ACT Auditor-General's Office

Audit Report

2011-12 Financial Audits

REPORT NO. 10 / 2012

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

PA12/04

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

Dear Madam Speaker

A report titled **'2011-12 Financial Audits'**; is attached for tabling in the Legislative Assembly pursuant to Section 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Dr Maxine Cooper
Auditor-General
21 December 2012

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CONTENTS

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ACKNOWLEDGEMENTS

The assistance provided to the Audit Office by the Head of Service, Directors-General, Chief Executive Officers, General Managers, Chief Finance Officers and others during the conduct of the annual financial audit program is greatly appreciated. I have also appreciated the effort and commitment of my staff in completing this year's program.

Dr Maxine Cooper
Auditor-General
21 December 2012

1. REPORT SUMMARY

INTRODUCTION AND BACKGROUND

1.1 The Audit Office issues independent audit reports on the financial statements and reports of factual findings on the statements of performance of ACT Government agencies and those entities in which the ACT Government has a direct financial interest. These reports are included in the annual reports of these agencies and other entities and tabled in the ACT Legislative Assembly.

1.2 This report provides details of the results of the audits of financial statements and reviews of statements of performance relating to 2011-12.

1.3 The report also includes an assessment of the overall quality and timeliness of reporting by agencies and other entities.

1.4 The audit findings identified by the Audit Office during the audit process are reported to agencies and other entities. This report includes a summary of the major audit findings and information on the progress made by agencies and other entities in resolving previously reported findings.

HIGHLIGHTS

1.5 This report highlights the following matters:

Results of the audits of financial statements - chapter 2

- The Audit Office audited 68 financial statements during the 2011-12 financial audit program and issued 67 unqualified audit reports.
- A qualified audit report was issued on the financial statements of Environment and Sustainable Development Directorate.

Results of the reviews of statements of performance - chapter 2

- The Audit Office issued 28 reports of factual findings on agencies' statements of performance.
- The Audit Office issued qualified reports of factual findings on the statements of performance of ACTION, Environment and Sustainable Development Directorate, Justice and Community Safety Directorate and Territory and Municipal Services Directorate.

HIGHLIGHTS (CONTINUED)

Status of audit findings - chapter 3

- In 2011-12, the performance by agencies in resolving previously reported audit findings declined significantly compared to 2010-11.
- Agencies resolved 104 (55 percent) of previously reported audit findings. This is significantly less than the 126 (66 percent) resolved in 2010-11.
- There was a marked increase in audit findings that were not resolved in 2011-12. Agencies did not resolve 38 (20 percent) of the previously reported audit findings compared to 19 (10 percent) not resolved in 2010-11.
- Agencies need to improve their processes for rectifying weaknesses in their governance arrangements, internal controls and reporting practices.
- Many weaknesses in controls over major revenue applications were not fully resolved.
- The many audit findings (297 audit findings in 2011-12) indicates that agencies need to improve their governance arrangements, internal controls and reporting practices.

Financial and performance reporting - chapter 3

Quality of financial statements

- The quality of financial statements submitted by agencies for audit in 2011-12 was similar to the quality provided in 2010-11. The combined percentage of agencies that provided 'good' and 'satisfactory' financial statements in 2011-12 was 72 percent compared to 77 percent in 2010-11.

Timeliness of financial statements

- Compliance with the whole-of-government reporting timetable improved significantly in 2011-12. 90 percent of agencies complied with the timetable compared to 74 percent in 2010-11.
- In most cases, the improvement in the timeliness of reporting was achieved, without adversely affecting the overall quality of financial statements.

Quality of statements of performance

- The quality of statements of performance submitted by agencies for review improved in 2011-12.
- The percentage of agencies that prepared 'good' statements of performance improved from 43 percent in 2010-11 to 54 percent in 2011-12. The percentage of agencies that prepared statements of performance assessed as 'unsatisfactory' fell markedly from 30 percent in 2010-11 to 18 percent in 2011-12.

HIGHLIGHTS (CONTINUED)

Quality of statements of performance - chapter 3 (continued)

- The improvement in the quality of statements of performance mainly reflects the unusually high percentage of 'unsatisfactory' statements of performance that were submitted for review in 2010-11. In several directorates did not effectively address the effects of a major restructuring of administrative arrangements in preparing their statements of performance.
- While the overall quality of statements of performance has improved, there is scope for further significant improvement. In 2011-12, a significant percentage of statements of performance submitted for review were 'unsatisfactory' (18 percent) or 'fair' (18 percent).

Timeliness of statements of performance

- Compliance with the whole-of-government reporting timetable improved markedly in 2011-12. 89 percent of agencies complied with the timetable compared to 74 percent in 2010-11.

Annual reporting

- In 2011-12, all agencies placed their annual reports on the relevant website by the date required by the *Annual Reports (Government Agencies) Act 2004*.
- All agencies included the correct version of their financial statements and statement of performance in the printed and electronic version of their annual reports.

Budget management

- The Territory and several agencies did not achieve their budgeted financial results.

Computer information systems - chapter 4

Application controls

- Several agencies have not documented, approved and implemented procedures for the regular review of audit logs for applications used in the preparation of their financial statements. This increases the risk that erroneous, irregular or fraudulent changes to systems and data, or system performance issues will not be promptly identified and remedied.
- Several agencies have not documented, approved and implemented policies and procedures governing user access to applications used in the preparation of their financial statements. This presents a risk of unauthorised, inappropriate and possibly fraudulent access to these applications and data.

HIGHLIGHTS (CONTINUED)

Computer information systems - chapter 4 (continued)

- Several agencies have not implemented approved and tested business continuity plans and/or disaster recovery procedures relating to applications used to prepare their financial statements.
- Generic (shared) administrator accounts are used in relation to the Homenet and MyWay systems, and most users of TM1 access the system using generic accounts and passwords.
- Users may use simple passwords to gain access to the Territory Revenue System and TM1 because these applications do not enforce the use of complex passwords.
- Several individual users of Cashlink may perform incompatible duties which enable them to initiate, process and approve transactions. The failure to segregate these incompatible duties increases the risk of erroneous and fraudulent transactions.

Environment Controls

- Environment controls implemented by Shared Services were assessed to be generally satisfactory. However, there are several control weaknesses that should be addressed.
- Shared Services reduced the risk of inappropriate, unauthorised and fraudulent access by improving controls over access to servers and data. While access controls have improved, several weaknesses in controls remain. In particular:
  - the ACT Government network operating system cannot enforce the level of password complexity required by the ACT Government's Password Standard;
  - user access levels are not regularly reviewed, and many user accounts relate to users who no longer worked in the ACT Government;
  - there are many 'active' generic (shared) user accounts in use on the ACT Government network. These accounts present a risk because they reduce management's ability to trace actions of users to an individual; and
  - there was often no evidence of approval by an authorised officer from the requesting agency before granting or changing a user's access to the ACT Government network.

HIGHLIGHTS (CONTINUED)

Computer information systems - chapter 4 (continued)

- There are weaknesses in the strategic planning, business continuity and risk management arrangements implemented by Shared Services. For example:
  - Shared Services' information and communication technology strategic plan and related action plan were not evidenced as approved;
  - Shared Services' business continuity plan is not current and tested, and staff have not been trained in its use;
  - Shared Services' risk management plan and related information technology risk register have not been updated and approved;
  - Shared Services does not have a documented information technology security plan to assist in identifying, analysing and prioritising security threats, and allocating resources to address these threats;
  - there is no reporting of potential security breaches and their investigation to the Shared Services ICT Security and Risk Committee. This Committee is responsible for overseeing the investigation and management of information and communication technology and physical security matters and incidents; and
  - regular inspections of emergency equipment in data centres are not performed.
- There are weaknesses in the management of servers by Shared Services. Testing of changes to security configurations for servers is not regularly performed, and audit logs of any changes to security configurations are not regularly reviewed. These increase the risk that applications and data on these servers will be exposed to security vulnerabilities and not operate as intended.
- Shared Services manages information technology projects on behalf of ACT Government agencies. The policies and procedures for information technology projects and project dispute resolution procedures are in draft form, records of projects under project management were often inaccurate, and contract management guidelines and procedures did not require regular monitoring of compliance by suppliers with contracts.

The Territory's financial statements - chapter 5

Audit report

- The Audit Office issued an unqualified audit report on the Territory's 2011-12 Consolidated Annual Financial Statements.

HIGHLIGHTS (CONTINUED)

The Territory's financial statements - chapter 5 (continued)

Net operating balance

- In 2011-12, the Territory incurred a deficit in the net operating balance of $97 million compared to a budgeted deficit of $211 million. This lower than expected deficit was mainly due to lower than anticipated expenses.
- The Territory's net operating balance; a deficit of $97 million, was less than the prior year's surplus balance of $1 million. This declining result was caused by a growth in expenses of $241 million (5.9 percent), which exceeded an increase in revenue of $143 million (3.5 percent).
- The Territory estimates that it will incur deficits in its net operating balance over the forward years. These deficits are expected to steadily decline from a peak of $578 million in 2012-13 to $84 million in 2015-16.

Operating result

- The Territory incurred an operating deficit of $155 million compared to a budgeted surplus of $175 million. This unfavourable result mainly reflects lower than anticipated gains on sales of undeveloped land, and unbudgeted losses on investments; partially offset by a lower than expected deficit in the net operating balance.
- The Territory's operating deficit of $155 million compares unfavourably to the prior period's surplus of $123 million. This declining result mostly reflects an increase in the losses on superannuation investments and a higher rate being used to estimate the present value of long service leave and insurance expenses; partially offset by an increase in land sales.
- The Territory's operating deficit is expected to increase by $240 million (154.8 percent) from $155 million in 2011-12 to $395 million in 2012-13, before generating surpluses over the remaining forward years from 2013-14 to 2015-16.
- The achievement of operating surpluses in 2013-14 and 2015-16 depends on the Territory obtaining sufficient other economic inflows, in particular, gains from investment and property markets, to counter the expected deficits in the net operating balance over the forward years.

HIGHLIGHTS (CONTINUED)

The Territory's financial statements - chapter 5 (continued)

Revenue

- The Territory's revenue ($4 261 million) was $36 million (1 percent) below the budgeted amount ($4 297 million).
- The Territory's revenue ($4 261 million) exceeded the previous year's amount ($4 118 million) by $143 million (3.4 percent).

Expenses

- The Territory's expenses ($4 358 million) were $150 million (3.3 percent) below the budgeted cost ($4 508 million).
- The Territory's expenses ($4 358 million) exceeded the previous year's amount ($4 117 million) by $241 million (5.9 percent) due mainly to higher employee costs.

Other economic inflows/(outflows)

- The Territory incurred net economic outflows of $58 million compared to budgeted inflows of $386 million as budgeted market gains in land and property markets did not eventuate.

Financial position

- The Territory's unfunded superannuation liability was expected to decrease by $512 million (19.5 percent) from $2 627 million at 30 June 2011 to $2 115 million at 30 June 2012. However, this liability doubled from $2 627 million at 30 June 2011 to $5 242 million at 30 June 2012, due mainly to an increase in the rate used to estimate the present value of the superannuation liability.
- The Territory's net asset position at 30 June 2012 ($14 094 million) was lower than the budgeted ($17 250 million) and prior year ($16 210 million) positions by $3 156 million (18.3 percent) and $2 116 million (13.1 percent) respectively. This was due mainly to a substantial increase in the Territory's unfunded superannuation liability.

Short-term financial position

- The Territory's short-term financial position remains strong and was stronger than the position anticipated in the budget.
- The Territory's short-term financial position is expected to weaken from the position at 30 June 2012, but is expected to remain strong over the forward years.

HIGHLIGHTS (CONTINUED)

The Territory's financial statements - chapter 5 (continued)

Long-term financial position

- The long-term financial position of the Territory is much weaker than the budgeted and prior year's positions due mainly to a substantial unexpected increase in the unfunded superannuation liability. The use of borrowings to fund the Infrastructure Investment Program has also contributed to the significant weakening of the long-term financial position since the previous year.
- According to the 2012-13 Pre-Election Budget update, the Territory's long-term financial position is expected to strengthen significantly from the position that existed at 30 June 2012. However, this depends largely on a substantial reduction in the unfunded superannuation liability in 2012-13.
- The unfunded superannuation liability doubled from $2 627 million at 30 June 2011 to $5 242 million at 30 June 2012. If this liability were to remain at similar levels over the forward years to that which existed at 30 June 2012, then the Territory's financial position would be much weaker than the position indicated by the 2012-13 Pre-Election Budget update.

Cash results

- The net cash surplus generated by the Territory's operations ($485 million) was strong but is well below the budgeted cash surplus ($573 million) and previous year cash surplus ($652 million).
- The Territory's net cash deficit from operating and capital activities ($448 million) was less than the budgeted deficit ($696 million). This was mainly due to less than expected payments for property, plant and equipment and capital works and, to a lesser extent, a lower net cash surplus from operations.
- The Territory's net cash deficit from operating and capital activities ($448 million) exceeded the prior year's deficit ($337 million) due mainly to a lower net cash surplus from operations.
- The Territory estimates that it will incur cash deficits from operating and capital activities over the next two years, before returning to cash surpluses from 2014-15 to 2015-16. A return to cash surpluses depends on significant reductions in cash spent on capital activities (in particular, the Infrastructure Investment Program) and a steady increase in net cash generated by the Territory's operations.

HIGHLIGHTS (CONTINUED)

The Territory's financial statements - chapter 5 (continued)

Infrastructure Investment Program

- The Territory's Infrastructure Investment Program funding was underspent by $273 million (30.6 percent). This significant underspend mainly resulted from delays in procurement for various capital works projects because it took longer than expected to scope the work, consult with those affected by these capital works projects and complete procurement. Also, additional time was needed to obtain approval for compliance with environmental requirements. Some projects were delayed because of wet weather.

Audit results and findings on ACT Government agencies and other entities - chapter 6

1.6 This chapter provides audit results and findings on individual ACT Government agencies and other entities.

1.7 Responses provided by agencies were considered in the preparation of this report and included in the relevant sections of the report.

AUDIT RECOMMENDATIONS

1.8 The Audit Office made 10 recommendations to address the audit findings discussed in this report.

Recommendation 1 – chapter 3

Agencies should:

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

Recommendation 2 – chapter 3

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

Recommendation 3 – chapter 3

Agencies should improve the quality of their statements of performance. Agencies should ensure that:

- the systems used to report results are reliable;
- reported results are supported by sufficient evidence; and
- sufficient explanatory information on each accountability indicator and how it is measured is disclosed in the budget papers and/or statement of intent and statement of performance.

Recommendation 4 – chapter 3

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

Recommendation 5 – chapter 3

Agencies should ensure their financial statements and statements of performance contain concise and clear explanations of material variances from planned levels of performance.

Recommendation 6 – chapter 4

Agencies should implement approved policies and procedures which require the regular review of audit logs for errors, irregularities and fraudulent changes to systems. The results of this monitoring should be documented and reported to management.

Recommendation 7 – chapter 4

Agencies should implement approved policies and procedures governing user access, including procedures for reviewing, establishing, modifying and removing users' access or their assigned roles and privileges to reduce the risk of inappropriate or fraudulent access to critical systems.

Recommendation 8 – chapter 4

Agencies should implement approved and tested business continuity plans and/or disaster recovery procedures for key systems.

Recommendation 9 – chapter 4

Agencies should cease the use of generic (shared) user accounts for key systems.

If the use of generic accounts is unavoidable, then the number of generic accounts should be kept to minimum and passwords regularly changed. A generic user accounts register should be established to monitor and track users who have access to generic user accounts, and how often the passwords for the generic accounts are changed.

Recommendation 10 – chapter 4

Agencies should enforce the use of complex passwords to better control access to critical systems.

2. RESULTS OF THE FINANCIAL AUDIT PROGRAM

INTRODUCTION

2.1 The Audit Office completes an annual program of financial audits under various legislative and other requirements.

2.2 Most audits are required by the *Financial Management Act 1996*, however, many audits are performed pursuant to other requirements, such as those contained in the *Corporations Act 2001*, joint venture agreements, trust fund deeds and Commonwealth Government funding agreements.

2.3 The Audit Office is also required by the *Financial Management Act 1996* to review statements of performance prepared by directorates and authorities.

KEY ISSUES

Results of the audits of financial statements

- The Audit Office audited 68 financial statements as part of the 2011-12 financial audit program and issued 67 unqualified audit reports.
- A qualified audit report was issued on the financial statements of the Environment and Sustainable Development Directorate.

Results of the reviews of statements of performance

- The Audit Office issued 28 reports of factual findings on agencies' statements of performance.
- The Audit Office issued qualified reports of factual findings on the statements of performance of ACTION, Environment and Sustainable Development Directorate, Justice and Community Safety Directorate and Territory and Municipal Services Directorate.

RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS

Table 2.1: Summary of audit reports on financial statements in 2011-12

	Unqualified	Qualified	Total
Territory	1	-	1
Directorates	17	1	18
Authorities	13	-	13
Territory-owned corporations and other companies	10	-	10
Joint ventures and partnerships	11	-	11
Other audits	15	-	15
Total audit reports	**67**	**1**	**68**

2.4 The Audit Office completed the audits of 68 financial statements as part of the 2011-12 financial audit program.

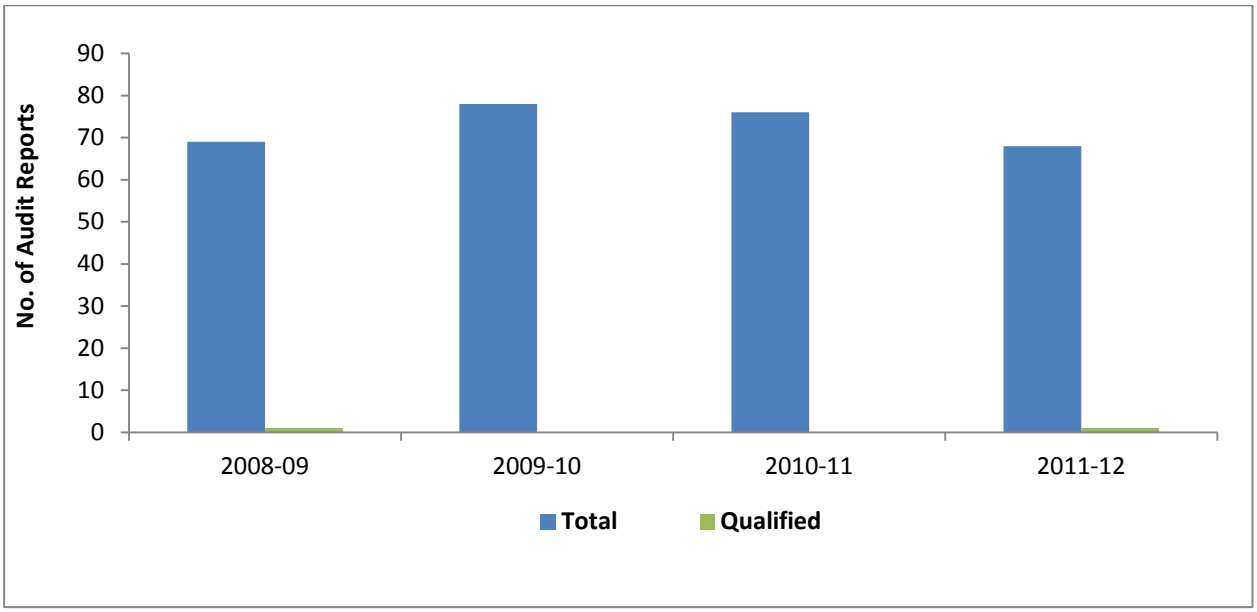
2.5 The Audit Office issued 67 unqualified audit reports. The Office formed the opinion that these financial statements materially complied with the relevant accounting standards, and presented a true and fair view of the financial position and performance of the reporting agencies.

2.6 The audit report on the financial statements of the Environment and Sustainable Development Directorate was qualified because the Directorate has not recorded the extension of time to build fees revenue in accordance with Australian Accounting Standard, AASB 118: 'Revenue'. Further information on the qualified audit report is provided in paragraphs 6.180 to 6.184 of this report.

2.7 The audit reports issued by the Audit Office are listed on pages 18 to 21.

AUDIT REPORTS

Figure 2.1: Audit reports on financial statements



2.8 The number of audit reports issued by the Audit Office (68) during the 2011-12 financial audit program decreased from the number issued in the previous year (76).

2.9 This decrease was due to:

- the abolishment of the ACT Planning and Land Authority, Department of the Environment, Climate Change, Energy and Water, and Department of Land and Property Services following changes to administrative arrangements in 2010-11;
- the audit of Rhodium Asset Solutions Limited no longer being required due to the company ceasing to operate in September 2010;
- the Lyons Estate Redevelopment Joint Venture changing its reporting requirements from six-monthly to annually; and
- some small grant acquittal audits no longer being required. These audits were in relation to Commonwealth funding received for the Building the Education Revolution Program, the Eastern Valley Way Inlet and Skate Space Refurbishment Project and University of Canberra Education Investment Fund.

RESULTS OF THE REVIEWS OF STATEMENTS OF PERFORMANCE

2.12 The Audit Office is required by the *Financial Management Act 1996* to provide reports of factual findings on the statements of performance prepared by directorates and authorities. These reports identify any matters of concern about the accuracy of the results included in the statement of performance.

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

2.14 More information on the usefulness and appropriateness of accountability indicators is provided in Chapter 3: 'Audit findings' and some of the reporting agencies discussed in Chapter 6: 'Audit results on findings on ACT Government agencies and other entities'.

Table 2.2: Summary of reports of factual findings on statements of performance in 2011-12

	Unqualified	Qualified	Total
Directorates	12	4	16
Authorities	12	-	12
Total reports of factual findings	**24**	**4**	**28**

2.15 The Audit Office issued 28 reports of factual findings on the statements of performance prepared by directorates and authorities in 2011-12.

2.16 The Audit Office issued four qualified reports of factual findings.

Table 2.3: Qualified reports of factual findings on statements of performance in 2011-12

Agency	Qualification
ACTION	The reported result for one accountability indicator was overstated.
Environment and Sustainable Development Directorate	A result for one accountability indicator was not measured.
Justice and Community Safety Directorate	The Directorate did not maintain sufficient records to enable the reported results for four accountability indicators to be independently verified.
Territory and Municipal Services Directorate	A result for one accountability indicator was not measured.

2.17 These qualifications resulted from agencies failing to implement adequate systems for capturing the information needed to measure a result for these indicators, and/or retaining sufficient evidence of their performance against these indicators.

2.18 Further information on these qualified reports of factual findings is provided in Chapter 6: 'Audit results and findings on ACT Government agencies and other entities'.

Figure 2.2: Reports of factual findings on statements of performance

2.19 The number of reports of factual findings issued by the Audit Office in 2011-12 (28) was slightly lower than the number issued in 2010-11 (30).

