of the newly established ACT Electoral Commission and Lifetime Care and Support Fund. These commenced operations on 1 July 2014; and
- audit of the special purpose financial statements of the ACT Veterinary Surgeons Board.

1.11 These three audits were partially offset by two audits of financial statements performed in 2013-14 under the *Nation Building Program (National Land Transport) Act 2009 – National Projects* that were no longer required in 2014-15. Audits of financial statements for the 2011-12 and 2012-13 financial years were performed in 2013-14 to meet a Commonwealth requirement for the reporting of amounts received and spent on the Majura Parkway.

1.12 All 70 financial statements audited in 2014-15 materially complied with the relevant reporting and accounting requirements and presented a true and fair view of the financial position and performance of the reporting agencies.

1.13 No qualified audit reports were issued in 2014-15 (five were issued in 2013-14).

1.14 Qualified audit reports were issued on the 2013-14 financial statements of the ACT Public Cemeteries Authority and the related Perpetual Care Trusts as the Governing Board of the Authority was unable to determine if the basis used for charging indirect maintenance costs to the Perpetual Care Trusts by the Authority was valid. The Audit Office was therefore unable to express an audit opinion on figures which included charges for indirect maintenance costs that were reported in the 2013-14 financial statements of the ACT Public Cemeteries Authority and the related Perpetual Care Trusts.

1.15 The matter that resulted in five qualified audit reports being issued in 2013-14 on the 2013-14 financial statements of the ACT Public Cemeteries Authority and the related Perpetual Care Trusts (Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust) was resolved in 2014-15. The Audit Office therefore issued unqualified audit reports on the 2014-15 financial statements of the Authority and the related Perpetual Care Trusts.

1.16 In 2014-15, an external consultant was engaged by the ACT Public Cemeteries Authority to review indirect maintenance costs charged to the Perpetual Care Trusts by the ACT Public Cemeteries Authority. Following this review, the ACT Public Cemeteries Authority:

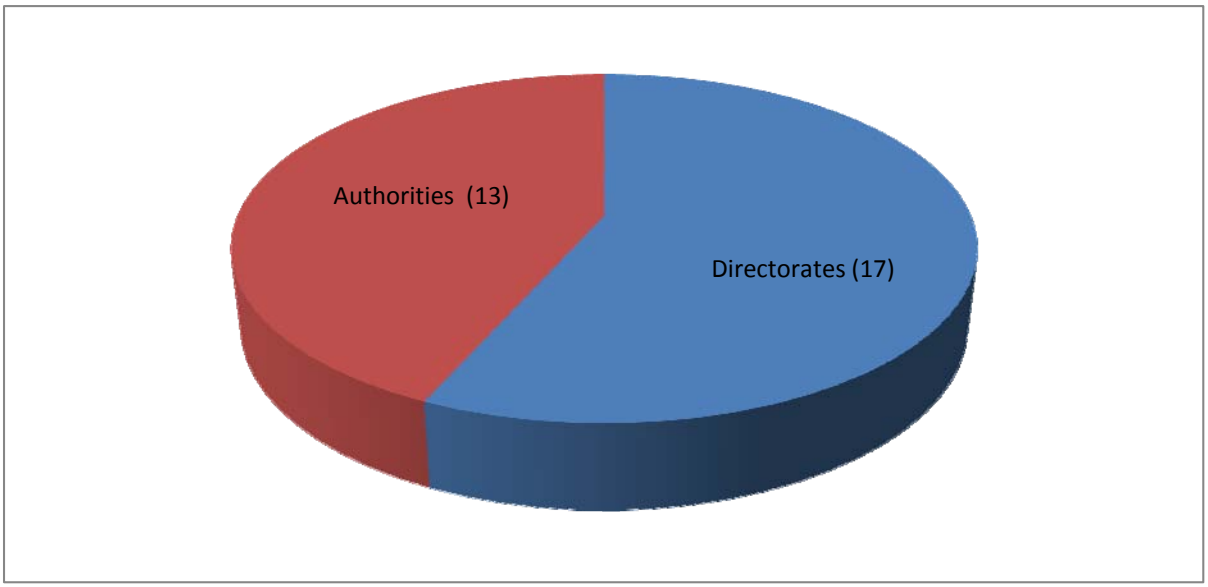
- assessed that the new basis for charging of indirect maintenance costs to Perpetual Care Trusts by the Authority was valid; and
- corrected its 2014-15 financial statements for errors relating to previous years in accordance with Australian Accounting Standard AASB 108: 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Results of the reviews of statements of performance

1.17 The Audit Office reviews the accuracy of reported results for accountability indicators included in the statements of performance prepared by directorates and authorities. Reports of factual findings issued on statements of performance disclose matters of concern about the accuracy of the results of accountability indicators identified from the reviews.

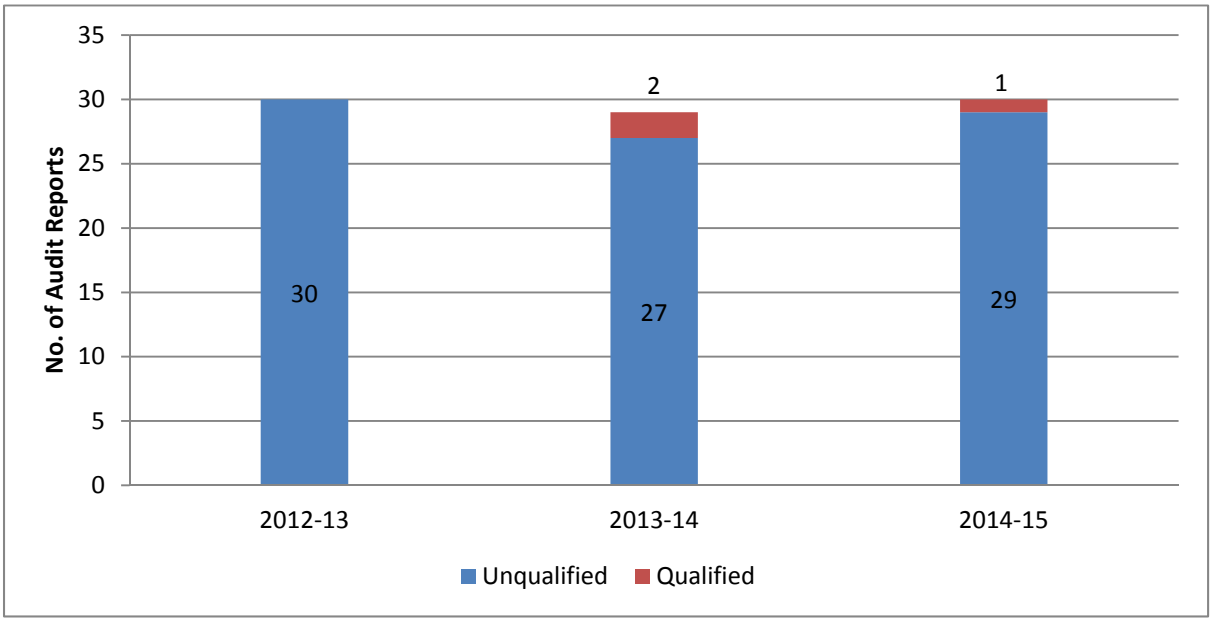
1.18 The Audit Office does not provide an opinion on the relevance or usefulness of accountability indicators as part of its review of the statement of performance, as these indicators are set as part of the annual budget process. However, concerns about the relevance or usefulness of the accountability indicators may be reported to the head of an agency and the responsible Minister in the audit management report.

Figure 1-3 Number of reports of factual findings



1.19 The Audit Office completed the review of 30 statements of performance of directorates (17) and authorities (13) in 2014-15.

Figure 1-4 Number of qualified and unqualified reports of factual findings



1.20 The number of reports of factual findings issued in 2014-15 (30) exceeded the number issued in 2013-14 (29) due to the establishment of the Lifetime Care and Support Fund.

1.21 A list of the reports of factual findings issued by the Audit Office for 2014-15 is included Appendix A on pages 169 to 170.

1.22 One of the 30 reports of factual findings issued on statements of performance in 2014-15 was qualified.

1.23 A qualified report of factual findings was issued on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014. The statement of performance prepared by the former Economic Development Directorate did not comply with Section 30(2) of the *Financial Management Act 1996* as targets for accountability indicators had not been established and reported against.

1.24 The matters that resulted in qualified reports of factual findings being issued on the 2013-14 statements of performance of two authorities (ACT Public Cemeteries Authority and ACT Compulsory Third-Party Insurance Regulator) were resolved in 2014-15.

1.25 A qualified report of factual findings was issued on the 2013-14 statement of performance of the ACT Public Cemeteries Authority because the results for five financial accountability indicators had been calculated using figures in the financial statements that included charges for indirect maintenance costs. As noted in paragraph 1.14, the Audit Office was unable to express an audit opinion on these figures and therefore could not form an opinion on the results of accountability indicators that were calculated using them.

As noted in paragraph 1.15, this matter was resolved in 2014-15 and an unqualified report of factual findings was therefore issued on the 2014-15 statement of performance.

1.26 A qualified report of factual findings was issued on the 2013-14 statement of performance of the ACT Compulsory Third-Party Insurance Regulator because the result for one accountability indicator was not measured. The matter that resulted in the qualification was resolved in 2014-15 because the ACT Compulsory Third-Party Insurance Regulator removed the accountability indicator that was not measured.

2 AUDIT FINDINGS

2.1 The Audit Office performs audits of financial statements and reviews of statements of performance of reporting agencies. The Audit Office provides an independent opinion on whether these are materially correct and present a true and fair view of the performance of the reporting agency in accordance with the relevant reporting requirements.

2.2 Australian Auditing Standards ASA 260: 'Communication with Those Charged with Governance' and ASA 265: 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management' requires the Audit Office to report 'matters of governance interest' identified during an audit to those responsible for the governance of the reporting agency.

2.3 'Matters of governance interest' are reported as 'audit findings' in audit management reports provided to agency heads, governing boards and relevant Ministers. These reports include:

- details of weaknesses in governance arrangements, internal controls and/or reporting practices, particularly those which increase the risk of errors or fraud;
- recommendations to address audit findings;
- comments provided by management of the reporting agencies on audit findings and recommendations. These comments indicate whether management agrees with the audit findings and recommendations. If they do agree, then actions to address audit findings and recommendations are presented; and
- details of the progress of reporting agencies in resolving previously reported audit findings.

2.4 This chapter includes information on the:

- status of audit findings included in audit management reports and the overall progress made by reporting agencies in addressing these findings;
- overall quality and timeliness of the financial statements and statements of performance submitted by reporting agencies to the Audit Office; and
- accuracy of audited information included in agency annual reports.

Summary

Key findings

Paragraph

Status of audit findings

The performance of reporting agencies in resolving previously reported audit findings improved in 2014-15 as: 2.7

- 60 percent (74 of 124) of previously reported audit findings were resolved in 2014-15 compared to 52 percent (76 of 145) in 2013-14; and
- previously reported audit findings that were either partially resolved or not resolved decreased by 28 percent (19 audit findings) from 69 (44 partially resolved and 25 not resolved) in 2013-14 to 50 (28 partially resolved and 22 not resolved) in 2014-15..

Financial and performance reporting

Quality of financial statements

The percentage of financial statements submitted by reporting agencies for audit that were rated as satisfactory or good increased from 81 percent (49 of 60[9]) in 2013-14 to 88 percent (54 of 62) in 2014-15. This improvement largely resulted from two reporting agencies improving the quality of six of the seven financial statements that were rated as unsatisfactory in 2013-14. 2.11

Timeliness of financial statements

Compliance with the whole of government reporting timetable for financial statements remained high as 92 percent (33 of 36[10]) of the reporting agencies complied with the reporting timetable in 2014-15. It was 92 percent (35 of 38) in 2013-14. 2.15

[9] To provide a good indication of the overall quality of reporting by agencies, the number of financial statements submitted by reporting agencies for audit excludes financial statements that were prepared for a special purpose, such as those prepared to acquit the spending of funding received from the Commonwealth Government.

[10] To provide a good indication of the overall timeliness of reporting by agencies, the number of reporting agencies only includes reporting agencies that were required to comply with the whole of government reporting timetable for the year ended 30 June 2015.

Quality of statements of performance

2.20 The quality of the statements of performance submitted by agencies for review decreased in 2014-15 compared to 2013-14 as the percentage of statements of performance assessed as:

- good decreased from 69 percent (20 of 29) in 2013-14 to 47 percent (14 of 30) in 2014-15; and
- unsatisfactory increased from none in 2013-14 to 7 percent (two of 30) in 2014-15.

Timeliness of statements of performance

2.24 Compliance with the whole of government reporting timetable for statements of performance remained high in 2014-15 as 85 percent (22 of 26[11]) of the reporting agencies complied with the reporting timetable. It was 96 percent (27 of 28) in 2013-14. While 15 percent (four of 26) of the reporting agencies did not submit their statement of performance to the Audit Office on time in 2014-15, these were provided shortly after the due date.

Annual reporting

Timeliness of annual reports

2.25 All reporting agencies complied with the requirement of the Annual Report Directions issued under the *Annual Reports (Government Agencies) Act 2004* to place a copy of their annual report on the relevant website on the same day it was tabled in the ACT Legislative Assembly.

[11] To provide a good indication of the overall timeliness of reporting by agencies, the number of reporting agencies only includes reporting agencies that were required to comply with the whole of government reporting timetable for the year ended 30 June 2015.

Inclusion of audited documents in annual reports

All reporting agencies included the correct version of their financial statements and statement of performance in their annual report. However: 2.27

- two agencies did not include the audit report on their financial statements;
- one agency did not include the full audit report on their financial statements; and
- two agencies did not include the report of factual findings on their statement of performance.

These reporting agencies subsequently corrected the printed and website versions of their annual report to include these reports.

Status of audit findings

2.5 The status of audit findings reported to reporting agencies in audit management reports in 2013-14 and 2014-15 is shown in Table 2-1.

Table 2-1 Status of audit findings (number of findings)

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2013-14	145	76	44	25	55	124
2014-15	124	74	28	22	60	110

2.6 Reporting agencies should, in most cases, resolve audit findings within 12 months of them being reported. However, some may take longer to resolve. This may occur, for example, where a reporting agency:

- agrees with the audit findings and/or recommendations but cannot promptly address them. For example, an agency may be unable to address control weaknesses in a computer information system until the system is upgraded or replaced; or
- disagrees with the audit findings and/or recommendations. For example, an agency may assess that the risks posed by the control weakness are too low to warrant action.

2.7 The performance of reporting agencies in resolving previously reported audit findings improved in 2014-15 as:

- 60 percent (74 of 124) of previously reported audit findings were resolved in 2014-15 compared to 52 percent (76 of 145) in 2013-14; and

- previously reported audit findings that were either partially resolved or not resolved decreased by 28 percent (19 audit findings) from 69 (44 partially resolved and 25 not resolved) in 2013-14 to 50 (28 partially resolved and 22 not resolved) in 2014-15..

2.8 Reporting agencies have agreed to resolve 82 percent (41 of 50) of the previously reported audit findings that were either partially resolved or not resolved in 2014-15. The remaining 18 percent (nine of 50) were not resolved as reporting agencies disagreed with the audit findings and/or related recommendations and advised that these recommendations will not be implemented. These represent only seven percent of the 124 previously reported audit findings.

Financial and performance reporting

Quality of financial statements

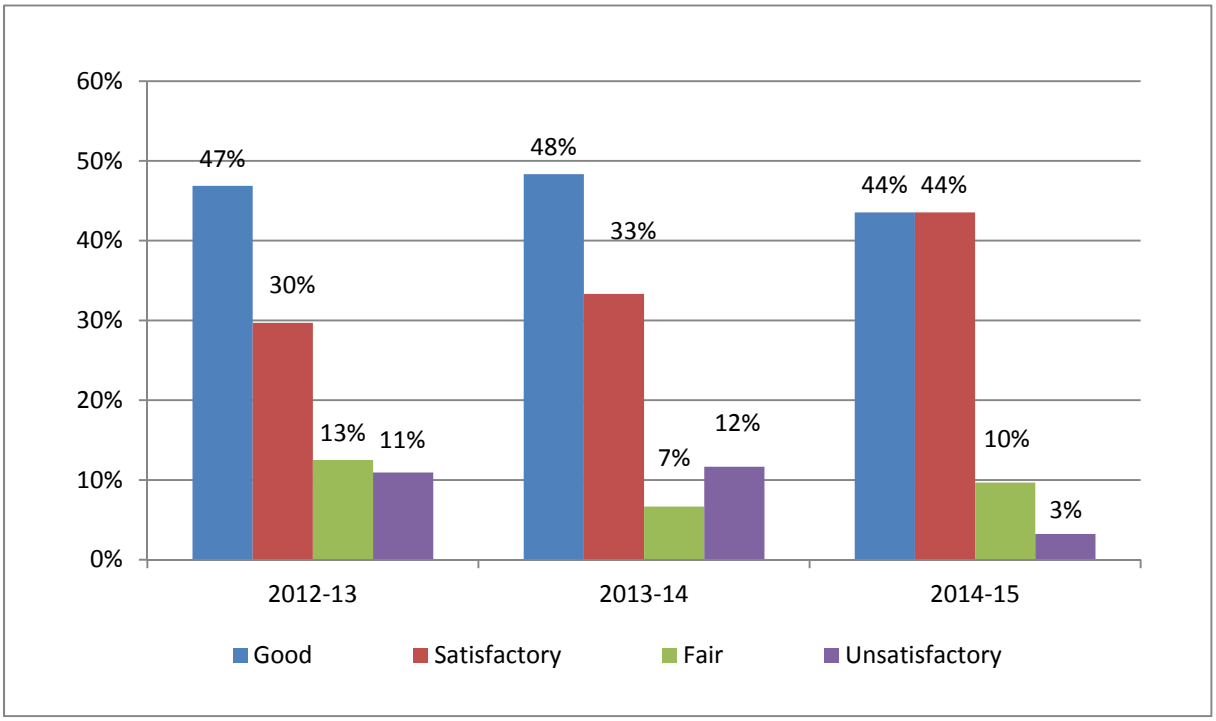
2.9 The Audit Office provides an unqualified audit report on a reporting agency's financial statements when it concludes that the financial statements materially comply with the relevant accounting and reporting requirements. However, as financial statements may be corrected during the audit, an unqualified audit report does not mean that those submitted for audit were satisfactory.

2.10 The Audit Office therefore assessed the quality of the financial statements submitted for audit using the criteria shown in Table 2-2.

Table 2-2 Rating criteria

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

Figure 2-1 Quality of financial statements



2.11 The percentage of financial statements submitted by reporting agencies for audit that were rated as satisfactory or good increased from 81 percent (49 of 60[12]) in 2013-14 to 88 percent (54 of 62) in 2014-15. This improvement largely resulted from two reporting agencies improving the quality of six of the seven financial statements that were rated as unsatisfactory in 2013-14.

2.12 Financial statements that were rated as unsatisfactory decreased from 12 percent (seven of 60) in 2013-14 to three percent (two of 62) in 2014-15. Two financial statements were rated as unsatisfactory because they contained errors in the figures included in the financial statements and/or were incomplete when submitted for audit.

Timeliness of financial statements

2.13 The 2014-15 whole of government reporting timetable issued by the Chief Minister, Treasury and Economic Development Directorate included the dates by which reporting agencies were required to submit their certified financial statements to the Audit Office.

[12] To provide a good indication of the overall quality of reporting by agencies, the number of financial statements submitted by reporting agencies for audit excludes financial statements that were prepared for a special purpose, such as those prepared to acquit the spending of funding received from the Commonwealth Government.

2.14 Reporting agencies are required to comply with this timetable to provide assurance that:

- annual reports, containing the audited financial statements, are completed within the annual reporting required timeframes contained in the Annual Report Directions issued under the *Annual Reports (Government Agencies) Act 2004*; and
- the financial statements of the Territory are prepared and audited within the timeframe required by the *Financial Management Act 1996*.

2.15 Compliance with the whole of government reporting timetable for financial statements remained high as 92 percent (33 of 36[13]) of the reporting agencies complied with the reporting timetable in 2014-15. It was 92 percent (35 of 38) in 2013-14.

2.16 In 2014-15, eight percent (three of 36) reporting agencies did not comply with the whole of government reporting timetable. Two submitted their financial statements to the Audit Office shortly after the due date and one submitted its certified financial statements several weeks after the due date.

Quality of statements of performance

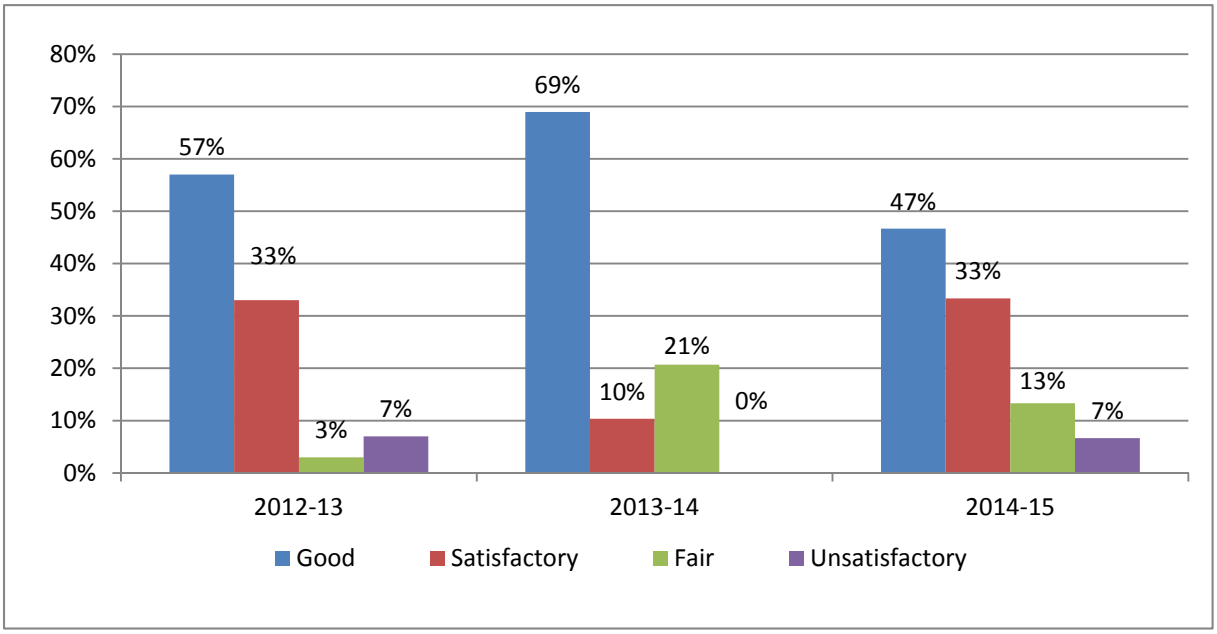
2.17 The *Financial Management Act 1996* requires nearly all directorates and authorities to prepare statements of performance. Statements of performance are required to present the reporting agency's performance against the targets for accountability indicators as disclosed in the Budget Papers (directorates) or Statements of Intent (authorities).

2.18 An unqualified report of factual findings means there are no matters identified during the review of the statement of performance that would indicate the reported results of the accountability indicators are not fairly presented. Historically, a qualified report of factual findings has been issued where a result for an accountability indicator is materially incorrect, has not been measured, or cannot be independently verified.

[13] To provide a good indication of the overall timeliness of reporting by agencies, the number of reporting agencies only includes reporting agencies that were required to comply with the whole of government reporting timetable for the year ended 30 June 2015.

2.19 The Audit Office assessed the quality of the statements of performance submitted by reporting agencies for review using the criteria used to assess the quality of financial statements as shown in Table 2.2 on page 27.

Figure 2-2 Quality of statements of performance



2.20 The quality of the statements of performance submitted by agencies for review decreased in 2014-15 compared to 2013-14 as the percentage of statements of performance assessed as:

- good decreased from 69 percent (20 of 29) in 2013-14 to 47 percent (14 of 30) in 2014-15; and
- unsatisfactory increased from none in 2013-14 to 7 percent (two of 30) in 2014-15.

2.21 The decrease in the percentage of statements of performance submitted for review that were assessed as good was due to:

- an increase in the number of errors in the results for accountability indicators that required correction; and
- a lack of clarity in the explanatory information included in the statement of performance.

2.22 In 2014-15, 20 percent (six of 30) of the statements of performance submitted for review were rated fair (13 percent) or unsatisfactory (seven percent). This rating was mainly provided where the:

- results of accountability indicators were incorrect; and/or
- explanations for material variances of actual results from the planned targets were not clear and informative.

Timeliness of statements of performance

2.23 The 2014-15 whole of government reporting timetable referred to in paragraph 2.13 also includes the date by which reporting agencies were required to submit their certified statement of performance to the Audit Office for review.

2.24 Compliance with the whole of government reporting timetable for statements of performance remained high in 2014-15 as 85 percent (22 of 26[14]) of the reporting agencies complied with the reporting timetable. It was 96 percent (27 of 28) in 2013-14. While 15 percent (four of 26) of the reporting agencies did not submit their statement of performance to the Audit Office on time in 2014-15, these were provided shortly after the due date.

Annual reporting

Timeliness of annual reports

2.25 All reporting agencies complied with the requirement of the Annual Report Directions issued under the *Annual Reports (Government Agencies) Act 2004* to place a copy of their annual report on the relevant website on the same day it was tabled in the ACT Legislative Assembly.

Inclusion of audited documents in annual reports

2.26 Reporting agencies are responsible for ensuring that the printed and website versions of their annual report include the:

- correct version of the audited financial statements and reviewed statement of performance; and
- audit report on the financial statements and report of factual findings on the statement of performance.

2.27 All reporting agencies included the correct version of their financial statements and statement of performance in their annual report. However:

- two agencies did not include the audit report on their financial statements;
- one agency did not include the full audit report on their financial statements; and
- two agencies did not include the report of factual findings on their statement of performance.

[14] To provide a good indication of the overall timeliness of reporting by agencies, the number of reporting agencies only includes reporting agencies that were required to comply with the whole of government reporting timetable for the year ended 30 June 2015.

These reporting agencies subsequently corrected the printed and website versions of their annual report to include these reports.

3 COMPUTER INFORMATION SYSTEMS

3.1 Controls over computer information systems are an important means of providing reporting agencies with assurance that the:

- information used to prepare their financial statements and statements of performance is authentic, accurate and reliable;
- applications operate as intended and in a consistent manner; and
- information maintained by reporting agencies is secure.

3.2 They are classified as:

- environment controls which include automated and manual procedures over the computer network equipment, servers, databases and the buildings containing equipment (e.g. data centres). For most reporting agencies these are managed by Shared Services; and
- application controls which are included in an application. They can be used to control entered and processed data, manage user access and processes for making changes to applications.

Summary

Key findings

	Paragraph
Environment controls	
Environment controls were assessed as satisfactory, however, there are several areas where improvements are needed.	3.7
Governance arrangements	
System vendor support for operating systems	
As system vendor support is only provided for a limited time, Shared Services has: • developed and approved plans and strategies to anticipate any future loss of support for operating systems; • upgraded its operating systems for which vendor support had ceased; and • provided regular updates to ACT Government agencies on critical systems and applications that were operating without vendor support and sought to raise agency awareness of the associated risks.	3.13

Despite this, there are several ACT Government network servers that use operating systems which are no longer supported by the system vendor. Shared Services advised that it cannot require agencies to upgrade their operating systems which do not have vendor support.

Externally hosted websites

Shared Services ICT Security performs quarterly penetration testing for internally hosted websites to assess their strength against malicious attacks. However, it advised that it does not have the authority to impose the same level of security on websites which are maintained on infrastructure that is not owned or operated by the ACT Government. 3.18

Alternative information technology infrastructure arrangements

Alternative information technology infrastructure (e.g. data centre) arrangements are not provided for all critical systems that require a high level of availability. This presents a risk that information technology infrastructure will not be available, in a timely manner, if there were to be an incident which destroyed or rendered information technology infrastructure unavailable for an extended period of time. 3.25

Shared Services advised that it cannot require ACT Government agencies to have alternative information technology infrastructure (e.g. data centre) arrangements for their critical systems. 3.26

Shared Service's Quality Management System

Documents in the Quality Management System were not reviewed and updated in accordance with required timeframes. When this occurs, there is a risk that the documentation in the Quality Management System will not reflect the procedures, processes and practices that are being used. 3.30

Information security management processes

Password controls

Shared Services reduced the risk of inappropriate access, including unauthorised or fraudulent access, to the ACT Government's network, applications and data by implementing the ACT Government Password Standard. This included: 3.35

- requiring users to use a ten digit password with a combination of uppercase and lowercase letters, numbers and special characters; and
- continuing to perform regular audits of the complexity of passwords for compliance with the ACT Government Password Standard.

Security over access to data centres

Shared Services performed a review of access by its staff to data centres which was aimed at: 3.38

- removing access by staff who no longer needed it; and
- restricting access by staff to those areas of the data centres that were needed to enable duties to be performed.

However, at two data centres:

- 23 percent (15 of 65) of staff at one data centre and 22 percent (16 of 72) of staff at the other had access even though they were no longer employed by Shared Services; and
- an excessive number of spare access passes were being kept for temporary use.

This presents a risk of irregular access (including unauthorised, inappropriate or fraudulent access) to data centres. 3.39

Access to the ACT Government network

While Shared Services reviewed privileged user accounts, this was confined to user accounts in the Shared Services' operations team and did not cover privileged user accounts in other areas of the ACT Government. Furthermore: 3.43

- some privileged user accounts did not have a mandatory requirement to have a password when the user account was created; and
- 20 percent of the privileged user accounts were not used in 2014-15. This indicates these accounts are not needed and should have been deactivated.

Furthermore, Shared Services did not undertake: 3.44

- six-monthly reviews of standard user access to the ACT Government network; or
- a review of active generic accounts so that functionality which permits the confidentiality or integrity of critical data to be compromised could be disabled.

These weaknesses present a risk of unauthorised (including fraudulent) access to applications and data on the ACT Government network. 3.45

Management of patches to applications

Shared Services maintained its sound approach to patching operating systems, however, applications were not routinely patched. Additionally, there was no documented or defined patch management strategy that outlined the planned approach for patching. Furthermore, key financial systems were not being routinely scanned to identify security vulnerabilities. 3.49

This presents a risk that ACT Government systems will be susceptible to security vulnerabilities and of data being lost through cyber security intrusions. 3.50

Whitelisting of applications

Shared Services does not have a strategy for the whitelisting of applications on server or desktop operating environments in the ACT Government network. 3.53

This presents a risk that systems may be compromised by the exploitation of vulnerabilities or introduction of malicious programs (viruses). 3.54

Security of information

In 2013-14, Shared Services launched a trial of a document security classification system for Microsoft Office documents. The system was expected to be available for use by ACT Government agencies in July 2014. Although the new security classification system is available to be used or enforced, its application in all ACT Government agencies has not been mandated. A whole of government policy is recommended so that the new security classification system is effectively implemented by ACT Government agencies. 3.58

Business continuity and disaster recovery arrangements

Shared Services ICT performed backup and recovery procedures to facilitate the continuation of operations and access to data. However: 3.62

- the restoration of data from backup files was not being periodically tested to minimise the risk of loss of service and/or corruption of business and financial data; or
- disaster recovery exercises were not undertaken for applications assessed to be 'government-critical' or 'business-critical' in 2014-15.

Shared Services have advised that they cannot require ACT Government agencies that 'own' the critical systems to implement effective business continuity arrangements. A whole of government approach is recommended so that business continuity arrangements provide assurance that critical systems are: 3.64

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

Change management processes

Shared Services did not: 3.71

- log changes to critical software or hardware for high risk or suspicious changes; or
- perform reviews of changes made to critical software or hardware to check that all changes were authorised.

This presents a risk of erroneous or fraudulent changes being made to critical hardware or software. 3.72

Contract management arrangements

While an annual analysis of expenditure records is occurring to identify new or amended ICT contracts under the responsibility of the ICT Contract and Licensing section, the current contract management guidelines and procedures have not been updated to provide guidance on the need for this analysis. 3.79

Project management arrangements

No significant weaknesses in project management arrangements used to initiate, plan and complete an information technology project were identified in 2014-15. 3.83

Application controls

Data processing controls

No significant weaknesses in data processing controls were identified in 2014-15. 3.89

Information security management

Management of user access

There was an improvement in the management of user access for Maze, MyWay, Cashlink and Territory Revenue System. However, management of user access in relation to one application (Oracle Financials) needed to be improved by reducing the number of logons for three individual users from two to one. 3.96

Reviewing of audit logs

Directorates improved their processes for reviewing audit logs for several applications (Maze, Cashlink, MyWay, Territory Revenue System and Homenet). However, it is recommended that practices for reviewing audit logs for two applications be improved by: 3.110

- ensuring that the System Security Plan defines the requirements for logging and monitoring of changes to the database server and having approved procedures for the review of audit logs (Community 2011); and
- logging the activities of privileged users and routine monitoring of their financial transactions by a team that is independent of the privileged users. Furthermore, there should be independent monitoring of creation of user accounts and changes to user roles and authorisations for privileged users in the Financial Applications Support Team to minimise the risk of users being able to perform incompatible functions (Oracle Financials).

Password controls over access to key systems, application and data

In 2014-15, the Chief Minister, Treasury and Economic Development Directorate reduced the risk of irregular access, which may be erroneous or fraudulent, to the TM1 application and data by increasing the level of password complexity required to access TM1 to comply with the ACT Government Password Standard. 3.119

Business continuity and disaster recovery arrangements

Three Directorates should improve their processes so that their business continuity plans and disaster recovery arrangements are effective by: 3.124

- having an approved and tested business continuity and disaster recovery plan (rego.act);
- testing the restoration of data from backup files (Community 2011, Territory Revenue System and Homenet); and
- ensuring that business continuity and disaster recovery plans reflect the current recovery arrangements. These should also be updated, approved and tested (MyWay and TM1).

Change management processes

The Territory and Municipal Services Directorate implemented new procedures for making changes to MyWay. These include a plan for testing of changes with the results of testing changes (including the success or failure of changes) to MyWay being documented. 3.141

This reduces the risk of changes to MyWay not operating as intended and disruption to services that rely on MyWay. 3.142

Change management requests for changes to Oracle Financials were not always tracked prior to the implementation of the change. This presents a risk: 3.143

- that the changes made in Oracle Financials may not have been successfully tested prior to their release into production; and
- of Oracle Financials not operating as intended and of disruption to operations that rely on Oracle Financials.

Environment controls

3.4 Reporting agencies rely on environment controls to provide assurance that:

- information sourced from critical applications is authentic, complete and accurate;
- development, testing and implementation of the critical applications is properly performed and documented; and
- applications operate as intended and are reliable.

3.5 Areas reviewed as part of the audit of the financial statements of agencies included:

- governance arrangements;
- information security management processes;
- business continuity and disaster recovery arrangements;
- change management processes;
- contract management arrangements; and
- project management arrangements.

3.6 Further information on each of these areas is provided on pages 40 to 54.

Table 3-1 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
9	1	7	1	4	12

3.7 Environment controls were assessed as satisfactory, however, there are several areas where improvements are needed.

3.8 One of the nine previously reported audit findings relating to environment controls was resolved, seven were partially resolved and one was not resolved. Four new audit findings were identified in 2014-15.

Governance arrangements

3.9 Governance arrangements that were considered during the review of environmental controls were:

- strategic and resource planning;
- governance committees established to plan, identify, prioritise and monitor the use of information technology; and
- arrangements for the management of risks associated with the use of technology.

3.10 Weaknesses in governance arrangements were identified in relation to:

- system vendor support for operating systems;
- externally hosted websites;
- alternative information technology infrastructure arrangements; and
- Shared Service's Quality Management System.

System vendor support for operating systems

3.11 System vendors usually provide support for major operating systems. This may include, among other things, releasing patches. Patches are software that protects systems from known security vulnerabilities and weaknesses, corrects errors and improves system performance. This support is usually only provided for a limited time.

3.12 When vendor support ceases, operating systems should be upgraded to provide assurance that servers, applications and data on a network are protected from security weaknesses or performance problems. Plans and strategies for operating systems upgrades should also be developed to guide the management through the future loss of support.

3.13 As system vendor support is only provided for a limited time, Shared Services has:

- developed and approved plans and strategies to anticipate any future loss of support for operating systems;
- upgraded its operating systems for which vendor support had ceased; and
- provided regular updates to ACT Government agencies on critical systems and applications that were operating without vendor support and sought to raise agency awareness of the associated risks.

Despite this, there are several ACT Government network servers that use operating systems which are no longer supported by the system vendor. Shared Services advised that it cannot require agencies to upgrade their operating systems which do not have vendor support.

3.14 A whole of government strategy is recommended to guide the upgrading of systems for which vendor support has ceased. The specifying of when upgrades are to occur would be beneficial.

RECOMMENDATION 1 (CHAPTER 3) SYSTEM VENDOR SUPPORT FOR OPERATING SYSTEMS

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy to guide the upgrading of operating systems for which vendor support has ceased. This should include specifying when upgrades are to occur.

3.15 Shared Services has advised that:

> Shared Services ICT has a funded program underway to upgrade servers which are currently on end of life operating systems. This is being done in consultation with Directorate representatives of the business systems hosted on those servers, to ensure an upgrade path for those business systems is in place.
>
> … Shared Services ICT has arranged ongoing vendor patching for any security vulnerabilities for their end of life operating systems. This action reduces any ongoing risks.

Externally hosted websites

3.16 Externally hosted websites are maintained on infrastructure that is not owned or operated by the ACT Government. This can create security vulnerabilities because the provider of an externally hosted website may not have the same standard of security as that provided by internally hosted (i.e. ACT Government infrastructure) websites.

3.17 Penetration testing of an externally hosted website provides a safeguard against security vulnerabilities by assessing a website's capacity to withstand malicious attacks and highlighting security configurations that do not meet ACT Government policy and better practice.

3.18 Shared Services ICT Security performs quarterly penetration testing for internally hosted websites to assess their strength against malicious attacks. However, it advised that it does not have the authority to impose the same level of security on websites which are maintained on infrastructure that is not owned or operated by the ACT Government.

3.19 In particular, Shared Services ICT Security does not have the authority to amend the 'ACT Government Website Development and Management Standard' to require:

- service level agreements with external service providers to include provisions which enable Shared Services ICT Security to conduct regular penetration testing of externally hosted websites; and
- ACT Government agencies to include clauses in service level agreements with external service providers which:
  - enable Shared Services ICT Security to perform regular penetration testing of externally hosted websites where the risk warrants such testing; and
  - require corrective action by external service providers for identified vulnerabilities.

3.20 A whole of government strategy is recommended for managing security vulnerabilities relating to externally hosted websites.

RECOMMENDATION 2 (CHAPTER 3) EXTERNALLY HOSTED WEBSITES

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy for managing security vulnerabilities relating to externally hosted websites.

3.21 Shared Services has advised that:

- in 2014, three separate documents were developed in line with the Cloud Policy to replace the 'Website Development and Management Standard'…. These documents reflect the requirement for vendor agreements to allow the ACT Government, or its representatives, to conduct security assessments, including penetration testing.

  These documents are currently with the Office of the Chief Digital Officer for approval, prior to the Strategic Board receiving them for final consideration and approval; and

- Shared Services ICT Security continues to offer penetration services for all externally hosted systems at no cost. Going forward, future service level agreements within vendor agreements shall have a clause which states that ICT Security is permitted to perform security testing, including penetration testing…

Alternative information technology infrastructure arrangements

3.22 Shared Services manages the information technology infrastructure for the ACT Government. Information technology infrastructure mainly consists of data centres (storage area networks, back-up media libraries and servers) and communication networks.

3.23 Alternative information technology infrastructure arrangements provide assurance that, in the case of an incident that destroys or renders information technology infrastructure unavailable for an extended period of time, systems supported by it will be promptly recovered.

3.24 Support agreements between Shared Services and agencies include documentation of the agency's systems and the criticality of having information technology infrastructure available as required. Shared Services regularly reports to agencies on gaps in information technology infrastructure availability arrangements.

3.25 Alternative information technology infrastructure (e.g. data centre) arrangements are not provided for all critical systems that require a high level of availability. This presents a risk that information technology infrastructure will not be available, in a timely manner, if there were to be an incident which destroyed or rendered information technology infrastructure unavailable for an extended period of time.

3.26 Shared Services advised that it cannot require ACT Government agencies to have alternative information technology infrastructure (e.g. data centre) arrangements for their critical systems.

3.27 A whole of government strategy is recommended to provide assurance that alternative information technology infrastructure arrangements for critical systems are available, in a timely manner, if required.

RECOMMENDATION 3 (CHAPTER 3) ALTERNATIVE INFORMATION TECHNOLOGY INFRASTRUCTURE ARRANGEMENTS

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy for alternative information technology infrastructure arrangements for critical systems.

3.28 Shared Services has advised that:

- all new ACT Government critical and business critical systems include redundant infrastructure. Some older systems were not designed or funded for redundancy and Shared Services is working with directorates to ensure redundancy is included in the next upgrade;
- all critical business systems are identified and almost all have a business continuity/disaster recovery plan. Shared Services ICT is working with the Audit and Risk team at the Chief Minister, Treasury and Economic Development Directorate to ensure any outstanding plans are completed with Directorates; and
- responsibility for funding of business systems, including disaster recovery capability, lies within directorates. The cost of providing and maintaining alternative data centres is covered through the cost recovery model. However, Shared Services ICT will work with directorates to ensure infrastructure redundancy is addressed for all new and existing critical business systems.

Shared Service's Quality Management System

3.29 Shared Service's Quality Management System records the information and communication technology (ICT) policies, procedures, processes and standards used by the ACT Government. All documents in the Quality Management System must be reviewed and updated on a regular basis (usually every one to two years) as part of the document review cycle.

3.30 Documents in the Quality Management System were not reviewed and updated in accordance with required timeframes. When this occurs, there is a risk that the documentation in the Quality Management System will not reflect the procedures, processes and practices that are being used.

3.31 Shared Services has agreed to address this audit finding and advised that action is underway to have all documents in Quality Management System reviewed and updated.

Information security management processes

3.32 Information security management refers to processes which protect the confidentiality, integrity and availability of information. The confidentiality, integrity and availability of information can be compromised by:

- electronic transactions, such as e-commerce;
- security exposures, such as viruses, including cyber security attacks; and
- unauthorised releases of confidential information.

3.33 Weaknesses in information security management processes were identified in relation to:

- security over access to data centres;
- access to the ACT Government network;
- management of patches to applications;
- application whitelisting; and
- security of information.

Password controls

3.34 Passwords provide a safeguard against the risk of inappropriate access, including unauthorised or fraudulent access, to the ACT Government network, applications and data.

3.35 Shared Services reduced the risk of inappropriate access, including unauthorised or fraudulent access, to the ACT Government's network, applications and data by implementing the ACT Government Password Standard. This included:

- requiring users to use a ten digit password with a combination of uppercase and lowercase letters, numbers and special characters; and
- continuing to perform regular audits of the complexity of passwords for compliance with the ACT Government Password Standard.

Security over access to data centres

3.36 Irregular attempts (including unauthorised, inappropriate or fraudulent attempts) to gain access to data centres can be detected through the review of alarm reports which contain a record of critical access attempts. Critical access attempts include, for example, frequent attempts to gain access to data centres outside normal business hours.

3.37 Staff granted permanent access to data centres are recorded on permanent access lists. The regular review of these lists provides assurance that access is commensurate with duties.

3.38 Shared Services performed a review of access by its staff to data centres which was aimed at:

- removing access by staff who no longer needed it; and
- restricting access by staff to those areas of the data centres that were needed to enable duties to be performed.

However, at two data centres:

- 23 percent (15 of 65) of staff at one data centre and 22 percent (16 of 72) of staff at the other had access even though they were no longer employed by Shared Services; and
- an excessive number of spare access passes were being kept for temporary use.

3.39 This presents a risk of irregular access (including unauthorised, inappropriate or fraudulent access) to data centres.

3.40 Shared Services has agreed to improve security over access to data centres by performing a:

- thorough review of the access control lists to identify where access should be removed; and
- risk assessment to identify the risk of the excessive number of temporary passes. The number of temporary passes will be reduced if this risk assessment indicates that a reduction in the number is warranted.

Access to the ACT Government network

3.41 Controls over access by users to the ACT Government network provide a safeguard against unauthorised and possibly fraudulent access to data and applications on the network.

3.42 To effectively control access, particular attention should be given to:

- managing access to privileged user accounts because these provide users with the ability to make changes to the ACT Government network, systems and applications on the network; and
- tightly restricting the use of generic (shared) user accounts and preferably discontinuing their use altogether. Generic accounts pose a particular threat to security because the sharing of user accounts prevents the subsequent tracing of activities to individual users.

3.43 While Shared Services reviewed privileged user accounts, this was confined to user accounts in the Shared Services' operations team and did not cover privileged user accounts in other areas of the ACT Government. Furthermore:

- some privileged user accounts did not have a mandatory requirement to have a password when the user account was created; and

- 20 percent of the privileged user accounts were not used in 2014-15. This indicates these accounts are not needed and should have been deactivated.

3.44 Furthermore, Shared Services did not undertake:

- six-monthly reviews of standard user access to the ACT Government network; or
- a review of active generic accounts so that functionality which permits the confidentiality or integrity of critical data to be compromised could be disabled.

3.45 These weaknesses present a risk of unauthorised (including fraudulent) access to applications and data on the ACT Government network.

3.46 Shared Services has agreed to:

- make changes to the Access Control Policy so it reflects better practice and the processes for reviewing user access;
- implement a process for identifying users where there has been an extended period of inactivity, or staff are on extended leave, so that access can be suspended or deactivated if required; and
- conduct six-monthly audits of privileged accounts to identify if the privileged level is required and the required security settings are in place.

3.47 In relation to the use of generic user accounts, Shared Services advised that:

> … while it supports this recommendation and the underlying ideals, issues arise with reference to the entities' power/ability to disable (or deny access to) generic accounts belonging to the Directorate that wish to retain them.
>
> Shared Services will work with the Directorates (and other Shared Services supported entities) with generic accounts with a view to seeking their agreement to discontinue their use of generic accounts in compliance with the audit recommendation.

Management of patches to applications

3.48 Patches are software that are designed to update a computer program or its supporting data by fixing security vulnerabilities and improving usability or performance. Applying patches to operating systems, applications and devices is a critical activity which reduces the risk of security vulnerabilities and enhances the overall security and performance of the information technology infrastructure.

3.49 Shared Services maintained its sound approach to patching operating systems, however, applications were not routinely patched. Additionally, there was no documented or defined patch management strategy that outlined the planned approach for patching. Furthermore, key financial systems were not being routinely scanned to identify security vulnerabilities.

3.50 This presents a risk that ACT Government systems will be susceptible to security vulnerabilities and of data being lost through cyber security intrusions.

3.51 Shared Services has agreed to address this audit finding and advised that:

> … Shared Services Security already scans internet-facing application systems as part of its annual security audit program. Shared Services Security will broaden the scope of the vulnerability assessments regime (as part of the annual audit program) to include all critical systems.
>
> There are over 200 critical systems identified in the Central Management Database, so these reviews will be undertaken as part of a rolling implementation over a number of audit cycles. All critical systems will be included in the annual audit program.
>
> As vulnerabilities are identified by intelligence sources, those systems potentially impacted will be reviewed and patched. If patching is not available, additional security controls will be investigated and implemented.

Whitelisting of applications

3.52 The whitelisting of applications protects the ACT Government network hardware and software by blocking access to unauthorised or malicious programs (viruses) that may have been downloaded onto a computer from email attachments, portable storage devices or internet.

3.53 Shared Services does not have a strategy for the whitelisting of applications on server or desktop operating environments in the ACT Government network.

3.54 This presents a risk that systems may be compromised by the exploitation of vulnerabilities or introduction of malicious programs (viruses).

3.55 Shared Services should develop a strategy for deploying the whitelisting of applications in high risk areas. These areas might, for example, include:

- internet facing servers (a server where access can be gained through the internet); and/or
- information technology hardware allocated to ACT Government employees with privileged user access.

3.56 Shared Services has agreed to address this control weakness and advised that it:

> … will continue to investigate suitable technologies to address the issue that offers an appropriate cost/benefit to the ACT Government.

Security of information

3.57 Security classifications set out the required level of protection for information with respect to access, storage, transmission and disposal. The Shared Services ICT Security Policy and ACT Protective Security Policy and Guidelines require ACT Government agencies to provide security classifications for information that has been identified as requiring protection. This includes information stored electronically.

3.58 In 2013-14, Shared Services launched a trial of a document security classification system for Microsoft Office documents. The system was expected to be available for use by ACT Government agencies in July 2014. Although the new security classification system is available to be used or enforced, its application in all ACT Government agencies has not been mandated. A whole of government policy is recommended so that the new security classification system is effectively implemented by ACT Government agencies.

RECOMMENDATION 4 (CHAPTER 3) SECURITY OF INFORMATION

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government policy on the introduction of the new security classification system.

3.59 Shared Services has advised that:

- the e-Protective Markings project is currently in progress to implement protective markings software for whole of government to meet previous audit recommendations. Sufficient licenses have been purchased to cover all directorates on the ACT Government network;
- a formal rollout of the new ACT Protective Security Policy Framework is scheduled to be completed in February 2016. The protective markings software is now marked for rollout in conjunction with this, however, implementation could be delayed by a short time should there be compatibility or other types of software faults discovered in the testing and production phase;
- ICT Security is implementing a new internet filter and email gateway that will include data loss prevention capabilities. These system builds are due to be completed by 30 June 2016. Data loss prevention is a technology that partially covers both the previous audit recommendations on the restriction of data use and that of reporting/auditing. It is planned to implement the data loss prevention system in a 'detect' mode and provide reporting to directorates regarding data leaving the network through internet or email access; and
- there is insufficient technology within the existing ACT Government technology portfolio to implement a solution to provide all logging and reporting proposed in the previous audit recommendation in covering all levels of access, storage, transmission, transfer and disposal of security classified information. Shared Services ICT is looking at the replacement of the current systems to enhance its current capabilities. Shared Services ICT

still needs to determine the impacts on system performance and storage requirements that logging at this level would create.

Business continuity and disaster recovery arrangements

3.60 Business continuity and disaster recovery arrangements provide assurance that 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.

3.61 Shared Services ICT perform storage and backup services for ACT Government systems. The type and frequency of the service is based on operational needs and varies widely according to the criticality of the service.

3.62 Shared Services ICT performed backup and recovery procedures to facilitate the continuation of operations and access to data. However:

- the restoration of data from backup files was not being periodically tested to minimise the risk of loss of service and/or corruption of business and financial data; or
- disaster recovery exercises were not undertaken for applications assessed to be 'government-critical' or 'business-critical' in 2014-15.

3.63 Where disaster recovery exercises are not performed for a prolonged period, there is a risk that:

- critical systems and applications will not be recoverable in a timely manner following a system outage;
- staff will not be proficient in performing backup recovery activities; and
- there will be a loss of services and/or corruption of business and financial data across the ACT Government network in the event of a system outage.

3.64 Shared Services have advised that they cannot require ACT Government agencies that 'own' the critical systems to implement effective business continuity arrangements. A whole of government approach is recommended so that business continuity arrangements provide assurance that critical systems are:

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

3.65 Shared Services has:

- agreed to work with ACT Government agencies that 'own' the critical systems to develop a planned approach to testing the restoration of data from backups for 'government-critical' or 'business-critical' systems; and

- 'agreed in principle' to give a high priority to arranging a complete testing of disaster recovery capability and advised that it:

> ... has documented plans in place to address business interruption events and disaster recovery, however, testing this as suggested would involve a prolonged outage to Government service delivery as well as significant cost to replicate core computing infrastructure in a new location.
>
> A complete test of disaster recovery capability is only possible if all the Territory's data centres are taken off-line and a new site established which is not considered feasible primarily due to financial and whole of government service delivery constraints; and
>
> Shared Services recommends that this be a source of discussion with the Chief Digital Information Officer and, to assist in managing the inherent risk, liaison and discussion with the Governance section of Chief Minister, Treasury and Economic Development Directorate will be undertaken to develop an annual schedule of testing critical business system and overall disaster recovery capability in conjunction with directorates.

RECOMMENDATION 5 (CHAPTER 3) BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government policy on business continuity arrangements, which provide assurance that critical 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.

3.66 Shared Services has advised that:

> Shared Services ICT is working in conjunction with directorates to identify their business critical and government critical systems and formulate workplans to test their backups and recovery arrangements of these.
>
> Shared Services is working with the Audit and Risk team at the Chief Minister, Treasury and Economic Development Directorate to ensure any outstanding plans are completed with directorates.
>
> The ICT business continuity plan was last updated on 4 December 2015 pending a final sign off prior to 24 December 2015.
>
> Shared Services ICT has business continuity and disaster recovery plans in place with respect to ICT infrastructure, for example, servers, storage and networking equipment located in the Territory's data centres. Systems are in place which monitor infrastructure and proactive intervention is a key support tool. In the event of an adverse occurrence affecting multiple business systems, these applications are restored as per their criticality marking.

Change management processes

3.67 Change management processes are defined and controlled processes for making changes to computer systems and infrastructure. An unauthorised change is any change that has not gone through the approved change management process.

3.68 Control over the management of such changes is needed to provide assurance that:

- changes operate as intended and preserve the integrity of underlying systems and data; and
- computer systems and infrastructure operate as intended.

3.69 This control also minimises the risk of untested changes which may:

- be erroneous or fraudulent; and
- impair the performance of systems and infrastructure or create security vulnerabilities.

3.70 Monitoring of audit logs for high risk or suspicious changes to critical hardware and software provides assurance that system performance problems or security vulnerabilities caused by unauthorised changes will be rectified in a timely manner. Monitoring of audit logs can also verify the effectiveness of a change management system as changes recorded in the audit logs can be reconciled to records of authorised changes in the change management system.

3.71 Shared Services did not:

- log changes to critical software or hardware for high risk or suspicious changes; or
- perform reviews of changes made to critical software or hardware to check that all changes were authorised.

3.72 This presents a risk of erroneous or fraudulent changes being made to critical hardware or software.

3.73 Shared Services has agreed to address this control weakness and advised that:

> ... Shared Services, in particular the Change Management Team, has implemented a monthly review regime which audits 100 percent of major and emergency changes.
>
> Due to the sheer numbers of minor changes a random sample of 5 percent are reviewed on a monthly basis and checked for authorisation and quality. These reviews are documented and included the reviewing officer details, review dates and the action plan enacted to resolve errors or irregularities.

Contract management arrangements

3.74 Suppliers of information technology services are managed using an approved contract management process. These include the policies and procedures implemented by an entity to initiate, procure, monitor and report on the goods and services provided by contracted external suppliers.

3.75 Effective contract management provides more assurance that external suppliers are providing goods and services that are value for money and meet the requirements of the entity.

3.76 One control weakness was identified in relation to the management of contract arrangements.

3.77 In 2014-15, Shared Services commenced reviewing its contract management guidelines and procedures (Contract Management Guidelines) to guide the inclusion of risk management principles in all information and communication technology (ICT) contracts. This review was being conducted in consultation with the Chief Minister, Treasury and Economic Development Directorate risk management team but was not completed by 30 June 2015.

3.78 There is a risk that required processes will not be consistently applied when contract management policies and guidelines are not consistent with current practices.

3.79 While an annual analysis of expenditure records is occurring to identify new or amended ICT contracts under the responsibility of the ICT Contract and Licensing section, the current contract management guidelines and procedures have not been updated to provide guidance on the need for this analysis.

3.80 Shared Services has agreed to address this audit finding and advised that:

> ... SSICT Contract and Licensing will review, and where necessary adjust, the contract management guidelines to ensure that they reflect current practices within the business unit and general best practice for the identification and management of contract risk.
>
> SSICT Contract and Licensing will ensure the process is documented in the guidelines for the mandatory review of expenditure records to identify any new or amended ICT contracts. These reviews will be carried out at least every four months and evidence of these reviews will be retained on file.

Project management arrangements

3.81 Project management arrangements are used by an entity to initiate, plan and complete an information technology project. They include the process by which an organisation evaluates and implements information technology solutions to business problems.

3.82 Effective entity-wide project management should incorporate:

- feasibility studies. These studies involve the scoping of the business problem, outlining of possible information technology solutions and recommendations and developing of business cases;
- management of the project portfolio which is usually performed by a central project management office. This includes monitoring and reporting on the progress of projects and can provide efficiencies by linking projects with common objectives, strategies, budgets and schedules; and
- project management practices, policies and procedures that govern the planning, implementation and delivery of information technology projects.

3.83 No significant weaknesses in project management arrangements used to initiate, plan and complete an information technology project were identified in 2014-15.

Application controls

3.84 Application controls were reviewed in relation to ten major applications used by reporting agencies. These were:

- ORACLE Financials which is the financial management information system used by most ACT Government agencies. It is managed by Shared Services which became part of the Chief Minister, Treasury and Economic Development Directorate following changes to administrative arrangements in July 2014;
- CHRIS21 which is the human resources information management system used by most ACT Government agencies. It is managed by Shared Services;
- Maze which is a school administration system used by ACT public schools to process school receipts and expenditure. It is managed by the Education and Training Directorate;
- Community 2011 which is used by the ACT Revenue Office to process rates, taxes and levies. The ACT Revenue Office became part of the Chief Minister, Treasury and Economic Development Directorate following changes to administrative arrangements in July 2014;
- Territory Revenue System which is used by the ACT Revenue Office to record and manage taxes and fees revenue;
- Homenet which is used to manage information on social and public housing services. Homenet is managed by Housing ACT;
- rego.act which is used to record motor vehicle registrations, drivers' licences and vehicle infringement revenue. The ownership of rego.act was transferred to the Chief Minister, Treasury and Economic Development Directorate following changes to administrative arrangements in December 2014;
- MyWay which is the bus ticketing system used by ACTION. It is managed by the Territory and Municipal Services Directorate;
- Cashlink which is an application used by several agencies to process cash received from members of the public. The ownership of Cashlink was transferred to the Chief Minister, Treasury and Economic Development Directorate following changes to administrative arrangements in December 2014; and
- TM1 which is used to prepare the financial statements of the Australian Capital Territory. It is managed by the Chief Minister, Treasury and Economic Development Directorate.

3.85 The review of the application controls included the consideration of:

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

3.86 Further information on each of these application controls is provided on pages 56 to 64.

Table 3-2 Status of audit findings (number of findings)

Application	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
ORACLE Financials and CHRIS21	-	-	-	-	3	3
Maze	2	2	-	-	-	-
Community 2011 and Territory Revenue System	6	3	3	-	-	3
Homenet	2	1	-	1	-	1
rego.act	2	-	1	1	-	2
MyWay	4	3	-	1	-	1
Cashlink	1	1	-	-	-	-
TM1	2	1	1	-	-	1
Total	**19**	**11**	**5**	**3**	**3**	**11**

3.87 Eleven of the 19 previously reported audit findings relating to the ten key applications reviewed by the Audit Office were resolved, five were partially resolved and three were not resolved. Three new audit findings were identified in 2014-15.

Data processing controls

3.88 Data processing controls are automated to control how and what data can be entered into an application. These provide assurance over the integrity of data processed by an application. Examples of these controls include:

- users being provided 'read only' access;
- user access being restricted to certain areas which are aligned with the duties of the user; and

- preventing alphabetic characters from being entered into numeric fields (for example, fields that must contain a dollar amount).