Table 2.4: Summary of 2011-12 audit reports and reports of factual findings

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Territory		
Territory's Annual Financial Statements	Unqualified	Not applicable
Directorates		
ACT Executive	Unqualified	Not applicable
ACTION	Unqualified	Qualified
Chief Minister and Cabinet Directorate	Unqualified	Unqualified
Community Services Directorate	Unqualified	Unqualified
Economic Development Directorate	Unqualified	Unqualified
Education and Training Directorate	Unqualified	Unqualified
Environment and Sustainable Development Directorate	Qualified	Qualified
Health Directorate	Unqualified	Unqualified
Home Loan Portfolio	Unqualified	Unqualified

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Housing ACT	Unqualified	Unqualified
Justice and Community Safety Directorate	Unqualified	Qualified
Land Development Agency	Unqualified	Unqualified
Legislative Assembly Secretariat	Unqualified	Not applicable
Shared Services Centre	Unqualified	Unqualified
Superannuation Provision Account	Unqualified	Unqualified
Territory and Municipal Services Directorate	Unqualified	Qualified
Territory Banking Account	Unqualified	Unqualified
Treasury Directorate	Unqualified	Unqualified
Authorities		
ACT Building and Construction Industry Training Fund Authority	Unqualified	Unqualified
ACT Compulsory Third-Party Insurance Regulator	Unqualified	Unqualified
ACT Gambling and Racing Commission	Unqualified	Unqualified
ACT Insurance Authority	Unqualified	Unqualified
ACT Long Service Leave Authority	Unqualified	Unqualified
ACT Public Cemeteries Authority	Unqualified	Unqualified
Canberra Institute of Technology	Unqualified	Unqualified
Cultural Facilities Corporation	Unqualified	Unqualified
Exhibition Park Corporation	Unqualified	Unqualified
Independent Competition and Regulatory Commission	Unqualified	Unqualified
Legal Aid Commission (ACT)	Unqualified	Unqualified
Public Trustee for the ACT – Office Account	Unqualified	Unqualified
University of Canberra	Unqualified	Not applicable
Territory-owned corporations and other companies		
ACTEW Corporation Limited	Unqualified	Not applicable
ACTEW Distribution Limited	Unqualified	Not applicable
ACTEW Retail Limited	Unqualified	Not applicable
ACTTAB Limited	Unqualified	Not applicable
CIT Solutions Pty Limited	Unqualified	Not applicable
Community Housing Canberra Limited	Unqualified	Not applicable

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
NATSEM Pty Limited	Unqualified	Not applicable
Totalcare Industries Limited	Unqualified	Not applicable
UCU Ltd	Unqualified	Not applicable
University of Canberra College Pty Limited	Unqualified	Not applicable
Joint ventures and partnerships		
ActewAGL Distribution Partnership	Unqualified	Not applicable
ActewAGL Joint Venture Special Purpose Financial Report	Unqualified	Not applicable
ActewAGL Joint Venture Summary Financial Report	Unqualified	Not applicable
ActewAGL Retail Partnership	Unqualified	Not applicable
Crace Joint Venture (30 June 2012)	Unqualified	Not applicable
Crace Joint Venture (31 December 2011)	Unqualified	Not applicable
Forde Joint Venture (30 June 2012)	Unqualified	Not applicable
Forde Joint Venture (31 December 2011)	Unqualified	Not applicable
Lyons Joint Venture (30 June 2012)	Unqualified	Not applicable
Nicholls Primary School Joint Facilities	Unqualified	Not applicable
Woden East Joint Venture	Unqualified	Not applicable
Other audits		
Canberra Business Development Fund	Unqualified	Not applicable
Capital Region Community Foundation Gift Fund	Unqualified	Not applicable
Capital Region Community Foundation Open Fund	Unqualified	Not applicable
Commonwealth Funding under the *Interstate Road Transport Act 1985* – Expenditure Statement	Unqualified	Not applicable
Commonwealth Funding under the *Interstate Road Transport Act 1985* – Revenue Statement	Unqualified	Not applicable
Commonwealth Funding under the *Nation Building Program (National Land Transport) Act 2009* – Roads to Recovery	Unqualified	Not applicable
Commonwealth Funding under the *Nation Building Program (National Land Transport) Act 2009* – Black Spot Projects	Unqualified	Not applicable
Commonwealth Funding under the *Nation Building Program (National Land Transport) Act 2009* – National Projects	Unqualified	Not applicable

	Audit Report on the Financial Statements	Report of Factual Findings on the Statement of Performance
Default Insurance Fund	Unqualified	Not applicable
Gungahlin Cemetery Perpetual Care Trust	Unqualified	Not applicable
Hall Cemetery Perpetual Care Trust	Unqualified	Not applicable
Nominal Defendant	Unqualified	Not applicable
Public Trustee for the ACT – Trust Account	Unqualified	Not applicable
University of Canberra Research Income Return	Unqualified	Not applicable
Woden Cemetery Perpetual Care Trust	Unqualified	Not applicable

3. AUDIT FINDINGS

INTRODUCTION

3.1 The primary purpose of auditing financial statements and reviewing statements of performance is to express an independent opinion on whether financial statements and statements of performance prepared by reporting agencies are materially correct and present a fair view of the performance of these agencies in accordance with relevant reporting requirements.

3.2 Australian Auditing Standards[1] require the Audit Office to report 'matters of governance interest' identified during an audit to agency heads, governing boards and relevant Ministers. These matters are called 'audit findings' in this report and include weaknesses in governance arrangements and internal controls, legislative breaches, reporting errors and fraud.

3.3 This chapter contains information on:

- the quality and timeliness of financial statements and statements of performance submitted by reporting agencies to the Audit Office; and
- progress made by agencies in addressing audit findings and rectifying weaknesses in their governance arrangements, internal controls and reporting practices.

KEY ISSUES

Status of audit findings

- In 2011-12, the performance of agencies in resolving previously reported audit findings declined significantly compared to 2010-11.
- Agencies resolved 104 (55 percent) of the previously reported audit findings. This is significantly less than the 126 (66 percent) resolved in 2010-11.
- There was a marked increase in audit findings that were not resolved in 2011-12. Agencies did not resolve 38 (20 percent) of the previously reported audit findings compared to 19 (10 percent) not resolved in 2010-11.
- Agencies need to improve their processes for rectifying weaknesses in their governance arrangements, internal controls and reporting practices.
- Many weaknesses in controls over major revenue applications were not fully resolved.

[1] ASA 260 'Communication with Those Charged with Governance and ASA 265 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management'.

KEY ISSUES - CONTINUED

- The many audit findings (297 audit findings in 2011-12) indicate that agencies need to improve their governance arrangements, internal controls and reporting practices.

Financial and performance reporting

Quality of financial statements

- The quality of financial statements submitted by agencies for audit in 2011-12 was similar to the quality provided in 2010-11. The combined percentage of agencies that provided 'good' and 'satisfactory' financial statements in 2011-12 was 72 percent compared to 77 percent in 2010-11.

Timeliness of financial statements

- Compliance with the whole-of-government reporting timetable improved significantly in 2011-12. 90 percent of agencies complied with the timetable compared to 74 percent in 2010-11.
- In most cases, the improvement in the timeliness of reporting was achieved, without adversely affecting the overall quality of financial statements.

Quality of statements of performance

- The quality of statements of performance submitted by agencies for review improved in 2011-12.
- The percentage of agencies that prepared 'good' statements of performance improved from 43 percent in 2010-11 to 54 percent in 2011-12. The percentage of agencies that prepared statements of performance assessed as 'unsatisfactory' fell markedly from 30 percent in 2010-11 to 18 percent in 2011-12.
- The improvement in the quality of statements of performance mainly reflects the unusually high percentage of 'unsatisfactory' statements of performance that were submitted for review in 2010-11. In several directorates did not effectively address the effects of a major restructuring of administrative arrangements in preparing their statements of performance.
- While the overall quality of statements of performance has improved, there is scope for further significant improvement. In 2011-12, a significant percentage of statements of performance submitted for review were 'unsatisfactory' (18 percent) or 'fair' (18 percent).

Timeliness of statements of performance

- Compliance with the whole-of-government reporting timetable improved markedly in 2011-12. 89 percent of agencies complied with the timetable compared to 74 percent in 2010-11.

KEY ISSUES – CONTINUED

Annual reporting

- In 2011-12, all agencies placed their annual reports on the relevant website by the date required by the *Annual Reports (Government Agencies) Act 2004*.
- All agencies included the correct version of their financial statements and statement of performance in the printed and electronic version of their annual reports.

Budget management

- The Territory and several agencies did not achieve their budgeted financial results.

STATUS OF AUDIT FINDINGS

3.4 Audit findings identified during an audit are reported to agencies in audit management reports. These reports are issued to those charged with governance of the agency. Audit management reports include information on new findings identified during the audit and progress made by an agency in resolving previously reported audit findings.

3.5 A summary of the status of audit findings for all agencies is shown in the following table.

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

	Previously Reported	Resolved	Not Resolved	Partially Resolved	New	Balance
2010-11	191	(126)	19	46	124	189
2011-12	189	(104)	38	49	212	297

3.6 Audit findings should, in most cases, be resolved by agencies within a year of being reported. However, audit findings may take longer than a year to be resolved if an agency has:

- agreed with the findings and associated recommendations but has decided to delay the addressing of the audit findings. For example, an agency may decide to delay addressing of a control weaknesses in computer information systems controls as it would be more cost effective to resolve the weaknesses as part of a planned upgrade of computer information systems; or
- not agreed with the findings and associated recommendations. This may occur, for example, where an agency believes risks posed by a reported control weakness are low due to other mitigating factors, or considers that the costs of implementing audit recommendations outweigh the benefits.

3.7 Historically, more than 90 percent of audit recommendations are agreed to by agencies. Therefore, disagreements with audit findings and/or related recommendations by agencies are not a major factor in assessing the performance of agencies in resolving previously reported audit findings.

3.8 The performance of agencies in resolving previously reported audit findings has declined significantly. In particular:

- agencies resolved 104 (55 percent) of the previously reported audit findings in 2011-12. This is significantly less than the 126 (66 percent) resolved in 2010-11; and
- there was a marked increase in audit findings that were not resolved in 2011-12. Agencies did not resolve 38 (20 percent) of the previously reported audit findings compared to 19 (10 percent) not resolved in 2010-11.

3.9 This indicates that agencies need to improve their processes for rectifying weaknesses in their governance arrangements, internal controls and reporting practices.

3.10 Many weaknesses in controls over major revenue applications were not fully resolved. Audit findings relating to these applications are discussed in Chapter 4: 'Computer Information Systems'.

3.11 The number of new audit findings increased by 88 (71 percent) from 124 in 2010-11 to 212 in 2011-12. This large increase does not necessarily mean that there has been a general deterioration in agencies' governance arrangements, internal controls and reporting practices. In 2011-12, audit findings relating to recently formed agencies and an increase in scope of audit work performed on information technology systems also contributed to the higher number of audit findings.

3.12 Nevertheless, the many audit findings (297 audit findings in 2011-12) indicate that agencies need to improve their governance arrangements, internal controls and reporting practices.

FINANCIAL AND PERFORMANCE REPORTING

Quality of financial statements

3.13 Very few audit reports on agency financial statements were qualified in recent years. In 2011-12, 67 of the 68 audit reports on financial statements were unqualified (See Chapter 2: 'Results of the financial audit program') and all 76 audit reports issued on agencies' financial statements in 2010-11 were unqualified.

3.14 An unqualified audit report is a positive reflection on the quality of financial statements *after* the completion of the audit. It means that the auditor is satisfied that the financial statements materially comply with the relevant reporting requirements. However, an unqualified audit report does not provide a reliable indicator of the adequacy of reporting arrangements implemented by an agency because the financial statements are often amended or corrected during the audit process.

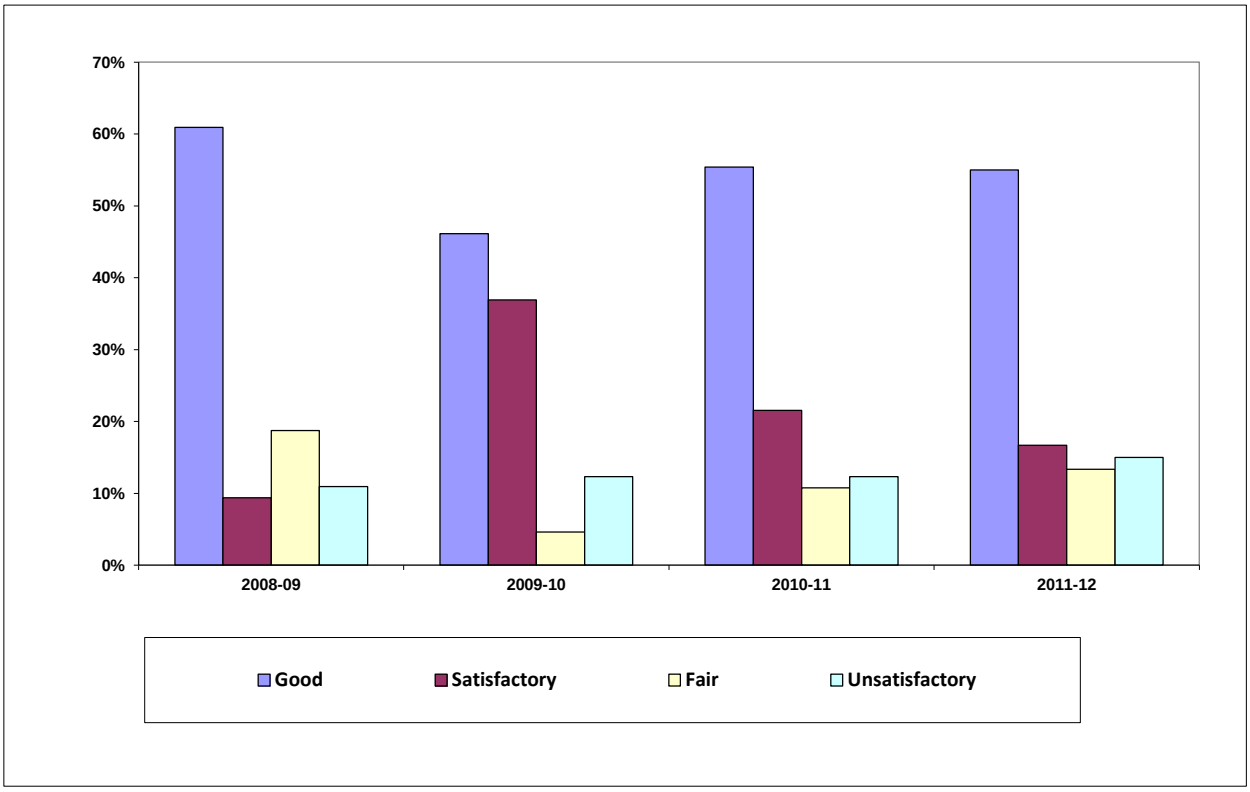
3.15 A better indication of the adequacy of reporting arrangements implemented by agencies can be obtained from assessing the quality of the financial statements submitted by agencies to the Audit Office *before* the audit is performed.

3.16 The Audit Office used the following criteria to assess the financial statements submitted by agencies for audit.

Table 3.2: Rating criteria

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

Figure 3.1: Quality of financial statements



3.17 The quality of financial statements submitted by agencies for audit in 2011-12 was similar to the quality provided in 2010-11. The percentage of financial statements assessed as 'good' (55 percent) in 2011-12 was unchanged from 2010-11 (55 percent), and there was a small decrease in the percentage of financial statements assessed as 'satisfactory' (from 22 percent in 2010-11 to 17 percent in 2011-12). This results in a combined percentage of agencies that provided 'good' and 'satisfactory' financial statements in 2011-12 of 72 percent compared to 77 percent in 2010-11.

3.18 There was a slight increase in the percentage of financial statements rated as 'fair' (from 11 percent in 2010-11 to 13 percent in 2011-12) and 'unsatisfactory' (from 12 percent in 2010-11 to 15 percent in 2011-12).

3.19 While there was no significant change in the overall quality of reporting, seven of the eight agencies that were assessed as having submitted 'unsatisfactory' financial statements in 2010-11 improved the quality of their financial statements in 2011-12 and were assessed as 'fair' or better.

3.20 In 2011-12, the financial statements of nine agencies were assessed as 'unsatisfactory'. For six of these agencies, this represents a decline in the quality of their financial statements as their statements were rated as 'satisfactory' or better in 2010-11. Although improvements were made to the financial statements of these agencies during the audit process, these agencies tended to rely excessively on the audit process to assist them to meet their financial reporting obligations.

3.21 For agencies that submitted 'unsatisfactory' financial statements, deficiencies in the financial statements included:

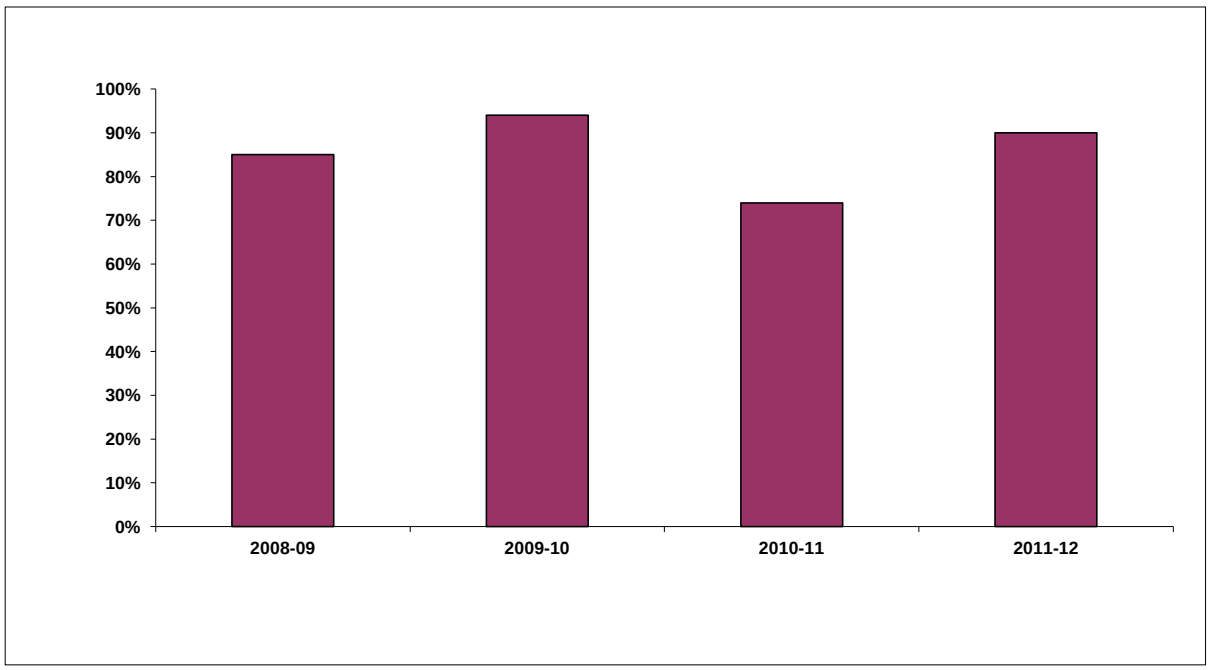
- misstatements of current or prior year figures due to error;
- the use of disclosures from an example of financial statements without ensuring that these disclosures were relevant to the operations of the agencies; and
- a lack of clear and informative information about the reported results or the accounting policies used to prepare the financial statements.

Timeliness of financial statements

3.22 In 2011-12, the former Treasury Directorate issued a whole-of-government reporting timetable. This timetable includes the dates by which agencies are required to submit their financial statements to the Audit Office. Agencies need to comply with this timetable to ensure that:

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

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



3.23 Compliance with the whole-of-government reporting timetable improved significantly in 2011-12. 90 percent of agencies complied with the timetable compared to 74 percent in 2010-11. This indicates that more agencies have implemented better processes for ensuring that their financial statements are prepared by the due date.

3.24 Three agencies (10 percent) did not comply with the reporting timetable in 2011-12 compared to nine (26 percent) in 2010-11. The financial statements for these three agencies were provided to the Audit Office shortly after the due date.

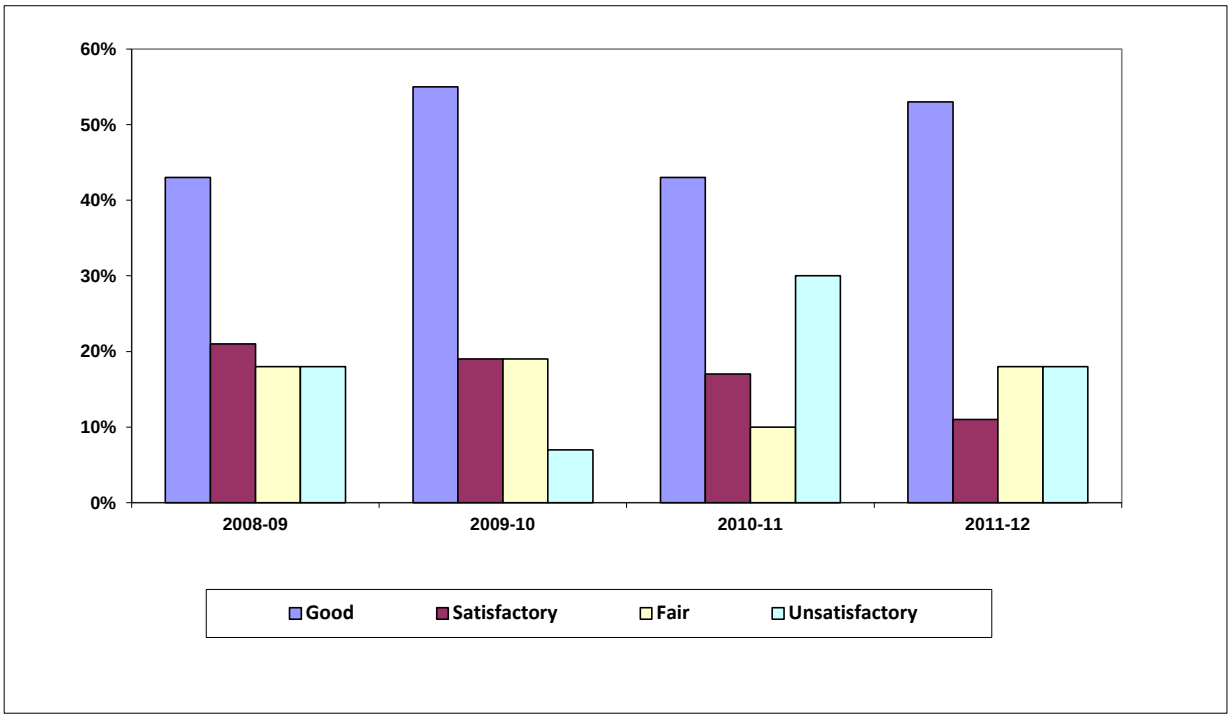
3.25 In most cases, the improvement in the timeliness of reporting was achieved without adversely affecting the overall quality of financial statements discussed previously.

Quality of statements of performance

3.26 Under the *Financial Management Act 1996*, directorates and authorities are required to prepare statements of performance that present their results against planned targets. These statements include important information on the performance of directorates and authorities.

3.27 The Audit Office used the same rating criteria applied to financial statements previously provided on page 26 to assess the quality of statements of performance submitted by reporting agencies to the Office.

Figure 3.3: Quality of statements of performance



3.28 The quality of statements of performance submitted by agencies for review improved in 2011-12. The percentage of agencies that prepared 'good' statements of performance improved from 43 percent in 2010-11 to 54 percent in 2011-12. The percentage of agencies that prepared statements of performance assessed as 'unsatisfactory' fell markedly from 30 percent in 2010-11 to 18 percent in 2011-12.

3.29 The improvement in the quality of statements of performance mainly reflects the unusually high percentage of 'unsatisfactory' statements of performance that were submitted for review in 2010-11. In 2010-11, several directorates did not effectively address the effects of a major restructuring of administrative arrangements in preparing their statements of performance.

3.30 While the overall quality of statements of performance has improved, there is scope for further significant improvement. In 2011-12, a significant percentage of statements of performance submitted for review were 'unsatisfactory' (18 percent) or 'fair' (18 percent).

3.31 Areas of most concern for agencies that submitted unsatisfactory statements of performance were:

- a failure by a few agencies to measure a result for all accountability indicators;
- errors in reported results due to unreliable recording systems;
- failures to ensure that claimed results were supported by sufficient evidence;
- a lack of clear explanatory information about the meaning of accountability indicators and how they were measured; and
- poor explanations for material variances from the target result for accountability indicators. These explanations were often unclear and/or assumed knowledge that a reader external to the reporting agency would be unlikely to have.

Usefulness of accountability indicators

3.32 The *Financial Management Act 1996* requires agencies to report the actual results for their accountability indicators in their statements of performance and compare these results to the planned or targeted levels of performance as set out in their budgets or statements of intent[2].

3.33 Consistent with previous years, there were several instances in 2011-12 where accountability indicators did not provided meaningful information about the planned and actual performance of agencies. Some accountability indicators only referred to the conduct of an activity, with no explanation of what that activity means or how well it was to be performed.

[2] Authorities are required by the *Financial Management Act 1996* to prepare statements of intent. These statements include the accountability indicators and associated targets.

3.34 The information included in the budget papers or statement of intent did not always provided sufficient insight into the planned levels of performance. Where planned levels of performance are not clearly defined and adequately explained in agencies' budget papers or statements of intent, it is less likely that agencies can be held to account for their performance.

3.35 Accountability indicators were found to be more useful and meaningful when agencies:

- clearly defined and explained their accountability indicators and associated targets in their budget papers or statement of intent;
- provided sufficient information on how actual results were measured; and
- explained significant judgements or estimates applied in measuring the reported results.

3.36 Agencies were informed by the Audit Office to areas where their statements of performance could be improved.

3.37 Chapter 6: 'Audit results and findings on ACT Government agencies and other entities' has examples of where individual agencies could improve the usefulness and meaningfulness of their accountability indicators.

Timeliness of statements of performance

3.38 Compliance with the whole-of-government reporting timetable improved significantly in 2011-12 with 90 percent of agencies complying with this timetable compared to 74 percent in 2010-11.

3.39 While three agencies did not provide their statements of performance to the Audit Office on time, their statements were provided to the Office shortly after the due date.

ANNUAL REPORTING

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

3.40 Under the Chief Minister and Cabinet's Annual Reports Directions issued under the *Annual Reports (Government Agencies) Act 2004*, agencies are required to provide their annual reports on the relevant website on the same day that their annual reports are tabled in the ACT Legislative Assembly.