3.89 No significant weaknesses in data processing controls were identified in 2014-15.

Information security management

3.90 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.

3.91 Information security management processes provide assurance that the:

- confidentiality and privacy of information is maintained and only accessible to authorised users; and
- information recorded on a computer system is accurate, complete, reliable and available when required.

3.92 Effective information security management involves maintaining:

- the availability of computer information systems and applications;
- the authenticity and reliability of information stored on these systems;
- the confidentiality and privacy of information; and
- compliance with legislative and regulatory standards and requirements.

3.93 Improvements made and control weaknesses identified in relation to the management of user access and processes for reviewing of audit logs are discussed on pages 57 to 60. The improvement made to password controls over access to key systems, applications and data is discussed on page 60.

Management of user access

3.94 Management of user access refers to the process of managing access to information technology system applications and data.

3.95 Policies and procedures for managing user access include procedures to approve, modify, revoke and periodically review user access so that it is aligned with the user duties. Implementation of these reduces the risk of unauthorised and possible potentially fraudulent access by providing assurance that:

- user access is commensurate with the duties of users; and
- access of former employees is promptly removed.

3.96 There was an improvement in the management of user access for Maze, MyWay, Cashlink and Territory Revenue System. However, management of user access in relation to one application (Oracle Financials) needed to be improved by reducing the number of logons for three individual users from two to one.

3.97 The Education and Training Directorate reduced the risk of unauthorised access to student and financial data, including sensitive student information, by performing reviews of user access in accordance with the approved policies and procedures for establishing, removing and reviewing user access to Maze student administration system.

3.98 A segregation of duties matrix defines system roles and functionality granted to users and groups. For higher risk transactions, this matrix should address the risk of incompatible duties (for example, duties which would enable a user to perpetrate fraud). Segregation of incompatible duties can be automatically enforced by a computer system. For example, a computer system can be used to:

- restrict access to the system; and/or
- limit functions that can be performed by users.

3.99 The Territory and Municipal Services Directorate removed the capability of users of MyWay to perform incompatible duties. This reduces the risk of unauthorised and possibly fraudulent access to information.

3.100 Cashlink is used to record revenue collected at Access Canberra shopfronts and online receipts through the Access Canberra website from third parties, such as BPAY. Shared Services processes the electronic receipt files from Cashlink which is transferred to a network directory before being manually uploaded into Community 2011 and the Territory Revenue System.

3.101 Users should not be given access that enables them to change the receipt files held in this directory because this may provide users with an opportunity to process erroneous or fraudulent receipts.

3.102 The Chief Minister, Treasury and Economic Development Directorate reduced the risk of erroneous or fraudulent changes being made to Cashlink electronic receipt files by:

- restricting access to Cashlink receipt files to a limited number of Shared Services' staff; and
- undertaking regular reviews of audit logs to detect any changes to receipt files held in the directory used to store Cashlink receipt files.

3.103 Access to an 'ad-hoc credits' facility in the Territory Revenue System enables a user to process adjustments and refunds to client accounts without a requirement to have them approved in the system by a second operator.

3.104 The Chief Minister, Treasury and Economic Development Directorate reduced the risk of unauthorised transactions, which may be erroneous or fraudulent, by implementing a regular review of audit logs of users with access that enable them to process 'ad-hoc credits' in the Territory Revenue System.

3.105 Oracle Financials has a 'park and post' control that prevents some types of transactions from being approved by the user who enters the transaction. These transactions include creating and updating vendor records, processing payments and making journal entries. The effectiveness of this control relies on each user of Oracle Financials being restricted to one unique user logon.

3.106 Three instances were identified where individual users had two active user logons.

3.107 The Chief Minister, Treasury and Economic Development Directorate removed the second active user logon when this control weakness was reported to it.

Reviewing of audit logs

3.108 Audit logs are a system-generated record of system and user activities. They include, for example, details of the identities of users, dates, times and locations of access and unsuccessful attempts at making changes to applications and key data in databases.

3.109 Monitoring of audit logs assists in identifying:

- irregular changes, which may be erroneous or fraudulent, to systems and data; and
- system performance deficiencies by reporting errors and highlighting areas where processes regularly require an excessive amount of time to complete.

3.110 Directorates improved their processes for reviewing audit logs for several applications (Maze, Cashlink, MyWay, Territory Revenue System and Homenet). However, it is recommended that practices for reviewing audit logs for two applications be improved by:

- ensuring that the System Security Plan defines the requirements for logging and monitoring of changes to the database server and having approved procedures for the review of audit logs (Community 2011); and
- logging the activities of privileged users and routine monitoring of their financial transactions by a team that is independent of the privileged users. Furthermore, there should be independent monitoring of creation of user accounts and changes to user roles and authorisations for privileged users in the Financial Applications Support Team to minimise the risk of users being able to perform incompatible functions (Oracle Financials).

3.111 The risk of making undetected irregular changes, which may be erroneous or fraudulent, to Maze, Cashlink, MyWay, Territory Revenue System and Homenet was reduced by documenting policy and procedures for the review of audit logs and performing periodic reviews of audit logs.

3.112 The System Security Plan for Community 2011 did not define the requirements for logging and monitoring of changes to the database server. In addition, there were no approved procedures which require the performance of regular reviews of audit logs.

3.113 This increases the risk of irregular changes, which may be erroneous or fraudulent, to the Community 2011 database server not being promptly detected and addressed.

3.114 The Chief Minister, Treasury and Economic Development Directorate 'agreed in principle' with this finding and advised that:

> The Directorate has implemented audit logging procedures within its Revenue user group. However, the Directorate is unable to implement audit logging for database administrators due to the set-up of database servers which cannot be reconfigured. Shared Services ICT is seeking to address this issue for a number of directorates and it is subject to funding consideration.

3.115 While there was logging of activities by privileged users of Oracle Financials, these were not routinely monitored by a team that is independent of the privileged users. Furthermore, there was no monitoring of financial transactions for privileged users of Oracle Financials. In particular, there was no independent monitoring of creation of user accounts and changes to user roles and authorisations for privileged users in the Financial Applications Support Team. This increases the risk of users in this team being provided with access that allows them to undertake incompatible functions with Oracle Financials.

3.116 This lack of monitoring audit logs increases the risk of undetected irregular changes, which may be erroneous or fraudulent, to Oracle Financials.

3.117 The Chief Minister, Treasury and Economic Development Directorate has advised that it will develop a risk-based logging strategy to address this control weakness.

Password controls over access to key systems, applications and data

3.118 Complex passwords provide a stronger control over access to systems, applications and data compared to simple passwords because they are more difficult to guess or 'crack' through cyber security attacks or other means.

3.119 In 2014-15, the Chief Minister, Treasury and Economic Development Directorate reduced the risk of irregular access, which may be erroneous or fraudulent, to the TM1 application and data by increasing the level of password complexity required to access TM1 to comply with the ACT Government Password Standard.

Business continuity and disaster recovery arrangements

3.120 Weaknesses identified in relation to the business continuity and disaster recovery arrangements for rego.act, Community 2011, Territory Revenue System, MyWay and TM1 are discussed below.

3.121 Business continuity and disaster recovery arrangements provide assurance that systems and applications will be:

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

3.122 A business continuity plan provides a structured and planned process for continuing operations in the event of unplanned incidents which adversely affect information technology infrastructure, including the inability to use hardware or software. Implementation of this plan provides assurance that an agency has the ability to quickly respond and completely recover its critical systems and transactions.

3.123 Disaster recovery arrangements, including back-up and recovery processes, are planned procedures for restoring a system. The effectiveness of these procedures should be periodically tested to provide assurance that a system will be recovered and operations promptly resumed without the loss of data in the event of a disaster, disruption or other adverse event.

3.124 Three Directorates should improve their processes so that their business continuity plans and disaster recovery arrangements are effective by:

- having an approved and tested business continuity and disaster recovery plan (rego.act);
- testing the restoration of data from backup files (Community 2011, Territory Revenue System and Homenet); and
- ensuring that business continuity and disaster recovery plans reflect the current recovery arrangements. These should also be updated, approved and tested (MyWay and TM1).

3.125 In 2014-15, the Chief Minister, Treasury and Economic Development Directorate developed a business continuity and disaster recovery plan (Access Canberra Business Continuity Plan) which includes references to key policies and procedures relating to disaster arrangements for rego.act. However, this plan is yet to be finalised and approved.

3.126 This lack of an approved and tested business continuity and disaster recovery plan increases the risk that rego.act will not be recovered and operations promptly resumed without the loss of data in the event of a disaster, disruption or other adverse event.

3.127 The Chief Minister, Treasury and Economic Development Directorate has advised that:

> A Business Continuity Plan for Access Canberra has been finalised and signed off. A test is to be coordinated by the Directorate's Corporate Management area in February 2016.

3.128 The Chief Minister, Treasury and Economic Development Directorate updated the business continuity plan for Community 2011 and Territory Revenue System to reflect the current infrastructure configuration. However, testing of the restoration of data from backup files was not performed.

3.129 There is a risk of data being unrecoverable and restoration of normal operations being delayed if a disaster or other major disruption were to occur when testing of the restoration of data from backup files is not performed.

3.130 The Chief Minister, Treasury and Economic Development Directorate has agreed with this audit finding and advised that:

> A successful backup restoration was done in September and October for Community 2011 system and Territory Revenue System. Future testing of back-up file restoration will be done annually as documented in the Disaster Recovery Plan.

3.131 Business continuity and disaster recovery plans for MyWay and TM1 did not reflect the current recovery arrangements for these systems and should be updated, approved and tested.

3.132 The Territory and Municipal Services Directorate has agreed to resolve this control weakness relating to MyWay.

3.133 In relation to TM1, the Chief Minister, Treasury and Economic Development Directorate has advised that:

> The System Security Plan for TM1 will be updated to document the strategy for testing the effectiveness of disaster recovery procedures. The effectiveness of this plan will be tested and documented in the procedures.

3.134 The creation of backups provides a copy of systems and data which can be accessed in the event that the primary source becomes corrupted, modified or unavailable.

3.135 Testing of the backup and restoration procedures for Homenet and its data was not performed in 2014-15. This increases the risk that Homenet may not be recoverable if required. This could result in significant delays in the restoration of normal operations in the event of a disaster, disruption or other adverse event.

3.136 Housing ACT has agreed to address this audit finding and advised that the scheduled testing of backup processes was deferred until July 2015 so that it did not interfere with the 2014-15 year-end financial processes.

RECOMMENDATION 6	(CHAPTER 3) BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

ACT Government agencies should have business continuity plans and disaster recovery arrangements that are up-to-date.

Change management processes

3.137 The improvement made to the change management processes for MyWay and the weakness identified in relation to Oracle Financials are discussed below.

3.138 Defined and controlled processes for making changes to computer applications and hardware are needed so that:

- changes to an information technology application are appropriate and preserve the integrity of the application program and data;
- there is adequate assurance that systems and applications operate as intended; and
- the risk of untested changes which may be erroneous and fraudulent that may have major adverse effects on the performance of systems and applications and create security vulnerabilities are minimised. This may occur, for example, where the impact of the change on other processes, changes and controls implemented in the system or application or broader information technology environment has not been identified and addressed.

3.139 An unauthorised change to an information technology environment is any change that has not been subject to an approved change management process.

3.140 The 'ACT Government ICT Change Management Policy' requires changes to systems to be documented in a test plan before being implemented. Changes should be tested in accordance with a formal test plan and the results of testing, including the resolution of problems identified during testing, should be documented.

3.141 The Territory and Municipal Services Directorate implemented new procedures for making changes to MyWay. These include a plan for testing of changes with the results of testing changes (including the success or failure of changes) to MyWay being documented.

3.142 This reduces the risk of changes to MyWay not operating as intended and disruption to services that rely on MyWay.

3.143 Change management requests for changes to Oracle Financials were not always tracked prior to the implementation of the change. This presents a risk:

- that the changes made in Oracle Financials may not have been successfully tested prior to their release into production; and

- of Oracle Financials not operating as intended and of disruption to operations that rely on Oracle Financials.

3.144 The Chief Minister, Treasury and Economic Development Directorate has agreed to address this audit finding and advised that Oracle Financials teams will work in conjunction with the change manager to document a standard change process to ensure user acceptance testing is captured.

4 THE TERRITORY'S FINANCIAL STATEMENTS

4.1 This chapter discusses the Australian Capital Territory Government's (the Territory's) consolidated financial statements. These financial statements include the financial results of ACT Government agencies, other entities that are controlled by the Territory and the Territory's share of the financial results of joint ventures.

4.2 The two areas of focus in this chapter are the Territory's:

- operating results. Key operating results considered are the net operating balance and operating surplus/deficit because they provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time; and
- financial position. The key financial indicators considered are the net asset position, short-term assets to short-term liabilities coverage and financial assets to liabilities coverage as these provide an indication of the Territory's capacity to meet its financial obligations over the short and long-term.

Summary

Key findings

	Paragraph
Operating results	
The Territory incurred a deficit in the net operating balance (i.e. expenses exceeded revenue) of $646 million in 2014-15. This exceeded the budgeted deficit ($537 million) by $109 million and prior year's deficit ($309 million) by $337 million.	4.5
The larger than expected deficit in the net operating balance was due mainly to: • the unbudgeted payment of grants to purchase properties affected by the Loose-Fill Asbestos Eradication Scheme ($336 million); and • unanticipated employee and superannuation expenses (an increase of $144 million) due mainly to: – the difference between the current interest rate (4.08 percent) used to estimate the present value of the superannuation liability and the long-term rate (six percent) used to prepare the budget estimate of the present value of this liability; and – an increase in staff numbers.	4.6

The Territory's net operating balance has declined from a small surplus of $1.0 million in 2010-11 (a breakeven result) to a deficit of $646 million in 2014-15 as the costs of providing services by the ACT Government have exceeded revenue increases. In 2014-15, these higher costs included the cost of the Loose-Fill Asbestos Eradication Scheme ($336 million). 4.8

The Territory incurred an operating deficit of $415 million in 2014-15. This exceeded the budgeted deficit ($359 million) by $56 million and prior year's deficit ($26 million) by $389 million. 4.11

The larger than expected operating deficit was mainly due to the unbudgeted payment of grants to purchase properties affected by loose-fill asbestos and higher employee and superannuation expenses. The Chief Minister, Treasury and Economic Development Directorate has advised that 'the consolidated budget estimates were updated for the payment of grants affected by loose-fill asbestos in the 2014-15 Budget Review'. 4.12

There has been a decline in the Territory's net operating result from an operating surplus of $123 million in 2010-11 to an operating deficit of $415 million in 2014-15. This was due to the costs of services provided by the ACT Government exceeding the revenue increases over this period. 4.13

The Territory estimates that it will incur another operating deficit in 2015-16 of $391 million before generating an operating surplus of $17 million in 2016-17, an operating deficit of $24 million in 2017-18 and then an operating surplus of $188 million in 2018-19. The achievement of an operating surplus of $188 million in 2018-19 depends on achieving the planned large reduction in the deficits in the net operating balance and generating a large increase in other economic inflows in 2018-19. 4.15

A surplus of $188 million in 2018-19 depends on: 4.16

- achieving the planned large reduction of $430 million (an average annual decrease of 16.5 percent) in the deficits incurred in the net operating balance from $646 million in 2014-15 to $216 million in 2018-19; and
- generating a large increase in other economic flows in 2018-19. This large increase from the amount generated in 2013-14 and the forward years leading up 2018-19 depends on achieving budgeted gains on the sale of remediated land that the Territory acquired as part of the Loose-Fill Asbestos Eradication Scheme.

The planned deficits in the net operating balance and small operating results over the forward years from 2015-16 to 2018-19 mean that, if unexpected adverse events occur, the Territory is exposed to a risk of incurring large deficits. This can be addressed by raising taxes and rates, reducing or reprioritising expenses, increasing borrowings or selling assets and/or absorbing deficits. 4.17

Financial position

Assets to liabilities coverage

The Territory's net assets ($14 674 million) at 30 June 2015 were less than the budgeted amount ($17 062 million) by $2 388 million due mainly to a higher than expected unfunded superannuation liability. 4.18

The increase of $3 767 million (an average annual increase of 4.3 percent) in the Territory's assets from $21 735 million at 30 June 2011 to $25 502 million at 30 June 2015 was mainly due to: 4.20

- upward revaluations of property, plant and equipment and the Territory's investment in the ActewAGL Joint Venture due to an increase in the valuation of ActewAGL's property, plant and equipment; and
- capital expenditure on property, plant and equipment (in particular, land, buildings and infrastructure assets). In 2014-15, the Territory also purchased properties as part of the Loose-Fill Asbestos Insulation Eradication Scheme.

The short-term financial position of the Territory at 30 June 2015 is stronger than the position anticipated in the budget but weaker than the position that existed at 30 June 2014. The Territory had $1.57 in short-term assets available to cover each dollar of short-term liabilities at 30 June 2015 compared to $1.80 at 30 June 2014. This weaker position is due mainly to liabilities incurred to acquire asbestos affected properties and pay for the costs of the land remediation under the Loose-Fill Asbestos Insulation Eradication Scheme. 4.23

Short-term assets to short-term liabilities coverage

The Territory's short-term financial position is expected to significantly weaken from a net asset position of $795 million at 30 June 2015 to net liability position of $331 million at 30 June 2019. 4.24

Financial assets to liabilities coverage

The long-term financial position of the Territory is much weaker than the budgeted and prior year positions and has significantly weakened since 30 June 2011. 4.27

Unfunded liabilities at 30 June 2015 ($8 630 million) exceeded the budgeted unfunded liabilities ($6 004 million) and unfunded liabilities at 30 June 2014 ($7 081 million) by $2 626 million and $1 549 million respectively. Unfunded liabilities have increased by $5 125 million (an average annual increase of 36.6 percent) from $3 505 million at 30 June 2011 to $8 630 million at 30 June 2015. 4.28

The expected strengthening in the Territory's long-term financial position over the forward years of 2015-16 to 2018-19 is based on the assumption that there will be a substantial decrease in the unfunded superannuation liability from that which existed at 30 June 2015. This decrease is assumed to be sufficient to counter the expected large increase in borrowings to fund major capital works projects in the Territory's Infrastructure Program. 4.30

The large decrease in the unfunded superannuation liability of $2 473 million (an average annual decrease of 13.3 percent) from $5 158 million at 30 June 2015 to $2 415 million at 30 June 2019 depends significantly on the rate used to measure the present value of superannuation payments in these future years. 4.31

Borrowings are expected to increase significantly by $1 779 million (an average annual increase of 9.7 percent) from $4 593 million at 30 June 2015 to $6 372 million at 30 June 2019 to fund major capital works projects in the Territory's Infrastructure Program. These projects include the Territory's light rail project, construction of the ACT Court facilities, and duplication of major roads in Gungahlin (Horse Park Drive and Gundaroo Drive) and Tuggeranong (Ashley Drive). 4.32

Operating results

Table 4-1 Operating results

	Actual 2010-11 $m	Actual 2011-12 $m	Actual 2012-13 $m	Actual 2013-14 $m	Actual 2014-15 $m
Revenue	4 118	4 261	4 321	4 537	4 843
Expenses	(4 117)	(4 358)	(4 777)	(4 846)	(5 489)
Net operating balance – surplus/(deficit)	**1**	**(97)**	**(456)**	**(309)**	**(646)**
Other economic inflows/(outflows)	122	(58)	334	283	231
Operating surplus/(deficit)	**123**	**(155)**	**(122)**	**(26)**	**(415)**

Table 4-2 Budgeted operating results

	Budget 2010-11 $m	Budget 2011-12 $m	Budget 2012-13 $m	Budget 2013-14 $m	Budget 2014-15 $m
Revenue	3 890	4 297	4 255	4 432	4 661
Expenses	(4 137)	(4 508)	(4 698)	(4 870)	(5 198)
Net operating balance-(deficit)	**(247)**	**(211)**	**(443)**	**(438)**	**(537)**
Other economic inflows	272	386	186	304	178
Operating surplus/(deficit)	**25**	**175**	**(257)**	**(134)**	**(359)**

4.4 The net operating balance is the difference between revenue and expenses. The Territory receives most of its revenue from Commonwealth Government grants, taxation, interest, sales of goods and services, dividends and land sales (value-added component[15]). Most of the Territory's expenses are associated with employees, operating expenses, grants and depreciation.

4.5 The Territory incurred a deficit in the net operating balance (i.e. expenses exceeded revenue) of $646 million in 2014-15. This exceeded the budgeted deficit ($537 million) by $109 million and prior year's deficit ($309 million) by $337 million.

[15] The value-added component of land sales is that part of land revenue attributed to development activity undertaken on the land that has contributed to an increase in the value of the land. In the Territory's financial statements, the value-added component is recorded in revenue.

4.6 The larger than expected deficit in the net operating balance was due mainly to:

- the unbudgeted payment of grants to purchase properties affected by the Loose-Fill Asbestos Eradication Scheme ($336 million); and
- unanticipated employee and superannuation expenses (an increase of $144 million) due mainly to:
  - the difference between the current interest rate (4.08 percent) used to estimate the present value of the superannuation liability and the long-term rate (six percent) used to prepare the budget estimate of the present value of this liability; and
  - an increase in staff numbers.

4.7 Under the Loose-Fill Asbestos Eradication Scheme, the ACT Government purchases properties (land and homes) that are affected by loose-fill asbestos, demolishes and disposes of the homes, remediates the affected land and sells the remediated land. Further information on the Scheme is provided on pages 99 to 107 (Chief Minister, Treasury and Economic Development Directorate).

4.8 The Territory's net operating balance has declined from a small surplus of $1.0 million in 2010-11 (a breakeven result) to a deficit of $646 million in 2014-15 as the costs of providing services by the ACT Government have exceeded revenue increases. In 2014-15, these higher costs included the cost of the Loose-Fill Asbestos Eradication Scheme ($336 million).

4.9 The operating surplus/deficit is the sum of the net operating balance and other economic flows. The Territory's other economic flows largely consist of gains/losses on investments and land revenue[16]. These gains/losses mostly reflect changes in market conditions that affect the value of investments and land.

4.10 The Territory's other economic flows, an inflow of $231 million in 2014-15:

- exceeded the budgeted inflows of $178 million by $53 million as a better than anticipated performance by Australian and global share markets resulted in higher than anticipated gains in the value of investments; and
- decreased from the prior year inflows of $283 million by $52 million due mainly to a reduction in the net gain on investments. This reflects a decision to retain amounts in bank accounts as investments matured during the year to take advantage of higher rates of return offered by the ACT Government's banker than could be obtained in the open market. This decision also resulted in higher interest returns which are recorded in revenue rather than other economic flows.

4.11 The Territory incurred an operating deficit of $415 million in 2014-15. This exceeded the budgeted deficit ($359 million) by $56 million and prior year's deficit ($26 million) by $389 million.

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

4.12 The larger than expected operating deficit was mainly due to the unbudgeted payment of grants to purchase properties affected by loose-fill asbestos and higher employee and superannuation expenses. The Chief Minister, Treasury and Economic Development Directorate has advised that 'the consolidated budget estimates were updated for the payment of grants affected by loose-fill asbestos in the 2014-15 Budget Review'.

4.13 There has been a decline in the Territory's net operating result from an operating surplus of $123 million in 2010-11 to an operating deficit of $415 million in 2014-15. This was due to the costs of services provided by the ACT Government exceeding the revenue increases over this period.

Table 4-3 Projected operating results – Note 1

	Actual 2014-15 $m	Budget 2015-16 $m	Estimate 2016-17 $m	Estimate 2017-18 $m	Estimate 2018-19 $m
Revenue	4 843	4 871	5 163	5 423	5 582
Expenses	(5 489)	(5 521)	(5 432)	(5 661)	(5 799)
Net operating balance - (deficit)	**(646)**	**(649)**	**(269)**	**(238)**	**(216)**
Other economic inflows	231	258	286	214	404
Operating (deficit)/surplus	**(415)**	**(391)**	**17**	**(24)**	**188**

Note 1: Budget and forward estimates were obtained from the 2015-16 Budget Papers.

4.14 The Territory is estimated to incur deficits in the net operating balance in each of the forward years from 2015-16 to 2018-19. These are estimated to decrease from the deficit of $646 million incurred in 2014-15 to an estimated deficit of $216 million in 2018-19. This estimated decrease reflects the expectation that the cost of the Loose-Fill Asbestos Insulation Eradication Scheme will be partially offset by sales of remediated land acquired under the Scheme over the forward years.

4.15 The Territory estimates that it will incur another operating deficit in 2015-16 of $391 million before generating an operating surplus of $17 million in 2016-17, an operating deficit of $24 million in 2017-18 and then an operating surplus of $188 million in 2018-19. The achievement of an operating surplus of $188 million in 2018-19 depends on achieving the planned large reduction in the deficits in the net operating balance and generating a large increase in other economic inflows in 2018-19.

4.16 A surplus of $188 million in 2018-19 depends on:

- achieving the planned large reduction of $430 million (an average annual decrease of 16.5 percent) in the deficits incurred in the net operating balance from $646 million in 2014-15 to $216 million in 2018-19; and

- generating a large increase in other economic flows in 2018-19. This large increase from the amount generated in 2013-14 and the forward years leading up 2018-19 depends on achieving budgeted gains on the sale of remediated land that the Territory acquired as part of the Loose-Fill Asbestos Eradication Scheme.

4.17 The planned deficits in the net operating balance and small operating results over the forward years from 2015-16 to 2018-19 mean that, if unexpected adverse events occur, the Territory is exposed to a risk of incurring large deficits. This can be addressed by raising taxes and rates, reducing or reprioritising expenses, increasing borrowings or selling assets and/or absorbing deficits.

Financial position

Assets to liabilities coverage

Table 4-4 Assets to liabilities coverage

At 30 June	Actual 2011 $m	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Budget 2015 $m
Assets						
Financial assets - Note 1	2 020	2 008	2 256	2 034	2 198	1 650
Property, plant and equipment	18 040	18 808	20 085	20 381	20 894	21 033
Other non-financial assets - Note 2	1 675	2 036	1 715	1 893	2 410	2 033
	21 735	**22 852**	**24 056**	**24 308**	**25 502**	**24 716**
Liabilities						
Borrowings, payables and finance leases	2 303	2 843	3 517	3 850	4 593	4 421
Unfunded superannuation - Note 3	2 627	5 242	4 276	4 471	5 158	2 481
Employee benefits and other provisions	567	655	702	784	1 055	735
Other	28	20	10	10	22	16
	5 525	**8 760**	**8 505**	**9 115**	**10 828**	**7 653**
Net assets	**16 209**	**14 092**	**15 550**	**15 193**	**14 674**	**17 062**
Ratio of assets to liabilities	**3.9:1**	**2.6:1**	**2.8:1**	**2.7:1**	**2.4:1**	**3.2:1**

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

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

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

4.18 The Territory's net assets ($14 674 million) at 30 June 2015 were less than the budgeted amount ($17 062 million) by $2 388 million due mainly to a higher than expected unfunded superannuation liability.

4.19 The higher than expected unfunded superannuation liability was due mainly to the use of a lower discount rate to estimate the present value of the superannuation liability compared to the rate which was used to prepare the budget estimate.

4.20 The increase of $3 767 million (an average annual increase of 4.3 percent) in the Territory's assets from $21 735 million at 30 June 2011 to $25 502 million at 30 June 2015 was mainly due to:

- upward revaluations of property, plant and equipment and the Territory's investment in the ActewAGL Joint Venture due to an increase in the valuation of ActewAGL's property, plant and equipment; and
- capital expenditure on property, plant and equipment (in particular, land, buildings and infrastructure assets). In 2014-15, the Territory also purchased properties as part of the Loose-Fill Asbestos Insulation Eradication Scheme.

4.21 Liabilities increased by $5 303 million (an average of 24.0 percent per annum) from $5 525 million at 30 June 2011 to $10 828 million at 30 June 2015. This increase has been mainly due to an increase in the Territory's unfunded superannuation liability and borrowings. In particular:

- the unfunded superannuation liability has increased by $2 531 million (an average annual increase of 24.1 percent) from $2 627 million at 30 June 2011 to $5 158 million at 30 June 2015 due largely to a decrease in the discount rate used to estimate the present value of the liability; and
- borrowings increased to pay for property, plant and equipment (including land, buildings and infrastructure assets) and properties acquired under the Loose-Fill Asbestos Insulation Eradication Scheme.

Short-term assets to short-term liabilities coverage

Table 4-5 Short-term assets to short-term liabilities coverage

At 30 June	Actual 2011 $m	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Budget 2015 $m
Short-term financial assets - Note 1	2 020	2 009	2 256	2 034	2 198	1 650
Short-term liabilities - Note 2	1 152	1 164	1 189	1 128	1 403	1 202
Net short-term assets	**868**	**845**	**1 067**	**906**	**795**	**586**
Ratio of short-term financial assets to short-term liabilities	**1.75:1**	**1.73:1**	**1.90:1**	**1.80:1**	**1.57:1**	**1.55:1**

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

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

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

4.22 The evaluation of short-term financial assets available to cover short-term liabilities provides an indication of the short-term financial position of the Territory.

4.23 The short-term financial position of the Territory at 30 June 2015 is stronger than the position anticipated in the budget but weaker than the position that existed at 30 June 2014. The Territory had $1.57 in short-term assets available to cover each dollar of short-term liabilities at 30 June 2015 compared to $1.80 at 30 June 2014. This weaker position is due mainly to liabilities incurred to acquire asbestos affected properties and pay for the costs of the land remediation under the Loose-Fill Asbestos Insulation Eradication Scheme.