3.41 In 2011-12, all agencies provided their annual reports on the relevant website on time.

Inclusion of correct versions of audited documents

3.42 Agencies are responsible for ensuring that the printed and electronic (website) version of the audited financial statements and statements of performance made available in their annual report and placed on the relevant website is consistent with those on which the audit report and report of factual findings were issued.

3.43 All agencies included the correct version of their financial statements and statement of performance in the printed and electronic version of their annual reports.

BUDGET MANAGEMENT

3.44 For the Territory to achieve its budgeted financial results, individual agencies need to manage their finances to within their individual budgets.

3.45 The Territory incurred an operating deficit of $155 million compared to a budgeted surplus of $175 million. This unfavourable result mainly reflects lower than anticipated gains on sales of undeveloped land, and unbudgeted losses on investments; partially offset by a lower than expected deficit in the net operating balance.

3.46 The financial results of the Territory's major agencies are compared to their budgets in Chapter 6: 'Audit results and findings on ACT Government agencies and other entities'. Instances where agencies did not achieve their budgeted financial results are listed below:

- The Superannuation Provision Account's operating deficit of $403.4 million exceeded the budgeted deficit of $231.3 million by $172.1 million (74.4 percent). The higher deficit was mostly due to net losses incurred on the fair value of investments as a result of weaker global equity markets.
- The Territory and Municipal Services' net cost of services exceeded the budgeted cost by $14.2 million (3.5 percent). This was mainly due to the unexpected expensing of some capital works project costs.
- Housing ACT's net cost of services exceeded the budgeted cost by $12.9 million (26.1 percent). This cost overrun was largely due to an unbudgeted transfer of a property to the community housing sector, unexpected repairs and maintenance costs resulting from storm damage, and higher than expected utility prices and water consumption costs.
- The Land Development Agency's operating profit ($142.4 million) was $12.5 million (8.1 percent) below the budgeted profit ($154.9 million). This mostly reflects lower than expected profits generated by land sales due to delays in the release of developments, and deferral of land releases to future periods.

- ACTION's net cost of services exceeded the budgeted cost by $9.9 million (11 percent). This was mainly due to higher than expected employee costs and lower than expected fare revenue. The ACT Government provided ACTION with additional funding to meet the higher than expected cost.
- The Justice and Community Safety's net cost of services excluding asset transfer expenses exceeded the budgeted cost by $5.1 million (2 percent) due mainly to higher than expected employee costs, including the use of a higher rate to estimate the present value of the long service liability ($4.6 million).
- The ACT Insurance Authority incurred an operating deficit of $0.8 million compared to the budgeted surplus of $2.4 million due mainly to an increase in net insurance claims expenses.
- The Environment and Sustainable Development Directorate's net cost of services exceeded the budgeted cost by $1.8 million (2.4 percent) mainly as a result of higher long service leave expenses associated with an increase in the rate used to estimate the present value of the long service leave liabilities.

RECOMMENDATIONS

Recommendation 1

Agencies should:

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

Recommendation 2

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

Recommendation 3

Agencies should improve the quality of their statements of performance. Agencies should ensure that:

- the systems used to report results are reliable;
- reported results are supported by sufficient evidence; and
- sufficient explanatory information on each accountability indicator and how it is measured is disclosed in the budget papers and/or statement of intent and statement of performance.

Recommendation 4

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

Recommendation 5

Agencies should ensure their financial statements and statements of performance contain concise and clear explanations of material variances from planned levels of performance.

4. COMPUTER INFORMATION SYSTEMS

INTRODUCTION

4.1 Controls over computer information systems provide assurance that:

- information used to prepare financial statements and statements of performance is accurate and reliable; and
- applications operate as intended and information stored is valid and secure.

4.2 Computer information system controls are classified as:

- Application controls. These are controls that are included within an application which address user access, change management and accuracy of data entered into and processed by the application; and
- Environment controls. These include controls over the network, equipment (e.g. computers), servers, databases and buildings containing the equipment (e.g. data centres). For most agencies, these controls are managed by Shared Services.

KEY ISSUES - APPLICATION CONTROLS

- Several agencies have not documented, approved and implemented procedures for the regular review of audit logs for applications used in the preparation of their financial statements. This increases the risk that erroneous, irregular or fraudulent changes to systems and data, or system performance issues will not be promptly identified and remedied.
- Several agencies have not documented, approved and implemented policies and procedures governing user access to applications used in the preparation of their financial statements. This presents a risk of unauthorised, inappropriate and possibly fraudulent access to these applications and data.
- Several agencies have not implemented approved and tested business continuity plans and/or disaster recovery procedures relating to applications used to prepare their financial statements.
- Generic (shared) administrator accounts are used in relation to the Homenet and MyWay systems, and most users of TM1 access the system using generic accounts and passwords.

KEY ISSUES - APPLICATION CONTROLS (CONTINUED)

- Users may use simple passwords to gain access to the Territory Revenue System and TM1 because these applications do not enforce the use of complex passwords.
- Several individual users of Cashlink may perform incompatible duties which enable them to initiate, process and approve transactions. The failure to segregate these incompatible duties increases the risk of erroneous and fraudulent transactions.

KEY ISSUES - ENVIRONMENT CONTROLS

- Environment controls implemented by Shared Services were assessed to be generally satisfactory. However, there are several control weaknesses that should be addressed.
- Shared Services reduced the risk of inappropriate, unauthorised and fraudulent access by improving controls over access to servers and data. While access controls have improved, several weaknesses in controls remain. In particular:
    - the ACT Government network operating system cannot enforce the level of password complexity required by the ACT Government's Password Standard;
    - user access levels are not regularly reviewed, and many user accounts relate to users who no longer worked in the ACT Government;
    - there are many 'active' generic (shared) user accounts in use on the ACT Government network. These accounts present a risk because they reduce management's ability to trace actions of users to an individual; and
    - there was often no evidence of approval by an authorised officer from the requesting agency before granting or changing a user's access to the ACT Government network.

KEY ISSUES - ENVIRONMENT CONTROLS (CONTINUED)

- There are weaknesses in the strategic planning, business continuity and risk management arrangements implemented by Shared Services. For example:
  - Shared Services' information and communication technology strategic plan and related action plan were not evidenced as approved;
  - Shared Services' business continuity plan is not current and tested, and staff have not been trained in its use;
  - Shared Services' risk management plan and related information technology risk register have not been updated and approved;
  - Shared Services does not have a documented information technology security plan to assist in identifying, analysing and prioritising security threats, and allocating resources to address these threats;
  - there is no reporting of potential security breaches and their investigation to the Shared Services ICT Security and Risk Committee. This Committee is responsible for overseeing the investigation and management of information and communication technology and physical security matters and incidents; and
  - regular inspections of emergency equipment in data centres are not performed.
- There are weaknesses in the management of servers by Shared Services. Testing of changes to security configurations for servers is not regularly performed, and audit logs of any changes to security configurations are not regularly reviewed. These increase the risk that applications and data on these servers will be exposed to security vulnerabilities and not operate as intended.
- Shared Services manages information technology projects on behalf of ACT Government agencies. The policies and procedures for information technology projects and project dispute resolution procedures are in draft form, records of projects under project management were often inaccurate, and contract management guidelines and procedures did not require regular monitoring of compliance by suppliers with contracts.

APPLICATION CONTROLS

4.3 This section provides an overview of the results of the Audit Office's reviews of the application controls relating to the following applications:

- ORACLE Financials is the financial management information system used by most ACT Government agencies. It is managed by Shared Services. Shared Services became part of the Commerce and Works Directorate following changes to administrative arrangements in November 2012;
- CHRIS 21 is the human resources information management system used by most ACT Government agencies. It is managed by Shared Services;
- MAZE 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 2008 is an application that was used by the former Treasury Directorate (ACT Revenue Office) to process rates, taxes and levies. This application is now managed by the Commerce and Works Directorate following changes to administrative arrangements in November 2012;
- Territory Revenue System is a system that was used by the former Treasury Directorate (ACT Revenue Office) to record and manage taxes and fees revenue. This system is now managed by the Commerce and Works Directorate following changes to administrative arrangements in November 2012;
- Homenet is an application used to manage Housing ACT's information on social housing services. This system is managed by Housing ACT;
- rego.act is a system used and managed by the Justice and Community Safety Directorate to record motor vehicle registrations, drivers' licences and vehicle infringement revenue;
- MyWay is a recently implemented bus ticketing system used by ACTION. This system is managed by the Territory and Municipal Services Directorate;
- ENTA is a theatre ticketing system used and managed by the Cultural Facilities Corporation;
- Cashlink is a recently implemented application used by several agencies to process cash received from members of the public. This system replaced the Receipting and Payments System (RAPS) in August 2011. Cashlink is managed by the Territory and Municipal Services Directorate;
- ProACT is a rostering tool for nursing staff to record payroll data, including time records used in the calculation of the fortnightly payroll, at the Health Directorate. It is managed by the Health Directorate; and

- TM1 is an application that was used by the former Treasury Directorate to prepare the financial statements of the Australian Capital Territory. TM1 is managed by the Chief Minister and Treasury Directorate following changes to administrative arrangements in November 2012.

ORACLE FINANCIALS AND CHRIS 21

4.4 ORACLE Financials is the financial management information system used by most agencies to process and record financial transactions. These transactions support reporting agencies' financial statements and statements of performance.

4.5 CHRIS 21 is the human resources management information system used to process salaries and leave entitlements for many ACT Government employees.

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

Previously Reported	Resolved	Not Resolved	New	Balance
5	(4)	1	2	3

4.6 Complex passwords provide better control over access to systems, applications and data as they are more difficult to guess or 'crack' than simple passwords.

4.7 The ACT Government Password Standard sets the minimum complexity requirements for passwords. This Standard requires passwords to contain a combination of lowercase and uppercase letters, numbers and special characters. Passwords should not contain words, slang, jargon or the personal information of users such as names or dates of birth.

4.8 Shared Services strengthened password controls by automating the enforcement of the use of complex passwords to gain access to ORACLE Financials. This reduces the risk of unauthorised, inappropriate and possibly fraudulent access to ORACLE Financials.

4.9 Default accounts are accounts provided by software vendors and used when systems are first set up, or to run background system processes. Default accounts may create a risk of inappropriate or fraudulent access to a system because the default account user names and passwords are often not kept secure by system vendors. Default account user names and passwords may be made widely available on the internet. If default accounts are required, then activities performed using these accounts should be monitored and passwords changed regularly.

4.10 Shared Services improved database security over ORACLE Financials by removing default accounts and/or changing default account passwords.

4.11 ORACLE Financials has automated controls which provide assurance that the ACT Government's financial transactions are completely, accurately and validly processed. One such automated control is the 'freezing' function on journals so that they cannot be altered after they have been posted to the general ledger. Shared Services reduced the risk of erroneous and fraudulent reporting by implementing the 'freezing' function on all (except manual) journals.

4.12 Segregation of incompatible duties provides a safeguard against fraudulent activities by, for example, ensuring that one individual cannot initiate, process and authorise transactions and/or maintain associated records of those transactions. Segregation provides a safeguard against fraudulent transactions because the completion of a fraudulent transaction requires collusion by individuals.

4.13 Computer systems can automate the 'enforcement' of segregation by restricting the functions a user can perform. For example, the system can automatically prevent a user from recording and approving transactions.

4.14 Shared Services implemented regular (bi-annual) reviews of the automated segregation within ORACLE Financials and removed a number of conflicting or unnecessary responsibilities during 2011-12.

4.15 Audit logs provide a system generated record of exceptions and other security events within a system, such as, user identity, dates, times, locations and unsuccessful attempts for changes to key data within databases and program code.

4.16 Monitoring of audit logs may assist in identifying:

- erroneous, irregular or fraudulent changes to systems and data; and
- system performance issues and flaws in a system by reporting errors and highlighting areas where system processes regularly require a significant time to complete.

4.17 Shared Services has not documented, approved and implemented procedures for the review of audit logs for ORACLE Financials and CHRIS 21, including the underlying data. This increases the risk that accidental erroneous, irregular or fraudulent changes to systems and data will not be promptly detected or remedied.

4.18 Shared Services has provided the following comments on this audit finding:

> Shared Services is developing a solution to meet this audit finding. Additionally, a trial of database vulnerability products for ORACLE Financials has commenced.
>
> Shared Services has designed and implemented a tool that reports changes processed in CHRIS 21 including, global and bulk variations, user access and configurations for CHRIS 21. An independent review of these changes is conducted fortnightly. Evidential documentation is being completed and quarterly reviews will then be implemented.

4.19 Policies governing user access, including procedures for reviewing, establishing, modifying and removing user's access or their assigned roles and privileges, reduce the risk of inappropriate or fraudulent access by providing assurance that:

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

4.20 Shared Services has not documented and approved policies governing user access for ORACLE Financials. This increases the risk of inappropriate and possibly fraudulent access to information within the ORACLE Financials system. Shared Services has agreed to address this audit finding.

4.21 A business continuity plan provides a structured process for continuing operations in the event of unplanned incidents which adversely affect information technology infrastructure, including an inability to use hardware or software as intended. This plan provides assurance that the operations of an entity will continue if a system fails.

4.22 Disaster recovery procedures are the procedures an entity should follow to restore a system following a major disaster, disruption or other adverse event. The effectiveness of these procedures should be tested to provide reasonable assurance that a system will be recovered and that operations will be resumed in a timely manner, without the loss of data, in the event of a disaster, disruption or other adverse event.

4.23 Shared Services has not documented the detailed disaster recovery procedures for ORACLE Financials within its business continuity plan. This presents a risk that ORACLE Financials will not be effectively recovered following a disaster, disruption or other adverse event.

4.24 Shared Services has provided the following comments on this audit finding:

> Shared Services has currently engaged PwC to address detailed risk, business continuity and disaster recovery planning including testing of these plans. This work is expected to be completed within the 2012-13 financial year.

MAZE

4.25 MAZE is a school administration system used by ACT public schools. One of the functions of MAZE system is to process school receipts and expenditure.

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

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

4.26 There is no approved policy for managing changes to the MAZE system. This policy should address the Education and Training Directorate's requirements for the approval of changes, testing of changes prior to implementation, identification of business risks and plans for reversing changes that do not operate as intended. The lack of an approved change management policy increases the risk of untested and potentially fraudulent changes being made to the MAZE system. The Education and Training Directorate developed procedures and responsibilities to manage changes to the MAZE system. The Audit Office has advised that an approved change management policy is also required.

4.27 Reviews of users' access to the MAZE system are not being regularly performed. This increases the risk of unauthorised, inappropriate and possibly fraudulent access to the MAZE system and data.

4.28 The Directorate has not performed reviews of the audit logs for the MAZE system and data and does not have a documented policy for such reviews. When such reviews are not performed, there is a risk that erroneous or fraudulent changes to the MAZE system and data will not be promptly detected and rectified.

4.29 The Education and Training Directorate agreed with two and partially agreed with one audit finding. The Directorate partially agreed to an audit recommendation to implement regular reviews of audit logs for the MAZE system and data. The Directorate advised that options for these reviews will be explored and the review process to be adopted will be dependent on the capability of the MAZE system.

COMMUNITY 2008 AND TERRITORY REVENUE SYSTEM

4.30 Community 2008 and Territory Revenue System are used to process substantial amounts of taxes such as duties, payroll tax, general rates, land taxes, the fire and emergency services levy and city centre marketing and improvements levy.

Table 4.3: Audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
7	(2)	5	-	5

4.31 The former Treasury Directorate implemented an approved business continuity and disaster recovery plan for Community 2008 and Territory Revenue System. This provides assurance that these systems will be recovered and operations will be resumed in a timely manner without the loss of data in the event of a disaster, disruption or other adverse event.

4.32 The former Treasury Directorate also implemented policies and procedures governing user access to Community 2008. These policies and procedures assist in reducing the risk of inappropriate or potentially fraudulent access.

4.33 There are no procedures for the regular monitoring of audit logs for Community 2008 and Territory Revenue System. Furthermore, users may use simple passwords to gain access to the Territory Revenue System because this application does not have the capacity to enforce the use of complex passwords, and there are no formally documented policies and procedures governing user access to the Territory Revenue System. These weaknesses increase the risk of unauthorised and possibly fraudulent access and/or changes to the Territory Revenue System.

4.34 Backup and restoration procedures outline the process of creating and testing a copy (which is usually stored in a separate location to the original) of all data and application configurations in a system. These procedures provide assurance that a system's data or configurations will not be lost in the event of the original being lost or corrupted.

4.35 The former Treasury Directorate tests the backup and restoration procedures of the Territory Revenue System in the 'test' environment without knowing whether there are any key differences between the 'test' and 'live' (production) environments that would affect the reliability of these procedures. As the effectiveness of the processes used to restore backed up data has not been fully tested, there is a risk of backup data not being recoverable or promptly available in the event of the original data being lost or corrupted.

4.36 The Commerce and Works Directorate is now responsible for managing these systems and has agreed to address these audit findings. The Directorate provided the following comments on these findings:

The Commerce and Works Directorate will:

- develop policies and procedures for the review of audit logs from Community 2008. This is planned to be completed by 30 June 2013;
- address the audit log issues in the Territory Revenue System after the upgrade to the system. This is planned to be completed by 30 December 2013;
- seek confirmation whether the current (test) environment used for the restoration and back-up of the Territory Revenue System is sufficiently similar to the production environment. This is planned to be completed by 30 June 2013;
- 'Territory Revenue System' users will use complex passwords after the system upgrade. This is planned to be completed by 30 December 2013; and
- prepare user access management policies and procedures for the Territory Revenue System after the system upgrade. This is planned to be completed by 30 December 2013.

HOMENET

4.37 The Homenet application is a business application used to record and manage information on all aspects of Housing ACT's social housing services, including tenant and applicant services, and property management. The substantial amounts of rental revenue reported in the financial statements of Housing ACT are recorded in Homenet.

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

Previously Reported	Resolved	Not Resolved	New	Balance
5	(2)	3	-	3

4.38 Housing ACT reduced the risk of inappropriate, unauthorised and possibly fraudulent access to the Homenet application and data by:

- performing monthly reviews of user access in accordance with policies governing user access to the Homenet application and retaining evidence of these reviews; and
- reviewing audit logs from the Homenet application on a monthly basis.

4.39 Generic (shared) accounts reduce management's ability to trace the actions of users to an individual. The use of shared accounts reduces the capacity of management to hold specific users to account for their actions while accessing a system. If generic accounts are required, then the activities of these accounts should be monitored and passwords for these accounts changed regularly.

4.40 While controls over access to the Homenet application and data have improved, some weaknesses over access to the underlying database and data remain. In particular:

- Homenet database administrators use a few generic accounts to maintain the database supporting the Homenet application; and
- the system does not enforce the use of complex passwords for these generic accounts.

These control weaknesses increase the risk of unauthorised, inappropriate or fraudulent access to the Homenet database and data. Housing ACT representatives have advised that they have been working with Shared Services to resolve these control weaknesses.

4.41 In 2011-12, backup and restoration procedures for the Homenet application were tested, however, the results of this testing and actions required to resolve any problems identified were not documented. This increases the risk that any actions required to resolve problems identified during testing of the backup and restoration process will not occur, and these procedures will not work as intended. Housing ACT has agreed with this audit finding.

4.42 In relation to the two audit findings that were agreed-in-principle, Housing ACT has advised that:

- the few generic (shared) accounts used by Homenet database administrators are required to maintain the ORACLE database supporting the Homenet application and no Housing ACT staff have a generic account. Housing ACT has also advised that it is continuing to work with Shared Services ICT to put systems and controls in place to record and monitor access using these generic accounts; and
- Housing ACT and Shared Services ICT will work with the vendor of the Homenet application to limit the number of generic log-on accounts and improve password controls as part of a project to upgrade Homenet.

REGO.ACT

4.43 rego.act is owned by the Justice and Community Safety Directorate and is used to process motor vehicle registrations, drivers' licences and parking infringement revenue.

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

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

4.44 Security patches are developed by the vendor of a system (including server operating systems) to ensure that the systems are protected from known security vulnerabilities, or to fix errors and performance issues that have been reported to the vendor.

4.45 The Audit Office has previously reported that rego.act servers did not have security patches applied to them on a timely basis even though security patches were being regularly released.

4.46 In 2011-12, the Justice and Community Safety Directorate undertook a 'Server Transition Project' where old servers that were difficult to patch were either turned off or replaced with newer equipment. However, no formal arrangements were put in place for regularly applying security patches to the new servers. As a result, critical patches may not have been installed on the rego.act servers.

This presents a risk of unauthorised and possibly fraudulent access to rego.act.

4.47 The Justice and Community Safety Directorate has agreed with and provided the following comments on the above audit finding:

> Patch management of rego.act is currently managed by requests to Shared Services (ICT). Shared Services (ICT) has developed a formal patch strategy for rego.act. Further, Shared Services (ICT) is also working on an enterprise patch strategy for the rego.act operating system and database. The enterprise patch and rego.act patch strategies will then be aligned to confirm a robust patch regime is in place for rego.act. This alignment will be completed at the end of January 2013.

4.48 Although Shared Services (ICT) has disaster recovery plans for systems it supports, including rego.act, the Directorate has not developed and approved Disaster Recovery Plans specifically for the rego.act application. This presents a risk that the Directorate may not be able to promptly recover rego.act in an effective manner should a major unplanned incident occur.

4.49 The Justice and Community Safety Directorate has partially agreed with and provided the following comments on the above audit finding:

> Although rego.act is a Directorate asset, development and support services are provided by Shared Services (ICT). A rego.act disaster recovery plan has already been developed by Shared Services (ICT) for the critical functions supported by Shared Services. The Directorate has also advised that it will work in partnership with Shared Services (ICT) to ensure that a joint plan is developed to provide a 'seamless solution' under the guidance of the Directorate.

MYWAY

4.50 The MyWay and associated SmartTrack application is a bus ticketing system used by ACTION (owned by the Territory and Municipal Services Directorate) to record fares and patronage data.

Table 4.6: Audit findings (number of findings)

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

4.51 The Territory and Municipal Services Directorate implemented approved policies and procedures which govern user access and address the prompt removal of access to MyWay and the SmartTrack application by former employees.

4.52 These improvements provide assurance that users' access will be commensurate with their current roles and responsibilities, and reduce the risk of inappropriate and possibly fraudulent access to MyWay and the SmartTrack application.

4.53 However, the Territory and Municipal Services Directorate has not implemented regular:

- reviews of access levels provided to users to ensure that access is commensurate with the current roles and responsibilities of users; and
- monitoring of audit logs for the MyWay application and databases to detect and remedy accidental or fraudulent changes to MyWay and its data.

4.54 Two generic (shared) administrator accounts are shared between support staff of the vendor for the MyWay system. The Directorate has not monitored activities performed using these accounts to minimise the risk of erroneous or fraudulent use of these accounts.

4.55 The Territory and Municipal Services Directorate has prepared a business continuity plan for MyWay, however, this plan has not been finalised and tested to provide assurance that the Directorate will be able to resume the operations of ACTION in a timely manner in the event of a major unplanned outage or other disruption.

4.56 The Territory and Municipal Services Directorate has agreed to address these control weaknesses.

ENTA

4.57 The ENTA system is used by the Cultural Facilities Corporation to process and manage ticket sales at venues operated by the Corporation such as the Canberra Theatre.

Table 4.7: Audit findings (number of findings)

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

4.58 The Cultural Facilities Corporation rectified weaknesses in controls over access to the ENTA system by enforcing the use of complex passwords and disabling the generic administrator account. Controls have also been strengthened by monitoring audit logs within ENTA on a monthly basis.

4.59 Rectifying these control weaknesses reduces the risk of errors, irregularities and fraud.

4.60 The Cultural Facilities Corporation documented policies covering information security, user access management, change management and backup and restoration, however, policies for business continuity planning and disaster recovery planning were not completed in 2011-12.

4.61 The Cultural Facilities Corporation has agreed in principle to this finding and advised that it will shortly perform a review of the ENTA disaster recovery plan. This review should include testing the effectiveness of the current disaster recovery processes and set a timeframe for regular testing.

CASHLINK

4.62 The Cashlink receipting system is owned by the Territory and Municipal Services Directorate.

4.63 Cashlink is used for revenue collections by the Territory and Municipal Services Directorate at its Canberra Connect Shopfronts and MyWay Centres. Cashlink is also used to record online payments through the Canberra Connect website and payments from third parties, such as BPAY.

4.64 Most revenue recorded in Cashlink is collected on behalf of other ACT Government agencies such as the Canberra Institute of Technology, Commerce and Works Directorate and Environment and Sustainable Development Directorate.

Table 4.8: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
-	-	-	3	3

4.65 Controls over access to Cashlink reduce the risk of inappropriate or fraudulent access to information. These controls should be improved by:

- implementing the automated segregation of duties controls that prevent users from having the capacity to approve the disbursement of funds and disburse those funds; and
- developing approved policies and procedures governing user access, including regular reviews of user access.

4.66 The risk of undetected security violations (e.g. fraud), performance problems, and potential flaws in the Cashlink application should be reduced by developing a policy for performing regular reviews of audit logs created by the application, and developing a policy for the performance of such reviews.

4.67 The Territory and Municipal Services Directorate has agreed to address these control weaknesses.

PROACT

4.68 ProACT is a rostering tool for nursing staff to record payroll data, including time records used in the calculation of the fortnightly payroll, at the Health Directorate.

Table 4.9: Status of audit findings (number of findings)

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

4.69 The Health Directorate reviews user access in line with the policies governing user access for the ProACT system. However, there was no documentary evidence of the regular performance of this review to ensure that access given to users is authorised and appropriate.

4.70 Audit logs for the ProACT system are not regularly reviewed and evidenced as such. This increases the risk that accidental or unauthorised changes to data will be detected and remedied in a timely manner.

4.71 The Health Directorate has agreed to address these control weaknesses.

TM1

4.72 The Chief Minister and Treasury Directorate uses 'TM1' as a reporting tool for the preparation of the financial statements of the Australian Capital Territory Government (the Territory).

4.73 TM1 was not designed to be a stand-alone financial management information system. TM1 accesses data from the financial systems of all agencies consolidated in the financial statements of the Territory, in particular the ORACLE Financials system.

Table 4.10: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
-	-	-	5	5

4.74 The Audit Office found that:

- users access the TM1 system using generic accounts and passwords;
- complex passwords are not enforced by the TM1 system;
- policies governing users access of the TM1 system have not been established; and
- audit logs are not regularly reviewed.

These weaknesses increase the risk of unauthorised and inappropriate access to the TM1 application and data.

4.75 In addition, the business continuity plan, including disaster recovery procedures, for TM1 is out of date and untested. This presents a risk that the operations of the Chief Minister and Treasury Directorate will not continue following a major unplanned outage for TM1 or the system will not be effectively recovered.

4.76 The Chief Minister and Treasury Directorate has agreed to implement complex passwords, establish policies governing access by users to TM1 and update and test the business continuity plan for TM1. However, the Directorate has not agreed to:

- cease the use of generic accounts and passwords but plans to establish and monitor a log of generic user accounts. The Directorate has some risk mitigation measures such as minimising the number of staff with access to the generic password, and limiting the timeframe (two to three days) within which any changes to the data can be made. The Audit Office acknowledges that while these measures are an improvement, they do not enable the tracing of any detected fraudulent or inappropriate activity to an individual user; and

- implement the review of audit logs for TM1 because the Directorate believes the risk is low, and that the performance of such reviews would not be cost-effective. The Audit Office acknowledges that it would be a resource intensive exercise to review all information captured by the audit log. However, the purpose of the review of the audit log is to identify any unusual activity or events that accidentally or fraudulently change the TM1 system and data. To minimise the cost of implementing this audit recommendation, the Directorate would need to develop procedures that require a review of the audit log with a focus on identifying unusual activity or events, rather than performing a review of all information in the audit log.

4.77 The Chief Minister and Treasury Directorate has provided the following comments on the above audit findings:

> ORACLE Financials is the source for the majority of the data included in the TM1 system. Controls are in place within the ORACLE financials system that reduce the risk of unauthorised or inappropriate access to this data.
>
> An extensive review and reconciliation process is also undertaken at the administrator level to ensure the accuracy of the data in the TM1 system and subsequently the figures included into the Territory's financial statements.
>
> This is managed through several data collection, access and review periods and by providing limited timeframes in the TM1 system in which data is accessible and amendable.
>
> This is combined with extensive data integrity review and reconciliation processes at various stages throughout the monthly reporting processes.
>
> These processes are performed as an alternative to the multiple user password controls that would generally be in place on a core financial system.
>
> The Directorate believe the existing controls sufficiently mitigate the risks associated with data integrity or inappropriate use.

4.78 Given the importance of the TM1 system to the preparation of the financial statements of the Territory, the Audit Office believes there is merit in implementing key controls usually found in financial information management systems such as the removal of generic accounts and audit logging.

ENVIRONMENT CONTROLS

4.79 ACT Government agencies rely on Shared Services to manage the computer information system environment controls supporting their critical financial applications.

Table 4.11: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
16	(5)	11	15	26

4.80 Controls implemented by Shared Services over the computer information system environment were assessed to be generally satisfactory. The Audit Office reviewed the following key areas of the computer information systems environment:

- organisational structure;
- governance framework;
- security management processes;
- change management framework;
- project management;
- management of information technology services provided by external suppliers; and
- business continuity and disaster recovery planning.

4.81 The Audit Office found that adequate policies and procedures had been implemented in most areas that were reviewed. However, there are several weaknesses in governance arrangements and internal controls that should be addressed.

4.82 Shared Services reduced the risk of inappropriate or unauthorised access to servers and data by:

- regularly updating servers with the latest critical patches. These patches protect servers from known vulnerabilities and security weaknesses;
- requiring passwords which provide system administrator access to Unix servers to be regularly changed; and
- retaining supporting documentation of requests from vendors to access the ACT Government network.

4.83 While access controls have improved, weaknesses in *automated* controls which *prevent* inappropriate or unauthorised access to the ACT Government network remain. In particular:

- the ACT Government network operating system cannot enforce the level of password complexity required by the ACT Government's Password Standard. Users are more likely to adopt simple and easy to guess passwords when password complexity is not automatically enforced; and
- there are no automated controls which prevent segregation of duty conflicts. For example, there are no controls which prevent users from updating an application in the development and live environments.

4.84 These weaknesses are partially mitigated by manual controls which detect weaknesses in access to the ACT Government network. For example, Shared Services conducts audits to check whether users are complying with the ACT Government's Password Standard.

However, these *manual* controls tend to be less reliable than *automated* controls because *automated* controls are consistently applied.

4.85 Other weaknesses in user access controls exist. For example:

- user access levels are not regularly reviewed, and many user accounts relate to users who no longer worked in the ACT Government;
- there are many 'active' generic (shared) user accounts in use on the ACT Government network. These accounts present a risk because they reduce management's ability to trace the actions of users to an individual. These include over 400 user accounts for the Health Directorate, and over 100 user accounts for the Emergency Services Agency. Passwords for these accounts are not required to be changed with sufficient regularity, and privileges granted to these accounts have not been tightly restricted; and
- there was often no evidence of approval by an authorised officer from the requesting agency before granting or changing a user's access to the ACT Government network.

4.86 Shared Services has provided the following comments in relation to the generic accounts finding:

> Shared Services discourages the use of generic accounts, however some are required to meet the specific business needs of agencies. Shared Services ICT Security review all network access logs daily to ensure ongoing compliance.

4.87 There are weaknesses in the strategic planning, business continuity and risk management arrangements implemented by Shared Services. For example, Shared Services':

- information and communication technology strategic plan and related action plan were not evidenced as approved. Progress against this plan is not reported to, and monitored by, management;
- business continuity plan is not current and tested, and staff have not been trained in its use. This presents a risk that Shared Services will not respond effectively to a disaster or other adverse event; and
- risk management plan and related information technology risk register have not been updated and approved. Approving these arrangements would provide increased assurance that significant risks, including information technology risks, will be identified and effectively addressed.

4.88 Shared Services has provided the following comments in relation to these audit findings:

> Shared Services has currently engaged PwC to address detailed risk, business continuity and disaster recovery planning including testing of these plans. This work is expected to be completed within the 2012-13 year.

4.89 Shared Services does not have a documented information technology security plan. This presents a risk that:

- information technology security threats (for example, unauthorised access to information) will not be effectively identified, analysed and prioritised; and
- resources will not be allocated to address these threats.

4.90 Other weaknesses in information technology security arrangements were that:

- there is no reporting of potential security breaches and their investigation to the Shared Services ICT Security and Risk Committee. This Committee is responsible for overseeing the investigation and management of information and communication technology and physical security matters and incidents; and
- security compliance plans have not been approved. While compliance audits are performed, the frequency of these audits is not formally mandated. For example, password compliance audits are being performed annually but this practice is not mandated.

4.91 Shared Services has agreed to address these audit findings.

4.92 Data centres in the ACT Government use emergency equipment such as fire detection, sound and intercom systems, as well as emergency cut-off switches and fire doors to respond to potential emergencies. However, regular inspections of emergency equipment within the data centres are not performed. This increases the risk that the emergency equipment will not operate effectively in the event of a disaster or other adverse event.

4.93 Shared Services has provided the following comments in relation to the audit finding:

> Regular inspections of emergency systems are carried out at six-monthly intervals, in conjunction with ACT Property Group. Shared Services has agreed to better develop evidence of the review.

4.94 There are weaknesses in the management of servers by Shared Services. For example:

- testing of changes to security configurations for servers is not regularly performed, and audit logs of any changes to security configurations are not regularly reviewed; and
- there are several servers on the ACT Government network that use operating systems that are no longer supported by the vendor. There are no formal approved plans or strategies to anticipate the future loss of support for any operating systems, or to upgrade the operating systems that are no longer supported.

These weaknesses increase the risk that applications and data on these servers will be exposed to security vulnerabilities and of applications not operating as intended.

4.95 Shared Services has provided the following comments in relation to these audit findings:

> The issue of legacy operating systems is currently being addressed through several channels including, disaster recovery planning work, data centre migration planning and the development of system security plans.
>
> Shared Services will work with ACT Government directorates to identify longer term strategies for legacy operating systems to address this finding.

4.96 Shared Services manages information technology projects on behalf of ACT Government agencies. Policies and procedures for information technology projects and project dispute resolution procedures are in draft form, the list of projects under project management was often inaccurate, and contract management guidelines and procedures did not require regular monitoring of compliance by suppliers with contracts.

4.97 Shared Services has agreed or partially agreed to address all weaknesses identified in the control environment discussed above.

RECOMMENDATIONS

4.98 In 2011-12, many recommendations were made to agencies as part of the review of the computer information systems controls. The key recommendations are listed below.

Recommendation 6

Agencies should implement approved policies and procedures which require the regular review of audit logs for errors, irregularities and fraudulent changes to systems. The results of this monitoring should be documented and reported to management.

Recommendation 7

Agencies should implement approved policies and procedures governing user access, including procedures for reviewing, establishing, modifying and removing users' access or their assigned roles and privileges to reduce the risk of inappropriate or fraudulent access to critical systems.

Recommendation 8

Agencies should implement approved and tested business continuity plans and/or disaster recovery procedures for key systems.

Recommendation 9

Agencies should cease the use of generic (shared) user accounts for key systems.

If the use of generic accounts is unavoidable, then the number of generic accounts should be kept to minimum and passwords regularly changed. A generic user accounts register should be established to monitor and track users who have access to generic user accounts, and how often the passwords for the generic accounts are changed.

Recommendation 10

Agencies should enforce the use of complex passwords to better control access to critical systems.

5. THE TERRITORY'S FINANCIAL STATEMENTS

5.1 The financial statements of the Australian Capital Territory Government (the Territory) include the results of agencies that are controlled by the Territory. These financial statements also include the Territory's share of the financial results of joint ventures, including the ActewAGL Joint Venture and land joint ventures.

5.2 This chapter contains a discussion of the Territory's financial results, estimated financial results over the period from 2012-13 to 2015-16 (the forward years) presented in the 2012-13 Pre-Election Budget Update and Infrastructure Investment Program provided in the annual Budget Papers.

5.3 The forward estimates disclosed in the 2012-13 Pre-Election Budget Update were current at 17 September 2012.

AUDIT REPORT

- The Audit Office issued an unqualified audit report on the Territory's 2011-12 Consolidated Annual Financial Statements.

FINANCIAL RESULTS

Net operating balance

- In 2011-12, the Territory incurred a deficit in the net operating balance of $97 million compared to a budgeted deficit of $211 million. This lower than expected deficit was mainly due to lower than anticipated expenses.
- The Territory's net operating balance; a deficit of $97 million, was less than the prior year's surplus balance of $1 million. This declining result was caused by a growth in expenses of $241 million (5.9 percent), which exceeded an increase in revenue of $143 million (3.5 percent).
- The Territory estimates that it will incur deficits in its net operating balance over the forward years. These deficits are expected to steadily decline from a peak of $578 million in 2012-13 to $84 million in 2015-16.

Operating result

- The Territory incurred an operating deficit of $155 million compared to a budgeted surplus of $175 million. This unfavourable result mainly reflects lower than anticipated gains on sales of undeveloped land, and unbudgeted losses on investments; partially offset by a lower than expected deficit in the net operating balance.

Operating result - continued

- The Territory's operating deficit of $155 million compares unfavourably to the prior period's surplus of $123 million. This declining result mostly reflects an increase in the losses on superannuation investments and a higher rate being used to estimate the present value of long service leave and insurance expenses; partially offset by an increase in land sales.

- The Territory's operating deficit is estimated to increase by $240 million (154.8 percent) from $155 million in 2011-12 to $395 million in 2012-13, before generating surpluses over the remaining forward years from 2013-14 to 2015-16.

- The achievement of operating surpluses in 2013-14 and 2015-16 depends on the Territory obtaining sufficient other economic inflows, in particular, gains from investment and property markets, to counter the expected deficits in the net operating balance over the forward years.

Revenue

- The Territory's revenue ($4 261 million) was $36 million (1 percent) below the budgeted amount ($4 297 million).

- The Territory's revenue ($4 261 million) exceeded the previous year's amount ($4 118 million) by $143 million (3.4 percent).

Expenses

- The Territory's expenses ($4 358 million) were $150 million (3.3 percent) below the budgeted cost ($4 508 million).

- The Territory's expenses ($4 358 million) exceeded the previous year's amount ($4 117 million) by $241 million (5.9 percent) due mainly to higher employee costs.

Other economic inflows/(outflows)

- The Territory incurred net economic outflows of $58 million compared to budgeted inflows of $386 million as budgeted market gains in land and property markets did not eventuate.

Financial position

- The Territory's unfunded superannuation liability was expected to decrease by $512 million (19.5 percent) from $2 627 million at 30 June 2011 to $2 115 million at 30 June 2012. However, this liability doubled from $2 627 million at 30 June 2011 to $5 242 million at 30 June 2012, due mainly to an increase in the rate used to estimate the present value of the superannuation liability.

Financial position - continued

- The Territory's net asset position at 30 June 2012 ($14 094 million) was lower than the budgeted ($17 250 million) and prior year ($16 210 million) positions by $3 156 million (18.3 percent) and $2 116 million (13.1 percent) respectively. This was due mainly to a substantial increase in the Territory's unfunded superannuation liability.

Short-term financial position

- The Territory's short-term financial position remains strong and was stronger than the position anticipated in the budget.
- The Territory's short-term financial position is expected to weaken from the position at 30 June 2012, but is expected to remain strong over the forward years.

Long-term financial position

- The long-term financial position of the Territory is much weaker than the budgeted and prior year's positions due mainly to a substantial unexpected increase in the unfunded superannuation liability. The use of borrowings to fund the Infrastructure Investment Program has also contributed to the significant weakening of the long-term financial position since the previous year.
- According to the 2012-13 Pre-Election Budget update, the Territory's long-term financial position is expected to strengthen significantly from the position that existed at 30 June 2012. However, this depends largely on a substantial reduction in the unfunded superannuation liability in 2012-13.
- The unfunded superannuation liability doubled from $2 627 million at 30 June 2011 to $5 242 million at 30 June 2012. If this liability were to remain at similar levels over the forward years to that which existed at 30 June 2012, then the Territory's financial position would be much weaker than the position indicated by the 2012-13 Pre-Election Budget update.

Cash results

- The net cash surplus generated by the Territory's operations ($485 million) was strong but is well below the budgeted cash surplus ($573 million) and previous year's cash surplus ($652 million).
- The Territory's net cash deficit from operating and capital activities ($448 million) was less than the budgeted deficit ($696 million). This was mainly due to less than expected payments for property, plant and equipment and the Infrastructure Investment Program and, to a lesser extent, a lower net cash surplus from operations.
- The Territory's net cash deficit from operating and capital activities ($448 million) exceeded the prior year's deficit ($337 million) due mainly to a lower net cash surplus from operations.

Cash results - continued

- The Territory estimates that it will incur cash deficits from operating and capital activities over the next two years, before returning to cash surpluses from 2014-15 to 2015-16. A return to cash surpluses depends on significant reductions in cash spent on capital activities (in particular, the Infrastructure Investment Program) and a steady increase in net cash generated by the Territory's operations.

Infrastructure Investment Program

- The Territory's Infrastructure Investment Program funding was underspent by $273 million (30.6 percent). This significant underspend mainly resulted from delays in procurement for various capital works projects because it took longer than expected to scope the work, consult with those affected by these capital works projects and complete procurement. Also, additional time was needed to obtain approval for compliance with environmental requirements. Some projects were delayed because of wet weather.

OPERATING RESULTS

Table 5.1: Operating results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Revenue	4 118	4 261	4 297
Expenses	(4 117)	(4 358)	(4 508)
Net operating balance – surplus/(deficit)	**1**	**(97)**	**(211)**
Other economic inflows/(outflows)	122	(58)	386
Operating surplus/(deficit)	**123**	**(155)**	**175**

5.4 The 'net operating balance' and 'operating surplus/(deficit)' are key measures of the Territory's financial performance. These measures provide an indication of the overall financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time.

5.5 The net operating balance mainly consists of revenue and expenses from 'mutually agreed transactions' such as:

- revenue from Commonwealth Government grants, taxation, interest, sales of goods and services, dividends and land sales (value-added component[3]); and
- costs relating to employees, supplies and services, interest, grants, depreciation and amortisation expenses.

5.6 Other economic inflows/(outflows) mostly consist of gains and losses in the value of investments and land due mainly to changes in market conditions.

5.7 In 2011-12, the Territory incurred a deficit in the net operating balance of $97 million compared to a budgeted deficit of $211 million. This lower than expected deficit was mainly due to lower than anticipated supplies and services and other operating expenses. These expenses are discussed further in paragraph 5.21.

5.8 The Territory's net operating balance; a deficit of $97 million, was less than the prior year's surplus balance of $1 million. This declining result resulted from a growth in expenses of $241 million (5.9 percent), which exceeded an increase in revenue of $143 million (3.5 percent). Further information on revenue and expenses is provided in paragraphs 5.14 to 5.23.

5.9 The Territory incurred an operating deficit of $155 million compared to a budgeted surplus of $175 million. This unfavourable result mainly reflects lower than anticipated gains on sales of undeveloped land, and unbudgeted losses on investments (included in other economic inflows/(outflows); partially offset by a lower than expected deficit in the net operating balance. Further information on 'other economic inflows/(outflows)' is provided in paragraph 5.24.

5.10 The Territory's operating deficit of $155 million compares unfavourably to the prior period's surplus of $123 million. This declining result mostly reflects an increase in the losses on superannuation investments and a higher rate being used to estimate the present value of long service leave and insurance expenses; partially offset by an increase in land sales.

[3] 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. Revenue that is attributed to movements in market prices which is separately recorded in 'other economic inflows/(outflows)'.

Table 5.2: Projected operating results - Note 1

	Actual 2011-12 $m	Revised Budget 2012-13 $m	Revised Estimate 2013-14 $m	Revised Estimate 2014-15 $m	Revised Estimate 2015-16 $m
Revenue	4 261	4 217	4 560	4 916	5 211
Expenses	(4 358)	(4 795)	(4 824)	(5 074)	(5 295)
Net operating balance - (deficit)	**(97)**	**(578)**	**(264)**	**(158)**	**(84)**
Other economic (outflows)/inflows	(58)	183	357	301	362
Operating (deficit)/surplus	**(155)**	**(395)**	**93**	**143**	**278**

Note 1: Revised budget and revised estimates were obtained from the 2012-13 Pre-Election Budget Update.

5.11 The Territory estimates that it will incur deficits in its net operating balance over the forward years. These deficits are anticipated to steadily decline from a peak of $578 million in 2012-13 to $84 million in 2015-16.

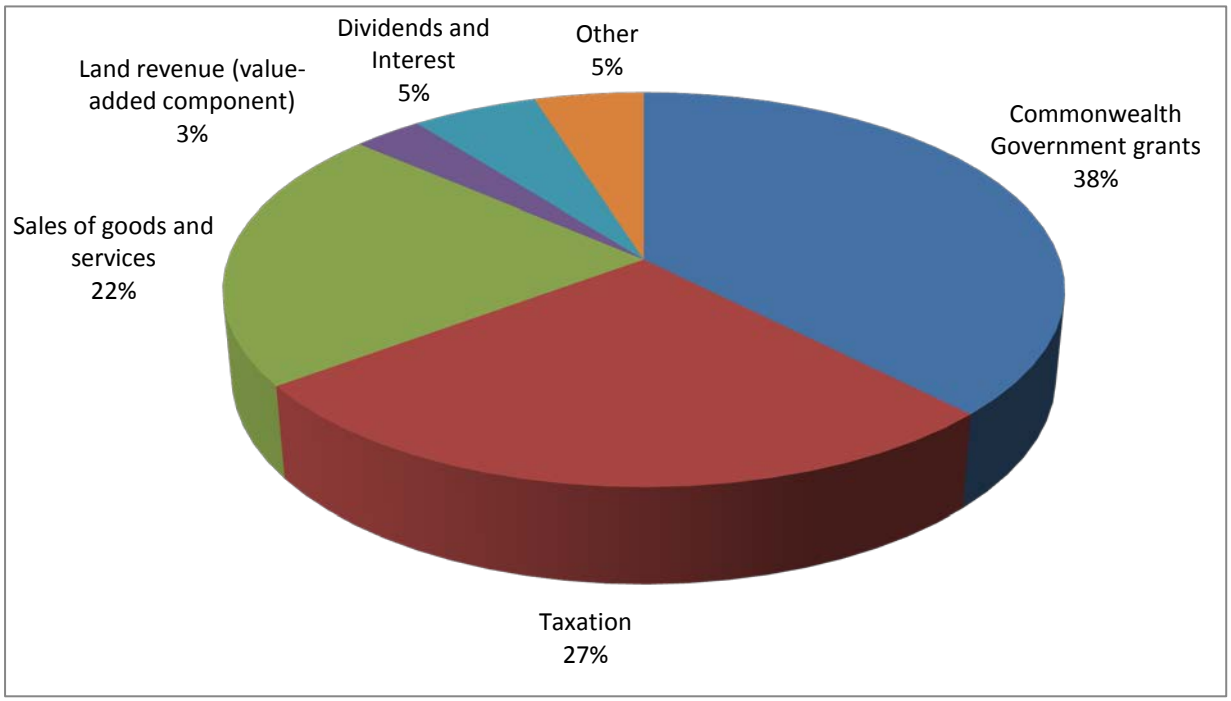
5.12 The Territory's operating deficit is estimated to increase by $240 million (154.8 percent) from $155 million in 2011-12 to $395 million in 2012-13, before generating surpluses over the remaining forward years from 2013-14 to 2015-16.

5.13 The achievement of operating surpluses in 2013-14 and 2015-16 depends on the Territory obtaining sufficient other economic inflows, in particular, gains from investment and property markets, to counter the expected deficits in the net operating balance over the forward years.

REVENUE, EXPENSES AND OTHER ECONOMIC INFLOWS/(OUTFLOWS)

Revenue

Figure 5.1: 2011-12 Revenue



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

Table 5.3: Revenue

	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Commonwealth Government grants	1 701	1 582	1 606	1 550
Taxation revenue	1 106	1 212	1 155	1 219
Sales of goods and services	834	847	921	942
Land revenue (value-added component[4])	166	94	132	306
Other revenue (including dividends, interest and gains from contributed assets)	177	383	447	281
Revenue	**3 984**	**4 118**	**4 261**	**4 297**

5.15 Revenue was $36 million (1 percent) below the budgeted amount. This resulted from lower than expected land and taxation revenue; largely offset by higher than anticipated other revenue and Commonwealth Government grants.

5.16 Revenue was slightly below budget expectations due to lower than anticipated:

- land revenue due mainly to delays in the release of land developments, and deferral of land releases to future periods; and
- taxation revenue caused by lower than expected conveyancing duties. This reflects weaker than forecast sales in residential and commercial property markets.

5.17 These were largely offset by higher than expected other revenue and Commonwealth Government Grants. In particular, higher than anticipated:

- dividend and interest revenue, reflecting higher than forecasted investment returns and interest rates;
- gains from the contribution of infrastructure assets such as roads, bridges and stormwater pipes by private sector land developers relating to recently completed suburbs;
- national specific partnership funding for capital infrastructure and non-government schools;
- national partnership funding for 'Improving Public Hospital Services', 'Essential Vaccines' and 'Preventative Health';

[4] 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. Revenue that is attributed to movements in market prices which is separately recorded in 'other economic inflows/(outflows)'.

- national partnership funding under the Centenary of Canberra 2013 'A Gift to the National Capital' for the redevelopment of Constitution Avenue, and continued works at the National Arboretum; and
- financial assistance grants for Local Government.