Table 4-6 Projected short-term assets to short-term liabilities coverage – Note 1

At 30 June	Actual 2015 $m	Budget 2016 $m	Estimate 2017 $m	Estimate 2018 $m	Estimate 2019 $m
Short-term financial assets – Note 2	2 198	1 489	1 424	1 493	1 524
Short-term liabilities - Note 3	1 403	1 222	1 813	1 419	1 855
Net short-term assets/(liabilities)	**795**	**267**	**(389)**	**74**	**(331)**
Ratio of short-term assets to short-term liabilities	**1.57:1**	**1.22:1**	**0.79:1**	**1.05:1**	**0.82:1**

Note 1: Budget and forward estimates were obtained from the 2015-16 Budget Papers.

Note 2: Financial assets exclude investments in joint ventures because these assets are not generally available to meet the Territory's immediate debts. Superannuation investments have also been excluded from financial assets because, under the *Territory Superannuation Provision Protection Act 2000*, the Territory can only use these assets to make payments related to employee superannuation and therefore the assets are also not available to cover short-term liabilities.

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

4.24 The Territory's short-term financial position is expected to significantly weaken from a net asset position of $795 million at 30 June 2015 to net liability position of $331 million at 30 June 2019.

4.25 This is mainly due to the Territory holding higher than usual levels of cash in 2014-15. The weaker position reflects the expectation that cash balances are expected to return to lower levels in the forward years and borrowings are expected to increase to fund the Territory's major capital projects.

Financial assets to liabilities coverage

Table 4-7 Financial assets to liabilities coverage

At 30 June	Actual 2011 $m	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Budget 2015 $m
Financial assets	**2 020**	**2 008**	**2 256**	**2 034**	**2 198**	**1 650**
Liabilities						
Unfunded superannuation – Note 1	2 627	5 242	4 276	4 471	5 158	2 481
Borrowings, payables and finance leases	2 303	2 843	3 517	3 850	4 593	4 421
Other (including other employee benefits)	595	675	715	794	1 077	751
	5 525	**8 760**	**8 508**	**9 115**	**10 828**	**7 653**
Unfunded liabilities	**3 505**	**6 752**	**6 252**	**7 081**	**8 630**	**6 004**

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

4.26 The financial assets of the Territory are the primary means of funding its short and long-term obligations. The Territory could meet its obligations by selling some non-financial assets, however, most of these are committed to the provision of public services such as infrastructure, schools and hospitals, and are not therefore usually available for sale.

The Territory's long-term financial position can therefore be assessed by comparing financial assets to liabilities.

4.27 The long-term financial position of the Territory is much weaker than the budgeted and prior year positions and has significantly weakened since 30 June 2011.

4.28 Unfunded liabilities at 30 June 2015 ($8 630 million) exceeded the budgeted unfunded liabilities ($6 004 million) and unfunded liabilities at 30 June 2014 ($7 081 million) by $2 626 million and $1 549 million respectively. Unfunded liabilities have increased by $5 125 million (an average annual increase of 36.6 percent) from $3 505 million at 30 June 2011 to $8 630 million at 30 June 2015.

Table 4-8 Projected financial assets available to meet liabilities – Note 1

At 30 June	Actual 2015 $m	Budget 2016 $m	Estimate 2017 $m	Estimate 2018 $m	Estimate 2019 $m
Financial assets	**2 198**	**1 489**	**1 424**	**1 493**	**1 524**
Liabilities					
Unfunded superannuation – Note 2	5 158	2 493	2 497	2 471	2 415
Borrowings, payables and finance leases	4 593	5 579	6 143	6 542	6 372
Other liabilities (including other employee benefits)	1 077	829	879	940	995
	10 828	**8 901**	**9 519**	**9 953**	**9 782**
Unfunded liabilities	**8 630**	**7 412**	**8 095**	**8 460**	**8 258**

Note 1: Budget and forward estimates were obtained from the 2015-16 Budget Papers.

Note 2: The unfunded superannuation liability is the amount by which the estimated superannuation liability exceeds superannuation investments.

4.29 The Territory's long-term financial position is expected to strengthen slightly over the forward years from 2015-16 to 2018-19. Unfunded liabilities are expected to decrease by $372 million (an average annual decrease of 1.2 percent) from $8 630 million at 30 June 2015 to $8 258 million at 30 June 2019.

4.30 The expected strengthening in the Territory's long-term financial position over the forward years of 2015-16 to 2018-19 is based on the assumption that there will be a substantial decrease in the unfunded superannuation liability from that which existed at 30 June 2015. This decrease is assumed to be sufficient to counter the expected large increase in borrowings to fund major capital works projects in the Territory's Infrastructure Program.

4.31 The large decrease in the unfunded superannuation liability of $2 473 million (an average annual decrease of 13.3 percent) from $5 158 million at 30 June 2015 to $2 415 million at 30 June 2019 depends significantly on the rate used to measure the present value of superannuation payments in these future years.

4.32 Borrowings are expected to increase significantly by $1 779 million (an average annual increase of 9.7 percent) from $4 593 million at 30 June 2015 to $6 372 million at 30 June 2019 to fund major capital works projects in the Territory's Infrastructure Program. These projects include the Territory's light rail project, construction of the ACT Court facilities, and duplication of major roads in Gungahlin (Horse Park Drive and Gundaroo Drive) and Tuggeranong (Ashley Drive).

5 AUDIT RESULTS AND FINDINGS ON SELECTED ACT GOVERNMENT AND OTHER ENTITIES

ACT Insurance Authority

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

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

Key Issues

- The Audit Office issued an unqualified audit report on the Authority's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The Authority's operating surplus ($63.7 million) exceeded the budgeted operating surplus ($5.0 million) due to a large reduction in the actuarial estimate of insurance claims liabilities.
- The Authority had sufficient total assets ($389.4 million) to cover its total liabilities ($259.2 million) at 30 June 2015 and its total asset coverage was much stronger than anticipated in the budget.
- One new audit finding was identified in 2014-15 which related to the performance of the Authority not being clearly explained in its statement of performance for accountability indicators in 'j. Insurance Claims Data'.

Financial results

Table 5-1 Key Results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Gross premiums	58.7	56.5	57.0
Net returns from investments	15.5	13.8	11.5
Income	**74.2**	**70.3**	**68.5**
Reinsurance expenses	(12.3)	(11.3)	(12.5)
Other	(3.0)	(2.7)	(3.0)
Expenses	**(15.3)**	**(14.0)**	**(15.5)**
Net insurance claims (expenses)/revenue	(15.7)	11.4	(48.3)
Reinsurance recoveries/(losses)	3.4	(5.0)	0.3
Other underwriting income	0.6	1.0	-
Net insurance claims (expenses)/revenue	**(11.7)**	**7.4**	**(48.0)**
Operating surplus	**47.2**	**63.7**	**5.0**

5.3 Income is largely comprised of insurance premiums collected from ACT Government agencies and net returns from investments that are used to meet insurance claims liabilities.

5.4 Expenses largely consist of reinsurance premiums paid to external insurance providers and administrative costs.

5.5 Income and expenses were consistent with the budgeted amounts.

5.6 Net insurance claims (expenses)/revenue consist mainly of insurance claims settlement payments to ACT Government agencies and external parties, amounts recovered from reinsurance arrangements with external reinsurance providers and increases (expense) or decreases (revenue) in the actuarial estimate of insurance claims liabilities.

5.7 The actuarial estimate of insurance claims liabilities is significantly influenced by the number and type of insurance claims received, amounts historically paid to settle claims and discount and inflation rates used to estimate the present value of future insurance claims payments.

5.8 The Authority recorded net insurance claims revenue of $11.4 million compared to the net insurance claims expense of $48.3 million anticipated in the budget due mainly to a large reduction in the actuarial estimate of insurance claims liabilities. This large reduction resulted from:

- a detailed assessment by the Authority of the open large medical malpractice and public liability claims. This was done to provide a better estimate of settlement amounts; and
- fewer than expected reported claims in most insurance categories.

5.9 The Authority's operating surplus ($63.7 million) exceeded the budgeted operating surplus ($5.0 million) due to a large reduction in the actuarial estimate of insurance claims liabilities.

Total assets to total liabilities coverage

Table 5-2 Total assets to total liabilities coverage

At 30 June	Actual 2014 $m	Actual 2015 $m	Budget 2015 $m
Total assets	367.3	389.4	391.9
Total liabilities	(300.8)	(259.2)	(330.2)
Net assets	**66.5**	**130.2**	**61.7**
Ratio of total assets to total liabilities	**1.2 to 1**	**1.5 to 1**	**1.2 to 1**

5.10 The Authority aims to hold sufficient assets to meet its liabilities, including the insurance claims liabilities.

5.11 Table 5-2 shows that the Authority had sufficient total assets ($389.4 million) to cover its total liabilities ($259.2 million) at 30 June 2015 and its total asset coverage was much stronger than anticipated in the budget.

Audit findings

Table 5-3 Status of audit findings (number of findings)

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

5.12 One new audit finding was identified in 2014-15 which related to the performance of the Authority not being clearly explained in its statement of performance for accountability indicators in 'j. Insurance Claims Data'. The statement of performance did not include enough information on how:

- the targets and results for these indicators had been calculated; and
- these indicators provided an indication of the performance of the Authority.

5.13 The Audit Office therefore recommended that the Authority review the accountability indicators in its statement of performance to provide assurance that they provide meaningful information about the performance of the Authority.

5.14 The Authority 'noted' this recommendation and advised that:

> The ACT Insurance Authority's 2014-15 statement of performance refers to the principle objective for the Authority of proactively managing claims in accordance with the ACT model litigant requirements and to reduce the number and severity of incidents and ultimately claims costs.
>
> The accountability indicator relating to insurance claims data was modified in the ACT Insurance Authority's 2014-15 Statement of Intent. The measure was amended from a count of insurance claims and incidents 'open or closed' which the Authority considered to be a poor measure of the Authority's claims management function.
>
> The Authority considers the amended measure using actuarial assumptions data on claims to be an improved measure of the Authority's claim management performance and assists in measuring the objective to satisfy and settle claims in relation to Territory risks.

5.15 The Audit Office also advised the Authority that explanations of significant variances from targets for the accountability indicators included in 'j. Insurance Claims Data' were unclear because they did not provide enough explanatory information on the reasons for these variances.

5.16 The Audit Office therefore recommended that the Authority:

- improve the explanatory information relating to accountability indicators included in the statement of performance and check that information on the targeted and actual performance for these indicators is clear and meaningful; and
- check that explanations of significant variances from targeted performance are clear and provide sufficient information on reasons for these variances.

5.17 The Authority has noted these recommendations.

ACT Local Hospital Network Directorate

5.18 The ACT Local Hospital Network Directorate (the Directorate) is administered by the Director-General of the Health Directorate. (The Health Directorate is discussed on pages 121 to 125.)

5.19 Governments of the Australian states and territories and the Commonwealth Government entered into the National Health Reform Agreement (the Agreement) in August 2011. Under the Agreement, the Australian states and territories and the Commonwealth are jointly responsible for funding public hospital services through the National Health Funding Pool.

5.20 Under these arrangements, the Australian states and territories and the Commonwealth deposit funding in State Pool Accounts. This deposited funding is then paid to local hospital networks in accordance with directions from the responsible Minister. In the ACT, this funding is paid to the ACT Local Hospital Network Directorate.

5.21 Under the Agreement, the Directorate receives activity-based and block funding, which includes funding for training and research, from the Commonwealth Government and ACT Government.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($874.1 million) aligned with the budgeted cost ($872.8 million).
- The net cost of the Directorate's services ($874.1 million) increased by $60.7 million (7.5 percent) from the prior year's cost ($813.4 million). This was mainly due to the purchase of more hospital services from ACT public hospital service providers, inflation and, to a lesser extent, a decrease in cross-border health revenue.
- Contributions received from the Commonwealth Government to the funding of hospital services ($310.9 million) exceeded the budget estimate ($271.1 million) by $39.8 million (14.7 percent) as more services were funded by the Commonwealth Government than had been estimated in the budget.
- Contributions received from the ACT Government to the funding of hospital services ($567.3 million) were less than the budgeted amount ($601.7 million) as the higher than expected funding provided by the Commonwealth Government meant that a lower contribution by the ACT Government was required.

Financial results

Table 5-4 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(915.4)	(966.0)	(957.0)
Cross-border health revenue	102.0	91.9	84.2
Net cost of services	**(813.4)**	**(874.1)**	**(872.8)**
Contributions received from the Commonwealth Government to the funding of hospital services	275.1	310.9	271.1
Contributions received from the ACT Government to the funding of hospital services	550.1	567.3	601.7
Operating surplus	**11.8**	**4.1**	**-**

5.22 Expenses largely consist of:

- payments to ACT public hospital service providers (Canberra Hospital and Health Services, Calvary Public Hospital (including Clare Holland House) and Queen Elizabeth II Family Centre) for hospital services; and
- payments for hospital services provided to ACT residents by other jurisdictions under cross-border arrangements between the ACT and the Australian states and Northern Territory.

5.23 Cross-border health revenue is revenue earned from providing health services to residents of the Australian states and Northern Territory under cross-border arrangements.

5.24 The net cost of the Directorate's services ($874.1 million) aligned with the budgeted cost ($872.8 million).

5.25 Cross-border health revenue ($91.9 million) exceeded the budget estimate ($84.2 million) by $7.7 million (9.1 percent) as a larger number of interstate patients were treated in ACT public hospitals than was anticipated in the budget.

5.26 Expenses ($966.0 million) increased by $50.6 million (5.5 percent) from prior year ($915.4 million) as more public hospital services were purchased from ACT public hospital providers.

5.27 Cross-border health revenue ($91.9 million) decreased by $10.1 million (9.9 percent) from the prior year ($102.0 million). This was mainly due to additional revenue resulting from the settlement of cross-border amounts in 2013-14 that did not recur in 2014-15. The settlement of cross-border amounts results in adjustments to cross-border revenue because it occurs annually after the year in which interstate patients are treated (i.e. in arrears).

5.28 The net cost of the Directorate's services ($874.1 million) increased by $60.7 million (7.5 percent) from the prior year's cost ($813.4 million). This was mainly due to the purchase of more hospital services from ACT public hospital service providers, inflation and, to a lesser extent, a decrease in cross-border health revenue.

5.29 Contributions received from the Commonwealth Government to the funding of hospital services ($310.9 million) exceeded the budget estimate ($271.1 million) by $39.8 million (14.7 percent) as more services were funded by the Commonwealth Government than had been estimated in the budget.

5.30 Contributions received from the ACT Government to the funding of hospital services ($567.3 million) were less than the budgeted amount ($601.7 million) as the higher than expected funding received from the Commonwealth Government meant that a lower contribution by the ACT Government was required.

ActewAGL Joint Venture

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

5.32 Icon Water Limited (Icon Water) holds a 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership through its subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited respectively. (Icon Water is discussed on pages 131 to 136.)

Key issues

- The Audit Office issued unqualified audit reports on the financial statements of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's profit increased by $35.0 million (21.1 percent) from $166.0 million in 2013-14 to $201.0 million in 2014-15. This was mainly due to additional revenue being generated from an increase in the price and units of energy sold to consumers in 2014-15 across ActewAGL's electricity and gas distribution network.
- Distributions paid by ActewAGL to Icon Water increased from $52.0 million in 2013-14 to $56.5 million in 2014-15.
- ActewAGL had sufficient assets to cover its short-term and total liabilities at 30 June 2015.
- ActewAGL resolved all six previously reported audit findings by:
  - recording activities of users for all financial system applications and databases in audit logs and performing periodic reviews of audit logs. This reduces the risk of undetected unauthorised (including fraudulent) access to financial systems and databases;
  - improving its procedures for making software changes to the accounting system (Oracle). This includes testing of changes made by the software developer and having them independently endorsed prior to implementation. This reduces the risk of erroneous or fraudulent changes being made to Oracle and data being lost and interruptions to business operations;
  - strengthening control over access to Oracle by automating the enforcement of minimum password lengths in accordance with ActewAGL's information technology security policy. This reduces the risk of unauthorised (including fraudulent) access to Oracle;
  - regularly reviewing access privileges to computer systems and promptly removing the access of contractors no longer engaged by ActewAGL. This reduces the risk of unauthorised (including fraudulent) access to information technology systems and data;

- reviewing transactions recorded in the inventory balance and reclassifying items of properly, plant and equipment that were incorrectly recorded as inventory to property, plant and equipment; and
- removing old account balances from the trial balance. This reduces the risk of fraudulent transactions being posted to accounting records using old account balances.

- Four new audit findings were identified during the audit as:
  - there were two generic user accounts (i.e. user accounts that are shared) with privileged access to Oracle. Generic user accounts significantly limit management's ability to trace irregular activities, which may be inappropriate or fraudulent, to an individual user;
  - there are two privileged user accounts for the payroll system (Aurion) that were used to log into other user accounts to assist users to resolve problems. Password settings for these privileged accounts did not comply with ActewAGL's information technology security policy. This increases the risk of unauthorised (including fraudulent) access to the payroll system and its data;
  - ActewAGL used 'manual fixes' to correct errors in the collation and reporting of data when it completed a major upgrade of its financial systems. While 'manual fixes' help ensure that financial information is reliable, their existence indicates that financial systems may not be operating efficiently or effectively. 'Manual fixes' increase the risk of errors and fraud by giving management the ability to manipulate, override or falsify financial information; and
  - there were several unreconciled items in the ActewAGL Distribution Partnership bank reconciliation at 30 June 2015. The net impact of these unreconciled items was $270 000.

Financial results

Table 5-5 Key results

	Actual 2013-14 $m	Actual 2014-15 $m
Income	827.8	858.2
Expenses	(661.9)	(657.2)
Profit from continuing operations	**165.9**	**201.0**
Profit from discontinued operations (Water Division)	0.1	-
Profit	**166.0**	**201.0**
Distributions paid to partners	**104.0**	**113.0**
Distributions paid to Icon Water (50 percent)	**52.0**	**56.5**

5.33 Income is largely generated by the sale and distribution of energy (electricity and gas). Expenses mostly consist of energy purchases, employment costs, payments to subcontractors, leasing expenses and depreciation.

5.34 ActewAGL's profit increased by $35.0 million (21.1 percent) from $166.0 million in 2013-14 to $201.0 million in 2014-15. This was mainly due to additional revenue being generated from an increase in the price and units of energy sold to consumers in 2014-15 across ActewAGL's electricity and gas distribution network.

5.35 ActewAGL's distributions to Icon Water increased by $4.5 million (8.7 percent) from $52.0 million in 2013-14 to $56.5 million in 2014-15.

Short-term assets to short-term liabilities coverage

Table 5-6 Short-term assets to short-term liabilities coverage

At 30 June	Actual 2014 $m	Actual 2015 $m
Short-term assets	234.8	264.2
Short-term liabilities	184.3	192.1
Net short-term assets	**50.5**	**72.1**
Ratio of short-term assets to short-term liabilities	**1.3 to 1**	**1.4 to 1**

5.36 The short-term assets to short-term liabilities coverage of ActewAGL can be assessed by comparing the amount of short-term assets available to cover short-term liabilities.

5.37 The historical short-term asset coverage shown in Table 5-6 is the position after the payment of cash distributions to the partners of ActewAGL.

5.38 ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2015.

Total assets to total liabilities coverage

Table 5-7 Total assets to total liabilities coverage

At 30 June	Actual 2014 $m	Actual 2015 $m
Total assets	1 391.0	1 490.7
Total liabilities	203.0	214.7
Net assets	**1 188.0**	**1 276.0**
Ratio of total assets to total liabilities	**6.9 to 1**	**6.9 to 1**

5.39 Major assets are represented by property, plant and equipment (mainly electricity and gas network assets).

5.40 As disclosed in Table 5-7, ActewAGL had sufficient total assets to cover its total liabilities at 30 June 2015.

Audit findings

Table 5-8 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
6	6	-	-	4	4

5.41 ActewAGL resolved all six previously reported audit findings by:

- recording activities of users for all financial system applications and databases in audit logs and performing periodic reviews of audit logs. This reduces the risk of undetected unauthorised (including fraudulent) access to financial systems and databases.

  An audit log is a system-generated record which tracks access to the system by users. It provides a record of access by users including unsuccessful attempts at making changes to applications and key data in databases;

- improving its procedures for making software changes to the accounting system (Oracle). This includes testing of changes made by the software developer and having them independently endorsed prior to implementation. This reduces the risk of erroneous or fraudulent changes being made to Oracle and data being lost and interruptions to business operations;

- strengthening controls over access to Oracle by automating the enforcement of minimum password lengths in accordance with ActewAGL's information technology security policy. This reduces the risk of unauthorised (including fraudulent) access to Oracle;

- regularly reviewing access privileges to computer systems and promptly removing the access of contractors no longer engaged by ActewAGL. This reduces the risk of unauthorised (including fraudulent) access to information technology systems and data;

- reviewing transactions recorded in the inventory balance and reclassifying items of properly, plant and equipment that were incorrectly recorded as inventory to property, plant and equipment; and

- removing old account balances from the trial balance. This reduces the risk of fraudulent transactions being posted to accounting records using old account balances.

5.42 Four new audit findings identified during the audit as:

- there were two generic user accounts (i.e. user accounts that are shared) with privileged access to Oracle. Generic user accounts significantly limit management's ability to trace irregular activities, which may be inappropriate or fraudulent, to an individual user.

  ActewAGL management has advised that the purpose of these privileged accounts is unknown and that they have since been disabled;

- there are two privileged user accounts for the payroll system (Aurion) that were used to log into other user accounts to assist users to resolve problems. Password settings for these privileged accounts did not comply with ActewAGL's information technology security policy. This increases the risk of unauthorised (including fraudulent) access to the payroll system and its data

  ActewAGL management has advised that the password settings for these accounts have since been updated to comply with ActewAGL's Information Technology Security Policy;

- ActewAGL used 'manual fixes' to correct errors in the collation and reporting of data when it completed a major upgrade of its financial systems. While 'manual fixes' help ensure that financial information is reliable, their existence indicates that financial systems may not be operating efficiently or effectively. 'Manual fixes' increase the risk of errors and fraud by giving management the ability to manipulate, override or falsify financial information;

- the ActewAGL Distribution Partnership bank reconciliation at 30 June 2015 included several unreconciled items. The net impact of these unreconciled items was $270 000.

  The bank reconciliation provides assurance that cash at bank balance and other reported balances that rely on the complete and accurate recording of cash receipts and payments have been correctly recorded in the financial statements. This is achieved by reconciling cash transactions to an independent record maintained by the bank.

  Unreconciled items increase the risk of:
  - errors in the balances recorded in the financial statements that rely on the complete and accurate recording of cash receipt and payments; and
  - fraudulent transactions not being detected in a timely manner.

  ActewAGL management have advised that these unreconciled items resulted from an information technology system implementation issue relating to the Core Systems Replacement Program.

5.43 ActewAGL has agreed to address all audit findings.

ACTION

5.44 ACTION provides public bus services to the ACT community, including schools, special needs and charter bus services. ACTION also manages a contract for the provision of rural school bus services. ACTION operates within the Infrastructure, Roads and Public Transport Division of the Territory and Municipal Services Directorate but is a separate entity for financial reporting purposes.

Key issues

- The Audit Office issued an unqualified audit report on ACTION's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of ACTION's services ($118.0 million) was consistent with the budgeted cost ($118.2 million) and slightly higher than the prior year's cost ($115.4 million).
- ACTION resolved one of the two previously reported audit findings by ensuring that invoices were authorised for payment by officers acting within the limit of their financial delegation. This reduces the risk of payment irregularities which may be due to errors or fraud.
- The unresolved audit finding relates to the lack of automated key controls in ACTION's human resources system (Aurion). While compensating manual controls are in place, automated controls are more effective than manual controls because they are consistently applied and can prevent irregularities, which may be caused by errors or fraud, instead of identifying them after they occur. Although ACTION has tried to automate key controls in Aurion, this has not been possible due to system limitations. ACTION has therefore commenced work to transfer staff data from Aurion to another human resources system (CHRIS21) which has automated controls that are more effective in reducing these risks.
- Two new audit findings identified in 2014-15 were that:
  - reconciliations performed between cash deposited by drivers in cash counting machines at bus depots and cash fares recorded in ACTION's bus ticketing system (MyWay) were not always signed by the preparing officer and reviewed by an independent officer. As variances between cash deposited by drivers and cash fares recorded in MyWay indicate that irregularities may have occurred, they should therefore be investigated. This weakness in the reconciliation process increases the risk of irregularities, which may be due to errors or fraud, not being promptly detected and addressed; and
  - cash float reports provided by ACTION did not agree to the cash float balance reported in the financial statements submitted for audit. Cash floats are provided to bus drivers to issue change to passengers who pay cash fares. ACTION subsequently corrected its cash float balance reports so that they agreed to the financial statements.

Financial results

Table 5-9 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(139.8)	(144.5)	(143.0)
Income	24.4	26.5	24.8
Net cost of services	**(115.4)**	**(118.0)**	**(118.2)**
Government contributions	102.7	106.6	107.2
Loss on the revaluation of buses	(4.8)	-	-
Other gains on de-recognition of finance leases	-	0.3	-
Operating deficit	**(17.5)**	**(11.1)**	**(11.0)**

5.45 Expenses mainly consist of employee costs and costs associated with bus operations such as maintenance, fuel and insurance costs. Income largely consists of fares charged to customers.

5.46 Expenses ($144.5 million) were consistent with the budgeted amount ($143.0 million). Expenses exceeded the prior year amount by $4.7 million (3.4 percent) due primarily to an increase in the worker's compensation insurance premium.

5.47 Income exceeded the budgeted and prior year amounts by $1.7 million (6.9 percent) and $2.1 million (8.6 percent) respectively, due mainly to an unbudgeted refund of fuel tax credits from the Australian Taxation Office.

5.48 The net cost of ACTION's services ($118.0 million) was consistent with the budgeted cost ($118.2 million) and slightly higher than the prior year's cost ($115.4 million).

5.49 ACTION's operating deficit ($11.1 million) was consistent with the budgeted operating deficit ($11.0 million). ACTION's operating deficit decreased from the prior year's deficit ($17.5 million) by $6.4 million (36.6 percent) as a loss incurred on the revaluation of buses in 2013-14 ($4.8 million) did not recur in 2014-15.

Audit findings

Table 5-10 Status of audit findings (number of findings)

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

5.50 ACTION resolved one of the two previously reported audit findings by ensuring that invoices were authorised for payment by officers acting within the limit of their financial delegation. This reduces the risk of payment irregularities which may be due to errors or fraud.

5.51 The unresolved audit finding relates to the lack of automated key controls in ACTION's human resources system (Aurion). While compensating manual controls are in place, automated controls are more effective than manual controls because they are consistently applied and can prevent irregularities which may be caused by errors or fraud instead of identifying them after they occur.

Although ACTION has tried to automate key controls in Aurion this has not been possible due to system limitations. ACTION has therefore commenced work to transfer staff data from Aurion to another human resources system (CHRIS21) which has automated controls that are more effective in reducing these risks.

5.52 Two new audit findings identified in 2014-15 were that:

- reconciliations performed between cash deposited by drivers in cash counting machines at bus depots and cash fares recorded in ACTION's bus ticketing system (MyWay) were not always signed by the preparing officer and reviewed by an independent officer. As variances between cash deposited by drivers and cash fares recorded in MyWay indicate that irregularities may have occurred, they should therefore be investigated.

  This weakness in the reconciliation process increases the risk of irregularities, which may be due to errors or fraud, not being promptly detected and addressed; and

- cash float reports provided by ACTION did not agree to the cash float balance reported in the financial statements submitted for audit. Cash floats are provided to bus drivers to issue change to passengers who pay cash fares. ACTION subsequently corrected its cash float balance reports so that they agreed to the financial statements.

5.53 ACTION has advised that all audit findings will be addressed.

Canberra Institute of Technology

5.54 The Canberra Institute of Technology (the Institute) provides vocational education and training services to Australian and international students and organisations in the public and private sectors.

Key issues

- The Audit Office issued an unqualified audit report on the Institute's 2014 financial statements and an unqualified report of factual findings on its 2014 statement of performance.
- The Institute's net cost of services ($74.5 million) aligned with the budgeted cost ($75.4 million).
- The Institute's net cost of services ($74.5 million) decreased by $3.8 million (4.9 percent) from the previous year's cost ($78.3 million) due mainly to a reduction in repairs and maintenance expenses.
- The Institute resolved two of the three previously reported audit findings by finalising and approving policies and procedures for the:
  - administration of user access to its student information system. This should reduce the risk of inappropriate or fraudulent access to this system; and
  - backup of the student information system and its data. This should decrease the risk that the student information system and its data may not be effectively recovered following a disaster, disruption or other adverse event.
- One previously reported finding was not resolved as salary reports were not consistently reviewed in a timely manner. This increases the risk of irregular payments to employees, which may be due to errors or fraud, not being promptly detected and addressed.
- One new audit finding reported to the Institute in 2014 was that workpapers supporting the statement of performance did not contain sufficient information for someone other than the preparer to understand how the results were derived. Furthermore, there was no evidence that these workpapers had been independently reviewed. This increases the risk of erroneous or fraudulent reporting of results in the Institute's statement of performance.

Financial results

Table 5-11 Key results (calendar years)

	Actual 2013 $m	Actual 2014 $m	Budget 2014 $m
Expenses	(113.6)	(111.0)	(110.2)
Income	35.3	36.5	34.8
Net cost of services	**(78.3)**	**(74.5)**	**(75.4)**
Government contributions	67.1	67.3	67.2
Contribution from CIT Solutions Pty Limited	0.3	0.2	0.2
Asset transfers to ACT Government	-	-	(8.0)
Operating deficit	**(10.9)**	**(7.0)**	**(16.0)**

5.55 Expenses largely consist of employee costs, operating costs and depreciation and amortisation. Operating costs are mainly comprised of:

- consultant and contractor costs associated with the provision of courses;
- repairs and maintenance, and information and communication technology expenses; and
- the cost of course materials used by students.