The higher grant revenue was partially offset by an unexpected reduction of $43 million in the Territory's share of the Commonwealth GST revenue pool following a recommendation by the Commonwealth Grants Commission.

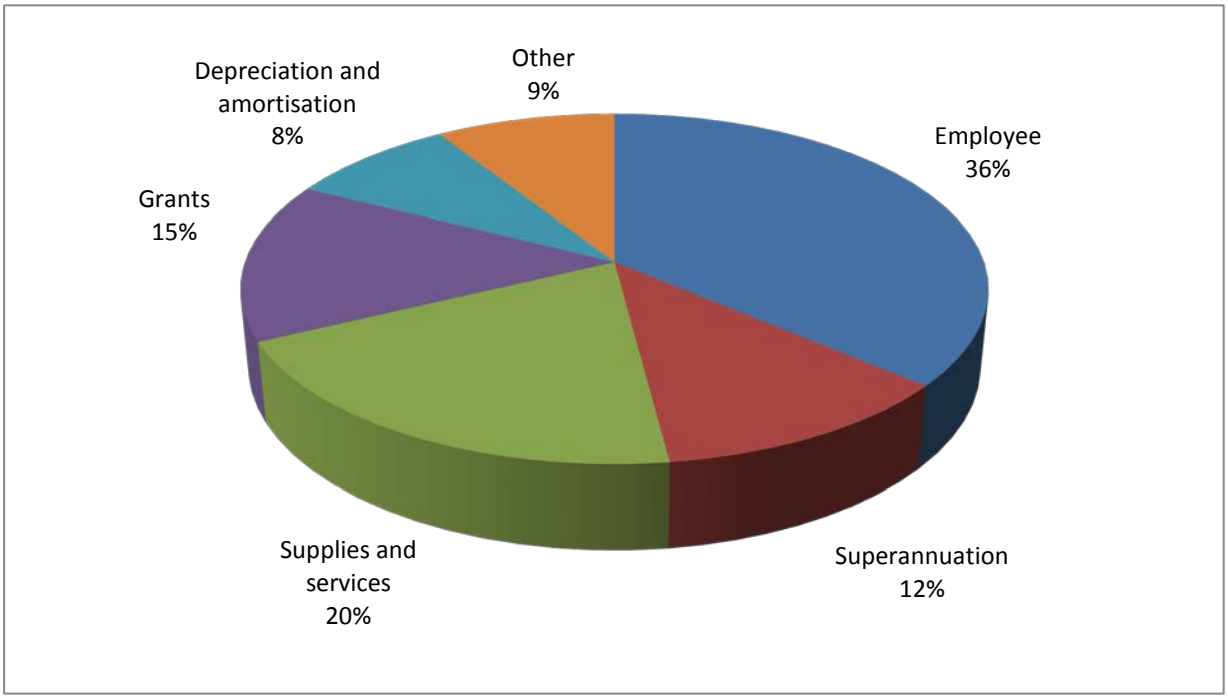
5.18 Revenue exceeded the previous year's amount by $143 million (3.4 percent). Higher revenue was obtained from:

- sales of goods and services, mainly profit from land joint ventures, water and sewerage services, and other state and territory governments for interstate patients treated in ACT public hospitals (cross-border revenue); and
- other revenue from the receipt of infrastructure assets (such as roads, bridges and stormwater assets) from private sector developers relating to recently completed suburbs.

5.19 These were partially offset by lower taxation revenue which mainly resulted from a large 'one-off' receipt in the previous year of 'transfers of shares and marketable securities' duty after the finalisation of an outstanding court settlement.

Expenses

Figure 5.2: 2011-12 Expenses



5.20 The Territory's expenses consist mainly of employee and supplies and services expenses.

Table 5.4: Expenses

	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Employee	1 389	1 460	1 583	1 540
Superannuation	440	475	508	491
Supplies and services	783	808	864	967
Grants	629	643	641	638
Depreciation and amortisation	322	343	369	376
Other	306	388	393	496
Expenses	**3 869**	**4 117**	**4 358**	**4 508**

5.21 The Territory's expenses were $150 million (3.3 percent) below the budgeted cost. This was due mainly to lower than anticipated:

- supplies and services costs. Operating lease expenses were lower than anticipated. In addition, the Treasurer's Advance that was included in the budget for supplies and services costs was used on other expenses such as grants and employee expenses, and some of the Treasurer's Advance was not drawn down because it was not needed; and
- other expenses. Lower than expected land sales resulted in a lower than expected cost of land sold. There was also lower demand for medical supplies from the private sector. This was partially offset by higher insurance claims expenses.

5.22 Employee expenses exceeded the budgeted amount by $43 million (2.8 percent) due to due to pay rises resulting from enterprise bargaining outcomes and higher staff numbers.

5.23 The Territory's expenses exceeded the previous year's amount by $241 million (5.9 percent) due mainly to the higher employee costs referred to above in paragraph 5.22.

Other economic inflows/(outflows)

Table 5.5: Other economic inflows/(outflows)

	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Net land revenue - market gains and undeveloped land value	125	82	150	325
Net gain/(loss) on financial assets and liabilities at fair value	160	69	(133)	79
Other	(10)	(29)	(75)	(18)
Other economic inflows/(outflows)	**275**	**122**	**(58)**	**386**

5.24 The Territory incurred net economic outflows of $58 million compared to budgeted inflows of $386 million as budgeted market gains from land and property markets did not eventuate. In particular:

- net land revenue - market gains and undeveloped land value ($150 million) was much lower than the amount anticipated in the budget ($325 million); and
- unbudgeted losses ($133 million) were incurred on financial assets (investments) due to falls in local property and global equity and financial markets.

FINANCIAL POSITION

5.25 The Territory's assets mainly consist of property, plant and equipment (82.3 percent).

5.26 The Territory's liabilities are largely represented by an estimated unfunded superannuation liability (59.8 percent) and borrowings, payables and finance leases (32.5 percent).

Table 5.6: Balance sheet

As at 30 June	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Assets				
Financial assets - Note 1	2 249	2 020	2 009	1 492
Property, plant and equipment	17 165	18 040	18 809	19 250
Other non-financial assets - Note 2	1 547	1 675	2 036	1 990
	20 961	**21 735**	**22 854**	**22 732**
Liabilities				
Borrowings, payables and finance leases	2 033	2 303	2 843	2 731
Unfunded superannuation - Note 3	2 587	2 627	5 242	2 115
Employee benefits	556	567	655	608
Other	30	28	20	28
	5 206	**5 525**	**8 760**	**5 482**
Net assets	**15 755**	**16 210**	**14 094**	**17 250**

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.

5.27 The Territory's assets slightly exceeded the budgeted amount by $122 million (1 percent) as higher than expected cash, investments and capital works were largely offset by a lower than expected property, plant and equipment balance. Delays in the purchase and construction of major capital assets resulted in higher than anticipated cash and investment balances, and a lower than expected property, plant and equipment balance.

5.28 The Territory's liabilities ($8 760 million) were $3 278 million (59.8 percent) higher than the budgeted amount ($5 482 million) due mainly to a substantial increase in the Territory's unfunded superannuation liability.

5.29 The Territory's unfunded superannuation liability was expected to decrease by $512 million (19.5 percent) from $2 627 million at 30 June 2011 to $2 115 million at 30 June 2012. However, this liability doubled from $2 627 million at 30 June 2011 to $5 242 million at 30 June 2012 due mainly to an increase in the rate used to estimate the present value of the superannuation liability. The unfunded superannuation liability is also discussed on pages 158 to 160 (the Superannuation Provision Account).

5.30 The Territory's net asset position at 30 June 2012 ($14 094 million) was lower than the budgeted ($17 250 million) and prior year ($16 210 million) positions by $3 156 million (18.3 percent) and $2 116 million (13.1 percent) respectively. This was due mainly to the substantial increase in the Territory's unfunded superannuation liability outlined in above paragraphs 5.28 and 5.29.

SHORT-TERM FINANCIAL POSITION

Table 5.7: Short-term financial position

As at 30 June	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Short-term assets				
Financial assets – Note 1	2 249	2 020	2 009	1 492
Superannuation assets - Note 2	1 901	2 097	2 091	2 297
	4 150	**4 117**	**4 100**	**3 789**
Short-term liabilities - Note 3	1 183	1 152	1 164	1 275
Net short-term assets	**2 967**	**2 965**	**2 963**	**2 514**
Short-term assets to short-term liabilities	**3.51 to 1**	**3.57 to 1**	**3.52 to 1**	**2.97 to 1**

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

Note 2: Superannuation assets represent the total superannuation investments reported in the Superannuation Provision Account's financial statements less the current superannuation benefit liability reported in Note 46 of the Territory's 2011-12 financial statements.

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

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

5.32 The Territory's short-term financial position remains strong and was stronger than the position anticipated in the budget. As at 30 June 2012, the Territory had $3.52 in short-term assets available to cover each dollar of short-term liabilities.

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

As at 30 June	Actual 2011-12 $m	Revised Budget 2012-13 $m	Revised Estimate 2013-14 $m	Revised Estimate 2014-15 $m	Revised Estimate 2015-16 $m
Short-term assets					
Financial assets	2 009	1 423	1 463	1 622	1 650
Superannuation assets	2 091	2 226	2 360	2 489	2 613
Total short-term assets	**4 100**	**3 649**	**3 823**	**4 111**	**4 263**
Short-term liabilities	1 164	1 275	1 426	1 451	1 465
Net short-term net assets	**2 936**	**2 374**	**2 397**	**2 660**	**2 798**
Short-term assets to short-term liabilities	**3.52 to 1**	**2.86 to 1**	**2.68 to 1**	**2.83 to 1**	**2.91 to 1**

Note 1: Revised budget and revised estimates were obtained from the 2012-13 Pre-Election Budget Update.

5.33 The Territory's short-term financial position is expected to weaken from the position at 30 June 2012 but is expected to remain strong over the forward years.

LONG-TERM FINANCIAL POSITION

Table 5.9: Financial assets to liabilities

As at 30 June	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Financial assets	**2 249**	**2 020**	**2 009**	**1 492**
Liabilities				
Unfunded superannuation – Note 1	2 587	2 627	5 242	2 115
Borrowings, payables and finance leases	2 033	2 303	2 843	2 731
Other (including other employee benefits)	586	595	675	636
	5 206	**5 525**	**8 760**	**5 482**
Unfunded liabilities	**2 957**	**3 505**	**6 751**	**3 990**
Ratio of financial assets to liabilities	**0.43 to 1**	**0.37 to 1**	**0.23 to 1**	**0.27 to 1**

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

5.34 The Territory's short-term and long-term liabilities are mainly funded from its financial assets rather than its non-financial assets. Although some non-financial assets could be sold to meet these liabilities, most non-financial assets (such as infrastructure, schools and hospitals) are committed to providing public services, and are therefore not generally available for this purpose.

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

5.36 The long-term financial position of the Territory is much weaker than the budgeted and prior year's positions due mainly to a substantial unexpected increase in the unfunded superannuation liability. The use of borrowings to fund the Infrastructure Investment Program has also contributed to the significant weakening of the long-term financial position since the previous year.

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

As at 30 June	Actual 2011-12 $m	Revised Budget 2012-13 $m	Revised Estimate 2013-14 $m	Revised Estimate 2014-15 $m	Revised Estimate 2015-16 $m
Financial assets	**2 009**	**1 423**	**1 463**	**1 622**	**1 650**
Liabilities					
Unfunded superannuation – Note 2	5 242	2 696	2 819	2 940	3 058
Borrowings, payables and finance leases	2 843	3 496	3 808	3 798	3 445
Other liabilities (including other employee benefits)	675	760	806	803	828
	8 760	**6 952**	**7 433**	**7 541**	**7 331**
Unfunded liabilities	**6 751**	**5 529**	**5 970**	**5 919**	**5 681**
Ratio of financial assets to liabilities	**0.23 to 1**	**0.20 to 1**	**0.20 to 1**	**0.22 to 1**	**0.23 to 1**

Note 1: Revised budget and revised estimates were obtained from the 2012-13 Pre-Election Budget Update.

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

5.37 According to the 2012-13 Pre-Election Budget update, the Territory's long-term financial position is expected to strengthen significantly from the position that existed at 30 June 2012. However, this depends largely on a substantial reduction in the unfunded superannuation liability in 2012-13.

5.38 As noted in paragraph 5.29, the unfunded superannuation liability doubled from $2 627 million at 30 June 2011 to $5 242 million at 30 June 2012. If this liability were to remain at similar levels over the forward years to that which existed at 30 June 2012, then the Territory's financial position would be much weaker than the position indicated by the 2012-13 Pre-Election Budget update.

5.39 Movements in the estimate of the unfunded superannuation liability are largely dependent on the discount rate used to value the superannuation liabilities. The valuation of the superannuation liabilities is influenced by the 15-year Commonwealth Government Bond rate, inflation; and expected future pay increases. Changes to these factors have a major impact on the Territory's projected long-term financial position.

CASH RESULTS

Table 5.11: Cash flows

	Actual 2009-10 $m	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Cash flows from operations				
Receipts	4 451	4 542	4 477	4 722
Payments	(3 674)	(3 890)	(3 992)	(4 149)
Net cash surplus from operations	**777**	**652**	**485**	**573**
Cash flows from capital activities				
Payments for property, plant, equipment and capital works	(894)	(1 040)	(967)	(1 313)
Sale of property, plant and equipment	35	51	34	44
Net cash (deficit) from capital activities	**(859)**	**(989)**	**(933)**	**(1 269)**
Net cash (deficit) from operating and capital activities	**(82)**	**(337)**	**(448)**	**(696)**

5.40 The net cash surplus generated by the Territory's operations ($485 million) was strong but well below the budgeted cash surplus ($573 million). The lower cash surplus from operations resulted from lower than expected operating receipts, in particular, cash from sales of electricity, water and land; partially offset by lower than anticipated operating costs, including payments for land developments, grant payments and payments for goods and services.

5.41 The Territory's net cash surplus from operations ($485 million) decreased by $167 million (25.6 percent) from the prior year's surplus ($652 million). This mainly resulted from higher employee costs and lower operating receipts.

5.42 The Territory's net cash deficit from operating and capital activities ($448 million) was less than the budgeted deficit ($696 million). This was mainly due to less than expected payments for property, plant and equipment and the Infrastructure Investment Program and, to a lesser extent, a lower net cash surplus from operations.

5.43 The Territory's net cash deficit from operating and capital activities ($448 million) exceeded the prior year's deficit ($337 million) due mainly to a lower net cash surplus from operations.

Table 5.12: Projected cash flows – Note 1

	Actual 2011-12 $m	Revised Budget 2012-13 $m	Revised Estimate 2013-14 $m	Revised Estimate 2014-15 $m	Revised Estimate 2015-16 $m
Cash flows from operations					
Receipts	4 477	4 493	5 060	5 326	5 665
Payments	(3 992)	(4 375)	(4 440)	(4 535)	(4 853)
Net cash inflows from operations	**485**	**118**	**620**	**791**	**812**
Net cash (outflows) from capital activities	**(933)**	**(1 084)**	**(775)**	**(490)**	**(341)**
Net cash (outflows)/inflows after operating and capital activities	**(448)**	**(966)**	**(155)**	**301**	**471**

Note 1: Budget figures were obtained from the 2012-13 Pre-Election Budget Update.

5.44 The Territory estimates that it will incur cash deficits from operating and capital activities over the next two years, before returning to cash surpluses from 2014-15 to 2015-16.

5.45 A return to cash surpluses depends on significant reductions in cash spent on capital activities (in particular, the Infrastructure Investment Program) and/or a steady increase in net cash generated by the Territory's operations.

INFRASTRUCTURE INVESTMENT PROGRAM

Table 5.13: Infrastructure Investment Program funding and expenditure – Note 1

	2009-10 $m	2010-11 $m	2011-12 $m
Original budget – Note 2	**830**	**818**	**892**
Capital outlays – Note 2	614	660	619
Underspending against the original budget	**216**	**158**	**273**
Underspending as a percentage of the original budget	**26.0%**	**19.3%**	**30.6%**

Note 1: This table covers expenditure on the Infrastructure Investment Program reported in the Territory's 2011-12 Capital Works Program - June Outcome Report.

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

5.46 Details of the ACT Government's Infrastructure Investment Program are provided in the annual Budget Papers.

5.47 Major infrastructure assets completed during 2011-12 included:

- road and transport projects, such as the final works on the Gungahlin Drive Extension and upgrade of airport roads, including the forward design of the Majura Parkway; and
- constructing health facilities (such as the Adult Acute Mental Health Inpatient Unit), a Police Station in Belconnen and the ACT Emergency Services Agency Training Centre.

5.48 The Territory's Infrastructure Investment Program funding was underspent by $273 million (30.6 percent). This significant underspend mainly resulted from delays in procurement for various capital works projects because it took longer than expected to scope the work, consult with those affected by these capital works projects and complete procurement. Also, additional time was needed to obtain approval for compliance with environmental requirements. Some projects were delayed because of wet weather.

5.49 Projects that were delayed included:

- health facilities such as the building of the Women and Children's Hospital;
- infrastructure projects, including the extension of the Horse Park Drive and John Gorton Drive; and
- constructing education facilities, such as the Franklin Early Childhood School.

6. AUDIT RESULTS AND FINDINGS ON ACT GOVERNMENT AGENCIES AND OTHER ENTITIES

ACTEW CORPORATION LIMITED

6.1 The main activities of ACTEW Corporation Limited (ACTEW) are to supply water, promote and manage the sustainable use of energy and water, provide sewerage services and undertake other related activities.

6.2 ACTEW's two subsidiaries, ACTEW Distribution Limited and ACTEW Retail Limited, hold ACTEW's interest in the ActewAGL Joint Venture. The ActewAGL Joint Venture is discussed on pages 82 to 86.

KEY ISSUES

- The Audit Office issued unqualified audit reports on the financial statements of ACTEW Corporation Limited, ACTEW Distribution Limited and ACTEW Retail Limited.
- ACTEW's operating profit increased by $13.1 million (21.5 percent) from $60.8 million in 2010-11 to $73.9 million in 2011-12. This higher profit is mainly due to an increase in water and sewerage revenue; partially offset by an increase in interest expenses on borrowings from the ACT Government (Territory Banking Account) used to fund major water security projects.
- The increased operating profit resulted in a corresponding increase of $13.1 million (21.5 percent) in dividends paid to the ACT Government.
- ACTEW's share of profit from the ActewAGL Joint Venture fell by $2 million (2.4 percent) from $83.8 million in 2010-11 to $81.8 million in 2011-12.
- In 2011-12, ACTEW sold its investment in TransACT Communications Pty Limited (TransACT) for $4.9 million. The overall loss incurred on this investment over the life of the investment is $55.9 million.
- ACTEW's 2011-12 profits include a $0.2 million profit from sale of TransACT as ACTEW recognised losses in the value of its investment and revalued its investment in TransACT in previous reporting periods.
- ACTEW's short and long-term financial positions remain sound.

Financial results

Table 6.1: Key results

	Actual 2010-11 $m	Actual 2011-12 $m
Revenue	248.0	279.9
Profit share - ActewAGL Joint Venture	83.8	81.8
Total revenue	**331.8**	**361.7**
Expenses	(237.8)	(256.9)
Operating profit before income tax	**94.0**	**104.8**
Income tax	33.2	**30.9**
Operating profit	**60.8**	**73.9**
Dividends paid/payable to the ACT Government	**60.8**	**73.9**

6.3 ACTEW's consolidated results include the financial results of ACTEW and its subsidiaries, along with ACTEW's share of the financial results of the ActewAGL Joint Venture.

6.4 ACTEW's revenue is mainly derived from charges for water supply, wastewater and sewerage services, and its 50 percent share of the profit from the ActewAGL Joint Venture.

6.5 Total revenue exceeded the previous year's amount by $29.8 million (9 percent). This was mostly due to an increase in water and sewerage revenue from the regulatory determination.

6.6 ACTEW's share of profit from the ActewAGL Joint Venture fell by $2 million (2.4 percent) from $83.8 million in 2010-11 to $81.8 million in 2011-12. Further information on the ActewAGL Joint Venture is provided on pages 82 to 86.

6.7 ACTEW's major costs include the cost of sales in supplying water, interest on loans, depreciation and project-related expenses incurred under the Utilities Management Agreement with the ActewAGL Joint Venture.

6.8 Expenses increased by $19.1 million (8 percent) in 2011-12 due mainly to higher interest expenses on borrowings through the ACT Government. ACTEW borrowed money from the ACT Government (Territory Banking Account) to fund major water security projects such as the enlargement of the Cotter Dam and construction of the Murrumbidgee to Googong pipeline.

6.9 ACTEW's operating profit increased by $13.1 million (21.5 percent) from $60.8 million in 2010-11 to $73.9 million in 2011-12. This higher profit is mainly due to an increase in water and sewerage revenue; partially offset by an increase in the interest expense on borrowings referred to previously.

6.10 The increased operating profit resulted in a corresponding increase of $13.1 million (21.5 percent) in dividends paid or payable to the ACT Government.

Sale of investment in TransACT

Table 6.2: Sale of investment in TransACT

	Actual $m
Initial investment in TransACT in 2001-02	23.0
Additional investment in TransACT in 2001-02	36.5
Additional investment in TransACT in 2006-07	1.3
Total amount paid for investment in TransACT	**60.8**
Sale price of TransACT investment in 2011-12	4.9
Loss incurred on sale of investment in TransACT over the life of the investment	**55.9**
Total amount paid for investment in TransACT	**60.8**
Provision for diminution recognised in 2002-03	(19.5)
Provision for diminution recognised in 2004-05	(40.0)
Revaluation of investment in TransACT in 2009-10	3.4
Carrying value of investment in TransACT at the time of sale	**4.7**
Sale price of TransACT investment in 2011-12	4.9
Profit on sale of investment in TransACT recognised in 2011-12	**0.2**

6.11 In 2001-02, ACTEW purchased an investment in TransACT for $23 million. ACTEW subsequently increased its investment in TransACT by $36.5 million to $59.5 million by 30 June 2002. A further investment of $1.3 million was made in 2006-07. This brought ACTEW's investment in TransACT to $60.8 million.

6.12 In 2011-12, ACTEW sold its investment in TransACT in 2011-12 for $4.9 million. The overall loss incurred on this investment over the life of this investment is $55.9 million.

6.13 ACTEW's 2011-12 profits include a $0.2 million profit from sale of TransACT as ACTEW recognised losses in the value of its investment and revalued its investment in TransACT in previous reporting periods.

Short-term financial position

Table 6.3: Short-term financial position

As at 30 June	Actual 2011 $m	Actual 2012 $m
Short-term assets	371.4	273.5
Short-term liabilities	196.2	145.1
Net short-term assets	**175.2**	**128.4**
Short-term liquidity ratio	**1.9 to 1**	**1.9 to 1**

6.14 ACTEW's short-term financial position remains sound.

6.15 ACTEW's short-term assets decreased as ACTEW repaid short-term borrowings and increased expenditure on major water security projects.

6.16 The reduction in ACTEW's short-term liabilities mainly reflects the repayment of short-term borrowings.

6.17 ACTEW's short-term liabilities at 30 June 2012 include a provision for a dividend to be paid to the ACT Government of $18.4 million ($11.8 million at 30 June 2011).

Long-term financial position

Table 6.4: Long-term financial position

As at 30 June	Actual 2011 $m	Actual 2012 $m
Assets	2 571.3	2 698.3
Liabilities	1 628.3	1 755.3
Net assets	**943.0**	**943.0**
Long-term liquidity ratio	**1.6 to 1**	**1.5 to 1**

6.18 ACTEW's long-term financial position remains sound.

6.19 ACTEW's major assets consist of property, plant and equipment ($1 840.6 million) and investments ($552.5 million). Property, plant and equipment consist mostly of the water and sewerage networks. Investments largely consist of ACTEW's investment in the ActewAGL Joint Venture.

6.20 ACTEW's assets increased by $127 million (4.9 percent) in 2011-12. This increase mainly reflects the undertaking of major capital projects, mostly relating to water security.

6.21 ACTEW's major liabilities are borrowings and deferred tax liabilities. The increase in liabilities of $127 million (7.8 percent) mainly reflects additional borrowings from the ACT Government to fund major water security projects.

Audit findings

Table 6.5: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
3	3	1	1

6.22 ACTEW resolved all previously reported audit findings. In particular, ACTEW reduced the risk of errors in its financial statements by improving controls over the accuracy of fixed asset records, and data entered into the model used by ACTEW to estimate the amount of unread water revenue at the end of the reporting period.

6.23 ACTEW has not performed a revaluation of its land and buildings class since 2005-06. The failure to perform regular valuations increases the risk that the carrying value of land and buildings will differ materially from its fair value.

6.24 ACTEW has agreed to perform this revaluation in 2012-13.

ACTEWAGL JOINT VENTURE

6.25 The ActewAGL Joint Venture's (ActewAGL's) major activities are to operate energy networks, supply energy to customers in the ACT region, and operate the water and sewerage services of the ACT under the Utilities Management Agreement with ACTEW Corporation Limited (ACTEW).

6.26 ACTEW holds a 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership. ActewAGL's financial statements are an aggregation of both Partnerships.

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 operating profit decreased by $4 million (2.4 percent) from $166.6 million in 2010-11 to $162.6 million in 2011-12. This mostly reflects lower electricity sales resulting from cooler than average weather conditions experienced throughout summer and, to a lesser extent, the loss of energy supply contracts with some Australian Government Departments during 2011-12.
- ActewAGL's cash distributions to ACTEW decreased from $45.9 million in 2010-11 to $43.7 million in 2011-12.
- ActewAGL's short and long-term financial positions remained sound.
- ActewAGL reduced the risk of fraudulent payments, and systems not operating as intended by addressing weaknesses in its information technology controls.
- ActewAGL reduced the risk of unauthorised or fraudulent access to its network.
- There was no evidence that payments made by the Distribution Partnership were being independently reviewed, and that changes to the payroll master file were being reviewed. This presents a risk of errors and fraud.
- ActewAGL's information technology controls should be further improved to reduce the risk of unauthorised access to the network, and inappropriate or possibly fraudulent transactions.

Financial results

Table 6.6: Key results

	Actual 2010-11 $m	Actual 2011-12 $m
Income	737.6	722.1
Expenses	575.3	566.4
Operating profit from continuing operations	**162.3**	**155.7**
Operating profit from discontinued operations (Water Division)	4.3	6.9
Operating profit	**166.6**	**162.6**
Distributions paid to partners	**91.8**	**87.4**
Distributions paid to ACTEW (50 percent)	**45.9**	**43.7**

6.27 ActewAGL's main sources of income are the sale and distribution of energy (electricity and gas), and operating the water and sewerage services of the ACT under the Utilities Management Agreement with ACTEW.

6.28 ActewAGL's income from continuing operations decreased by $15.5 million (2.1 percent). This mostly reflects lower electricity sales resulting from cooler than average weather conditions experienced throughout summer and, to a lesser extent, the loss of energy supply contracts with some Australian Government Departments during 2011-12.

6.29 ActewAGL's major expenses consist mainly of energy purchases, employee costs, payments to subcontractors, leasing expenses and depreciation.

6.30 ActewAGL's expenses from continuing operations decreased by $8.9 million (1.5 percent). This was largely due to lower:

- energy costs as a result of cooler than average weather conditions experienced throughout summer and, to a lesser extent, the loss of energy supply contracts with some Australian Government Departments; and
- project-related and subcontractor expenses, reflecting a reduction in corporate projects compared to the previous year.

6.31 ActewAGL's operating profit decreased by $4 million (2.4 percent) from $166.6 million in 2010-11 to $162.6 million in 2011-12. This was mainly as a result of cooler than average weather conditions experienced throughout summer and, to a lesser extent, the loss of energy supply contracts with some Australian Government Departments.

6.32 This decrease in profit resulted in a lower cash distribution to ACTEW of $43.7 million in 2011-12 compared to $45.9 million in 2010-11.

Short-term financial position

Table 6.7: Short-term financial position

As at 30 June	Actual 2011 $m	Actual 2012 $m
Short-term assets	229.5	266.2
Short-term liabilities	197.1	213.7
Net short-term assets	**32.4**	**52.5**
Short-term liquidity ratio	**1.16 to 1**	**1.25 to 1**

6.33 ActewAGL's short-term financial position as shown in the above table represents its position after making cash distributions to partners.

6.34 ActewAGL continues to have sufficient assets to meet its short-term liabilities.

Long-term financial position

Table 6.8: Long-term financial position

As at 30 June	Actual 2011 $m	Actual 2012 $m
Assets	1 159.0	1 251.8
Liabilities	204.5	222.1
Net assets	**954.5**	**1 029.7**
Long-term liquidity ratio	**5.7 to 1**	**5.6 to 1**

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

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

Audit findings

Table 6.9: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
4	(4)	6	6

6.37 ActewAGL improved its information technology controls and reduced the risk of:

- fraudulent payments, by ensuring that accounts payable staff cannot enter and approve invoices, make payments and modify supplier details in the accounting system; and
- systems not operating as intended by ensuring that all changes to computer information systems are tested once they have been developed, and prior to the changes being deployed to the live production environment.

6.38 In 2011-12, ActewAGL reduced the risk of unauthorised or fraudulent access to its network by:

- removing default administrator accounts; and
- strengthening network password controls by implementing the automated 'enforcing' of regular changes to passwords that provide access to databases on the ActewAGL network.

6.39 In 2011-12, the Audit Office noted that there was no evidence of:

- payments made by the Distribution Partnership being independently reviewed to reduce the risk of erroneous, irregular and fraudulent payments; and
- changes to the payroll master file being reviewed to minimise the risk of erroneous or fraudulent changes to payroll transactions.

6.40 ActewAGL addressed these control weaknesses before the completion of the audit.

6.41 There is scope for further improving information technology controls. In particular:

- users were not automatically locked out from the network after a specified number of failed login attempts; and
- a generic (shared) administrator account for the network was disabled during 2010-11, however, it was reactivated during 2011-12 without a documented purpose for reactivating the account.

6.42 These weaknesses increase the risk of unauthorised access to the network and inappropriate or possibly fraudulent transactions.

6.43 ActewAGL has either addressed, or agreed to promptly address, all audit findings.

ACTION

6.44 ACTION provides bus services to the ACT community, including school and special needs bus services.

6.45 ACTION is part of the Territory and Municipal Services Directorate, however, it is a separate entity for reporting purposes.

KEY ISSUES

- The Audit Office issued an unqualified audit report on ACTION's 2011-12 financial statements. The unqualified audit report draws attention to disclosures made in ACTION's financial statements that failures in the ticketing machines for ACTION's former ticketing system (Wayfarer) resulted in approximately $3 million to $5 million of uncollected fares in the previous year.
- The Audit Office issued a qualified report of factual findings on ACTION's statement of performance because the reported result on the timeliness of bus services was overstated.
- ACTION's net cost of services exceeded the budgeted cost by $9.9 million (11 percent). The ACT Government provided ACTION with additional funding to meet the higher than expected cost.
- ACTION's net cost of services exceeded the prior year's cost (excluding a loss on the revaluation of buses) by $8.8 million (9.6 percent).
- ACTION improved its processes for reconciling cash receipts, monitoring its monthly financial results, and accounting for inventory and bus components.
- Previously reported control weaknesses over inventory and cash handling procedures have not been fully resolved. These weaknesses expose ACTION to a risk of errors, irregularities and fraud.
- ACTION was not consistently reviewing salary reports for bus drivers in a timely manner. This increases the risk that errors, irregularities and fraud will not be promptly detected and addressed.
- Reporting of customer satisfaction with ACTION's services in ACTION's statement of performance needs to be improved.

Financial results

Table 6.10: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(112.0)	(123.5)	(118.3)
Income	20.6	23.3	28.0
Net cost of services	**(91.4)**	**(100.2)**	**(90.3)**
Government contributions	84.2	91.5	80.9
Loss on the revaluation of buses	5.0	-	-
Operating deficit	**(12.2)**	**(8.7)**	**(9.4)**
Capital injections from the Territory and Municipal Services Directorate	**23.7**	**23.4**	**37.5**

6.46 ACTION's expenses consist mainly of employee costs and bus operating costs such as maintenance and fuel costs. Most of ACTION's income consists of fares charged for providing transport services.

6.47 ACTION's net cost of services exceeded the budgeted cost by $9.9 million (11 percent). This was mainly due to:

- higher employee expenses as ACTION employed additional bus drivers to provide a new bus network; and
- lower income as a new bus fare structure under the MyWay system provided more generous discounts than anticipated.

6.48 ACTION's net cost of services exceeded the prior year's cost (excluding a loss on the revaluation of buses) by $8.8 million (9.6 percent). This cost increase mostly resulted from the higher employee expenses referred to above.

6.49 Government contributions exceeded the budgeted amount by $10.6 million (13.1 percent). The ACT Government provided ACTION with additional funding to meet the higher than expected net cost of services.

6.50 ACTION's operating deficit was $0.7 million (7.5 percent) below the budgeted deficit because the additional funding provided by the ACT Government exceeded the ACTION's higher net cost of services.

6.51 ACTION did not use $14.1 million (37.6 percent) of its budgeted capital injections from the Territory and Municipal Services Directorate. This was mainly due to:

- revised delivery schedules for buses which delayed the delivery of buses; and
- the transfer of responsibility for a project to provide passengers with real time information on bus services from ACTION to the Territory and Municipal Services Directorate.

Audit findings

Table 6.11: Status of audit findings (number of findings)

Previously Reported (Note 1)	Resolved	Partially Resolved	Not Resolved	New	Balance
8	(4)	3	1	3	7

Note 1: Previously reported audit findings exclude audit findings relating to the MyWay ticketing system. These audit findings are included in the audit findings for the Territory and Municipal Services Directorate discussed on pages 161 to 168 of this report. These audit findings are discussed in Chapter 4: 'Computer information systems' (page 47).

6.52 ACTION resolved half of the previously reported audit findings. In particular, ACTION:

- improved its processes for reconciling cash receipts. This has reduced the risk of errors and fraud;
- ensured that its financial results were monitored and reviewed by ACTION's management; and
- reviewed its accounting for inventory and bus components to ensure the accounting treatment complies with the relevant accounting standards.

6.53 Some audit findings have not been fully resolved. Control weaknesses continue to exist in ACTION's processes for recording and stocktaking of inventory. These weaknesses increase the risk of errors, irregularities and fraud.

6.54 Control weaknesses also continue to exist in cash handling procedures at bus depots. Driver cash collections are performed on a weekly rather than a daily basis, and ACTION has not implemented processes which minimise the risk of passengers incorrectly or fraudulently using concessional MyWay tickets.

6.55 ACTION's financial statements disclosed that:

> In the 2010-11 financial year, ACTION's fares revenue and patronage data was recorded using the Wayfarer ticketing system until April 2011. During this period, the Wayfarer ticket machines experienced failures due to their age and lack of available spare parts. Estimated patronage data lost due to failure increased from around five percent in the previous financial year to an average of up to fifteen percent in 2010-11. Failures of the ticketing machines resulted in uncollected fares because passengers are unable to validate prepaid Wayfarer tickets.
>
> It was not possible to quantify, with certainty, the amount of uncollected fares that resulted from the failures in the Wayfarer ticket machines. However, ACTION estimated that uncollected fares in 2010-11 could have been in the range of approximately $3 million to $5 million.

6.56 The unqualified audit report issued on ACTION's financial statements draws attention to these disclosures.

6.57 ACTION was not consistently reviewing salary reports for bus drivers in a timely manner. This increases the risk that errors, irregularities and fraud will not be promptly detected and addressed.

6.58 ACTION reported on the timeliness of bus services in its statement of performance using the accountability indicator 'percentage of services operating on scheduled time'. ACTION disclosed that the reported result for this indicator 'does not include buses that have broken down' and that ACTION was unable to quantify the effect that bus break downs would have had on the reported result.

6.59 The exclusion of bus services that were not provided (due to bus breakdowns or any other reason) from the reported result causes an overstatement of the result because such services have not been 'provided on scheduled time'.

6.60 The Audit Office therefore issued a qualified report of factual findings on ACTION's statement of performance because the reported result on the timeliness of bus services was overstated.

6.61 ACTION's statement of performance includes an accountability indicator on 'customer satisfaction with ACTION's services as assessed by passenger surveys'.

6.62 Surveyed passengers were asked to rate their satisfaction on a scale from one to six, with a rating of 'one' being 'very dissatisfied' and 'six' being 'very satisfied'. In the statement of performance provided to the Audit Office for review, survey responses of 'four' ('somewhat satisfied') were counted as 'satisfied' in measuring the result for this indicator. This response is lower than a rating of 'five' ('satisfied').

6.63 The inclusion of 'somewhat satisfied' responses in the reported result as 'satisfied' is potentially misleading because the response indicates that the passenger is not fully 'satisfied' with the service. The passenger had the option of providing a 'satisfied' response but has chosen not to do so.

6.64 To ensure readers were not misled by the results on customer satisfaction, ACTION subsequently disclosed two results for this accountability indicator. One result included passenger responses of 'somewhat satisfied' (78 percent) and the other result excluded 'somewhat satisfied' responses (53 percent) against a performance target of 85 percent.

6.65 The Audit Office has recommended that ACTION review the satisfaction survey used to measure the result for this accountability indicator, and ensure that reported results only include unqualified responses of 'satisfied' or above.

6.66 ACTION has agreed to address all audit findings.

ACT PUBLIC CEMETERIES AUTHORITY

6.67 The ACT Public Cemeteries Authority (the Authority) is an independent, self funded, statutory authority established under the *Cemeteries and Crematoria Act 2003* (the Act). The Authority manages the cemeteries located in Gungahlin, Woden and Hall.

6.68 Perpetual Care Trusts have been established for cemeteries at Gungahlin, Woden and Hall. The Authority provides a Ministerially determined percentage of revenue earned from each burial, interment of ashes or memorialisation to the Perpetual Care Trusts. The Authority is reimbursed by the Perpetual Care Trusts for maintenance costs incurred on these cemeteries by the Authority.

KEY ISSUES

- The Audit Office issued unqualified audit reports on the 2011-12 financial statements of the Authority and Perpetual Care Trusts for the Gungahlin, Woden and Hall cemeteries.
- The Audit Office issued an unqualified report of factual findings on the Authority's 2011-12 statement of performance.
- The Authority's operating surplus for 2011-12 ($0.5 million) exceeded the budgeted surplus ($0.3 million).
- The Gungahlin Cemetery Perpetual Care Trust continues to have insufficient assets to meet its liabilities.
- The Authority resolved all previously reported audit findings by ensuring that material errors identified in the 2010-11 financial statements submitted for audit were not repeated in the 2011-12 financial statements submitted for audit.
- The Authority was not regularly reconciling records of cash receipts to the amounts recorded in the financial records. This presents a risk of reporting errors and fraud.
- The Authority's 'Fraud and Corruption Prevention Plan' is required to be reviewed and updated at least once every two years, but has not been reviewed since 2009. This presents a risk of the Authority's processes for addressing fraud and corruption becoming outdated and less effective over time.
- The quality of the Authority's 2011-12 financial statements submitted for audit improved compared to the 2010-11 financial statements submitted for audit, however, there is scope for further improvement.
- The Authority is a 'not-for-profit' entity, however, some accountability indicators used by the Authority to assess the financial aspects of its performance are more relevant to a 'profit-making' entity. Therefore, the information included in the statement of performance is not always useful or relevant to assessing the financial performance of the Authority.

Financial results

Table 6.12: Key results

As at 30 June	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Income	4.2	5.2	4.4
Expenses	(3.9)	(4.7)	(4.1)
Operating surplus	**0.3**	**0.5**	**0.3**

6.69 The Authority's income mostly consists of:

- fees charged for grave allotments and reservations, memorial permits, burials and maintenance;
- revenue from the sale of plaques, vaults and mausoleums; and
- reimbursements from the Perpetual Care Trusts for maintenance costs incurred by the Authority on the cemeteries at Gungahlin, Woden and Hall.

6.70 The Authority's expenses consist mainly of:

- transfers of a Ministerially determined percentage of revenue to the Perpetual Care Trusts to fund maintenance of the cemeteries at Gungahlin, Woden and Hall; and
- employee costs and costs of maintaining cemeteries.

6.71 The Authority's operating surplus for 2011-12 ($0.5 million) exceeded the budgeted surplus ($0.3 million).

Table 6.13: Net asset/(liability) positions of the Perpetual Care Trusts

Perpetual Care Trust	Actual 2010 $m	Actual 2011 $m	Actual 2012 $m
Gungahlin Cemetery Perpetual Care Trust	(0.5)	(0.4)	(0.3)
Woden Cemetery Perpetual Care Trust	1.2	1.4	1.7
Hall Cemetery Perpetual Care Trust	-	0.1	0.1

6.72 The net asset/(liability) positions of the Perpetual Care Trusts reflect the funds each Trust has available to meet the maintenance costs of the cemeteries.

6.73 The Gungahlin Cemetery Perpetual Care Trust continues to have insufficient assets to meet its liabilities because the maintenance costs for the cemetery at Gungahlin have exceeded the Ministerially determined percentage of revenue transferred to this Trust, and contributions in excess of this percentage made by the Authority.

Audit findings

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

Previously Reported	Resolved	Not Resolved	New	Balance
4	4	-	9	9

6.74 The Authority resolved all previously reported audit findings by ensuring that material errors identified in the 2010-11 financial statements submitted for audit were not repeated in the 2011-12 financial statements submitted for audit.

6.75 The Authority also complied with the whole-of-government reporting timetable issued by the former Treasury Directorate by providing its financial statements and statement of performance to the Audit Office on time.

6.76 The Authority was not regularly reconciling records of cash receipts to the amounts recorded in the financial records. This presents a risk of reporting errors and fraud.

6.77 The Authority's 'Fraud and Corruption Prevention Plan' is required to be reviewed and updated at least once every two years, but has not been reviewed since 2009. Where this Plan is not reviewed and updated, there is a risk of the Authority's processes for addressing fraud and corruption becoming outdated and less effective over time.

6.78 The quality of the Authority's 2011-12 financial statements submitted for audit improved compared to the 2010-11 financial statements submitted for audit, however, there is scope for further improvement. The 2011-12 financial statements submitted for audit contained errors, and did not always provide clear and informative explanations for material variances between current and prior year results.

6.79 The Authority is a 'not-for-profit' entity, however, some accountability indicators used by the Authority to assess the financial aspects of its performance are more relevant to a 'profit-making' entity. For example, the Authority reports on its financial performance using financial indicators such as 'return on assets', 'return on equity', 'profit margin' and 'debt ratio'. Therefore, the information included in the statement of performance is not always useful or relevant to assessing the financial performance of the Authority.

6.80 The Authority has indicated that it will address all audit findings in 2012-13.

ACTTAB LIMITED

6.81 ACTTAB Limited's (ACTTAB's) major activities are to provide Totalisator Betting services, Sportsbet services, Keno services and Trackside services within the ACT.

KEY ISSUES

- The Audit Office issued an unqualified audit report on ACTTAB's 2011-12 financial statements.
- ACTTAB's operating profit of $2.1 million was close to the prior year's profit of $2 million.
- ACTTAB's change management processes could be improved by consolidating the separate processes for managing changes to ACTTAB's systems into one overarching change management policy.
- User access controls for ACTTAB's financial management information system and betting system need to be improved to reduce the risk of unauthorised or inappropriate access to these systems.
- As disclosed in ACTTAB's 2011-12 annual report, ACTTAB referred alleged fraudulent activity by a former officer to the Australian Federal Police for investigation.

Financial results

Table 6.15: Key results

	Actual 2010-11 $m	Actual 2011-12 $m
Revenue	30.1	30.5
Expenses	(26.1)	(27.3)
Operating profit before income tax	**4.0**	**3.2**
Income tax expense	(2.0)	(1.1)
Operating profit	**2.0**	**2.1**

6.82 ACTTAB's principal source of revenue is commissions earned on its betting services.

6.83 ACTTAB's expenses mostly consist of employee costs, licence fees, agent and processing fees, leasing expenses, marketing and depreciation.

6.84 ACTTAB's operating profit of $2.1 million close to the prior year's profit of $2 million.

Audit findings

Table 6.16: Status of audit findings (number of findings)

Previously Reported	New	Balance
-	4	4

6.85 Controls over the management of changes to information technology systems provide assurance that IT systems operate as intended.

6.86 ACTTAB has a number of separate processes for managing changes to IT systems. While changes made during the period were found to be managed appropriately and in accordance with these processes, ACTTAB's change management processes could be improved by establishing an overarching change management policy which consolidates these separate processes.

6.87 There is a risk of unauthorised or inappropriate access to ACTTAB's systems because:

- password and account lockout controls (which lock access to a system after a number of unsuccessful logon attempts) for the financial management information system (Sun) and betting system (Spectrum) do not comply with ACTTAB's information security policy; and
- generic user accounts existed for ACTTAB's network and the financial information management system (Sun).

6.88 ACTTAB's processes for tracking, monitoring and resolving IT problems could be improved by developing a formal policy for managing IT problems.

6.89 As disclosed in ACTTAB's 2011-12 annual report, ACTTAB referred alleged fraudulent activity by a former officer to the Australian Federal Police for investigation.

6.90 ACTTAB has agreed to address all audit findings.

CANBERRA INSTITUTE OF TECHNOLOGY

6.91 The Canberra Institute of Technology provides vocational education and training to students, governments and commercial organisations in the ACT, nationally and internationally.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Institute's 2011 financial statements and an unqualified report of factual findings on its 2011 statement of performance.
- The Institute's net cost of services, excluding the transfer of part of the Weston Campus (a surplus asset) to the ACT Property Group, was below the budgeted cost by $4.2 million (5.6 percent) due mainly to lower operating costs.
- The Institute resolved two of seven previously reported findings. This indicates that the Institute's processes for resolving previously reported audit findings needs to be improved.
- The Institute's Tourism and Hotel Management Centre reduced the risk of errors and fraud by improving its processes for the daily reconciliation of cash collections.
- The Institute improved the quality of the management discussion and analysis of its financial statements by including adequate information on the Institute's financial performance.
- The Institute did not test the effectiveness of its processes for recovering information on the student information system from network servers. This presents a risk that information will not be promptly recovered should a disaster or other significant disruption occur. The Institute has advised that this testing was successfully performed in June 2012.
- The Institute did not consistently document the review of salary break-up reports or conduct these reviews in a timely manner. This increases the risk that salary payments that are incorrect due to error or fraud will not be detected.
- The financial statements were corrected for a $183.5 million overstatement of land values. This overstatement resulted from an error made by an independent valuer in 2008.
- The Institute's procedures for the preparation of its financial statements do not provide sufficient assurance that its financial statements would be free from material errors.

Financial results

Table 6.17: Key results (calendar years)

	Actual 2010 $m	Actual 2011 $m	Budget 2011 $m
Expenses	(119.2)	(106.4)	(115.7)
Income	38.7	35.0	40.1
Net cost of services	**(80.5)**	**(71.4)**	**(75.6)**
Government contributions	69.3	70.7	65.5
Contribution from CIT Solutions Pty Limited	1.1	1.3	-
Transfer of part of the Weston Campus to the ACT Property Group	-	(7.3)	-
Operating deficit	**(10.1)**	**(6.7)**	**(10.1)**

6.92 The Institute's expenses mainly consist of employee costs and operating costs such as operating lease, consultancy and contract costs.

6.93 The Institute's expenses, excluding the transfer of part of the Weston Campus (a surplus asset) to the ACT Property Group, were $9.3 million (8.7 percent) below the budgeted cost. This was mainly due to lower operating costs, in particular, decreased spending on consultants and contractors, repairs and maintenance of buildings and operating leases.

6.94 Most of the Institute's income is derived from student fees and fee for service charges for providing vocational education and training programs to the public and private sectors.

6.95 Income was $5.1 million (12.7 percent) below the budgeted amount. This mainly resulted from lower than expected revenue from:

- student fees and fee for service charges for providing vocational education and training programs to the public and private sectors; and
- Commonwealth Government grants for a new 'e-learning' strategy due to a change in the national funding model for this strategy.

6.96 The Institute's net cost of services, excluding the transfer of part of the Weston Campus (a surplus asset) to the ACT Property Group, was below the budgeted cost by $4.2 million (5.6 percent) due mainly to the lower operating costs referred to above.

6.97 Government contributions were $5.2 million (7.9 percent) higher than the budgeted amount. The Institute received:

- a Treasurer's Advance of $2.9 million to fund the remediation of the Weston Campus before part of the Campus was transferred to the ACT Property Group; and
- an appropriation of $2.6 million from the Territory Banking Account relating to January 2012 in late December 2011 due to the shut-down of the Territory Banking Account over the Christmas period.

Audit findings

Table 6.18: Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
7	(2)	5	4	9

6.98 The Institute resolved two out of seven previously reported findings. This indicates that the Institute's processes for resolving previously reported audit findings need to be improved.

6.99 The Institute's Tourism and Hotel Management Centre reduced the risk of errors and fraud by improving its processes for the daily reconciliation of cash collections.

6.100 The Institute also improved the quality of the management discussion and analysis of its financial statements by including adequate information on the Institute's financial performance.

6.101 Information recorded in the Institute's student information system was regularly backed-up on network servers. However, the Institute did not test the effectiveness of its processes for recovering this information from the network servers. This presents a risk that these processes will not be effective and information will not be promptly recovered should a disaster or other significant disruption occur. The Institute has advised that this testing was successfully performed in June 2012.