5.56 Most income is earned from the provision of vocational education and training services to Australian and international students and organisations in the public and private sectors.

5.57 The Institute's net cost of services ($74.5 million) aligned with the budgeted cost ($75.4 million).

5.58 The Institute's net cost of services ($74.5 million) decreased by $3.8 million (4.9 percent) from the previous year's cost ($78.3 million) due mainly to a reduction in repairs and maintenance expenses.

5.59 The operating deficit incurred by the Institute ($7.0 million) was $9.0 million (56.3 percent) lower than the budgeted operating deficit ($16.0 million) as a planned transfer of the Watson campus to the ACT Government ($8.0 million) did not occur.

Audit findings

Table 5-12 Status of audit findings (number of findings)

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

5.60 The Institute resolved two of the three previously reported audit findings by finalising and approving policies and procedures for the:

- administration of user access to its student information system. This should reduce the risk of inappropriate or fraudulent access to this system; and
- backup of the student information system and its data. This should decrease the risk that the student information system and its data may not be effectively recovered following a disaster, disruption or other adverse event.

5.61 One previously reported finding was not resolved as salary reports were not consistently reviewed in a timely manner. This increases the risk of irregular payments to employees, which may be due to errors or fraud, not being promptly detected and addressed.

5.62 One new audit finding reported to the Institute in 2014 was that workpapers supporting the statement of performance did not contain sufficient information for someone other than the preparer to understand how the results were derived. Furthermore, there was no evidence that these workpapers had been independently reviewed.

This increases the risk of erroneous or fraudulent reporting of results in the Institute's statement of performance.

5.63 The Institute has agreed to address all audit findings.

Chief Minister, Treasury and Economic Development Directorate

5.64 The Chief Minister, Treasury and Economic Development Directorate (the Directorate) is responsible for planning, developing, coordinating and implementing key ACT Government policies.

5.65 The Directorate's responsibilities were increased by changes to administrative arrangements in 2014-15. At 30 June 2015, the Directorate's responsibilities included:

- providing leadership, strategic advice and support on policy development to the ACT Public Service;
- coordinating the ACT Government's budget process and reporting on financial results;
- providing advice to the ACT Government and reporting agencies on the Territory's budget and financial management, economic and revenue policy, infrastructure financing, federal financial relations, and workers' compensation policy;
- leading initiatives to improve public sector capability and integrity;
- supporting economic, business and social development in the ACT;
- promoting business development and investment programs;
- administering the ACT Government's land release program and infrastructure projects;
- administering the Loose-Fill Asbestos Eradication Scheme. Under the Scheme, the Directorate purchases properties (land and homes) that are affected by loose-fill asbestos, demolishes and disposes of the homes, remediates the affected land and sells the remediated land;
- overseeing a long-term program involving the overhaul of public housing (Public Housing Renewal Program);
- promoting tourism marketing and development programs;
- facilitating sporting, aquatic and recreational venues and major events;
- developing and implementing government policies relating to the arts and managing ACT arts facilities;
- managing the operations of the ACT Revenue Office. The ACT Revenue Office administers and regulates the Territory's taxation system in accordance with the tax legislation;
- managing the operations of Shared Services. Shared Services provides information and communication technology, publishing and recordkeeping, human resources, and finance services across the ACT Government; and
- managing Access Canberra, including shopfronts, call handling, online services, payments and regulatory functions.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($617.3 million) exceeded the budgeted cost ($235.3 million) by $382.0 million (162.3 percent). This was mainly due to unbudgeted:
  - grants paid to purchase properties affected by loose-fill asbestos under the Loose-Fill Asbestos Eradication Scheme ($336.1 million). Expenditure relating to the Scheme was approved through the *Appropriation (Loose-fill Asbestos Insulation Eradication) Act 2014-2015*; and
  - employee expenses relating to regulatory and other functions transferred to the Directorate following changes to administrative arrangements ($47.0 million).
- Eight of the 13 previously reported audit findings (including six that were transferred to the Directorate as a result of changed administrative arrangements) were resolved, two partially resolved and three not resolved.
- The Directorate resolved eight of the 13 previously reported audit findings by:
  - improving the independence of the internal audit function as the Internal Audit Manager no longer has operational responsibilities apart from the administration and management of the internal audit function. This improves the capacity of the internal audit function to report impartially[17];
  - approving the terms of reference of its Information Management and Information Communications Committee. The Committee also met in accordance with these terms of reference. These improvements reduce the risk of the Committee not operating effectively;
  - having parking operations revenue reconciliations promptly reviewed by someone independent of the preparer of the reconciliation. This provides assurance that all cash collected from parking machines is banked and reduces the risk of irregularities, which may be due to errors or fraud, not being promptly detected;
  - improving explanations in its statement of performance for significant variances between actual and planned results;

[17] Before the administrative arrangements were changed in 2014-15, this previously reported audit finding was reported as a separate audit finding to the then Chief Minister and Treasury Directorate and former Economic Development Directorate.

- correctly transferring balances recorded in the accounting system for capital works that were completed from the capital works in progress balance to the relevant property, plant and equipment balance;
- improving the clarity of explanations included in its financial statements for major variances between the current and prior year's results; and
- providing a breakdown of the receivables balance by individual debtor in the ageing reports generated from the system used by the ACT Revenue Office to process rates, taxes and levies (Community 2011).

- The Directorate partially resolved two previously reported audit findings by:
  - updating its information technology strategic plan. However, as this plan has not been approved, there is a risk that planning and implementation of new information technology systems may not meet the needs of the Directorate or occur in a timely manner; and
  - documenting meetings of the Directorate's Executive Management Group (a key decision-making group that meets on a monthly basis). However, not all minutes were documented as having been approved as an accurate record of the meeting.
- The Directorate did not resolve three previously reported audit findings as:
  - evidence of reviews of salary reports being performed or performed in a timely manner were not consistently retained. This presents a risk of irregularities in payments to employees, which may be due to errors or fraud, not being promptly detected and addressed;
  - there were errors in the spreadsheet used to calculate revenue and receivables relating to extension of time to build fees. The Directorate did not correct its financial statements for these errors as they were immaterial to the financial statements. These errors indicate that processes for checking the accuracy of information supporting the calculation of revenue and receivables relating to extension of time to build fees need to be improved; and
  - some accountability indicators and related targets were not clearly explained in its budget papers. This presents a risk of incorrect or fraudulent reporting as it may be difficult to subsequently verify whether the actual results reported in the statement of performance are consistent with planned performance targets disclosed in the budget papers.

- Six new audit findings (one of which relates to the former Economic Development Directorate) were identified in 2014-15. These were due to:
  - the lack of a Strategic Asset Management Plan that reflects the Directorate's current operations. Furthermore, the Strategic Asset Management Plan for Shared Services (which is part of the Directorate) is in draft form. There is a risk that key areas of asset management will not be addressed effectively when the Directorate does not have a Strategic Asset Management Plan;
  - cash receipts recorded in a 'suspense account' in the Directorate's accounting system not being resolved in a timely manner. This account contains many amounts totalling approximately $1.3 million, including $0.8 million from prior years, with some dating back to 2004;
  - the assessment of property, plant and equipment and intangible assets for impairment as required by Australian Accounting Standard AASB 136: 'Impairment of Assets' not always being documented. AASB 136 requires the Directorate to assess whether its assets are impaired on an annual basis;
  - the year-end reconciliations between the general ledger and supporting asset registers having variances totalling $63.3 million. These were mainly due to the asset registers not being updated for asset valuations ($32.1 million) and assets that were completed close to 30 June 2015 ($33.6 million);
  - targets for the former Economic Development Directorate's accountability indicators for the period from 1 July 2014 to 6 July 2014 not being established. Therefore, reporting against these as required by Section 30A(2) of the *Financial Management Act 1996* did not occur. A qualified report of factual findings was therefore issued on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014; and
  - the submission of financial statements for audit that were incomplete and had many errors. The Directorate corrected these errors and completed its financial statements during the audit.

Financial results

Table 5-13 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses excluding Loose-Fill Asbestos Eradication Scheme grants	(59.6)	(575.9)	(537.0)
Loose-Fill Asbestos Eradication Scheme grants	-	(336.1)	-
Total expenses	**(59.6)**	**(912.0)**	**(537.0)**
Income	14.6	294.7	301.7
Net cost of services	**(45.0)**	**(617.3)**	**(235.3)**
Government contributions	47.9	482.5	194.6
Operating surplus/(deficit)	**2.9**	**(134.8)**	**(40.7)**

5.66 Expenses largely consist of employee costs, operating costs, grant expenses and depreciation. Operating costs include contractor and consultant costs, accommodation expenses, information and communication technology expenses and repairs and maintenance costs. Grant expenses include the:

- cost of purchasing properties that are affected by loose-fill asbestos under the Loose-Fill Asbestos Eradication Scheme; and
- payments made to major sporting, business, industry, tourism and event organisations.

5.67 The net cost of the Directorate's services ($617.3 million) exceeded the budgeted cost ($235.3 million) by $382.0 million (162.3 percent). This was mainly due to unbudgeted:

- grants paid to purchase properties that are affected by loose-fill asbestos under the Loose-Fill Asbestos Eradication Scheme ($336.1 million). Expenditure relating to the Scheme was approved through the *Appropriation (Loose-fill Asbestos Insulation Eradication) Act 2014-2015*; and
- employee expenses relating to regulatory and other functions transferred to the Directorate following changes to administrative arrangements ($47.0 million).

5.68 Government contributions ($482.5 million) exceeded the budgeted amount ($194.6 million) by $287.9 million (147.9 percent) to meet the higher net cost of services.

5.69 The Directorate's territorial operations mainly consist of revenue from Commonwealth grants, and the collection of taxes, fees and fines; including land tax, general rates, duties, payroll tax and income tax equivalents. The Territory's revenue is referred to on pages 69 to 72 (Chapter 4: 'The Territory's financial statements').

Audit findings

Table 5-14 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
13	8	2	3	6	11

5.70 Eight of the 13 previously reported audit findings were resolved, two partially resolved and three not resolved.

5.71 The Directorate resolved eight of the 13 previously reported audit findings by:

- improving the independence of the internal audit function as the Internal Audit Manager no longer has operational responsibilities apart from the administration and management of the internal audit function. This improves the capacity of the internal audit function to report impartially[18];
- approving the terms of reference of its Information Management and Information Communications Committee. The Committee also met in accordance with these terms of reference. These improvements reduce the risk of the Committee not operating effectively;
- having parking operations revenue reconciliations promptly reviewed by someone independent of the preparer of the reconciliation. This provides assurance that all cash collected from parking machines is banked and reduces the risk of irregularities, which may be due to errors or fraud, not being promptly detected;
- improving explanations in its statement of performance for significant variances between actual and planned results;
- correctly transferring balances recorded in the accounting system for capital works that were completed from the capital works in progress balance to the relevant property, plant and equipment balance;
- improving the clarity of explanations included in its financial statements for major variances between the current and prior year's results; and
- providing a breakdown of the receivables balance by individual debtor in the ageing reports generated from the system used by the ACT Revenue Office to process rates, taxes and levies (Community 2011).

[18] Before the administrative arrangements were changed in 2014-15, this previously reported audit finding was reported as a separate audit finding to the then Chief Minister and Treasury Directorate and former Economic Development Directorate.

5.72 The Directorate partially resolved two previously reported audit findings by:

- updating its information technology strategic plan. However, as this plan has not been approved, there is a risk that planning and implementation of new information technology systems may not meet the needs of the Directorate or occur in a timely manner.

  An information technology strategic plan sets out the current information technology environment, identifies future information technology goals, options available to achieve these goals and how the planned objectives are to be achieved.

  The Directorate has advised that:

  > The plan (Digital Strategy 2015-2020) has now been completed and endorsed, and reflects the significant administrative changes to the Directorate; and

- documenting meetings of the Directorate's Executive Management Group (a key decision-making group that meets on a monthly basis). However, not all minutes were documented as having been approved as an accurate record of the meeting.

  The Directorate has advised that:

  > The process for documenting approval of the minutes has since been amended to include a signature field to prompt timely endorsement of the minutes and improve documentation.

5.73 The Directorate did not resolve three previously reported audit findings as:

- evidence of reviews of salary reports being performed or performed in a timely manner were not consistently retained. This presents a risk of irregularities in payments to employees, which may be due to errors or fraud, not being promptly detected and addressed;
- there were errors in the spreadsheet used to calculate revenue and receivables relating to extension of time to build fees. The Directorate did not correct its financial statements for these errors as they were immaterial to the financial statements. These errors indicate that processes for checking the accuracy of information supporting the calculation of revenue and receivables relating to extension of time to build fees need to be improved; and
- some accountability indicators and related targets were not clearly explained its budget papers. This presents a risk of incorrect or fraudulent reporting as it may be difficult to subsequently verify whether the actual results reported in the statement of performance are consistent with planned performance targets disclosed in the budget papers.

The Directorate partially agreed with this audit finding and advised that:

> The Directorate reviews its accountability indicators annually as part of the budget process to ensure that the most useful, relevant and up-to-date information is being provided.
>
> Internally, this review process is supported through the annual development of detailed audit worksheets for each accountability indicator. These include a description of the indicator, an explanation of what is being measured and how this is calculated, and the documentation to be provided as evidence of the result.
>
> Future review processes will continue to focus on providing clear explanatory descriptions of accountability indicators and their targets in the budget papers.

5.74 Six new audit findings (one of which relates to the former Economic Development Directorate) were identified in 2014-15. These were due to:

- the lack of a Strategic Asset Management Plan that reflects the Directorate's current operations. Furthermore, the Strategic Asset Management Plan for Shared Services (which is part of the Directorate) is in draft form.

  A Strategic Asset Management Plan provides guidance on key areas of asset management including the planning, acquisition, disposal and maintenance of assets.

  The Directorate became responsible for approximately $1.5 billion of property, plant and equipment compared to $1.2 million recorded by the then Chief Minister and Treasury Directorate in 2013-14 as a result of major changes to administrative arrangements in 2014-15.

  The Directorate has relied on individual plans of former Directorates and business units that became part of the Directorate. These include, for example, the former Economic Development Directorate and ACT Property Group.

  There is a risk that key areas of asset management will not be addressed effectively when the Directorate does not have a Strategic Asset Management Plan;

- cash receipts recorded in a 'suspense account' in the Directorate's accounting system not being resolved in a timely manner. These receipts are recorded in this account and are recorded as revenue in advance (liability) until the correct revenue accounts have been determined. This account contains many amounts totalling approximately $1.3 million, including $0.8 million from prior years, with some dating back to 2004.

  The Directorate partially agreed with this audit finding and advised that:

  > The Directorate agrees with the need to resolve outstanding suspense amounts and has an existing strategy that has seen a substantial reduction in the value of amounts outstanding in accordance with previous audit findings. The suspense account has reduced from $9 million (July 2012) to $1.3 million (June 2015);

- the assessment of property, plant and equipment and intangible assets for impairment as required by Australian Accounting Standard AASB 136: 'Impairment of Assets' not always being documented. AASB 136 requires the Directorate to assess whether its assets are impaired on an annual basis;
- the year-end reconciliations between the general ledger and supporting asset registers having variances totalling $63.3 million. These were mainly due to the asset registers not being updated for asset valuations ($32.1 million) and assets that were completed close to 30 June 2015 ($33.6 million). Reconciliations between the general ledger and supporting asset registers are performed to ensure that the general ledger reconciles with asset registers to reduce the risk of reporting errors;
- targets for the former Economic Development Directorate's accountability indicators for the period from 1 July 2014 to 6 July 2014 not being established. Therefore, reporting against these as required by Section 30A(2) of the *Financial Management Act 1996* did not occur. A qualified report of factual findings was therefore issued on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014; and
- the submission of financial statements for audit being incomplete and containing many errors. The Directorate corrected these errors and completed its financial statements during the audit.

  The Directorate advised that these problems were mainly due to the:
  - major changes to administrative arrangements that occurred during 2014-15; and
  - attention that was given to finalising the accounting treatment for the Loose-Fill Asbestos Eradication Scheme.

  The Directorate also advised that:

  > … It is not expected similar delays will recur in 2015-16. The processes used to prepare the annual financial statements will continue to be revised and improved going forward.

5.75 The Directorate has agreed with all audit findings except for partially agreeing with one:

- previously reported audit finding that some accountability indicators and related targets were not clearly explained in the Directorate's budget papers; and
- new audit finding that cash receipts recorded in a 'suspense account' in the Directorate's accounting system were not being resolved in a timely manner.

Community Services Directorate

5.76 The Community Services Directorate (the Directorate) provides services to assist women, Aboriginal and Torres Strait Islander peoples, children and young people, people with disability, carers, families, people from culturally and linguistically diverse background and people who are ageing.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($246.4 million) exceeded the budgeted cost ($234.6 million) by $11.8 million (5.0 percent) due mainly to higher than expected employee expenses (including voluntary redundancy payments) and workers' compensation insurance premium. These were partially offset by the early receipt of funding from the Commonwealth for the National Disability Insurance Scheme and an unexpected contribution from the Chief Minister, Treasury and Economic Development Directorate's Restructure Fund.
- Government contributions exceeded the budgeted amount by $12.1 million (5.2 percent) as a Treasurer's Advance of $11.9 million was received to meet the higher than expected employee expenses.
- One previously reported audit finding was not resolved as the 2014-15 statement of performance submitted for audit contained several errors. While these errors were corrected, they indicate that the Directorate should improve its processes for preparing its statement of performance.
- Two new audit findings identified in 2014-15 were that:
  - three (8.3 percent) out of 36 payments reviewed by the Audit Office were authorised by an officer in excess of their financial delegation. While representatives from the Directorate advised that these payments were properly related to the operations of the Directorate, there is a risk of irregular payments, which may be due to errors or fraud, when payments are authorised by officers who do not have the required financial delegation; and
  - the Directorate did not comply with the reporting timetable issued by the Chief Minister, Treasury and Economic Development Directorate as it submitted its certified statement of performance to the Audit Office late.

Financial results

Table 5-15 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(260.0)	(265.7)	(239.2)
Income	11.3	19.3	4.6
Net cost of services	**(248.7)**	**(246.4)**	**(234.6)**
Government contributions	243.2	244.2	232.1
Operating deficit	**(5.5)**	**(2.2)**	**(2.5)**

5.77 Expenses mainly consist of employee expenses, grants and payments to service providers and non-government organisations to provide various services under community and disability support programs.

5.78 Expenses ($265.7 million) exceeded the budgeted amount ($239.2 million) by $26.5 million (11.1 percent) due to higher than estimated:

- employee expenses which was primarily caused by the transition of services from Disability ACT and Therapy ACT into the National Disability Insurance Scheme. The National Disability Insurance Scheme is a Commonwealth Government program to support people with a permanent and significant disability that affects their ability to take part in everyday activities. As a result, Disability ACT and Therapy ACT are being phased out of the Directorate's operations and this has resulted in voluntary redundancy payments being made to staff in these areas; and
- workers' compensation insurance premium.

5.79 Income ($19.3 million) was $14.7 million (319.6 precent) higher than the budgeted amount ($4.6 million) due to:

- the earlier than anticipated receipt of funding from the Commonwealth Government for the National Disability Insurance Scheme; and
- an unexpected contribution from the Chief Minister, Treasury and Economic Development Directorate's 'Restructure Fund' to assist with the cost of restructuring services as part of the transition of services from Disability ACT and Therapy ACT into the National Disability Insurance Scheme.

  The 'Restructure Fund' may be used to provide grants to ACT Government agencies to meet the cost of restructuring which is expected to produce cost savings or longer-term budgetary or economic benefits.

5.80 The net cost of the Directorate's services ($246.4 million) exceeded the budgeted cost ($234.6 million) by $11.8 million (5.0 percent) due mainly to higher than expected employee expenses (including voluntary redundancy payments) and workers' compensation insurance premium. These were partially offset by the early receipt of funding from the Commonwealth for the National Disability Insurance Scheme and an unexpected contribution from the Chief Minister, Treasury and Economic Development Directorate's Restructure Fund.

5.81 The net cost of the Directorate's services ($246.4 million) was consistent with the prior year cost ($248.7 million).

5.82 Government contributions exceeded the budgeted amount by $12.1 million (5.2 percent) as a Treasurer's Advance of $11.9 million was received to meet the higher than expected employee expenses.

Audit findings

Table 5-16 Status of audit findings (number of findings)

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

5.83 One previously reported audit finding was not resolved as the 2014-15 statement of performance submitted for audit contained several errors. While these errors were corrected, they indicate that the Directorate should improve its processes for preparing its statement of performance.

5.84 Two new audit findings identified in 2014-15 were that:

- three (8.3 percent) out of 36 payments reviewed by the Audit Office were authorised by an officer in excess of their financial delegation. While representatives from the Directorate advised that these payments were properly related to the operations of the Directorate, there is a risk of irregular payments, which may be due to errors or fraud, when payments are authorised by officers who do not have the required financial delegation; and
- the Directorate did not comply with the reporting timetable issued by the Chief Minister, Treasury and Economic Development Directorate as it submitted its certified statement of performance to the Audit Office late.

5.85 The Directorate has advised that all audit findings will be addressed.

Education and Training Directorate

5.86 The Education and Training Directorate (the Directorate) provides public school education services, registers non-government schools and home educators, and coordinates vocational education and training.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($657.1 million) was $21.1 million (3.1 percent) below the budgeted cost ($678.2 million). This was largely due to lower than anticipated:
  - grant payments for vocational education programs. This reflects the later than anticipated timing of expenditure associated with Commonwealth Government vocational education national partnerships; and
  - depreciation. This was mainly caused by a downward revaluation of assets in 2013-14 that could not have been anticipated in the budget because the valuation of assets was completed after the 2014-15 budget was prepared.
- The Directorate did not draw down $9.8 million (9.8 percent) of the budgeted capital injections due mainly to contract payments for the construction of the Coombs Primary School occurring later than was anticipated in the budget.
- Grants provided to non-government schools ($249.4 million) exceeded the budgeted amount ($234.2 million) by $15.2 million (6.5 percent). This was largely due to the incorrect inclusion of Goods and Services Tax in the budget estimate. If the effects of this are removed from the budget estimate, then grants paid aligned with budget expectations.
- Grants provided to non-government schools ($249.4 million) increased by $12.8 million (5.4 percent) from the prior year's amount ($236.6 million). This was due mainly to indexation of funding and an increase in student enrolments in non-government schools.
- The Directorate resolved two of the four previously reported audit findings by:
  - performing reviews of user access to the student administration system used by ACT public schools to process receipts and payments (Maze) to ensure that access was appropriate and in accordance with the approved policies and procedures of the Directorate. This reduces the risk of unauthorised (including fraudulent) access to student and financial information; and

  - ensuring that schools documented the satisfactory receipt of goods and services before payments were made. This reduces the risk of payment irregularities which may be caused by error or fraud.

- Two of the four previously reported findings were not resolved as:
  - salary reports distributed to schools and business units in the Directorate were not always reviewed in a timely manner. This increases the risk of irregularities in payments to employees, which may be due to errors or fraud, not being promptly detected and addressed; and
  - Maze does not have the capability to generate audit logs on access to the system and its data. Furthermore, the Directorate does not have a documented policy for the review of audit logs. The lack of review of audit logs increases the risk that erroneous or fraudulent changes to the Maze application and its data will not be promptly detected and rectified.

- One new audit finding reported to the Directorate in 2014-15 related to the incorrect classification of a number of expense transactions as assets. The incorrect classification did not cause significant errors in the financial statements, however, the errors indicate that the Directorate should improve its processes for identifying and correctly classifying these transactions.

Financial results

Table 5-17 Key results - directorate

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(691.3)	(698.8)	(716.5)
Income	40.7	41.7	38.3
Net cost of services	**(650.6)**	**(657.1)**	**(678.2)**
Government contributions	576.0	591.0	608.2
Operating deficit	**(74.6)**	**(66.1)**	**(70.0)**
Capital injections	**67.4**	**90.3**	**100.1**

5.87 Expenses largely consist of employee costs and the costs of operating schools such as repairs and maintenance expenses, depreciation and grants payments for apprenticeships and vocational education programs.

5.88 Income consists mainly of international student tuition fees, voluntary contributions by parents to schools and hire of school facilities. The Directorate also receives funding from the Commonwealth Government for school programs.

5.89 The net cost of the Directorate's services ($657.1 million) was $21.1 million (3.1 percent) below the budgeted cost ($678.2 million). This was largely due to lower than anticipated:

- grant payments for vocational education programs. This reflects the later than anticipated timing of expenditure associated with Commonwealth Government vocational education national partnerships; and
- depreciation. This was mainly caused by a downward revaluation of assets in 2013-14 that could not have been anticipated in the budget because the valuation of assets was completed after the 2014-15 budget was prepared.

5.90 The Directorate did not draw down $9.8 million (9.8 percent) of the budgeted capital injections due mainly to contract payments for the construction of the Coombs Primary School occurring later than was anticipated in the budget.

Table 5-18 Key results - Territorial expenses

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Grants to non-government schools	(236.6)	(249.4)	(234.2)
Other grants	(0.6)	(0.7)	(0.6)
Territorial expenses	**(237.2)**	**(250.1)**	**(234.8)**

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

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

5.92 Grants provided to non-government schools ($249.4 million) exceeded the budgeted amount ($234.2 million) by $15.2 million (6.5 percent). This was largely due to the incorrect inclusion of Goods and Services Tax in the budget estimate. If the effects of this are removed from the budget estimate, then grants paid aligned with budget expectations. The Directorate has advised that:

> The different treatment of Goods and Services Tax on grants in the financial statements was a result of advice sought by the Directorate from an external taxation specialist.

5.93 Grants provided to non-government schools ($249.4 million) increased by $12.8 million (5.4 percent) from the prior year's amount ($236.6 million). This was due mainly to indexation of funding and an increase in student enrolments in non-government schools.

Audit findings

Table 5-19 Status of audit findings (number of findings)

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

5.94 Two of the four previously reported audit findings were resolved and two were not resolved.

5.95 The Directorate resolved two of the four previously reported audit findings by:

- performing reviews of user access to the student administration system used by ACT public schools to process receipts and payments (Maze) to ensure that access was appropriate and in accordance with the approved policies and procedures of the Directorate. This reduces the risk of unauthorised (including fraudulent) access to student and financial information; and
- ensuring that schools documented the satisfactory receipt of goods and services before payments were made. This reduces the risk of payment irregularities which may be caused by error or fraud.

5.96 Two of the four previously reported findings were not resolved as:

- salary reports distributed to schools and business units in the Directorate were not always reviewed in a timely manner. This increases the risk of irregularities in payments to employees, which may be due to errors or fraud, not being promptly detected and addressed; and
- Maze does not have a capability to generate audit logs on access to the system and its data. Furthermore, the Directorate does not have a documented policy for the review of audit logs.

  Audit logs are a system-generated record of exceptions and security events. These logs may include, for example, details of the identities of users, dates, times and locations of access and unsuccessful attempts to make changes to applications and data stored in databases.

  The lack of review of audit logs increases the risk that erroneous or fraudulent changes to the Maze application and its data will not be promptly detected and rectified.

  The Directorate has advised that it will address this audit finding as part of the replacement of Maze which is expected to commence in 2015-16.

5.97 One new audit finding reported to the Directorate in 2014-15 related to the incorrect classification of a number of expense transactions as assets. The incorrect classification did not cause significant errors in the financial statements, however, the errors indicate that the Directorate should improve its processes for identifying and correctly classifying these transactions.

5.98 The Directorate has agreed to address all audit findings.

Environment and Planning Directorate

5.99 The Environment and Planning Directorate (the Directorate) develops and implements targeted policies and programs that address environment protection and sustainability, nature conservation, heritage, water and energy security, sustainable urban design, sustainable transport and spatial planning.

5.100 Under changed administrative arrangements which took effect on 15 December 2014, construction services, customer services, environment protection and water regulation and customer service shopfronts were transferred from the Directorate to the Chief Minister, Treasury and Economic Development Directorate.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($68.4 million) was $6.9 million (9.2 percent) below the budgeted cost ($75.3 million).
- Government contributions ($63.2 million) were below the budgeted amount ($73.2 million) by $10.0 million (13.7 percent) because the appropriation for government contributions was transferred to the Chief Minister, Treasury and Economic Development Directorate under the changed administrative arrangements.
- The Directorate provides loans to ACT Government agencies that apply for funding to meet the costs of energy efficiency projects. The Directorate did not draw down $6.8 million (50.4 percent) of the budgeted amount of capital injection funding because fewer than anticipated loan applications were received from ACT Government agencies.
- Fees and fines revenue collected on behalf of the Territory ($42.7 million) was $23.5 million (35.5 percent) below the budgeted amount ($66.2 million) as responsibility for collecting fees charged for water abstraction and building inspections and approvals was transferred to the Chief Minister, Treasury and Economic Development Directorate under the changed administrative arrangements.
- The Directorate resolved all four previously reported audit findings by:
  - improving its risk management arrangements by completing and approving its risk management plan and risk registers. This should provide the Directorate with more assurance that its processes for anticipating, managing and addressing its significant risks will be effective; and

- implementing the prompt review of salary reports and keeping evidence of these reviews. This should reduce the risk of undetected irregular salary payments which may be incorrect or fraudulent.

- The Directorate also improved the clarity of explanations for major variances between:
  - current year's results, budget estimates and prior year's results included in the financial statements and accompanying management discussion and analysis of the financial statements; and
  - actual and planned performance in its statement of performance.

- One new audit finding identified in 2014-15 was that there were errors in the statement of performance provided by the Directorate to the Audit Office for review. The targets and results of accountability indicators for functions that were transferred to the Chief Minister, Treasury and Economic Development Directorate were found to be incorrect. While the Directorate corrected these errors, they indicate that the Directorate should improve its processes for preparing its statement of performance when changes to administrative arrangements occur.

Financial results

Table 5-20 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(81.6)	(78.5)	(83.7)
Income	13.2	10.1	8.4
Net cost of services	**(68.4)**	**(68.4)**	**(75.3)**
Government contributions	67.4	63.2	73.2
Assets transferred to other agencies	-	(34.5)	(34.1)
Operating deficit	**(1.0)**	**(39.7)**	**(36.2)**
Capital injections – Note 1	**8.4**	**6.7**	**13.5**

Note 1: Budgeted capital injections of $13.5 million consist of $5.9 million provided in the 2014-15 budget and additional appropriation of $7.6 million provided during 2014-15.

5.101 Expenses mainly consist of employee costs, information technology and office equipment costs, office accommodation costs and costs of consultants and contractors that are engaged to assist with feasibility studies and planning projects. The Directorate also provides grants to:

- community groups to fund environmental projects; and
- lower income households to improve their energy and water efficiency.

5.102 Income largely consists of Commonwealth funding received for environmental programs and fees charged for conveyancing of land and public notification of development applications.

5.103 The net cost of the Directorate's services ($68.4 million) was $6.9 million (9.2 percent) below the budgeted cost ($75.3 million). This was due mainly to lower than anticipated:

- consultant and contractor costs due to delays in completing land planning feasibility studies and master planning projects for group centres to allow further community and government consultation; and
- employee and superannuation expenses, information technology and office equipment costs following the transfer of staff from the Directorate to the Chief Minister, Treasury and Economic Development Directorate under changed administrative arrangements.

These lower than anticipated costs were partially offset by lower than expected revenue from extension of time to build fees due to:

- a reduction in fees charged; and
- the transfer of the responsibility for collecting these fees to the Chief Minister, Treasury and Economic Development Directorate in 2014-15.

5.104 Government contributions ($63.2 million) were below the budgeted amount ($73.2 million) by $10.0 million (13.7 percent) because the appropriation for government contributions was transferred to the Chief Minister, Treasury and Economic Development Directorate under the changed administrative arrangements.

5.105 The Directorate provides loans to ACT Government agencies that apply for funding to meet the costs of energy efficiency projects. The Directorate did not draw down $6.8 million (50.4 percent) of the budgeted amount of capital injection funding because fewer than anticipated loan applications were received from ACT Government agencies.

5.106 The cost of assets transferred to other agencies was consistent with the budgeted cost. The Directorate completed and transferred the Inner North Reticulation Network and Valley Ponds in Gungahlin to the Territory and Municipal Services Directorate as anticipated in the budget.

Table 5-21 Key results – territorial income

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Fees and fines	65.2	42.7	66.2
Land rent	4.7	4.4	3.9
Fees and fines and land rent revenue	**69.9**	**47.1**	**70.1**

5.107 Fees and fines revenue collected on behalf of the Territory mostly consists of fees charged for development applications, building inspections and approvals, lease variations, water abstraction and environmental protection authorisations. Land rent is received from leasing Territorial land.

5.108 Fees and fines revenue collected on behalf of the Territory ($42.7 million) was $23.5 million (35.5 percent) below the budgeted amount ($66.2 million) as responsibility for collecting fees charged for water abstraction and building inspections and approvals was transferred to the Chief Minister, Treasury and Economic Development Directorate under the changed administrative arrangements.

Audit findings

Table 5-22 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	4	-	-	1	1

The number of previously reported audit findings was reduced from five to four as responsibility for one audit finding was transferred to the Chief Minister, Treasury and Economic Development Directorate as a result of changes to administrative arrangements.

5.109 The Directorate resolved all four previously reported audit findings by:

- improving its risk management arrangements by completing and approving its risk management plan and risk registers. This should provide the Directorate with more assurance that its processes for anticipating, managing and addressing its significant risks will be effective; and
- implementing the prompt review of salary reports and keeping evidence of these reviews. This should reduce the risk of undetected irregular salary payments which may be incorrect or fraudulent.

5.110 The Directorate also improved the clarity of explanations for major variances between its:

- current year's results, budget estimates and prior year's results included in the financial statements and accompanying management discussion and analysis of the financial statements; and
- actual and planned performance in its statement of performance.

5.111 One new audit finding identified in 2014-15 was that there were errors in the statement of performance provided by the Directorate to the Audit Office for review.

The targets and results of accountability indicators for functions that were transferred to the Chief Minister, Treasury and Economic Development Directorate (namely Output 1.1: 'Construction and Services' and Output 2.2: 'Environment Protection and Water Regulation') were found to be incorrect.

While the Directorate corrected these errors, they indicate that the Directorate should improve its processes for preparing its statement of performance when changes to administrative arrangements occur.

5.112 The Directorate has agreed to address this new audit finding.

Health Directorate

5.113 The Health Directorate (the Directorate) aims to achieve better health outcomes by providing community based health services, public hospital and extended care services, managing public health risks and promoting health and early care interventions.

5.114 Public hospital services are funded by payments from the ACT Local Hospital Network Directorate under the national health funding arrangements established in 2011. These arrangements are explained on pages 84 to 86 (ACT Local Hospital Network Directorate).

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($297.2 million) aligned with the budgeted cost ($302.0 million).
- The net cost of the Directorate's services ($297.2 million) exceeded the previous year's cost ($266.7 million) by $30.5 million (11.4 percent). This cost increase was anticipated in the budget and was due mainly to an increase in demand for public hospital services and inflation. These higher costs were partially offset by additional income from the ACT Local Hospital Network Directorate for these services.
- The Directorate did not draw down $58.3 million (44.1 percent) of the funds appropriated for capital works. This was largely due to delays in various information technology and capital works projects.
- Seven of the ten previously reported audit findings were resolved, two partially resolved and one not resolved.
- The Directorate resolved seven of the ten previously reported audit findings by:
  - finalising a support agreement for the pathology patient billing system. This reduces the risk of the Directorate not receiving adequate support from the system supplier to operate and maintain the system;
  - ensuring that daily revenue reconciliations for Canberra Hospital and Health Services were prepared and reviewed by an officer independent of the preparer. This reduces the risk of undetected irregularities which may be due to errors or fraud;
  - regularly reviewing user access to the patient billing system. This reduces the risk of unauthorised and fraudulent access to this system;

- documenting the satisfactory receipt of goods and services prior to payment and ensuring that payments were authorised by an officer with the required financial delegation. Addressing these two audit findings reduces the risk of payment irregularities which may be caused by errors or fraud;
- obtaining confirmation from Calvary Health Care ACT that amounts paid to it were correctly recorded in its financial statements before the financial statements were certified; and
- obtaining accounting advice which supported the disclosure of the estimated net contingent liability (i.e. the estimated contingent liability for legal claims minus contingent assets for estimated insurance recoveries relating to those legal claims) for legal claims in its financial statements.

- The Directorate partially resolved two audit findings by:
  - approving business continuity plans for the dental billing system. However, the Directorate had not tested the effectiveness of the business continuity plans for the patient billing system or client accommodation billing system. This increases the risk that these systems will not be promptly recovered and operations resumed, without the loss of data, in the event of a disaster or other major disruption; and
  - promptly undertaking bank reconciliations for three of the four Canberra Hospital and Health Services bank accounts. However, bank reconciliations for one bank account were not always performed in a timely manner.
- The Directorate did not resolve one previously reported audit finding as credit card acquittals were not consistently performed in a timely manner. This increases the risk of the irregular use of credit cards which may be due to errors or fraud not being promptly detected.
- One new audit finding identified in 2014-15 was that an external independent review of the Directorate's internal audit function has not been performed as required by the International Standards for the Professional Practice of Internal Auditing and the Internal Audit Charter. This presents a risk of this function not operating effectively and areas for improvement not being identified.

Financial results

Table 5-23 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(1 115.9)	(1 195.3)	(1 188.7)
Income	849.2	898.1	886.7
Net cost of services	**(266.7)**	**(297.2)**	**(302.0)**
Government contributions	229.1	252.6	257.6
Operating deficit	**(37.6)**	**(44.6)**	**(44.4)**
Other comprehensive income			
Decrease in the asset revaluation surplus	(14.5)	(0.1)	-
Total comprehensive deficit	**(52.1)**	**(44.7)**	**(44.4)**
Capital injections	**118.1**	**74.0**	**132.3**

5.115 The net cost of the Directorate's services ($297.2 million) aligned with the budgeted cost ($302.0 million).

5.116 Income largely consists of funds received from the ACT Local Hospital Network Directorate to provide public hospital services. The Directorate also receives various fees and charges for delivering other health services and selling medical supplies.

5.117 Income ($898.1 million) exceeded the prior year's amount ($849.2 million) by $48.9 million (5.8 percent) as more public health services were purchased by the ACT Local Hospital Network Directorate.

5.118 Expenses mainly consist of employee costs, cost of purchasing medical supplies and pharmaceuticals and insurance costs. Grants are also paid to non-government organisations to provide various health services.

5.119 Expenses ($1 195.3 million) exceeded the previous year's amount ($1 115.9 million) by $79.4 million (7.1 percent). This cost increase mainly reflects:

- an increase in demand for public hospital services which resulted in higher employee costs (as more staff were employed to meet a higher demand) and operating costs, including the cost of medical supplies; and
- higher costs due to inflation.

5.120 The net cost of the Directorate's services ($297.2 million) exceeded the previous year's cost ($266.7 million) by $30.5 million (11.4 percent). This cost increase was anticipated in the budget and was due mainly to an increase in demand for public hospital services and inflation. These higher costs were partly offset by additional income from the ACT Local Hospital Network Directorate for these services.

5.121 Government contributions ($252.6 million) increased by $23.5 million (10.3 percent) from the previous year's amount ($229.1 million) to assist in meeting the higher net cost of the Directorate's services as referred to previously.

5.122 The Directorate did not draw down $58.3 million (44.1 percent) of the funds appropriated for capital works. This was largely due to delays in various information technology and capital works projects. In particular:

- procurement and contract negotiations relating to various information technology projects took longer than expected;
- delays were encountered in the excavation and infill of Calvary Hospital car park land as large amounts of ground water were found during excavation; and
- replacement of sewerage and stormwater infrastructure under a nearby road could not be commenced on time due to delays in constructing a building at the Canberra Hospital.

Table 5-24 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
10	7	2	1	1	4

5.123 Seven of the ten previously reported audit findings were resolved, two partially resolved and one not resolved.

5.124 The Directorate resolved seven of the ten previously reported audit findings by:

- finalising a support agreement for the pathology patient billing system. This reduces the risk of the Directorate not receiving adequate support from the system supplier to operate and maintain the system;

- ensuring that daily revenue reconciliations for Canberra Hospital and Health Services were prepared and reviewed by an officer independent of the preparer. This reduces the risk of undetected irregularities which may be due to errors or fraud;
- regularly reviewing user access to the patient billing system. This reduces the risk of unauthorised and fraudulent access to this system;
- documenting the satisfactory receipt of goods and services prior to payment and ensuring that payments were authorised by an officer with the required financial delegation. Addressing these two audit findings reduces the risk of payment irregularities which may be caused by errors or fraud;
- obtaining confirmation from Calvary Health Care ACT that amounts paid to it were correctly recorded in its financial statements before the financial statements were certified; and
- obtaining accounting advice which supported the disclosure of the estimated net contingent liability (i.e. the estimated contingent liability for legal claims minus contingent assets for estimated insurance recoveries relating to those legal claims) for legal claims in its financial statements.

5.125 The Directorate partially resolved two audit findings by:

- approving business continuity plans for the dental billing system (Titanium). However, the Directorate had not tested the effectiveness of the business continuity plans for the patient billing system (Platypus 2) or client accommodation billing system (Room Master). This increases the risk that these systems will not be promptly recovered and operations resumed, without the loss of data, in the event of a disaster or other major disruption; and
- promptly undertaking bank reconciliations for three of the four Canberra Hospital and Health Services bank accounts. However, bank reconciliations for one bank account were not always performed in a timely manner.

5.126 The Directorate did not resolve one previously reported audit finding as credit card acquittals were not consistently performed in a timely manner. This increases the risk of the irregular use of credit cards which may be due to errors or fraud not being promptly detected.

5.127 One new audit finding identified in 2014-15 was that an external independent review of the Directorate's internal audit function has not been performed as required by the International Standards for the Professional Practice of Internal Auditing and the Internal Audit Charter. This presents a risk of this function not operating effectively and areas for improvement not being identified.

5.128 The Directorate has agreed to address all audit findings.

Housing ACT

5.129 Housing ACT aims to provide secure and affordable housing that responds to the circumstances and needs of socially and financially disadvantaged families. Housing ACT also manages arrangements with the homelessness services sector to provide services to people who have become or are at risk of becoming homeless.

Key issues

- The Audit Office issued an unqualified audit report on Housing ACT's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of Housing ACT's services ($59.9 million) was $17.3 million (22.4 percent) below the budgeted cost ($77.2 million) due mainly to lower than expected demolition and utility costs.
- The value of Housing ACT's property portfolio ($4 494 million) increased by $77 million (1.7 percent) from the prior year ($4 417 million) due largely to an upwards revaluation of land in 2014-15.
- Housing ACT resolved three of the five previously reported audit findings by:
  - developing and approving policies and procedures for the regular review of audit logs for the application that is used to manage information on social and public housing services (Homenet) and implementing quarterly reviews of these audit logs. These improvements reduce the risk that accidental or fraudulent changes to Homenet will not be promptly detected and addressed;
  - disclosing profits and cash generated from the ACT Government's participation in the Lyons Estate Redevelopment Joint Venture in the 2014-15 Annual Report of the Community Services Directorate; and
  - reviewing the accounting treatment for and disclosure of properties that were previously described as 'restricted assets' in the financial statements. References to 'restricted assets' were subsequently removed from the financial statements.
- Housing ACT partially resolved one previously reported finding by ensuring that monthly revenue reconciliations were dated by the preparing officer and included the names and signatures of the preparing and reviewing officers. However, none of these reconciliations were prepared in a timely manner. There is a risk of irregularities, which may be caused by errors or fraud, not being promptly detected and addressed if revenue reconciliations are not completed in a timely manner.

- One previously reported audit finding not resolved in 2014-15 was that testing of backup and restoration procedures for the Homenet application and its data was not performed in 2014-15. This increases the risk that the Homenet application and its data may not be recovered in the event of a disaster, disruption or other adverse event.
- Three new audit findings were identified in 2014-15 as Housing ACT did not:
  - include explanations of variances between its current and prior year's results in its management discussion and analysis of its financial statements as required by the 'Management Discussion and Analysis Better Practice Guideline' issued by the former Treasury Directorate's Accounting Branch;
  - document the results of its assessment of housing properties for impairment. There is a risk of Housing ACT not identifying and recording impairment losses incurred on housing properties in accordance with Australian Accounting Standard AASB 136: 'Impairment of Assets' when this assessment is not documented; and
  - meet the reporting timetable issued by the Chief Minister, Treasury and Economic Development Directorate as it submitted its certified statement of performance to the Audit Office for review late.

Financial results

Table 5-25 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(154.5)	(164.2)	(176.3)
Income	106.3	101.9	98.5
Gain from the sale of properties	0.6	2.4	0.6
Net cost of services	**(47.6)**	**(59.9)**	**(77.2)**
Government contributions	43.0	43.4	43.5
Other gains	3.8	6.9	4.2
Losses from transferring assets to other entities	(4.9)	(3.6)	-
Operating deficit	**(5.7)**	**(13.2)**	**(29.5)**

5.130 Expenses mostly consist of employee costs and public housing property management costs. These include repairs and maintenance costs, water and sewerage charges, rates and depreciation of property, plant and equipment. In addition, grants are paid to the community housing sector for the provision of affordable housing and homelessness services.

5.131 Income consists mainly of rent received from public housing tenants.

5.132 The net cost of Housing ACT's services ($59.9 million) was $17.3 million (22.4 percent) below the budgeted cost ($77.2 million) due mainly to lower than expected demolition and utility costs.

5.133 Housing ACT's budgeted expenses included:

- the estimated cost of demolishing the Currong building. However, Housing ACT did not incur this cost because the building was transferred to the Land Development Agency under the Public Housing Renewal Program prior to it being demolished; and
- an estimate for an anticipated increase in utility costs (i.e. water, sewerage and electricity charges), however, the actual cost increase was less than anticipated.

5.134 The net cost of Housing ACT's services ($59.9 million) exceeded the prior year's cost ($47.6 million) by $12.3 million (25.8 percent) due mainly to additional depreciation being charged on the Currong building. Depreciation is based on the estimated useful life of the building, therefore, additional depreciation was charged to reflect the shorter useful life of the building when it was earmarked for demolition before being transferred to the Land Development Agency.

Property Portfolio

Table 5-26 Number and value of land and dwellings

	Actual 2012-13	Actual 2013-14	Actual 2014-15
Number of land parcels	6 851	6 811	6 777
Land value ($m)	**$3 050**	**$3 147**	**$3 182**
Number of dwellings	11 835	11 773	11 585
Dwellings value ($m)	**$1 277**	**$1 270**	**$1 312**
Total value of land and dwellings ($m)	**$4 327**	**$4 417**	**$4 494**

Source: Information on land and dwellings was obtained from Housing ACT.

5.135 The value of Housing ACT's property portfolio ($4 494 million) increased by $77 million (1.7 percent) from the prior year ($4 417 million) due largely to an upwards revaluation of land in 2014-15.

Audit findings

Table 5-27 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	3	1	1	3	5

5.136 Housing ACT resolved three of the five previously reported audit findings by:

- developing and approving policies and procedures for the regular review of audit logs for the application that is used to manage information on social and public housing services (Homenet) and implementing quarterly reviews of these audit logs. These improvements reduce the risk that accidental or fraudulent changes to Homenet will not be promptly detected and addressed;
- disclosing profits and cash generated from the ACT Government's participation in the Lyons Estate Redevelopment Joint Venture in the 2014-15 Annual Report of the Community Services Directorate; and
- reviewing the accounting treatment for and disclosure of properties that were previously described as 'restricted assets' in the financial statements. References to 'restricted assets' were subsequently removed from the financial statements.

5.137 Housing ACT uses Homenet to record rental revenue from public housing tenants. This information is uploaded into the accounting system (Oracle) and used to prepare the financial statements. Monthly revenue reconciliations are performed between Homenet and Oracle to provide assurance that financial information recorded in Oracle reconciles to Homenet. Any reconciling items identified in the reconciliation may indicate that irregularities, which may be caused by errors or fraud, may have occurred. These items should therefore be promptly investigated.

5.138 Housing ACT partially resolved one previously reported finding by ensuring that monthly revenue reconciliations were dated by the preparing officer and included the names and signatures of the preparing and reviewing officers. However, none of these reconciliations were prepared in a timely manner. There is a risk of irregularities, which may be caused by errors or fraud, not being promptly detected and addressed if revenue reconciliations are not completed in a timely manner.

5.139 One previously reported audit finding not resolved in 2014-15 was that testing of backup and restoration procedures for the Homenet application and its data was not performed in 2014-15. This increases the risk that the Homenet application and its data may not be recovered in the event of a disaster, disruption or other adverse event.

5.140 Three new audit findings were identified in 2014-15 as Housing ACT did not:

- include explanations of variances between its current and prior's year results in its management discussion and analysis of its financial statements as required by the 'Management Discussion and Analysis Better Practice Guideline' issued by the former Treasury Directorate's Accounting Branch;
- document the results of its assessment of housing properties for impairment. There is a risk of Housing ACT not identifying and recording impairment losses incurred on housing properties in accordance with Australian Accounting Standard AASB 136: 'Impairment of Assets' when this assessment is not documented; and
- meet the reporting timetable issued by the Chief Minister, Treasury and Economic Development Directorate as it submitted its certified statement of performance to the Audit Office for review late.

5.141 Housing ACT has advised that all audit findings will be addressed.

Icon Water Limited

5.142 On 28 October 2014, ACTEW Corporation Limited changed its name to Icon Water Limited (Icon Water). Its main activities are:

- the provision of water, sewerage and associated services; and
- managing its 50 percent interest in ActewAGL Joint Venture's (ActewAGL's) energy business. (ActewAGL is discussed on pages 87 to 92.)

5.143 Icon Water has two subsidiaries; Icon Distribution Investments Limited (formerly ACTEW Distribution Limited) and Icon Retail Investments Limited (formerly ACTEW Retail Limited).

Key issues

- The Audit Office issued unqualified audit reports on the financial statements of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- Icon Water's share of profit from ActewAGL ($101.1 million) exceeded the prior year's profit ($83.6 million) by $17.5 million (20.9 percent) due to higher profits being generated by ActewAGL.
- Icon Water's operating profit ($97.7 million) exceeded the previous year's profit ($86.6 million) by $11.1 million (12.8 percent) due mainly to an increase in its share of profit from ActewAGL, lower finance costs due to a reduction in interest rates on borrowings and the recording, for the first time in 2013-14, of a provision (liability) and related legal settlement expense resulting from claims for superannuation by former employees.
- Dividends paid or payable to the ACT Government increased by $17.2 million (22.4 percent) from $76.7 million in 2013-14 to $93.9 million in 2014-15 due to the increase in Icon Water's operating profit.
- Icon Water had net short-term liabilities of $70.1 million at 30 June 2015 compared to net short-term assets of $9.6 million at 30 June 2014. This decline in the short-term financial position was mainly due a short-term borrowing (which matured in November 2015) of $61.0 million being taken out by Icon Water. Icon Water has extended the duration of this short-term borrowing and advised that it plans to replace it with a long-term borrowing in 2016.
- Icon Water resolved all five previously reported audit findings by:
  - documenting non-financial considerations used in evaluating whether movements in the value of water and sewerage assets are to be recorded. This reduces the risk of errors in the valuation of these assets;

- documenting loan terms and conditions that support the classification of loans between Icon Water Limited and its subsidiaries (Icon Distribution Investments Limited and Icon Retail Investments Limited) as non-current;
- considering financial and non-financial factors in assessing its investment in ActewAGL for impairment. This reduces the risk of material misstatements in the valuation of this investment;
- adjusting the value of property, plant and equipment from cost to fair value when accounting for its investment in the ActewAGL partnerships to align the accounting policies used by ActewAGL with those used by Icon Water to prepare its financial statements; and
- providing work papers supporting the financial statements to the audit team in a timely manner.

- One new audit finding identified in 2014-15 was that Icon Water identified that it had not been recording assets constructed by private developers in its accounting system. This oversight resulted in errors in financial statements since 2007. These prior period errors were corrected in the 2014-15 financial statements of Icon Water in accordance with Australian Accounting Standard AASB 108: 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Financial results

Table 5-28 Key results

	Actual 2013-14 $m	Actual 2014-15 $m
Revenue excluding share of profit from ActewAGL	335.2	320.7
Share of profit from ActewAGL	83.6	101.1
Revenue	**418.8**	**421.8**
Expenses	(293.9)	(281.5)
Operating profit before income tax	**124.9**	**140.3**
Income tax	38.3	42.6
Operating profit	**86.6**	**97.7**
Dividends paid or payable to the ACT Government	**76.7**	**93.9**

5.144 The financial results shown in Table 5.28 consist of the results of Icon Water, Icon Distribution Investments Limited and Icon Retail Investments Limited and Icon Water's 50 percent share of the financial results of ActewAGL.

5.145 Revenue mostly consists of charges for water supply, sewerage services and share of profit from ActewAGL.

5.146 Revenue excluding share of profit from ActewAGL ($320.7 million) decreased from the previous year's amount ($335.2 million) by $14.5 million (4.3 percent). This was due mainly to a decrease in:

- water and sewerage assets contributed by developers. The value of contributed assets varies according to the amount of development in new suburbs; and
- insurance proceeds as insurance proceeds for storm damage to the Enlarged Cotter Dam received in 2013-14 did not recur in 2014-15.

5.147 Icon Water's share of profit from ActewAGL ($101.1 million) exceeded the prior year's profit ($83.6 million) by $17.5 million (20.9 percent) due to higher profits generated by ActewAGL.

5.148 Expenses largely consist of operating costs for the business, interest on borrowings, depreciation and employee expenses.

5.149 Expenses ($281.5 million) decreased from the prior year's amount ($293.9 million) by $12.4 million (4.2 percent). This was mainly due to:

- a decrease in finance costs due to a reduction in interest rates on borrowings; and
- the recording for the first time in 2013-14 of a provision (liability) and related legal settlement expense. Former employees claim that they were given incorrect information regarding their eligibility to join the Commonwealth Superannuation Scheme and did not join this Scheme as a result of this information. Additional settlement expenses will be recorded as any past employees lodge claims.

5.150 Icon Water's operating profit ($97.7 million) exceeded the previous year's profit ($86.6 million) by $11.1 million (12.8 percent) due mainly to an increase in its share of profit from ActewAGL, lower finance costs due to a reduction in interest rates on borrowings and the recording, for the first time in 2013-14, of a provision (liability) and related legal settlement expense resulting from claims for superannuation by former employees.

5.151 Dividends paid or payable to the ACT Government increased by $17.2 million (22.4 percent) from $76.7 million in 2013-14 to $93.9 million in 2014-15 due to the increase in Icon Water's operating profit.

Short-term assets to short-term liabilities coverage

Table 5-29 Short-term assets to short-term liabilities coverage

At 30 June	Actual 2014 $m	Actual 2015 $m
Short-term assets	134.3	133.2
Short-term liabilities including dividend payable to the ACT Government	124.7	203.3
Net short-term assets/(liabilities)	**9.6**	**(70.1)**
Ratio of short-term assets to short term liabilities including dividend payable to the ACT Government	**1.1 to 1**	**0.7 to 1**

5.152 Icon Water had net short-term liabilities of $70.1 million at 30 June 2015 compared to net short-term assets of $9.6 million at 30 June 2014. This decline in the short-term financial position was mainly due a short-term borrowing (which matured in November 2015) of $61.0 million being taken out by Icon Water. Icon Water has extended the duration of this short-term borrowing and advised that it plans to replace it with a long-term borrowing in 2016.

Assets to liabilities coverage

Table 5-30 Assets to liabilities coverage

At 30 June	Actual 2014 $m	Actual 2015 $m
Assets	2 909.9	3 215.2
Liabilities	1 860.5	1 989.9
Net assets	**1 049.4**	**1 225.3**
Ratio of assets to liabilities	**1.6 to 1**	**1.6 to 1**

5.153 As disclosed in Table 5-30, Icon Water has sufficient assets to cover its liabilities at 30 June 2015.

Audit findings

Table 5-31 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	5	-	-	1	1

5.154 Icon Water resolved all five previously reported findings by:

- documenting non-financial considerations, for example, weather events, in evaluating whether movements in the value of water and sewerage assets are to be recorded. This reduces the risk of errors in the valuation of these assets;
- documenting the loan terms and conditions that support the classification of loans between Icon Water Limited and its subsidiaries (Icon Distribution Investments Limited and Icon Retail Investments Limited) as non-current;
- considering financial and non-financial factors in assessing its investment in ActewAGL for impairment. Non-financial factors include, for example, weather events or new entrants to the market. This reduces the risk of material misstatements in the valuation of this investment;
- adjusting the value of property, plant and equipment from cost to fair value when accounting for its investment in the ActewAGL partnerships to align the accounting policies used by ActewAGL with those used by Icon Water to prepare its financial statements; and
- providing work papers supporting the financial statements to the audit team in a timely manner.

5.155 One new audit finding identified in 2014-15 was that Icon Water identified that it had not been recording assets constructed by private developers in its accounting system.

Private developers perform site works, including placing water and sewerage pipes at new developments. Once these works are completed, these assets are contributed to Icon Water and form part of the water and sewerage network maintained by Icon Water.

This oversight resulted in errors in financial statements since 2007. These prior period errors were corrected in the 2014-15 financial statements of Icon Water in accordance with Australian Accounting Standard AASB 108: 'Accounting Policies, Changes in Accounting Estimates and Errors'.

5.156 Management of Icon Water has advised that a process is being established so that all assets contributed by private developers are recorded in its accounting records.

Justice and Community Safety Directorate

5.157 The Justice and Community Safety Directorate (the Directorate) provides courts, corrections, justice, legal, emergency and policing services. The Directorate contains the Legislation and Policy Branch, ACT Law Courts and Tribunal, ACT Government Solicitor's Office, ACT Parliamentary Counsel's Office, ACT Corrective Services, Security and Emergency Management Branch and Emergency Services Agency.

The Directorate also provided regulatory services, through the Office of Regulatory Services until it was transferred to the Chief Minister, Treasury and Economic Development Directorate under changed administrative arrangements effective 15 December 2014.

5.158 Independent statutory offices in the Directorate include the Director of Public Prosecutions, Public Advocate, Human Rights Commission and Victim Support ACT. The ACT Electoral Commissioner became an Officer of the Legislative Assembly on 1 July 2014 and reported separately in 2014-15.

5.159 The Directorate pays for policing services provided by the Australian Federal Police through its territorial operations.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($272.6 million) was below the budgeted cost ($306.9 million) and prior year's cost ($287.4 million) by $34.3 million (11.2 percent) and $14.8 million (5.1 percent) respectively. This was mainly due to a decrease in operating and employee expenses resulting from transfer of the Office of Regulatory Services to the Chief Minister, Treasury and Economic Development Directorate.
- The Directorate did not draw down $33.5 million (38.9 percent) of the planned capital injection funding of $86.1 million as cash needed for capital projects in 2014-15 was less than anticipated in the budget. In particular, the:
  - funding for capital projects, including the upgrade and relocation of emergency services stations and replacement of an information, communication and technology case management system for the ACT Law Courts and Tribunal, was transferred to 2015-16; and
  - costs of capital projects, including design work on additional facilities and other projects relating to the Alexander Maconochie Centre and the South Tuggeranong Fire and Rescue Station, were less than estimated in the budget.