6.102 The Institute did not consistently document the review of salary break-up reports or conduct these reviews in a timely manner. This increases the risk that salary payments that are incorrect due to error or fraud will not be detected.

6.103 The Institute did not undertake reconciliations between its student information system and general ledger financial system until the end of the reporting period because the student information system was unable to produce the reports needed to perform the reconciliation. This increases the risk of unrecorded or incorrectly recorded transactions and errors the financial statements.

6.104 The Institute's financial statements were amended to disclose a prior period error caused by an error made by an independent valuer in performing land valuations undertaken in 2008. The independent valuer did not take crown leases and other restrictions applicable to the Institute's land into account when performing the valuation in 2008. This error resulted in a $183.5 million overstatement of land values in 2008.

6.105 This error was corrected and disclosed in the 2011 financial statements in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

6.106 There were many errors in the financial statements submitted for audit. This indicates the Institute's procedures for the preparation of its financial statements do not provide sufficient assurance that its financial statements would be free from errors.

6.107 The Institute has agreed to address all audit findings in 2012.

COMMUNITY SERVICES DIRECTORATE

6.108 The Community Services Directorate (the Directorate) provides a wide range of services and support to the ACT community. These include the provision of:

- accommodation support and respite care services to people with disabilities and their families;
- therapy services for children with developmental delays or disabilities;
- early intervention and prevention services for children and their families;
- support services for young people at risk and young offenders;
- services for Aboriginal and Torres Strait Islanders;
- support for multicultural affairs and events;
- arts programs and funding and the commissioning of public artwork; and
- care and protection services for young people including out-of-home support and care.

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

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Directorate's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- The Directorate's net cost of services, excluding unbudgeted gains from receiving affordable housing rental properties from Housing ACT under the Commonwealth Government rental assistance program, was close to the budgeted cost.
- The Directorate's net cost of services increased by $30.9 million (15.5 percent) compared to the previous year's cost. This cost increase was anticipated in the budget.
- The Directorate did not draw down $8.5 million (31 percent) of the funds appropriated for capital works due mainly to delays in major projects.
- Territorial expenses were in line with the budgeted cost.
- Territorial expenses increased by $4.4 million (12.7 percent) compared to the previous year's cost due mainly to an increase in energy concessions and number of people accessing these concessions. This cost increase was anticipated in the budget.
- The Directorate resolved the one previously reported audit finding in relation to its statement of performance.
- No new audit findings were identified in 2011-12.

Financial results

Table 6.19: Key results – directorate

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(204.9)	(236.1)	(230.5)
Income	5.9	6.2	3.6
Net cost of services	**(199.0)**	**(229.9)**	**(226.9)**
Government contributions	190.4	216.7	216.2
Gains from receiving assets from other agencies	4.1	7.4	-
Losses from transferring assets to other agencies	(8.4)	-	-
Operating deficit	**(12.9)**	**(5.8)**	**(10.7)**
Capital injections	**19.0**	**18.9**	**27.4**

6.110 The Directorate's expenses mainly consist of grants and payments to non-government organisations to provide disability, care and protection and community support services, employee related costs and supplies and services expenses.

6.111 The Directorate's net cost of services ($229.9 million) excluding unbudgeted gains of $7.4 million received from affordable housing rental properties from Housing ACT under the Commonwealth Government rental assistance program was close to the budgeted cost ($226.9 million).

6.112 The Directorate's net cost of services increased by $30.9 million (15.5 percent) compared to the previous year's cost. This cost increase was anticipated in the budget and largely reflects:

- additional payments to non-government service providers due to an increase in the number of children requiring placement in out of home care;
- the transfer of ArtsACT to the Directorate as part of the Administrative Arrangements on 17 May 2011; and
- higher employee expenses resulting from pay rises and staff from ArtsACT that were transferred to the Directorate.

6.113 The Directorate did not draw down $8.5 million (31 percent) of the funds appropriated for capital works due mainly to delays in completing major projects.

6.114 The projects that were delayed included the fitout of the Fitters' Workshop, construction of the Holder Early Childhood Centre, upgrades of early child facilities, extension of the Street Theatre, and security upgrade of the Bimberi Youth Justice Centre.

Table 6.20: Key results – territorial expenses

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Subsidies and concessions	18.5	19.0	18.4
Community service obligations	16.2	20.1	21.5
Concession and community service obligation expenses	**34.7**	**39.1**	**39.9**

6.115 Subsidies and concessions mainly consist of payments to external service providers to subsidise the costs of services provided to low income earners, pensioners and people with disabilities. Subsidies and concessions are provided for general rates, motor vehicle registration, drivers' licences, pensioner transport and spectacles for eligible concession card holders.

6.116 Community service obligation expenses relate to the provision of electricity and gas concessions for pensioners, water and sewerage rebates paid to schools and charities, and a taxi subsidy scheme for people with a disability.

6.117 Territorial expenses ($39.1 million) were in line with the budgeted cost ($39.9 million).

6.118 Territorial expenses ($39.1 million) increased by $4.4 million (12.7 percent) compared to the previous year's cost ($34.7 million) due mainly to an increase in energy concessions, and number of people accessing these concessions. This cost increase was anticipated in the budget.

Audit findings

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

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

6.119 The Directorate resolved the one previously reported audit finding.

6.120 In 2011-12, the Directorate incorrectly prepared legislative instruments under Section 19D of the *Financial Management Act 1996* to amend targets for accountability indicators that were transferred to the Directorate from other agencies as a result of administrative arrangements on 17 May 2011.

6.121 The Directorate has advised that it will seek advice on the preparation of future Section 19D instruments to provide assurance that these instruments are correctly prepared and have the intended legal effect.

6.122 No new audit findings were identified in 2011-12.

ECONOMIC DEVELOPMENT DIRECTORATE

6.123 The Economic Development Directorate (the Directorate) supports economic development and business programs within the ACT. The Directorate is also responsible for the ACT Government's land release program, tourism and managing sporting and recreational activities, venues and events.

6.124 On 23 November 2011, responsibility for the National Arboretum Canberra was transferred from the Directorate to the Territory and Municipal Services Directorate under changes to administrative arrangements.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Directorate's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- The Directorate's net cost of services was $3.3 million (3.7 percent) below the budgeted cost. This was mainly due to the unbudgeted recovery of costs from the Land Development Agency for the provision of administrative support. This recovery was part of a Memorandum of Understanding with the Land Development Agency which was negotiated after the budget was prepared.
- The Directorate did not draw down $101.7 million (59 percent) of the funds appropriated for initiatives and capital works. The undrawn funds mainly relate to land release projects that have been deferred to 2012-13 as a result of longer than expected times to complete planning of developments and/or obtain development approvals.
- The Directorate improved the usefulness of its statement of performance by ensuring that the targets set for accountability indicators transferred to the Directorate reflected the period of time the Directorate had responsibility for the indicators.
- The Directorate improved the quality of the financial statements submitted for audit, however, there is scope for further improvement.
- The Directorate has been developing its key governance policies and associated plans since its establishment on 17 May 2011. The Directorate's strategic plan was finalised in August 2011.
- Key governance policies and plans were not approved and implemented for most of the 2011-12 reporting period. These included policies and plans for fraud and corruption prevention, financial management, information technology strategic planning, risk management and business continuity arrangements. Most of these were approved in the 2012-13 reporting period.
- Each of the Directorate's business units has developed a business plan. However, only one business plan was approved in the 2011-12 reporting period, and several business plans were incomplete.

KEY ISSUES – CONTINUED

- Many accountability indicators included in the statement of performance provide users with little information about the Directorate's performance. The Directorate has changed its accountability indicators for 2012-13 to improve these indicators.
- The Directorate's internal audit arrangements need to be improved.
- Controls over the use and acquittal of credit cards need to be improved to minimise risk of irregular, erroneous or fraudulent credit card use.
- Control weaknesses were identified in relation to the approval of payments, disposal of assets and review of salary reports. These control weaknesses increase the risk of errors, irregularities and fraud.
- The Directorate does not have a system for allocating relocation and fit-out costs, incurred on behalf of agencies, to individual agencies. There is a risk of errors in the financial statements of the Directorate and other reporting agencies when the Directorate is not able to allocate fit-out and relocation costs to individual reporting agencies.

Financial results

Table 6.22: Key results

	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(101.5)	(101.1)
Income	14.5	10.8
Net cost of services	**(87.0)**	**(90.3)**
Government contributions	65.9	75.4
Gains - mainly assets transferred to the Directorate	0.2	10.0
Operating deficit	**(20.9)**	**(4.9)**
Capital injections	**75.5**	**171.2**

6.125 The Directorate's major expenses consist of employee costs, depreciation and amortisation, contractor and consulting costs associated with tourism, business development and land release activities, property maintenance expenses for sporting facilities, and grants paid to community organisations. Grants paid to community organisations includes payments to major sporting codes, community sports, business industry and tourism organisations.

6.126 Most of the Directorate's income is obtained from sporting events. This includes commissions on food and beverage sales and corporate suite sales, and revenue from the hire of sporting facilities.

6.127 The Directorate's net cost of services was $3.3 million (3.7 percent) below the budgeted cost. This was mainly due to the unbudgeted recovery of costs from the Land Development Agency for the provision of administrative support. This recovery was part of a Memorandum of Understanding with the Land Development Agency which was negotiated after the budget was prepared.

6.128 Government contributions were $9.5 million (12.6 percent) below the budgeted contributions. The Directorate did not draw down funding relating to the National Arboretum Canberra, because the National Arboretum Canberra was transferred to the Territory and Municipal Services Directorate on 23 November 2011.

6.129 Gains were $9.8 million below the budgeted amount. The budget was prepared on the assumption that the Directorate would receive a block of land worth $9.8 million as part of a proposed Government office building project. This project was abandoned during 2011-12.

6.130 The operating deficit exceeded the budgeted deficit by $16 million (326.6 percent). This was mainly due to the lower than expected government contributions and gains referred to above.

6.131 The Directorate did not draw down $95.7 million (56 percent) of the funds appropriated for initiatives and capital works. The undrawn funds mainly relate to land release projects that have been deferred to 2012-13 as a result of longer than expected times to complete planning of developments and/or obtain development approvals.

Audit findings

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

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	1	2	1	19	22

6.132 The Directorate improved the usefulness of its statement of performance by ensuring that the targets set for accountability indicators transferred to the Directorate reflected the period of time the Directorate had responsibility for the indicators.

6.133 The Directorate improved the quality of the financial statements submitted for audit compared to the previous year. However, there is scope for further improvement as:

- corrections needed to be made to the financial statements; and
- explanatory information included in the financial statements about the reported balances and variations between current and prior year results were not always clear and informative.

6.134 The Directorate has been developing its key governance policies and associated plans since its establishment on 17 May 2011. The Directorate's strategic plan was finalised in August 2011.

6.135 However, key policies and plans were not approved and implemented for most of the 2011-12 reporting period. These included policies and plans for fraud and corruption prevention, financial management, information technology strategic planning, risk management and business continuity arrangements. In particular, the Directorate did not:

- have an approved fraud and corruption prevention plan until 25 June 2012. This presents a risk that the Directorate's major fraud risks may not be identified and effectively managed;
- have approved financial instructions containing key financial management policies and procedures until 1 July 2012;
- have an approved information technology strategic plan to provide the Directorate with assurance that forward planning of the Directorate's information technology needs will be effective, and that information technology systems will meet the emerging priorities and needs of the Directorate; and
- finalise its risk management plan or business continuity plan until 25 June 2012. There is a risk that the Directorate will not effectively manage and address significant risks, or promptly recover its operations in the event of a disaster or other adverse event, when these plans are not in place.

6.136 Each of the Directorate's business units has developed a business plan. However, only one business plan was approved in the 2011-12 reporting period, and several business plans were incomplete.

6.137 Many accountability indicators included in the statement of performance provide users with little information about the Directorate's performance. For example, many accountability indicators have a target of '1' but are measured as being 'achieved' after meeting a number of internal targets. As the Directorate has not explained these targets in its budget papers, it is not possible to reliably assess whether planned levels of performance were achieved.

6.138 The Directorate has changed its accountability indicators for 2012-13 to improve them.

6.139 The Directorate's internal audit arrangements need to be improved. A list of planned audits has been approved by the Directorate's Executive Management Team and Audit Committee, however, this list only consists of names of audits with no information on the intended purpose or scope of each audit. In addition, there is no evidence that the audit selection process included a consideration of the Directorate's strategic plan, risk assessments and fraud control plans.

6.140 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.

6.141 There are aspects of the Directorate's internal audit arrangements that support the independence of the internal audit function. These include having the Director, Workforce and Governance (who is responsible for internal audit) report directly to the Audit Committee on internal audit matters, and the Audit Committee having an independent chair.

6.142 However, the Directorate's internal audit function is not fully independent as the Director, Workforce and Governance is also responsible for human resources and corporate governance. Therefore, this officer cannot be free of the influences of operational management and responsibility. As a result, the Directorate's internal audit arrangements fall short of better practice and provide less assurance that its internal audit function will operate independently.

6.143 Controls over the use and acquittal of credit cards need to be improved to minimise risk of irregular, erroneous or fraudulent credit card use. Documentation supporting credit expenditure was not consistently retained, and some credit card acquittals were not authorised by a delegate.

6.144 Approval of payments to suppliers was sometimes provided by an officer who did not have the required delegation. While these payments were properly related to the Directorate's operations, this control weakness increases the risk of payment errors and fraud.

6.145 The Directorate regularly disposes of damaged or obsolete assets. Many assets were disposed of without evidence of having been authorised. This control weakness presents a risk of errors, irregularities and fraud.

6.146 Salary reports were not distributed to, and reviewed by, all of the Directorate's business units. There is a risk of undetected irregular, erroneous or fraudulent salary payments when salary reports are not consistently reviewed.

6.147 The Directorate has received capital funding to assist in the relocation and fit-out of Government accommodation. On completion of the relocation and fit-out, any assets are transferred to the relevant agency. However, the Directorate has not implemented a system for allocating costs incurred by the Directorate to individual reporting agencies. There is a risk of errors in the financial statements of the Directorate and other reporting agencies when the Directorate is not able to allocate fit-out and relocation costs to individual reporting agencies.

6.148 The Directorate has agreed to address all except one audit finding.

6.149 As discussed in paragraphs 6.140 to 6.142 the Audit Office believes that there is scope for improving the independence of the Directorate's internal audit function.

6.150 The Directorate has advised that there are sufficient administrative arrangements in place to mitigate the risks associated with the lack of independence and that having a completely independent internal audit function is impractical given the size of the Directorate. These administrative arrangements include having a risk based internal audit program that is approved by the Directorate's Senior Executive and Audit Committees.

6.151 The Audit Office acknowledges that these administrative arrangements support the independence of the internal audit function. However, these measures do not fully address the inherent risk to independence that arises from having the Director, Workforce and Governance manage the internal audit function.

EDUCATION AND TRAINING DIRECTORATE

6.149 The Education and Training Directorate's (the Directorate's) main activities are to provide public school education and training services. The main responsibilities of the Directorate include the provision of public school education, preschool and early intervention education programs, registration of non-government schools and home education, planning and coordination of vocational education and training and related services.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Directorate's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- The Directorate's net cost of services ($588 million) was close to the budgeted cost ($586 million).
- The Directorate's net cost of services exceeded the previous year's cost by $52.6 million (9.8 percent) due mainly to higher employee costs associated with new enterprise bargaining agreements for teaching and non-teaching staff, and depreciation expenses. These cost increases were anticipated in the budget.
- The Directorate did not draw down $15.5 million (13.8 percent) of the funds appropriated for capital works due mainly to delays in completing major projects.
- Capital injections were $97.5 million (50.2 percent) lower than the prior year's amount due mainly to the completion of the Building the Education Revolution Program funded by the Commonwealth in 2010-11.
- Territorial expenses (largely consisting of grants to non-government schools) were materially in line with the budgeted cost.
- The Directorate reduced the risk of erroneous, irregular or fraudulent salary payments by implementing consistent and timely reviews of salary reports at cost centres in the Directorate's central office.
- Weaknesses in controls over the system used to manage information on students, families, staff, finances, academic records and general school administrative functions (the MAZE system) have not been resolved.
- There was often no documentary evidence of the satisfactory receipt of goods and services prior to payments being made. While these payments were found to be related to the operations of the Directorate, there is a risk of irregular, erroneous or fraudulent payments when payments can be made without evidence that the goods or services have been satisfactorily received. The Directorate has advised that this control weakness has since been addressed.
- The Directorate's information technology strategic plan is in draft form. The information and communication technology priorities identified in this draft plan are not supported by a resourcing and implementation plan.

KEY ISSUES - CONTINUED

- The Directorate's business continuity plan, including disaster recovery procedures, has not been approved and tested.

Financial results

Table 6.24: Key results – directorate

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(575.1)	(625.2)	(621.2)
Income	39.7	37.2	35.2
Net cost of services	**(535.4)**	**(588.0)**	**(586.0)**
Government contributions	501.2	516.1	525.9
Asset transfer expenses	(12.8)	(2.2)	-
Operating deficit	**(47.0)**	**(74.1)**	**(60.1)**
Capital injections	**194.2**	**96.7**	**112.2**

6.150 The Directorate's expenses are largely comprised of employee costs, repairs and maintenance to schools, computer related costs, depreciation and school operating costs. The Directorate's income is mostly derived from voluntary contributions, fundraising, school excursions, international students and funding provided by Commonwealth Government for various programs.

6.151 The Directorate's net cost of services ($588 million) was close to the budgeted cost ($586 million).

6.152 The Directorate's net cost of services increased from the prior year's cost by $52.6 million (9.8 percent). This cost increase was anticipated in the budget and was mainly due to higher:

- employee costs associated with the new enterprise bargaining agreements for teaching and non-teaching staff; and
- depreciation expenses resulting from the completion of capital works projects relating to new schools, and upwards revaluation of the Directorate's building assets in 2010-11.

6.153 The Directorate did not draw down $15.5 million (13.8 percent) of the funds appropriated for capital works due mainly to delays in completing major projects. The projects that were delayed included the construction of the new Canberra College Performing Arts Centre and Franklin Early Childhood School, and expansion of the Red Hill Primary School.

6.154 Capital injections were $97.5 million (50.2 percent) lower than the prior year's amount due mainly to the completion of the 'Building the Education Revolution Program' in 2010-11. The 'Building the Education Revolution Program' was an infrastructure development program funded by the Commonwealth as part of the Commonwealth Government's economic stimulus package.

Table 6.25: Key results – territorial expenses

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Territorial expenses (largely grants to non-government schools)	212.7	195.1	196.8
	212.7	**195.1**	**196.8**

6.155 Territorial expenses largely consist of grants to non-government schools. Money is provided by the ACT and Commonwealth Governments to fund the provision of grants to non-government schools. Grants are allocated to non-government schools on the basis of the number of students, and also include funds for specific targeted programs.

6.156 Territorial expenses were materially in line with the budgeted cost.

6.157 Territorial expenses decreased from the prior year's cost by $17.6 million (8.3 percent). This decrease was anticipated in the budget, and was mainly due to a reduction in Commonwealth funding following the completion of the 'Building the Education Revolution Program'.

Audit findings

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

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	(1)	2	2	7	11

6.158 The Directorate reduced the risk of erroneous, irregular or fraudulent salary payments by implementing consistent and timely reviews of salary reports at cost centres in the Directorate's central office.

6.159 In 2010-11, salary reports by school cost centres were not always evidenced as having been reviewed. In 2011-12, these reports were evidenced as being reviewed, however, these reviews were not being consistently performed in a timely manner.

6.160 Weaknesses in controls over the system used to manage information on students, families, staff, finances, academic records and general school administrative functions (the MAZE system) have not been resolved. In particular:

- there is no approved policy for managing changes to the MAZE system. This policy should address the Directorate's requirements for the approval of changes, testing of changes prior to implementation, identification of business risks, and plans for reversing changes that do not operate as intended. The lack of an approved change management policy increases the risk of untested and potentially fraudulent changes being made to the MAZE system; and
- there was no evidence that reviews of users' access rights to the MAZE system were being performed. This increases the risk of unauthorised, inappropriate and possibly fraudulent access to the MAZE system and data.

6.161 The Directorate has not performed reviews of the audit logs for the MAZE system and data and does not have a documented policy for such reviews. When such reviews are not performed, there is a risk that erroneous or fraudulent changes to the MAZE system and data will not be promptly detected and rectified.

6.162 Information on these control weaknesses is also provided in Chapter 4: 'Computer information systems' (page 42).

6.163 There was often no documentary evidence of the satisfactory receipt of goods and services prior to payments being made. While these payments were found to be related to the operations of the Directorate, there is a risk of irregular, erroneous or fraudulent payments when payments can be made without evidence that the goods or services have been satisfactorily received. The Directorate has advised that this control weakness has been addressed.

6.164 The Directorate's information technology strategic plan is in draft form. The information and communication technology priorities identified in this draft plan are not supported by a resourcing and implementation plan. The information technology needs of the Directorate are less likely to be effectively met when information technology planning arrangements have not been finalised. The Directorate has advised that this control weakness has since been addressed.

6.165 The Directorate's business continuity plan, including disaster recovery procedures, has not been approved and tested. This presents a risk that critical systems and information may not be able to be recovered and operations may not be promptly resumed.

6.166 The Audit Office also recommended that the Directorate improve explanations for major variances in the financial statements and statement of performance.

6.167 The Directorate agreed with nine audit findings and partially agreed with two audit findings. The Directorate partially agreed with the audit recommendation:

- to implement regular reviews of audit logs for the MAZE system and data. The Directorate advised that options for these reviews will be explored and the review process to be adopted will be dependent on the capability of the MAZE system; and
- in relation to explanations of major variances in the financial statements and statement of performance. The Directorate acknowledged that while further explanatory information can always be provided, it considers that the level of information currently provided in the financial statements and management discussion and analysis provides a clear explanation of financial activities.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT DIRECTORATE

6.168 The Environment and Sustainable Development Directorate (the Directorate) is responsible for promoting sustainable living and resource use in the ACT.

6.169 The Directorate also provides a planning and land use system that contributes towards sustainable development in the ACT.

KEY ISSUES

- The Audit Office issued a qualified audit report on the Directorate's 2011-12 financial statements because the Directorate did not record all revenue associated with extension of time to build fees.
- The Audit Office issued a qualified report of factual findings on the Directorate's 2011-12 statement of performance because the Directorate did not measure a result for one accountability indicator on customer satisfaction.
- The Directorate's net cost of services exceeded the budgeted cost by $1.8 million (2.4 percent) mainly as a result of higher long service leave expenses associated with an increase in the rate used to estimate the present value of long service leave liabilities.
- The Directorate did not draw down $10.4 million (40 percent) of the funds appropriated for capital works because of delays in several capital works projects.
- Fees and fines and land rent income were $18.2 million (25.1 percent) below the budgeted amount. This was due mainly to an overestimation of lease variation charges in the budget, and lower than expected water abstraction charges from ACTEW.
- The Directorate improved its processes for assessing whether unspent Commonwealth funding should be recorded as revenue or revenue received in advance (liability). This has reduced the risk of errors in the Directorate's financial statements.
- While the Directorate has improved the explanations for some of its accountability indicators, several accountability indicators are not clearly and concisely defined. This increases the risk that readers will not be clearly informed about the Directorate's performance.
- The statement of performance provided to the Audit Office for review was corrected for three material errors.
- The Directorate will not be able to collect extension of time to build fees owed from lessees in a timely manner, because its business systems do not have information needed to quantify the amounts owed from lessees where the 'time to build covenant' of the lease has been breached.
- While aspects of the Directorate's internal audit function support its independence, there is scope for improving the independence of this function.

KEY ISSUES - CONTINUED

- The Directorate's risk management arrangements need to be improved to provide assurance that the Directorate consistently identifies and responds effectively to its major operational risks.
- The Directorate's processes for monitoring the implementation of audit recommendations need to be improved to provide assurance that these recommendations will be implemented in a timely manner.
- In a few circumstances, there was no documentary evidence of the satisfactory receipt of goods or services before payments were made. This increases the risk of payment errors and fraud.

Financial results

Table 6.27: Key results

	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(89.4)	(82.6)
Income	13.1	8.1
Net cost of services	**(76.3)**	**(74.5)**
Government contributions	70.8	74.0
Asset transferred to other agencies	(5.7)	(5.1)
Operating deficit	**(11.2)**	**(5.6)**
Capital injections	**15.6**	**26.0**

6.170 The Directorate's expenses mainly consist of employee costs, consultant and contractor costs paid for feasibility studies and valuations, information technology costs and grants paid to community organisations for environmental management projects, and to assist low income households improve their energy and water efficiency.

6.171 The Directorate's revenue consists mainly of fees and charges related to extension of time to build and conveyancing fees, and Commonwealth and ACT Government funding received for development initiatives.