- Payments for policing services provided by the Australian Federal Police ($153.5 million) aligned with the budgeted cost ($152.3 million) and prior year's cost ($152.8 million).
- The Directorate resolved the one previously reported audit finding by improving the timeliness of credit card acquittals. This reduces the risk of irregular payments which may be due to errors or fraud not being promptly detected.
- The four new audit findings identified in 2014-15 were that:
  - business continuity plans for the ACT Law Courts and Tribunal and ACT Corrective Services, were not tested during 2014-15 even though they are required to be tested annually. This increases the risk of critical systems not being recovered, key operations not being promptly resumed and information being lost in the event of a disaster or other major disruption;
  - the Directorate does not have an information technology strategic plan. This presents a risk that planning and implementation of new information technology systems may not occur in a timely manner or as needed;
  - two of the Directorate's bank accounts have long outstanding unreconciled items. There is a risk of irregularities, which may be due to errors or fraud, not being promptly detected and addressed and errors in the financial statements when unreconciled items are not resolved in a timely manner; and
  - the Director-General's Delegations Register, accessible from the Directorate's intranet, was not consistent with the financial delegations approved by the Director-General. This presents a risk of payments being approved by officers who do not have the required delegation and increases the possibility of irregular payments which may be caused by errors or fraud.

Financial results

Table 5-32 Key results - directorate

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(318.0)	(307.5)	(330.7)
Income	30.6	34.9	23.8
Net cost of services	**(287.4)**	**(272.6)**	**(306.9)**
Government contributions	271.7	253.6	280.0
Operating deficit	**(15.7)**	**(19.0)**	**(26.9)**
Capital injections	**25.6**	**52.7**	**86.1**

5.160 Expenses largely relate to the provision of justice services, corrective services, courts and tribunals and emergency services.

5.161 Expenses ($307.5 million) were less than the budgeted amount ($330.7 million) and prior year amount ($318.0 million) by $23.2 million (7.0 percent) and $10.5 million (3.3 percent) respectively. This reflects a decrease in operating, employee and depreciation expenses resulting from the transfer of the Office of Regulatory Services to the Chief Minister, Treasury and Economic Development Directorate.

5.162 Most income is obtained from fees for services provided by various areas, including the ACT Government Solicitor's Office, Office of Regulatory Services (until it was transferred to the Chief Minister, Treasury and Economic Development Directorate), ACT Law Courts and Tribunal and Emergency Services Agency (fees for ambulance transport and fire protection services).

5.163 Income ($34.9 million) exceeded the budget estimate ($23.8 million) and prior year's amount ($30.6 million) by $11.1 million (46.6 percent) and $4.3 million (14.1 percent) respectively. This was due mainly to the provision of additional legal services by the ACT Government Solicitor's Office and higher fees and other revenue for the Emergency Services Agency.

5.164 The net cost of the Directorate's services ($272.6 million) was below the budgeted cost ($306.9 million) and prior year's cost ($287.4 million) by $34.3 million (11.2 percent) and $14.8 million (5.1 percent) respectively. This was mainly due to a decrease in operating

and employee expenses resulting from the transfer of the Office of Regulatory Services to the Chief Minister, Treasury and Economic Development Directorate.

5.165 The Directorate did not draw down $33.5 million (38.9 percent) of the planned capital injection funding of $86.1 million as cash needed for capital projects in 2014-15 was less than anticipated in the budget. In particular, the:

- funding for capital projects, including the upgrade and relocation of emergency services stations and replacement of an information, communication and technology case management system for the ACT Law Courts and Tribunal, was transferred to 2015-16; and
- costs of capital projects, including design work on additional facilities and other projects relating to the Alexander Maconochie Centre and the South Tuggeranong Fire and Rescue Station, were less than estimated in the budget.

Table 5-33 Key results – territorial expenses

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Payments to the Australian Federal Police	(152.8)	(153.5)	(152.3)
Other expenses	(12.6)	(13.0)	(9.5)
	(165.4)	**(166.5)**	**(161.8)**

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

5.166 Territorial expenses largely consist of payments for policing services provided by the Australian Federal Police.

5.167 Payments for policing services provided by the Australian Federal Police ($153.5 million) aligned with the budgeted cost ($152.3 million) and prior year's cost ($152.8 million).

Audit findings

Table 5-34 Status of findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
1	1	-	-	4	4

The number of previously reported audit findings was reduced from two to one as responsibility for one audit finding was transferred to the Chief Minister, Treasury and Economic Development Directorate as a result of changed administrative arrangements.

5.168 The Directorate resolved the one previously reported audit finding by improving the timeliness of credit card acquittals. This reduces the risk of irregular payments which may be due to errors or fraud not being promptly detected.

5.169 The four new audit findings identified in 2014-15 were that:

- business continuity plans for the ACT Law Courts and Tribunal and ACT Corrective Services, were not tested during 2014-15 even though they are required to be tested annually. This increases the risk of critical systems not being recovered, key operations not being promptly resumed and information being lost in the event of a disaster or other major disruption.

  The Directorate has agreed to address this audit finding.

- the Directorate does not have an information technology strategic plan. The Directorate has performed a series of strategic planning activities, including assessing its information and communications technology application portfolio to identify those systems that presented a high level of risk to the Directorate and recommend a strategy to address these risks. However, these activities do not amount to having an information technology strategic plan which sets out the current information technology environment, identifies future information technology goals, options available to achieve these goals and how the planned objectives are to be achieved.

  The lack of an information technology plan presents a risk that planning and implementation of new information technology systems may not occur in a timely manner or as needed.

  The Directorate has agreed in principle with this audit finding and advised that it:

  > ….. considers it has undertaken a range of IT Strategic Planning activities in 2013-14 and 2014-15 which specifically provides assurance that appropriate applications and associated infrastructure are developed and maintained. This work has been reviewed and updated annually through the JACS ICT Governance Framework during planning for 2013-14, 2014-15 and 2015-16 annual budget cycles.

- two of the Directorate's bank accounts have long outstanding unreconciled items.

  The bank reconciliation provides an important control over the accounting records as it provides assurance that cash receipts and payments have been completely and accurately recorded in the accounting records and the financial statements.

There is a risk of irregularities, which may be due to errors or fraud, not being promptly detected and addressed and errors in the financial statements when unreconciled items are not resolved in a timely manner. The unreconciled items may, for example, represent unrecorded or incorrectly recorded receipts and payments transactions.

The Directorate has agreed in principle with this audit finding and advised that:

> Reconciliations of the Directorate's bank accounts are undertaken by Shared Services Banking on monthly basis. During the end of year review process, JACS Strategic Finance identified the long outstanding unreconciled items in the JACS RBT Territorial Account and JACS Operating Account. Email requests were sent to Shared Services to investigate and resolve this issue.
>
> Shared Services Banking team have subsequently completed the reconciliations and resolved the long outstanding unreconciled items in two of the Directorate's bank accounts.

- the Director-General's Delegations Register, accessible from the Directorate's intranet, was not consistent with the financial delegations approved by the Director-General. For example, some employees who had financial delegations approved by the Director-General were not included on the Director-General's Delegations Register on the intranet. This presents a risk of payments being approved by officers who do not have the required delegation and increases the possibility of irregular payments which may be caused by errors or fraud.

  Despite this weakness, all payments reviewed by the Audit Office were approved by an officer who had the required financial delegation.

  The Directorate has agreed to address this audit finding.

Land Development Agency

5.170 The Land Development Agency develops and sells residential, commercial and industrial land on behalf of the ACT Government. It was established under the *Planning and Development Act 2007*.

Key issues

- The Audit Office issued an unqualified audit report on the 2014-15 financial statements of the Land Development Agency and an unqualified report of factual findings on its 2014-15 statement of performance.
- The Land Development Agency's operating profit ($78.1 million) exceeded the budgeted operating profit ($48.8 million) by $29.3 million (60.0 percent). This was mainly due to a higher than budgeted gross profit on land sales; partially offset by unbudgeted inventory write-down expenses and a higher than budgeted income tax equivalents expense.
- The Land Development Agency's operating profit ($78.1 million) increased by $11.4 million (17.1 percent) from the previous year's profit ($66.7 million). This was mostly due to an increase in gross profit on land sales; partially offset by an increase in inventory write-down expenses and a decrease in the share of operating profit from land joint ventures as these joint ventures are close to completion.
- The Land Development Agency resolved all three previously reported audit findings by improving the:
  - independence of its internal audit function. This should improve the capacity of internal audit function to report impartially;
  - processes for preparing its financial statements. This reduces the risk of errors in the financial statements; and
  - information provided in its annual report about the financial results of the land joint ventures by disclosing the financial results of the Forde Joint Venture and Crace Joint Venture from their inception to the end of the reporting period.
- Three new audit findings were that:
  - the Land Development Agency's Chief Executive Instructions and supporting guidelines have not been reviewed and updated since 2011 and do not reflect all of the Land Development Agency's current financial management policies and procedures. This increases the risk that these will not be correctly implemented;

- there are no documented arrangements for the transfer of land between the Territory and Municipal Services Directorate and Land Development Agency which cover the terms of each transfer, the valuation method and purchase price for the land. Only the approval of the transfer of land from the Territory and Municipal Services Directorate to the Land Development Agency is documented; and

- the Land Development Agency should review its accounting policy for the initial recording of land and assess whether this policy remains appropriate. The Land Development Agency's accounting policy for land is to initially record the value of land transferred from the Territory and Municipal Service Directorate as inventory when it completes the development of, and receives legal title to, the land. While this accounting policy is disclosed in the financial statements, there may be instances where land ought to be recorded at an earlier time in the development process.

Financial results

Table 5-35 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Land sales revenue	235.9	353.5	314.2
Cost of land sales	(126.9)	(187.2)	(210.8)
Gross profit on land sales	**109.0**	**166.3**	**103.4**
Other income	13.5	8.1	2.8
Other expenses	(41.7)	(39.6)	(36.5)
Inventory write-down	(5.3)	(18.9)	-
Asset transferred to other agencies	-	(3.6)	-
Share of operating profit/(loss) from land joint ventures	19.8	(0.7)	-
Operating profit before income tax equivalents expense	**95.3**	**111.6**	**69.7**
Income tax equivalents expense	(28.6)	(33.5)	(20.9)
Operating profit	**66.7**	**78.1**	**48.8**

5.171 Gross profit on land sales is the revenue earned from selling land minus the cost of land sold. The cost of land sales consists of the costs of acquiring the land and developing it to a stage where it can be sold.

5.172 The Land Development Agency's gross profit on land sales ($166.3 million) exceeded the budgeted gross profit ($103.4 million) by $62.9 million (60.8 percent) due to the combined effects of higher than budgeted land sales revenue and a lower than budgeted cost of land sales.

5.173 Land sales revenue ($353.5 million) exceeded the budgeted amount ($314.2 million) by $39.3 million (12.5 percent) due mainly to higher than anticipated number of residential land sales, mainly in the suburbs of Coombs, Lawson and on Flemington Road in Harrison, and higher than expected land sales prices in Campbell. These higher residential land sales were partially offset by lower than estimated sales of commercial land due to the deferral of the sale of sites in Greenway, Kingston, Phillip, on Northbourne Avenue and in the City.

5.174 While land sales exceeded budget expectations, the related cost of land sales ($187.2 million) was $23.6 million (11.2 percent) lower than the budget estimate ($210.8 million). This resulted from a lower than expected cost of land sold relating to lower sales of commercial land; partially offset by higher costs of land sold relating to higher sales of residential land, mainly in Lawson and Coombs.

5.175 The Land Development Agency incurred an unbudgeted cost of $18.9 million from a write-down in the value of land inventories received free of charge from other ACT Government agencies. Australian Accounting Standard AASB 102: 'Inventories' requires inventories to be measured at the lower of their cost and net realisable value. As the Land Development Agency received these land inventories at no cost, their value was therefore written down to zero.

5.176 The income tax equivalents expense ($33.5 million) exceeded the budgeted expense ($20.9 million) by $12.6 million (60.3 percent) due mainly to a higher than budgeted profit being generated from land sales.

5.177 The Land Development Agency's operating profit ($78.1 million) exceeded the budgeted operating profit ($48.8 million) by $29.3 million (60.0 percent). This was mainly due to a higher than budgeted gross profit on land sales; partially offset by unbudgeted inventory write-down expenses and a higher than budgeted income tax equivalents expense.

5.178 The Land Development Agency's operating profit ($78.1 million) increased by $11.4 million (17.1 percent) from the previous year's profit ($66.7 million). This was mostly due to an increase in gross profit on land sales; partially offset by an increase in the inventory write-down expenses and a decrease in the share of operating profit from land joint ventures as these joint ventures are close to completion.

Audit findings

Table 5-36 Status of audit findings (number of findings)

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

5.179 The Land Development Agency resolved all three previously reported audit findings by improving the:

- independence of its internal audit function by entering into an arrangement with the Chief Minister, Treasury and Economic Development Directorate for an independent officer to manage its internal audit function. This should improve the capacity of internal audit function to report impartially;
- processes for preparing its financial statements by preparing technical accounting papers for major or complex transactions and finalising accounting treatments and transactions with the Forde Joint Venture before the financial statements were certified and submitted for audit. This reduces the risk of errors in the financial statements; and
- information provided in its annual report about the financial results of the land joint ventures by disclosing the financial results of the Forde Joint Venture and Crace Joint Venture from their inception to the end of the reporting period.

5.180 Three new audit findings were that:

- the Land Development Agency's Chief Executive Instructions and supporting guidelines have not been reviewed and updated since 2011 and do not reflect all of the Land Development Agency's current financial management policies and procedures. This increases the risk that these will not be correctly implemented;
- there are no documented arrangements for the transfer of land between the Territory and Municipal Services Directorate and Land Development Agency which cover the terms of each transfer, the valuation method and purchase price for the land. Only the approval of the transfer of land from the Territory and Municipal Services Directorate to the Land Development Agency is documented; and
- the Land Development Agency should review its accounting policy for the initial recording of land and assess whether this policy remains appropriate. The Land Development Agency's accounting policy for land is to initially record the value of land transferred from the Territory and Municipal Service Directorate as inventory when it completes the development of, and receives legal title to, the land. While this accounting policy is disclosed in the financial statements, there may be instances where land ought to be recorded at an earlier time in the development process.

5.181 The Land Development Agency has agreed to address all three audit findings.

Superannuation Provision Account

5.182 The Superannuation Provision Account manages investments to meet the Territory's defined benefit employer superannuation liabilities in relation to the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS). The Superannuation Provision Account also records and meets the defined benefit liability for those Members of the Legislative Assembly entitled to that benefit.

5.183 Benefits provided by the CSS and PSS are paid to members by the Commonwealth Superannuation Corporation (CSC) which was previously ComSuper. The Territory reimburses CSC for the employer-financed share of superannuation benefits paid for current and former ACT Government employees with effect on or after 1 July 1989. The Commonwealth Government is liable for superannuation liabilities incurred before this date.

5.184 The CSS and PSS are closed to new members. Employees are now offered superannuation accumulation schemes of their choice.

Key issues

- The Audit Office issued an unqualified audit report on the 2014-15 financial statements of the Superannuation Provision Account and an unqualified report of factual findings on its 2014-15 statement of performance.
- In 2014-15, net gains on the fair value of investments ($182.5 million) exceeded the budget estimate ($113.7 million) by $68.8 million (60.5 percent). This reflects better than expected conditions in investment markets.
- The net gains on the fair value of investments decreased by $71.1 million (28.0 percent) in 2014-15 as the rate of return on investments fell from 15.8 percent in 2013-14 to 10.2 percent in 2014-15. The rate of return, however, exceeded the benchmark rate (consumer price index plus 5 percent) set in the Superannuation Provision Account's investment strategy.
- The Superannuation Provision Account's operating deficit ($234.5 million) was $19.3 million (7.6 percent) lower than the budgeted deficit ($253.8 million). This was due mainly to the higher than expected net gains on the fair value of investments which were partially offset by a higher than anticipated superannuation expense.
- The Superannuation Provision Account's operating deficit ($234.5 million) exceeded the prior year's deficit ($101.9 million) by $132.6 million (130.1 percent). This reflects the combined effects of an increase in superannuation expenses and a reduction in net gains on the fair value of investments.

- The Superannuation Provision Account did not have sufficient financial assets set aside to fully meet the superannuation liability at 30 June 2015. The unfunded superannuation liability ($5 147.6 million) at 30 June 2015 exceeded the budget estimate ($2 477.9 million) by $2 669.7 million (107.7 percent). This financial position is much weaker than anticipated in the budget and is due mainly to the use of a lower rate to estimate the present value of the superannuation liability compared to that which was used to prepare the budget estimate.

- The unfunded superannuation liability increased by $702.8 million (15.8 percent) from $4 444.8 million at 30 June 2014 to $5 147.6 million at 30 June 2015 due mostly to a reduction in the rate used to estimate the present value of the superannuation liability.

- As indicated in the 2015-16 Budget Papers, the budgeted unfunded superannuation liability is estimated to decrease significantly from the position that existed as at 30 June 2015. As noted previously, the unfunded superannuation liability as at 30 June 2015 significantly exceeded the budget estimate due mainly to the use of a lower rate to estimate the present value of the superannuation liability than the rate which was used to prepare the budget estimate.

- Annual cash payments to meet the Territory's superannuation obligations are expected to significantly increase until 2045.

- The budgeted increases in capital injections meet the current superannuation cost payments. However, further large increases may be required in future years to achieve the long-term policy objective of fully funding the superannuation liability by 30 June 2030.

Financial Results

Table 5-37 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Income	157.7	129.6	120.7
Net gains on the fair value of investments	253.6	182.5	113.7
Expenses	(513.2)	(546.6)	(488.2)
Operating deficit	**(101.9)**	**(234.5)**	**(253.8)**

5.185 Income largely consists of distributions, dividends and interest from investments that are used to fund the superannuation liabilities of the Territory.

5.186 Income ($129.6 million) exceeded the budget estimate ($120.7 million) by $8.9 million (7.4 percent) due mainly to higher than estimated interest and distribution received on investments.

5.187 Income ($129.6 million) decreased by $28.1 million (17.8 percent) from the prior year's amount ($157.7 million) due mainly to a reduction in distributions received from investments.

5.188 Investments held by the Superannuation Provision Account in Australian and global investment markets are subject to market risk and fluctuate according to conditions in these markets.

5.189 In 2014-15, net gains on the fair value of investments ($182.5 million) exceeded the budget estimate ($113.7 million) by $68.9 million (60.1 percent). This reflects better than expected conditions in investment markets.

5.190 The net gains on the fair value of investments decreased by $71.1 million (28.0 percent) in 2014-15 as the rate of return on investments fell from 15.8 percent in 2013-14 to 10.2 percent in 2014-15. The rate of return exceeded the benchmark rate (consumer price index plus 5 percent) set in the Superannuation Provision Account's investment strategy.

5.191 Expenses incurred by the Superannuation Provision Account largely consist of superannuation expenses associated with the estimated annual growth in the superannuation liability.

5.192 Expenses ($546.6 million) exceeded the budget estimate ($488.2 million) and prior year's amount ($513.2 million) by $58.4 million (12.0 percent) and $33.4 million (6.5 percent) respectively. This was due mainly to the use of a lower rate to estimate the present value of the superannuation liability and expense compared to the rates used to prepare the budget and prior year's estimate. (A lower rate increases in the estimated present value of the superannuation liability and the related expense.)

5.193 The Superannuation Provision Account's operating deficit ($234.5 million) was $19.3 million (7.6 percent) lower than the budgeted deficit ($253.8 million). This was due mainly to the higher than expected net gains on the fair value of investments which were partially offset by a higher than anticipated superannuation expense.

5.194 The Superannuation Provision Account's operating deficit ($234.5 million) exceeded the prior year's deficit ($101.9 million) by $132.6 million (130.1 percent). This reflects the combined effects of an increase in superannuation expenses and a reduction in net gains on the fair value of investments.

Unfunded superannuation liability

Table 5-38 Unfunded superannuation liability

At 30 June	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Budget 2015 $m
Financial assets (Note 1)	2 257.9	2 511.8	3 030.3	3 342.1	3 243.5
Superannuation liability	(7 494.5)	(6 781.6)	(7 475.1)	(8 489.7)	(5 721.4)
Unfunded superannuation liability	**(5 236.6)**	**(4 269.8)**	**(4 444.8)**	**(5 147.6)**	**(2 477.9)**
Investments to superannuation liability	**0.30 to 1**	**0.37 to 1**	**0.41 to 1**	**0.39 to 1**	**0.57 to 1**

Source: Actual figures were obtained from the audited financial statements of the Superannuation Provision Account. Budget figures were obtained from 2014-15 Budget Papers.

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

5.195 The Superannuation Provision Account did not have sufficient financial assets set aside to fully meet the superannuation liability at 30 June 2015.

5.196 The unfunded superannuation liability ($5 147.6 million) at 30 June 2015 exceeded the budget estimate ($2 477.9 million) by $2 669.7 million (107.7 percent). This financial position is much weaker than anticipated in the budget and is due mainly to the use of a lower rate to estimate the present value of the superannuation liability compared to that which was used to prepare the budget estimate. (A lower rate leads to an increase in the present value of the estimated superannuation liability.)

5.197 The unfunded superannuation liability increased by $702.8 million (15.8 percent) from $4 444.8 million at 30 June 2014 to $5 147.6 million at 30 June 2015 due mostly to a reduction in the rate used to estimate the present value of the superannuation liability.

Projected unfunded superannuation liability

Table 5-39 Projected unfunded superannuation liability

At 30 June	Actual 2015 $m	Budget 2016 $m	Budget 2017 $m	Budget 2018 $m	Budget 2019 $m
Financial assets – Note 1	3 342.1	3 609.4	3 879.2	4 169.3	4 481.7
Superannuation liability	(8 489.7)	(6 094.8)	(6 368.0)	(6 632.9)	(6 889.2)
Unfunded superannuation liability	**(5 147.6)**	**(2 485.4)**	**(2 488.8)**	**(2 463.6)**	**(2 407.5)**
Investments to superannuation liability	**0.39 to 1**	**0.59 to 1**	**0.61 to 1**	**0.63 to 1**	**0.65 to 1**

Source: Actual figures were obtained from the audited financial statements of the Superannuation Provision Account. Budget figures were obtained from the 2015-16 Budget Papers.

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

5.198 As indicated in the 2015-16 Budget Papers, the budgeted unfunded superannuation liability is estimated to decrease significantly from the position that existed at 30 June 2015. As noted previously, the unfunded superannuation liability at 30 June 2015 significantly exceeded the budget estimate due mainly to the use of a lower rate to estimate the present value of the superannuation liability than the rate which was used to prepare the budget estimate.

5.199 The Superannuation Provision Account has explained that:

> Australian Accounting Standards require the use of the yield on a suitable Commonwealth Government bond at financial year end (of similar duration to the liability) as the reference discount rate to calculate the present value of the superannuation liability. The level and volatility of domestic interest rates will impact on the valuation of the superannuation liability over future years.
>
> The budget and forward year superannuation liability valuation projections utilise a long-term average discount rate of six percent. If long-term domestic interest rates on Commonwealth Government bonds remain below this estimate, then the liability valuation will be higher than the budget estimate and the unfunded superannuation liability will also be higher than estimated.

Table 5-40 Future superannuation payments schedule

Year Ending 30 June	Nominal Terms – Note 1 $m
2016	211.1
2022	334.7
2028	467.6
2034	590.4
2040	672.1
2046	677.0
2052	601.9
2054	565.6

Source: Information on future superannuation payments in nominal terms was obtained from the 'Report on the Actuarial Investigation as at 30 June 2014' prepared by the Territory's consulting actuary, Russell Investments.

Note 1: Nominal Terms refers to the value of future superannuation payments in today's money.

5.200 Table 5-40 shows an actuarial assessment of the estimated annual amounts payable to meet superannuation payments in nominal terms. It shows that annual cash payments to meet the Territory's superannuation obligations are expected to significantly increase until 2046. This reflects the:

- period of the Territory's responsibility for employees' superannuation. With the increasing percentage of the years of service with the ACT Public Service over the total years of service provided by the Territory's employees, the Territory's share of the liability will increase substantially over the next few decades; and
- age profile of the Territory's employees. Over the next two decades, most CSS and PSS member employees will retire. The Territory is required to pay superannuation entitlements that have been accrued over employees' years of service. For many members, the retirement benefits provided under the defined benefit schemes will be taken as indexed pensions. These will continue throughout members' lives and that of their surviving spouses.

5.201 The budgeted increases in capital injections meet the current superannuation cost payments. However, further large increases may be required in future years to achieve the long-term policy objective of fully funding the superannuation liability by 30 June 2030.

Territory and Municipal Services Directorate

5.202 The Territory and Municipal Services Directorate (the Directorate) provides municipal services to the ACT Community. These include operating public libraries, waste and recycling collection and management, linen services and management of Canberra's nature reserves and parks, including the National Arboretum Canberra, Tidbinbilla Nature Reserve and Namadgi National Park.

5.203 The Directorate manages and maintains the Territory's infrastructure assets, including car parks, roads, streetlights, footpaths and stormwater systems. It also administers the provision of public transport.

5.204 Under changed administrative arrangements, responsibility for the ACT Property Group and Canberra Connect was transferred from the Directorate to the Chief Minister, Treasury and Economic Development Directorate on 7 July 2014 and 15 December 2014 respectively.

Key issues

- The Audit Office issued an unqualified audit report on the Directorate's 2014-15 financial statements and an unqualified report of factual findings on its 2014-15 statement of performance.
- The net cost of the Directorate's services ($488.8 million) exceeded the budgeted cost ($473.3 million) by $15.5 million (3.3 percent). This was mainly due to the unbudgeted expensing of costs relating to capital works projects and a higher than anticipated worker's compensation insurance premium. This was partially offset by higher than estimated income from providing goods and services to other ACT Government agencies and the public due to an underestimate of this income in the budget and higher than expected fees from disposing of contaminated waste at waste management centres.
- Gains from infrastructure asset transfers ($115.5 million) were $27.2 million (19.1 percent) below the budget estimate ($142.7 million). This was mainly due to delays by other ACT Government agencies and private land developers in completing and transferring infrastructure assets built in new suburbs to the Directorate.
- Capital injections ($175.2 million) were less than the budgeted amount ($207.1 million) by $31.9 million (15.4 percent). The Directorate did not draw down planned capital injections due to delays in several projects, in particular, the new Majura Parkway.
- The Directorate resolved one of the three previously reported audit findings by testing the effectiveness of its business continuity arrangements and documenting the results of this testing. This reduces the risk of critical business operations not being promptly recovered in the event of a disaster or major disruption.

- The Directorate partially resolved one audit finding by finalising and approving its policy for performing periodic reviews of the work of internal audit contractors. However, no reviews were performed.
- One audit finding was not resolved as the officer responsible for the Directorate's internal audit function continued to have responsibilities for other areas in the Directorate. While some aspects of the internal audit arrangements support the independence of the internal audit function, these cannot fully address the potential limitations on this officer's capacity to report independently in relation to all areas over which they have responsibility.
- Two new audit findings identified in 2014-15 were that:
  - there were errors totalling $44.5 million in the valuation of selected infrastructure assets (roads, car parks and traffic signals) performed by the Directorate. The financial statements were corrected to remove these errors; and
  - reconciliations of fees and fines for disposing of waste at the Mugga Lane, Mitchell and West Belconnen landfill sites recorded in the waste management system (Newcastle Weighbridge System) to the accounting system (Oracle) were not performed. Where the waste management fee system and finance system are not regularly reconciled there is a risk of errors in the Directorate's accounting records and financial statements.

Financial results

Table 5-41 Key results

	Actual 2013-14 $m	Actual 2014-15 $m	Budget 2014-15 $m
Expenses	(583.3)	(527.5)	(490.6)
Income	129.2	38.7	17.3
Net cost of services	**(454.1)**	**(488.8)**	**(473.3)**
Government contributions	302.0	318.7	329.4
Gains from infrastructure asset transfers	80.1	115.5	142.7
Operating deficit	**(72.0)**	**(54.6)**	**(1.2)**
Capital injections	**229.0**	**175.2**	**207.1**

5.205 Expenses largely consist of repairs and maintenance costs for infrastructure assets (including car parks, roads, streetlights, footpaths and stormwater systems), contractors and consultants expenses, building costs, depreciation, employee expenses and payments to ACTION for bus services.

5.206 Expenses ($527.5 million) exceeded the budgeted amount ($490.6 million) by $36.9 million (7.5 percent). This was mainly due to:

- the unbudgeted expensing of costs relating to capital works projects that did not meet the definition of an asset. These largely consist of the costs of landscaping and utility diversions for the new Majura Parkway; and
- a higher than anticipated worker's compensation insurance premium.

5.207 Income ($38.7 million) exceeded the budget estimate ($17.3 million) by $21.4 million (123.7 percent). This was mainly due to:

- income derived from providing and selling goods and services to other ACT Government agencies and the public being underestimated in the budget. This includes goods and services provided by the Capital Linen Service, Yarralumla Nursery and the Tidbinbilla precinct; and
- higher than expected fees from disposing of contaminated waste at waste management centres.

5.208 The net cost of the Directorate's services ($488.8 million) exceeded the budgeted cost ($473.3 million) by $15.5 million (3.3 percent). This was mainly due to the unbudgeted expensing of costs relating to capital works projects and a higher than anticipated worker's compensation insurance premium. This was partially offset by higher than estimated income from providing goods and services to other ACT Government agencies and the public due to an underestimate of this income in the budget and higher than expected fees from disposing of contaminated waste at waste management centres.

5.209 The net cost of the Directorate's services ($488.8 million) exceeded the prior year's cost ($454.1 million) by $34.7 million (7.6 percent) as the Directorate did not receive rent and property management fees from the ACT Property Group after it was transferred to the Chief Minister, Treasury and Economic Development Directorate.

5.210 Infrastructure asset transfers mostly consist of roads, stormwater systems, footpaths and cyclepaths built in new suburbs and transferred to the Directorate from other ACT Government agencies and private land developers.

5.211 Gains from infrastructure asset transfers ($115.5 million) were $27.2 million (19.1 percent) below the budget estimate ($142.7 million). This was mainly due to delays by other ACT Government agencies and private land developers in completing and transferring infrastructure assets built in new suburbs to the Directorate.

5.212 Gains from infrastructure asset transfers ($115.5 million) exceeded the prior year's amount ($80.1 million) by $35.4 million (44.2 percent) due mainly to the transfer of wetland ponds and a water reticulation network from the Environment and Planning Directorate to the Directorate in 2014-15.

5.213 Capital injections ($175.2 million) were less than the budgeted amount ($207.1 million) by $31.9 million (15.4 percent). The Directorate did not draw down planned capital injections due to delays in several projects, in particular, the new Majura Parkway.

Audit findings

Table 5-42 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	1	1	1	2	4

5.214 The Directorate resolved one of the three previously reported audit findings by testing the effectiveness of its business continuity arrangements and documenting the results of this testing. This reduces the risk of critical business operations not being promptly recovered in the event of a disaster or major disruption.

5.215 The Directorate partially resolved one audit finding by finalising and approving its policy ('Internal Audit Quality Assurance Framework') for performing periodic reviews of the work of internal audit contractors. However, no reviews were performed.

5.216 One audit finding was not resolved as the officer responsible for the Directorate's internal audit function continued to have responsibilities for other areas in the Directorate. While some aspects of the internal audit arrangements support the independence of the internal audit function, these cannot fully address the potential limitations on this officer's capacity to report independently in relation to all areas over which they have responsibility. To address this weakness:

- the Directorate should ensure that the officer responsible for the internal audit function is free from the influences of having responsibility for these other areas (preferred option); or
- if the officer responsible for the internal audit function is to retain responsibility for these other areas, then robust safeguards should be implemented to ensure these other areas are reviewed objectively. These arrangements should be documented in the internal audit charter.

The Directorate has advised it has assessed its internal audit arrangements and concluded that they provide sufficient support for the independence of its internal audit function. The Directorate therefore disagrees with this audit finding.

5.217 Two new audit findings identified in 2014-15 were that:

- there were errors totalling $44.5 million in the valuation of selected infrastructure assets (roads, car parks and traffic signals) performed by the Directorate. The financial statements were corrected to remove these errors; and
- reconciliations of fees and fines for disposing of waste at the Mugga Lane, Mitchell and West Belconnen landfill sites recorded in the waste management system (Newcastle Weighbridge System) to the accounting system (Oracle) were not performed.

  Where the waste management fee system and finance system are not reconciled there is a risk of errors in the Directorate's accounting records and financial statements.

5.218 Apart from the audit finding on the independence of the Directorate's internal audit function, the Directorate has agreed to address all audit findings.

University of Canberra

5.219 The University of Canberra (the University) is a tertiary education provider that offers education services to domestic and international students, including graduate and post-graduate education. It also undertakes research and provides consultancy services.

5.220 In 2014, the University controlled:

- UCU Ltd which offers goods and services to the staff and students of the University and visitors to the campus;
- University of Canberra College Pty Limited which offers a range of programs to prepare and qualify students for Australian university study;
- 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.

The financial results of these entities were consolidated into the 2014 financial statements of the University group.

5.221 The Audit Office audited the 2014 financial statements of:

- the University under the *University of Canberra Act 1989*; and
- UCU Ltd and University of Canberra College Pty Limited under the *Corporations Act 2001*.

Key issues

- The Audit Office issued unqualified audit reports on the 2014 financial statements of the University, University of Canberra College Pty Limited and UCU Ltd.
- The University's operating surplus excluding net income/(expenses) from activities funded by the grant income from the Structural Adjustment Fund and capital grants received for building and equipment upgrades ($4.9 million) was slightly higher than the prior year's surplus ($4.6 million).
- The University's short-term liabilities exceeded its short-term assets by $34.4 million (54.6 percent) at 31 December 2014. While the University expects to meet its short-term liabilities, it will need to carefully manage its finances to do so.

- Three of the 12 previously reported audit findings were resolved, six were partially resolved and three were not resolved.
- The University resolved three previously reported audit findings by:
  - developing and approving risk registers and risk treatment plans for key portfolio areas. This should provide more assurance that the University will effectively manage its significant risks;
  - documenting its policy for assigning users with access to the student, payroll and finance systems and reviewing whether the level of access was commensurate with the responsibilities of users of these systems. These improvements should reduce the risk of unauthorised (including fraudulent) access to student, payroll and financial data; and
  - settling the accounting treatment for complex arrangements before entering into such arrangements. This included obtaining advice, where necessary, on the accounting treatment for these arrangements.
- The University partially resolved six of the 12 previously reported audit findings. Three of these refer to weaknesses in controls over key corporate systems, two refer to the quality of financial reporting and one refers to a weakness in payment controls.
- Three of the 12 previously reported audit findings were not resolved as:
  - the University's internal audit function is not fully independent from the operations of the University because the officer responsible for the internal audit function also has operational responsibilities;
  - the University's accounting for fees receivable from domestic and continuing international students does not comply with the relevant accounting standard. The audit report on the financial statements was not qualified as this error is not material to the financial statements; and
  - documented evidence of the review of fortnightly payroll reports was not retained when no errors or anomalies were identified from the review. This presents a risk of undetected irregular payments to employees which may be due to errors or fraud.
- Four new audit findings were identified during the audit were that:
  - an external independent review of the University's internal audit function has not been performed as required by the International Standards for the Professional Practice of Internal Auditing;
  - disclosures on the remuneration of key management personnel included in the financial statements submitted for audit did not fully comply with the relevant accounting standard;

- the University's accounting treatment for income relating to the National Rental Affordable Scheme (NRAS) does not comply with the relevant accounting standard. The audit report on the financial statements was not qualified as this error is not material to the financial statements; and

- the University's recording of a grant receivable from the Commonwealth Government for the establishment and operation of the Centre for Quality Teaching and Learning does not comply with the relevant accounting standard. The audit report on the financial statements was not qualified as this error is not material to the financial statements.

Financial Results

Table 5-43 Key results (calendar years)

	Actual 2013 $m	Actual 2014 $m
Income excluding grant income from the Structural Adjustment Fund and capital grants received for upgrading buildings and equipment	226.6	255.4
Expenses excluding expenses on activities funded from the Structural Adjustment Fund	(222.0)	(250.5)
Operating surplus excluding net income/(expense) from activities funded by Structural Adjustment Fund grants and capital grants received for building and equipment upgrades (Note 2)	**4.6**	**4.9**
Grant income from the Structural Adjustment Fund	15.1	-
Expenses on activities funded from the Structural Adjustment Fund	(5.7)	(9.7)
Net income/(expense) from activities funded by Structural Adjustment Fund grants	**9.4**	**(9.7)**
Capital grants received for upgrading buildings and equipment	0.7	2.8
Operating surplus/(deficit)	**14.7**	**(2.0)**

Note 1: The financial information presented in the above table is for the University of Canberra and does not include the financial results of companies that were controlled by the University of Canberra during the reporting period. These companies are UCU Ltd, UC Global Pty Limited and University of Canberra College Pty Limited.

Note 2: The financial effects of Structural Adjustment Fund grant income and the related expenses and capital grants received to upgrade buildings and equipment were removed from the operating result to provide a better indication of the underlying operating result of the University.

5.222 Income excluding grant income from the Structural Adjustment Fund and capital grants received for upgrading buildings and equipment is mostly comprised of financial assistance received from the Commonwealth Government, course fees received from domestic and international students, student accommodation income obtained from the Cooper Lodge and Weeden Lodge and income earned from leasing campus facilities.

5.223 Financial assistance received from the Commonwealth Government mainly relates to Commonwealth Grants Scheme funding for student places, higher education loan programs and scholarships and funds to undertake research activities.

5.224 Income excluding grant income from the Structural Adjustment Fund and capital grants received for upgrading buildings and equipment ($255.4 million) exceeded the prior year amount ($226.6 million) by $28.8 million (12.7 percent). This was mainly due to:

- higher Commonwealth Grants Scheme funding for student places and course fee income due to an increase in the number of undergraduate students;
- an increase in income from new student accommodation at Cooper Lodge and the expansion of Weeden Lodge; and
- grant income (and a corresponding receivable) from the Commonwealth Government for the Centre for Quality Teaching and Learning.

5.225 Expenses excluding expenses on activities funded from the Structural Adjustment Fund mainly consist of employee costs, administration expenses and depreciation.

5.226 Expenses excluding expenses on activities funded from the Structural Adjustment Fund ($250.5 million) exceeded the prior year's amount ($222.0 million) by $28.5 million (12.8 percent). This was mainly due to:

- higher employee costs as a pay rise was provided to employees under the University's enterprise bargaining agreement and more academic staff were employed to support higher student enrolments;
- higher finance costs from borrowing funds for the construction of new student accommodation at Cooper Lodge and the expansion of Weeden Lodge; and
- recording an impairment expense relating to a grant receivable from the Commonwealth Government for the Centre for Quality Teaching and Learning because the collection of this receivable is uncertain.

5.227 The University's operating surplus excluding net income/(expenses) from activities funded by the grant income from the Structural Adjustment Fund and capital grants received for building and equipment upgrades ($4.9 million) was slightly higher than the prior year's surplus ($4.6 million).

5.228 Grant income from the Structural Adjustment Fund are funds received from the Commonwealth Government to assist the University to increase student numbers through spending on teaching, learning technologies and academic support services and expanding courses provided in regional south-eastern New South Wales. The University received the last instalment against this grant in 2013 ($15.1 million) and no instalments were received in 2014.

5.229 Expenses on activities funded from the Structural Adjustment Fund mainly consist of the cost of employing additional staff and consultants to provide teaching and learning technologies, academic support services, campus facilities, and advertising of university courses and learning opportunities.

5.230 Capital grants received for upgrading buildings and equipment mainly relate to a financial assistance provided by the ACT Government as a contribution towards the construction of a building (the 'Sports Hub').

Table 5-44 Short-term asset coverage (calendar years)

At 31 December	**Actual 2012 $m**	**Actual 2013 $m**	**Actual 2014 $m**
Short-term assets	33.0	32.1	**28.6**
Short-term liabilities (Note 2)	63.5	65.7	**63.0**
Net short-term liabilities	**(30.5)**	**(33.6)**	**(34.4)**
Ratio of short-term assets to short-term liabilities	**0.52 to 1**	**0.49 to 1**	**0.45 to 1**

Note 1: The financial information presented in the above table is for the University of Canberra and does not include the financial results of companies that were controlled by the University of Canberra during the reporting period. These companies are UCU Ltd, UC Global Pty Limited and University of Canberra College Pty Limited.

Note 2: Short-term liabilities do not equal the current liabilities presented in the Statement of Financial Position. For the purpose of this analysis, the estimated amount of liabilities expected to be settled within 12 months has been used.

5.231 The short-term asset coverage of the University can be assessed by comparing the amount of short-term assets available to cover short-term liabilities.

5.232 Table 5-44 shows that the University's short-term liabilities exceeded its short-term assets by $34.4 million (54.6 percent) at 31 December 2014. This shortfall increased from $30.5 million at 31 December 2012 to $34.4 million at 31 December 2014. The financial statements of the University disclose that the University can meet its short-term liabilities because it:

- receives fortnightly funding from the Commonwealth Government; and
- has borrowing facilities with banks which can be used to meet short-term liabilities if required.

5.233 While the University expects to meet its short-term liabilities, it will need to carefully manage its finances to do so.

Audit Findings

Table 5-45 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
12	3	6	3	4	13

Note 1 The information presented in the above table is for the University of Canberra and does not include audit findings reported to UCU Ltd and University of Canberra College Pty Limited.

5.234 Three of the 12 previously reported audit findings were resolved, six were partially resolved and three were not resolved.

5.235 The University resolved three previously reported audit findings by:

- developing and approving risk registers and risk treatment plans for key portfolio areas, including Human Resources, Finance and Business Services, Student Administration and Campus Planning and Development (now called Estates and Facilities Management). This should provide more assurance that the University will effectively manage its significant risks;
- documenting its policy for assigning users with access to the student fee management system (Calista), payroll system (Alesco) and accounting system (Finance One) and reviewing whether the level of access was commensurate with the responsibilities of users of these systems. These improvements should reduce the risk of unauthorised (including fraudulent) access to student, payroll and financial data; and
- settling the accounting treatment for complex arrangements before entering into such arrangements. This included obtaining advice, where necessary, on the accounting treatment for these arrangements.

5.236 The University partially resolved six of the 12 previously reported audit findings. Three of these refer to weaknesses in controls over key corporate systems, two refer to the quality of financial reporting and one refers to a weakness in payment controls.

5.237 The University partially resolved three previously reported control weaknesses over its key corporate systems (i.e. the accounting system (Finance One), student fee management system (Callista) and payroll system (Alesco)) by:

- restricting administrators of key corporate systems from installing changes to their desktop computers. However, other users can install changes to their desktop computers without going through an approved change management process. This presents a risk of unauthorised or unintended changes being made to key corporate systems.

  The University has advised that it considers its key corporate systems are not at any appreciable risk from allowing users to install changes to their desktop computers;

- implementing automated system controls which 'force' administrators of the accounting system (Finance One) and student fee management system (Callista) to regularly change their passwords. However, this has not been implemented for the payroll system (Alesco). Furthermore, no checks were performed on whether administrators of Alesco regularly changed their passwords and there is no requirement for other users to do so.

  There is an increased risk of unauthorised (including fraudulent) access to key corporate systems when all users are not required the regularly change their passwords.

  The University's has advised that:
  - its password policy is being updated to require administrators of key corporate systems to regularly change their passwords. However, this requirement is not to be applied to other users. The University will continue to rely on the use of system-enforced strong passwords containing alpha-numeric and special characters for users who are not administrators; and
  - Alesco was recently upgraded to enable the forced changing of passwords by administrators; and

- finalising and approving its procedures for the review of audit logs and performing these reviews for Finance One and Callista. However, the University did not perform reviews of audit logs for Alesco or retain evidence of the timely review of audit logs for Finance One.

  Audit logs provide a record of exceptions and other significant security relevant events. The review of audit logs can assist in detection of possible security violations and erroneous or fraudulent changes to key corporate systems. When reviews of audit logs are not performed or not performed in a timely manner, there is a higher risk of erroneous or fraudulent activities not being promptly detected and addressed.

  The University has agreed to address this audit finding.

5.238 The University partially resolved two previously reported audit findings relating to financial reporting by:

- providing more information in its financial statements on the University's capacity to meet its current liabilities. However, the University did not:
  - clearly disclose the impact of borrowing restrictions imposed by the ACT Government on financing facilities available to the University to meet its current liabilities in the draft 2014 financial statements submitted for audit. The financial statements were subsequently amended to disclose this information; and
  - disclose the amount of the University's net short-term liability position and net short-term financial liability position. While these figures can be derived from information provided in the financial statements, the amounts should be disclosed.

  The University has advised that:

  > The net short term liability position was detailed in the Council Report which accompanies the financial statements. Council and management do not consider it is necessary to repeat this disclosure within the financial statements.
  >
  > The net short term financial liability position is easily ascertainable from the disclosure contained within the Statement of Financial Position. Management will consult with Council as to whether including this disclosure within the Council Report in future years adds any value; and

- including more information on the University's financial performance, financial position, cash flows, liquidity position and other matters in the 'Report by the Members of the University of Canberra Council' which accompanies the financial statements. However, this report could be further improved by the inclusion of more information on challenges and areas of concern faced by the University in addition to the information provided on the achievements of the University.

  The University has indicated that it does not intend to make further disclosures in the report. The University advised that:

  > Council discussed the recommendation made by the Audit Office and included additional information as considered appropriate including additional information addressing 'challenges' or 'areas of concern' in addition to 'achievements' where such information was likely to significantly affect the University operations or results in future years. It is important to note that the disclosures take into account the competitive environment in which the University operates.
  >
  > The members of Council ultimately decide what should be included within the Council Report and the members of Council concluded the level of disclosure provided was appropriate.

5.239 The audit finding which refers to a weakness in payment controls is that the University does not require documented evidence of the satisfactory receipt of goods and services by someone other than the financial delegate who approved the payment for payments below $5 000. This increases the risk of payment irregularities which may be caused by errors or fraud.

The University advised that it has assessed the risk of errors or fraud to be low where payments below $5 000 have been authorised by a financial delegate. The University therefore does not agree that there is a need for documented evidence of the satisfactory receipt of goods and services for payments below $5 000, where the financial delegate has appropriately authorised the invoice.

5.240 Three of the 12 previously reported audit findings were not resolved as:

- the University's internal audit function is not fully independent from the operations of the University because the officer responsible for the internal audit function also has operational responsibilities.

  The capacity of an internal audit function to be independent and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and responsibility.

  There are aspects of the University's internal audit arrangements that support the independence of the internal audit function. These include the Audit and Risk Management Committee (ARMC), on the delegated authority of the Council, approving the internal audit charter, risk-based internal audit plan, internal audit budget and resource plan.

  However, the University's internal audit function is not fully independent from the operations of the University because the officer responsible for the internal audit function also has operational responsibilities. While the University updated its Internal Audit Charter for the processes that are to apply where a potential or actual conflict of interest exists, these arrangements are not sufficient to ensure that the internal audit function operates independently.

  To provide assurance that the internal audit function is free from the influences of operational management and responsibility, the University should:

  - ensure that the officer responsible for the internal audit function is free from the influences of operational management and responsibility (preferred option), or
  - implement robust safeguards which ensure that areas under the officer responsible for the internal audit function are reviewed objectively.

  The University has partially agreed with this audit finding and advised that it will review its Internal Audit Charter with a view to further clarifying its arrangements relating to potential or actual conflicts of interest;

- the University's accounting for fees receivable from domestic and continuing international students does not comply with the relevant accounting standard.

  The University obtained advice on the accounting treatment and accounted for fees receivable from domestic and continuing international students in accordance with this advice. The Audit Office reviewed this accounting treatment and the related advice and concluded that the University's accounting treatment is incorrect.

  The University disagrees with this audit finding and considers that its accounting treatment is appropriate.

  The audit report on the financial statements was not qualified as this error is not material to the financial statements; and

- documented evidence of the review of fortnightly payroll reports was not retained when no errors or anomalies were identified from the review. This presents a risk of undetected irregular payments to employees which may be due to errors or fraud.

  The University agreed to address this audit finding.

5.241 The four new audit findings were identified were that:

- an external independent review of the University's internal audit function has not been performed as required by the International Standards for the Professional Practice of Internal Auditing. This presents a risk that the function will not operate effectively and opportunities for improvement will not be identified.

  The University agreed to address this audit finding;

- disclosures on the remuneration of key management personnel included in the financial statements submitted for audit did not fully comply with Australian Accounting Standard AASB 124: 'Related Party Disclosures'. The:
  - draft financial statements submitted for audit did not disclose a non-monetary benefit provided to a member of key management personnel. The financial statements were subsequently amended to include information on this benefit;
  - employment of a spouse of a member of key management personnel was not disclosed in the financial statements; and
  - draft financial statements submitted for audit did not disclose that the information on remuneration of key management personnel had been prepared on a cash basis instead of the accruals basis used to prepare financial statements.

  The University has advised that:

  > ... it is not possible to disclose the bonuses paid to key management personnel on an accruals basis due to the timing of the decisions on these bonuses;

- the University's accounting treatment for income relating to the National Rental Affordable Scheme (NRAS) does not comply with the relevant accounting standard.

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

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

Consistent with accounting advice obtained by the University, the financial liability was reduced and income progressively recognised under Australian Accounting Standard AASB 118: 'Revenue'.

The Audit Office reviewed the University's accounting treatment and related advice and concluded that the accounting treatment does not comply with the Australian Accounting Standard AASB 139: 'Financial Instruments: Recognition and Measurement'. Therefore, the University should not have derecognised a portion of the financial liability and recognised income in its financial statements for the year ended 31 December 2014.

The University disagrees with this audit finding and considers that its accounting treatment is appropriate.

The audit report on the financial statements was not qualified as this error is not material to the financial statements; and

- the University's recording of a grant receivable from the Commonwealth Government for the establishment and operation of the Centre for Quality Teaching and Learning does not comply with Australian Accounting Standard AASB 1004: 'Contributions'.

  The University disagrees with this audit finding and considers that the recognition of the receivable and full impairment of the receivable is the appropriate accounting treatment.

  The audit report on the financial statements was not qualified as this error is not material to the financial statements.

APPENDIX A: TABLE OF AUDIT REPORTS AND REPORTS OF FACTUAL FINDINGS

This appendix provides an overview of the audit reports and the reports of factual findings issued by the Audit Office in 2014-15.

Summary of audit reports and reports of factual findings

No.		Audit Reports	No.	Reports of Factual Findings
	Territory			
1	Territory's annual financial statements	Unqualified	-	Not applicable
	Directorates			
2	ACT Executive	Unqualified	-	Not applicable
3	ACT Local Hospital Network Directorate	Unqualified	1	Unqualified
4	ACTION	Unqualified	2	Unqualified
5	Capital Metro Agency	Unqualified	3	Unqualified
6	Chief Minister, Treasury and Economic Development Directorate	Unqualified	4	Unqualified
7	Commerce and Works Directorate (for the period 1 July 2014 to 6 July 2014)	Unqualified	5	Unqualified
8	Community Services Directorate	Unqualified	6	Unqualified
9	Economic Development Directorate (for the period 1 July 2014 to 6 July 2014)	Unqualified	7	**Qualified**
10	Education and Training Directorate	Unqualified	8	Unqualified
11	Environment and Planning Directorate	Unqualified	9	Unqualified
12	Health Directorate	Unqualified	10	Unqualified
13	Home Loan Portfolio	Unqualified	11	Unqualified
14	Housing ACT	Unqualified	12	Unqualified
15	Justice and Community Safety Directorate	Unqualified	13	Unqualified
16	Lifetime Care and Support Fund	Unqualified	14	Unqualified
17	Office of the Legislative Assembly	Unqualified	-	Not applicable
18	Superannuation Provision Account	Unqualified	15	Unqualified
19	Territory and Municipal Services Directorate	Unqualified	16	Unqualified
20	Territory Banking Account	Unqualified	17	Unqualified
	Authorities			
21	ACT Compulsory Third-Party Insurance Regulator	Unqualified	18	Unqualified
22	ACT Electoral Commission	Unqualified	-	Not applicable

No.		Audit Reports	No.	Reports of Factual Findings
	Authorities - continued			
23	ACT Gambling and Racing Commission	Unqualified	19	Unqualified
24	ACT Insurance Authority	Unqualified	20	Unqualified
25	ACT Public Cemeteries Authority	Unqualified	21	Unqualified
26	Building and Construction Industry Training Fund Authority	Unqualified	22	Unqualified
27	Canberra Institute of Technology	Unqualified	23	Unqualified
28	Cultural Facilities Corporation	Unqualified	24	Unqualified
29	Exhibition Park Corporation (for the period from 1 July 2014 to 31 December 2014)	Unqualified	25	Unqualified
30	Independent Competition and Regulatory Commission	Unqualified	26	Unqualified
31	Land Development Agency	Unqualified	27	Unqualified
32	Legal Aid Commission (ACT)	Unqualified	28	Unqualified
33	Long Service Leave Authority	Unqualified	29	Unqualified
34	Public Trustee for the ACT	Unqualified	30	Unqualified
35	University of Canberra	Unqualified	-	Not applicable
	Territory-owned corporations and other companies			
36	ACN 071 257 504 Limited (formerly ACTTAB Limited)	Unqualified	-	Not applicable
37	CIT Solutions Pty Limited	Unqualified	-	Not applicable
38	Community Housing Canberra Limited	Unqualified	-	Not applicable
39	Icon Water Limited (formerly ACTEW Corporation Limited)	Unqualified	-	Not applicable
40	Icon Distribution Investments Limited (formerly ACTEW Distribution Limited)	Unqualified	-	Not applicable
41	Icon Retail Investments Limited (formerly ACTEW Retail Limited)	Unqualified	-	Not applicable
42	UCU Ltd	Unqualified	-	Not applicable
43	University of Canberra College Pty Limited	Unqualified	-	Not applicable
	Joint ventures and partnerships			
44	ActewAGL Distribution Partnership	Unqualified	-	Not applicable
45	ActewAGL Joint Venture Special Purpose Financial Report	Unqualified	-	Not applicable
46	ActewAGL Joint Venture Summary Financial Report	Unqualified	-	Not applicable
47	ActewAGL Retail Partnership	Unqualified	-	Not applicable

No.		Audit Reports	No.	Reports of Factual Findings
	Joint ventures and partnerships - continued			
48	Crace Joint Venture	Unqualified	-	Not applicable
49	Forde Joint Venture	Unqualified	-	Not applicable
50	Lyons Estate Redevelopment Joint Venture	Unqualified	-	Not applicable
51	Nicholls Primary School Joint Facilities	Unqualified	-	Not applicable
	Other entities			
52	ACT Veterinary Surgeons Board	Unqualified	-	Not applicable
53	Canberra Business Development Fund	Unqualified	-	Not applicable
54	Capital Region Community Foundation Gift Fund	Unqualified	-	Not applicable
55	Capital Region Community Foundation Open Fund	Unqualified	-	Not applicable
56	Commonwealth Funding under the Digital Hubs Program (for the period 1 July 2014 to 31 March 2015)	Unqualified	-	Not applicable
57	Commonwealth Funding under the *Interstate Road Transport Act 1985* – Expenditure Statement	Unqualified	-	Not applicable
58	Commonwealth Funding under the *Interstate Road Transport Act 1985* – Revenue Statement	Unqualified	-	Not applicable
59	Commonwealth Funding under the *National Land Transport Act 2014* – Roads to Recovery Program	Unqualified	-	Not applicable
60	Commonwealth Funding under the *National Land Transport Act 2014* – Black Spot Projects	Unqualified	-	Not applicable
61	Commonwealth Funding under the *National Land Transport Act 2014* – National Projects	Unqualified	-	Not applicable
62	Default Insurance Fund	Unqualified	-	Not applicable
63	Gungahlin Cemetery Perpetual Care Trust	Unqualified	-	Not applicable
64	Hall Cemetery Perpetual Care Trust	Unqualified	-	Not applicable
65	National Health Funding Pool Account for the ACT	Unqualified	-	Not applicable
66	Office of the Nominal Defendant of the ACT	Unqualified	-	Not applicable
67	Public Trustee for the ACT – Trust Account	Unqualified	-	Not applicable
68	Public Trustee for the ACT's compliance with the *Public Ancillary Fund Guidelines 2011* in relation to the Capital Region Community Foundation Gift Fund	Unqualified	-	Not applicable

No.		Audit Reports	No.	Reports of Factual Findings
	Other entities - continued			
69	University of Canberra Research Income Return	Unqualified	-	Not applicable
70	Woden Cemetery Perpetual Care Trust	Unqualified	-	Not applicable
71	Woden Mausoleum Perpetual Care Trust	Unqualified	-	Not applicable

Audit reports

Reports Published in 2015-16	
Report No. 09 – 2015	Public Transport: The Frequent Network
Report No. 08 – 2015	Annual Report 2014-15
Reports Published in 2014-15	
Report No. 07 – 2015	Sale of ACTTAB
Report No. 06 – 2015	Bulk Water Alliance
Report No. 05 – 2015	Integrity of Data in the Health Directorate
Report No. 04 – 2015	ACT Government support to the University of Canberra for affordable student accommodation
Report No. 03 – 2015	Restoration of the Lower Cotter Catchment
Report No. 02 – 2015	The Rehabilitation of Male Detainees at the Alexander Maconochie Centre
Report No. 01 – 2015	Debt Management
Report No. 07 – 2014	2013-14 Financial Audits
Report No. 06 – 2014	Annual Report 2013-14
Reports Published in 2013-14	
Report No. 05 – 2014	Capital Works Reporting
Report No. 04 – 2014	Gastroenterology & Hepatology Unit, Canberra Hospital
Report No. 03 – 2014	Single Dwelling Development Assessments
Report No. 02 – 2014	The Water and Sewerage Pricing Process
Report No. 01 – 2014	Speed Cameras in the ACT
Report No. 08 – 2013	Management of Funding for Community Services
Report No. 07 – 2013	2012-13 Financial Audits
Report No. 06 – 2013	ACT Auditor-General's Office Annual Report 2012-13
Report No. 05 – 2013	Bushfire Preparedness
Reports Published in 2012-13	
Report No. 04 – 2013	National Partnership Agreement on Homelessness
Report No. 03 – 2013	ACT Government Parking Operations
Report No. 02 – 2013	Executive Remuneration Disclosed in ACTEW Corporation Limited's (ACTEW) 2010-11 Financial Statements and Annual Report 2011
Report No. 01 – 2013	Care and Protection System
Report No. 10 – 2012	2011-12 Financial Audits
Report No. 09 – 2012	Grants of Legal Assistance
Report No. 08 – 2012	Australian Capital Territory Public Service Recruitment Practices
Report No. 07 – 2012	Annual Report 2011-12
Report No. 06 – 2012	Emergency Department Performance Information
Reports Published in 2011-12	
Report No. 05 – 2012	Management of Recycling Estates and E-Waste
Report No. 04 – 2012	Development Application and Approval System for High Density Residential and Commercial Developments
Report No. 03 – 2012	Early Childhood Schooling
Report No. 02 – 2012	Whole of Government Information and ICT Security Management and Services
Report No. 01 – 2012	Monitoring and Minimising Harm Caused by Problem Gambling in the ACT
Report No. 06 – 2011	Management of Food Safety in the Australian Capital Territory
Report No. 05 – 2011	2010-11 Financial Audits
Report No. 04 – 2011	Annual Report 2010-11