6.172 The Directorate's net cost of services exceeded the budgeted cost by $1.8 million (2.4 percent) mainly as a result of higher long service leave expenses associated with an increase in the rate used to estimate the present value of long service leave liabilities.

6.173 The Directorate did not draw down $10.4 million (40 percent) of the funds appropriated for capital works. This was mainly due to delays in several capital works projects, including the construction of a reticulation network in the inner north of Canberra, the construction of valley ponds in Gungahlin and transport design studies.

Table 6.28: Key results – territorial income

	Actual 2011-12 $m	Budget 2011-12 $m
Fees and fines	49.2	68.7
Land rent (including 30-year loan interest)	5.0	3.7
Fees and fines and land rent revenue	**54.2**	**72.4**

6.174 Fees and fines mainly consist of fees charged for development applications, lease variations, water abstraction, certified plans and environmental protection authorisations. Land rent is the rental income received for the lease of Territorial land.

6.175 Fees and fines and land rent income were $18.2 million (25.1 percent) below the budgeted amount. This was due mainly to an overestimation of lease variation charges in the budget, and lower than expected water abstraction charges as ACTEW used less water than anticipated.

Audit findings

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

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	2	-	1	12	13

6.176 The Directorate improved its processes for assessing whether unspent Commonwealth funding should be recorded as revenue or revenue received in advance (liability). This has reduced the risk of errors in the Directorate's financial statements.

6.177 In 2010-11, the Directorate incorrectly prepared legislative instruments under Section 19D of the *Financial Management Act 1996* to amend targets for accountability indicators that were transferred to the Directorate as a result of administrative arrangements on 17 May 2011. In 2011-12, the Directorate advised that it will seek advice on the preparation of future Section 19D instruments to provide assurance that these instruments are correctly prepared and have the intended legal effect. There were no instruments required in 2011-12.

6.178 In 2010-11, the Audit Office advised the Directorate that several accountability indicators included in its statement of performance were not clearly or concisely defined. While the Directorate improved the explanations for some of its accountability indicators, several are still not clearly or concisely defined. For example, the term 'provision' is not defined for accountability indicator 'Provision of additional greenfields residential land ready for Estate Development Plan preparation responding to the requirements of the land release program'. This increases the risk that readers will not be clearly informed about the Directorate's performance.

6.179 The statement of performance provided to the Audit Office for review was corrected for three material errors. This indicates the Directorate needs to review and improve its processes for preparing its statement of performance.

6.180 The Directorate manages Crown leases over Territory land. These may include a covenant which requires the lessee to complete construction of a premise on the land within a specified period of time (a 'time to build covenant'). Under the *Planning and Land Development Act 2007*, a fee is payable when a lessee requests an extension of time to complete the construction of a building on a Crown lease.

6.181 The Directorate identified many lessees who had breached the 'time to build covenant'. Many of these breaches occurred in previous reporting periods.

6.182 The Directorate was not able to record all extension of time to build fees as information needed to calculate the fees was not consistently recorded in the Directorate's business systems.

6.183 The Audit Office issued a qualified audit report on the Directorate's 2011-12 financial statements because the Directorate did not record all revenue associated with extension of time to build fees. The audit report discloses that:

> In Note 5: User Charges, the Directorate has disclosed that it has not recognised all revenue associated with extension of time to build fees. Note 5 also discloses that there are a number of leases for crown land where the lessee has not complied with the time to build requirement of the lease and has not applied to the Directorate for an extension of time to build. These fees have not been recognised as revenue because the Directorate has not been able to quantify the amount of revenue.
>
> Under AASB 118 Revenue, these fees should have been recognised as revenue from the date that the lessee did not comply with the time to build requirement of the lease.

6.184 The Directorate will not be able to collect extension of time to build fees owed from lessees in a timely manner, because its business systems do not have information needed to quantify the amounts owed from lessees where the 'time to build covenant' of the lease has been breached.

6.185 The Audit Office issued a qualified report of factual findings on the Directorate's 2011-12 statement of performance because the Directorate did not measure a result for one accountability indicator on customer satisfaction (Output 1.4 Sustainable Planning - 'level of satisfaction with the Directorate's services').

6.186 The Directorate is less likely to promptly address concerns from customers if it does not regularly collect information on customer satisfaction.

6.187 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.

6.188 There are aspects of the Directorate's internal audit arrangements that support the independence of the internal audit function. These include having the Internal Audit Manager report directly to the Audit Committee on internal audit matters, and the Audit Committee having an independent chair.

6.189 However, the Directorate's internal audit function is not fully independent as the Internal Audit Manager is also responsible for governance and annual reporting. Therefore, this officer cannot be free of the influences of operational management and responsibility. As a result, the Directorate's internal audit arrangements fall short of better practice and provide less assurance that its internal audit function will operate independently.

6.190 The Directorate's risk management arrangements need to be improved to provide assurance that the Directorate consistently identifies and responds effectively to its major operational risks. For example, risks have not always been clearly described in risk registers, existing controls are not taken into account in making risk assessments, and responsibilities for implementing risk mitigation strategies are unclear.

6.191 The Directorate's processes for monitoring the implementation of audit recommendations need to be improved to provide assurance that these recommendations are implemented in a timely manner. For example, there are long outstanding audit recommendations, audit recommendations are being removed from the Directorate's status report without being fully implemented, and not all audit findings are being monitored.

6.192 In a few circumstances, there was no documentary evidence of the satisfactory receipt of goods or services before payments were made. While these payments were related to the operations of the Directorate, there is a risk of payment errors and fraud when payments can be made without evidence that the goods and services have been satisfactorily received.

6.193 The Directorate has provided the following comments on some of the key audit findings.

The Directorate has agreed with all of the Auditor-General's recommendations and provides the following responses in relation to some of the key findings:

- work is continuing as part of the 2013-14 Budget process to clarify the Directorate's accountability indicators;
- the Directorate has made improvements with its systems used to record measures as part of the statement of performance to reduce the risk of errors;
- the Directorate is currently undertaking measures to collect outstanding extension of time to build fees. This is an important function the Directorate undertakes to reduce 'land banking' in the Territory. It should be noted that the Directorate does have mechanisms to collect the revenue when a certificate of occupancy is issued or the lease is transferred. The issue is a long-standing historic one which arises from the information technology systems and processes which the Directorate inherited that do not generate these fees automatically, with the Directorate currently reliant on manual systems in this area;
- the Directorate's Governance Section has since been restructured, with action taken to improve its independence. The Audit Manager, whose function is wholly audit dedicated, has a direct reporting line to the Director-General. This arrangement has been reflected in the Organisation Chart and actively communicated as appropriate, including through internal audit meetings with the Director-General and at meetings of the Audit Committee and Executive Management Board. The officer is nominally attached to the Governance Section and receives active support from the Senior Manager, Governance and the Director, Corporate. This arrangement, I believe, ensures adequate support for the Audit Manager in a material sense by ensuring actual administrative support and redundancy coverage in the event of leave or vacancy. This protects the independence of the function while ensuring effective support. While it is acknowledged that this arrangement falls short of the Audit Office's preferred arrangement, we believe that this is an optimal compromise in the context of a relatively small Directorate and the management of declining budgetary and staffing resources;
- with the restructuring of the Governance team and the commencement of a new Senior Manager Governance, the Directorate has commenced a review of its risk management framework, which is expected to be completed by 30 June 2013;
- with the restructuring of the Governance team and the commencement of a new Senior Manager Governance, the Directorate has commenced a review of outstanding audit recommendations, with a view to resolving these by mid-April 2013; and

- the Directorate is undertaking an internal audit to provide assurances of the Directorate's compliance in relation to the receipt of goods. It should be noted that in relation to the limited exceptions identified during the audit, all goods had been properly received prior to payment.

HEALTH DIRECTORATE

6.194 The Health Directorate (the Directorate) aims to achieve a healthy community by planning, purchasing and providing community-based health services, providing hospital and extended care services, managing public health risks, and promoting health and early care interventions.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Directorate's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- The Directorate's net cost of services was close to the budgeted cost.
- The Directorate's net cost of services exceeded the previous year's cost by $69.6 million (8.2 percent). This cost increase was anticipated in the budget.
- The Directorate did not draw down $119.9 million (42.4 percent) of the original budget for capital works due mainly to delays in major projects.
- Capital injections were $56.5 million (53.2 percent) higher than the prior year's amount due mainly to the completion of the new Woman and Children's Hospital, construction of the Gungahlin Community Health Centre and Adult Mental Health Inpatient Facility, commencement of the Integrated Cancer Centre and Enhanced Belconnen Community Health Centre.
- The Directorate improved its processes for preparing its financial statements and controls over its accounting records. These improvements provide the Directorate with increased assurance that its financial statements will be informative and free of material errors.
- The Directorate calculated amounts receivable from the NSW Government in accordance with the cross-border agreement. However, there continues to be significant delays in collecting these amounts from the NSW Government.
- In 2011-12, the Directorate purchased approximately $152 million of health services from Calvary Health Care ACT Limited relating to Calvary Public Hospital. The agreement to purchase these services was in draft form.
- The Directorate did not prepare an annual business plan for 2011-12 as required by its Corporate Plan. This presents a risk that the Directorate's organisation-wide priorities for the coming year will not be identified and addressed.
- The Directorate's information technology strategic plan that identifies information and communication technology priorities has been in draft form since July 2010. Forward planning for the Directorate's information and communication technology needs is less likely to be effective when its information technology strategic plan has not been completed and approved.

KEY ISSUES - CONTINUED

- The Directorate has not completed and approved business continuity arrangements for key revenue systems. This presents a risk that the Directorate will not be able to resume operations, without the loss of information, in a timely manner in the event of a major disruption or disaster.
- The Directorate reports in its statement of performance on the 'percentage of category one elective surgery patients who receive surgery within 30 days of listing'. While the method used to measure the Directorate's performance is consistent with the description of the accountability indicator and national standards for the reporting of similar indicators, the method is susceptible to errors or fraudulent manipulation of reported waiting times.
- The Directorate's 'Fraud Management Framework, Control Plan and Policy' has not been reviewed as required by this Policy. The Directorate has less assurance that it will effectively address its fraud and corruption risks when its policies for addressing these risks are not reviewed and kept up to date.

Financial results

Table 6.30: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m Note 1
Expenses	(1 093.4)	(1 177.8)	(1 163.0)
Income	241.1	255.9	238.8
Net cost of services	**(852.3)**	**(921.9)**	**(924.2)**
Government contributions	834.5	904.3	896.2
Operating deficit	**(17.8)**	**(17.6)**	**(28.1)**
Capital injections	**106.3**	**162.8**	**282.7**

Note 1: The budgeted amounts for expenses and income disclosed in the 2011-12 Budget Papers were understated by $16.7 million for 2011-12 because cross-border expenses were offset against cross-border revenue. The budget information presented in the above table has been corrected for this error.

6.195 The Directorate's expenses mostly consist of employee costs, payments for services provided by visiting medical officers, purchases of clinical, medical and surgical supplies and pharmaceuticals, and insurance costs. These expenses also include payments to Calvary Public Hospital and other non-government organisations for health services, and payments to other state and territory governments for treating ACT patients in public hospitals of these other jurisdictions ('cross-border health costs').

6.196 The Directorate's income mostly consists of revenue from other state and territory governments for treating residents from their jurisdictions in the ACT health system ('cross-border revenue'), and various fees and charges for providing health services and supplies.

6.197 The Directorate's net cost of services ($921.9 million) was close to the budgeted cost ($924.2 million).

6.198 The Directorate's net cost of services ($921.9 million) exceeded the previous year's cost ($852.3 million) by $69.6 million (8.2 percent). This cost increase was anticipated in the budget and was mainly due to higher:

- employee expenses resulting from employing more staff, pay rises and use of a higher rate to estimate the present value for long service leave liabilities; and
- costs of purchasing public health services from Calvary Public Hospital due to price increases, and a higher demand for the public hospital services.

6.199 The Directorate did not draw down $119.9 million (42.4 percent) of the original budget for capital works due mainly to delays in major projects. Delays were experienced during the procurement process relating to these projects (in particular, the finalising of tenders and selecting of suppliers), and changes were made to the scope of some projects. Poor weather conditions also contributed to these delays.

6.200 Projects affected by these delays included the new Gungahlin Community Health Centre, the Enhanced Belconnen Community Health Centre, upgrades to hospital buildings and layouts at The Canberra Hospital and software development projects.

6.201 Capital injections were $56.5 million (53.2 percent) higher than the prior year's amount due mainly to the completion of the new Woman and Children's Hospital, construction of the Gungahlin Community Health Centre and Adult Mental Health Inpatient Facility, commencement of the Integrated Cancer Centre and Enhanced Belconnen Community Health Centre.

Audit findings

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

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
14	(12)	2	-	16	18

6.202 The Directorate has agreed to sixteen of the audit findings, agreed-in-principle to one audit finding and noted one audit finding.

6.203 The Directorate resolved almost all previously reported audit findings.

6.204 The Directorate addressed several audit findings by improving the processes used to prepare its financial statements. There were fewer errors in the 2011-12 financial statements, and explanations of material variances between the current and prior year results were improved. The Directorate also improved controls over its accounting records by, for example, ensuring that accounting journals were independently reviewed before being posted to the general ledger.

6.205 These improvements provide the Directorate with increased assurance that its financial statements will be informative and free of material errors.

6.206 The Directorate earns cross-border revenue from the NSW Government for treating NSW residents in the ACT health system. This revenue is based on an agreement between the ACT and NSW Governments (a 'cross-border agreement').

6.207 In 2010-11, the Directorate's financial statements disclosed that the estimate of amounts receivable from the NSW Government ('cross-border receivables') was based on its records of services supplied, provided that these amounts were not disputed or contested by the NSW Government. This raised questions about the adequacy of records maintained by the Directorate to support claims of services provided.

6.208 In 2011-12, the Directorate calculated amounts receivable from the NSW Government in accordance with the cross-border agreement. However, as shown in the following table, there continues to be significant delays in collecting amounts from the NSW Government.

Table 6.32: Cross-border amount owed by the NSW Government at 30 June 2012

Year	Amount $m
2009-10	12.7
2010-11	10.2
2011-12	3.0
Total	**25.9**

6.209 The Directorate has advised that the review of cross-border activity data initiated by the NSW Health Department delayed the finalisation of prior year acquittals and it expects that the 2009-10 and 2010-11 financial year acquittals will be completed in 2012-13.

6.210 In 2011-12, the Directorate purchased approximately $152 million of health services from Calvary Health Care ACT Limited relating to Calvary Public Hospital. These services are negotiated annually with Calvary Health Care ACT Limited and documented in an agreement called the 'Calvary Public Hospital - Performance Plan'. The agreement for 2011-12 was in draft form.

6.211 Where health services are acquired under a draft agreement, the Directorate's rights and obligations under this arrangement may be less certain, and there is a risk that public health services will not be provided at the required quality, quantity and price.

6.212 The Directorate has advised that it is now operating under a new agreement for 2012-13.

6.213 The Directorate is required by its Corporate Plan to develop an 'ACT Health Business Plan' for each year of the Corporate Plan to identify the organisation-wide priorities for the coming year. The Directorate did not prepare an annual business plan for 2011-12. This presents a risk that the Directorate's organisation-wide priorities for the coming year will not be identified and addressed.

6.214 The Directorate's information technology strategic plan that identifies future information and communication technology priorities over a three-year period has been in draft form since July 2010. Forward planning for the Directorate's information and communication technology needs is less likely to be effective when its information technology strategic plan has not been completed and approved.

6.215 The Directorate and Shared Services Centre have entered into support agreements for the Directorate's revenue systems. Under these agreements, the Directorate is responsible for developing, maintaining and implementing effective business continuity arrangements for these revenue systems.

6.216 The Directorate has not completed and approved business continuity arrangements for key revenue systems as required by these agreements. This presents a risk that the Directorate will not be able to resume operations, without the loss of information, in a timely manner in the event of a major disruption or disaster.

6.217 The Directorate reports in its statement of performance on the 'percentage of category one elective surgery patients who receive surgery within 30 days of listing'. The waiting time (in days) used to calculate the target and result for this accountability indicator is measured from the date a patient is 'listed' on the electronic waiting list rather than from the date a patient is clinically 'assessed' as a category one patient.

6.218 While this method is consistent with the description of the indicator and national standards for the reporting of similar indicators, the waiting time for a patient would be understated whenever there is a delay in recording that patient on the electronic waiting list. The use of a listing date is also susceptible to fraudulent manipulation.

6.219 The Directorate's 'Fraud Management Framework, Control Plan and Policy' has not been reviewed as required by this Policy. The Directorate has less assurance that it will effectively address its fraud and corruption risks when its policies for addressing these risks are not reviewed and kept up to date.

HOUSING ACT INCLUDING THE LYONS ESTATE REDEVELOPMENT JOINT VENTURE

6.220 Housing ACT aims to provide affordable and secure housing that meets the needs and circumstances of its clients, including eligible low income earners, those who are socially and financially disadvantaged, and the homeless.

6.221 Housing ACT manages a large portfolio of public housing assets, including the acquisition, disposal, redevelopment and repairs and maintenance of these assets.

6.222 Housing ACT also holds the ACT Government's interest in the Lyons Estate Redevelopment Joint Venture.

KEY ISSUES

Housing ACT

- The Audit Office issued an unqualified audit report on Housing ACT's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- Housing ACT's net cost of services exceeded the budgeted cost by $12.9 million (26.1 percent). This cost overrun was largely due to an unbudgeted transfer of a property to the community housing sector, unexpected repairs and maintenance costs resulting from storm damage, and higher than expected utility prices and water consumption costs.
- Housing ACT incurred a total comprehensive deficit of $26.6 million compared to a budgeted total comprehensive income of $217.9 million. This was largely due to Housing ACT budgeting for a $221.5 million increase in the value of the public housing property portfolio which did not eventuate.
- Housing ACT did not draw down $9.8 million (40.5 percent) of appropriated capital injections due to delays in commencing the construction of new housing for people with disabilities.
- Housing ACT reduced the risk of inappropriate, unauthorised and possibly fraudulent access to the Homenet application and data, however, some control weaknesses remain.
- Housing ACT documented and tested backup and restoration procedures for the Homenet application. However, the results of the testing, and any action required to resolve problems identified during the backup and restoration process were not documented.

Lyons Estate Redevelopment Joint Venture

- The Audit Office issued an unqualified audit report on the financial statements of the Lyons Estate Redevelopment Joint Venture for the year ending 30 June 2012.

Financial results

Table 6.33: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(155.3)	(155.9)	(142.8)
Income	92.9	92.3	90.1
Gain from the sale of properties	3.4	1.3	3.3
Net cost of services	**(59.0)**	**(62.3)**	**(49.4)**
Government contributions	43.6	43.3	43.2
Other gains	1.5	0.1	2.6
Losses from transferring assets to other agencies	-	(7.4)	-
Operating (deficit)	**(13.9)**	**(26.3)**	**(3.6)**
Revaluation increments/(decrements)	63.0	(0.3)	221.5
Operating comprehensive surplus/(deficit)	**49.1**	**(26.6)**	**217.9**
Capital injections	**32.4**	**14.4**	**24.2**

6.223 Housing ACT's expenses mostly consist of repairs and maintenance work on public housing properties, payment of rates on these properties, grants to the community housing sector for the provision of affordable housing and homelessness services, employee costs, depreciation expenses, water and sewerage charges and water consumption costs.

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

6.225 Housing ACT's net cost of services exceeded the budgeted cost by $12.9 million (26.1 percent). This cost overrun was largely due to:

- an unbudgeted expense ($5.9 million) resulting from transfer of a property to the community housing sector (Salvation Army) under the Commonwealth Government's 'Nation Building and Jobs Plan' (part of the stimulus funding provided by the Commonwealth Government);
- unexpected repairs and maintenance costs from storm damage to properties; and
- higher than expected utility prices and water consumption costs.

6.226 Housing ACT incurred a total comprehensive deficit of $26.6 million compared to a budgeted total comprehensive income of $217.9 million. This was largely due to Housing ACT budgeting for a $221.5 million increase in the value of the public housing property portfolio which did not eventuate.

6.227 Housing ACT did not draw down $9.8 million (40.5 percent) of appropriated capital injections due to delays in commencing the construction of new housing for people with disabilities.

Lyons Estate Redevelopment Joint Venture

6.228 The Lyons Estate Redevelopment Joint Venture (Joint Venture) was established in May 2007 as a joint venture between the Commissioner for Social Housing (Housing ACT), Hindmarsh Lyons Developments Pty Limited and Johrosa Pty Limited.

6.229 The Joint Venture is redeveloping a former public housing complex in the suburb of Lyons.

6.230 Under the financial arrangements for the Joint Venture, Housing ACT contributed land to the Joint Venture and the other partners meet the development costs for the construction of a retirement village and an apartment building on the site.

6.231 Under the Joint Venture agreement, Housing ACT is expected to receive 35 percent of the Joint Venture's profits from the sale of the retirement village and 50 percent of the profits from the sale of the apartment building.

6.232 The Audit Office issued an unqualified audit report on the financial statements of the Lyons Estate Redevelopment Joint Venture for the year ending 30 June 2012.

Property portfolio

Table 6.34: Value of land and dwellings

As at 30 June	Actual 2010	Actual 2011	Actual 2012
Number of land parcels	6 939	6 912	6 895
Land value ($m)	**$3 041**	**$3 037**	**$3 036**
Number of dwellings	11 574	11 792	11 837
Dwellings value ($m)	**$1 147**	**$1 258**	**$1 272**
Total value of land and dwellings ($m)	**$4 188**	**$4 295**	**$4 308**

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

6.233 The value of Housing ACT's property portfolio did not change significantly from the previous year.

Audit findings

Table 6.35: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
6	3	1	2	1	4

6.234 Housing ACT reduced the risk of inappropriate, unauthorised and possibly fraudulent access to the Homenet application and data by:

- performing monthly reviews of user access to the Homenet application and retaining evidence of the reviews; and
- reviewing audit logs from the Homenet application on a monthly basis.

6.235 While controls over access to the Homenet application and data have improved, some weaknesses remain. In particular, Homenet database administrators use a few generic (shared) accounts to maintain the Oracle database supporting the Homenet application. The complexity requirements for passwords attached to these generic accounts are not automatically enforced. These control weaknesses increase the risk of unauthorised, inappropriate or fraudulent access to the Homenet application database and data.

6.236 Housing ACT representatives have advised that Housing ACT has been working with Shared Services ICT to resolve these control weaknesses.

6.237 In 2011-12, backup and restoration procedures for the Homenet application were documented and tested. However, the results of the testing and any action required to resolve problems identified during the backup and restoration process were not documented.

6.238 Information on control weaknesses relating to the Homenet application is also provided in Chapter 4: 'Computer information systems' (pages 44 and 45).

6.239 Housing ACT performs monthly reconciliations between Homenet and the financial information system (ORACLE) to provide assurance that the financial information recorded in the financial information system reconciles to Homenet. Reconciling items identified in the reconciliation are then followed up and investigated.

6.240 While these reconciliations indicated that there were no unreconciled amounts, documentation of the reconciliation could be improved by having the officers who are accountable for preparing and reviewing these reconciliations sign and date the reconciliations.

6.241 Housing ACT agreed with two audit findings and agreed-in-principle with two audit findings. In relation to the audit findings that were agreed-in-principle, Housing ACT has advised that:

- the few generic (shared) accounts used by Homenet database administrators are required to maintain the ORACLE database supporting the Homenet application and no Housing ACT staff have a generic account. Housing ACT has also advised that it is continuing to work with Shared Services ICT to put systems and controls in place to record and monitor access using these generic accounts; and
- Housing ACT and Shared Services ICT will work with the vendor of the Homenet application to limit the number of generic log-on accounts and improve password controls as part of a project to upgrade Homenet.

INSURANCE AUTHORITY

6.242 The ACT Insurance Authority is the insurer of the major risks of ACT Government agencies. The Authority operates under the *Insurance Authority Act 2005*.

6.243 The Authority buys additional insurance from external insurance providers to cover the major risks of ACT Government agencies and settles insurance claims on behalf of the ACT Government.

6.244 The Authority also promotes the implementation of good risk management practices by ACT Government agencies and provides advice to the Treasurer about risk management of agencies.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Authority's 2011-12 financial statements and an unqualified report of factual findings on the 2011-12 statement of performance.
- The Authority incurred an operating deficit of $0.8 million compared to the budgeted surplus of $2.4 million and prior year's surplus of $15.7 million.
- The Authority has sufficient assets to meet its short and long-term liabilities.
- The Authority improved its statement of performance by including additional explanatory information to assist readers in understanding the accountability indicators and related targets.
- Explanatory information included in the Authority's financial statements and accompanying management discussion and analysis of the financial statements needs to be improved to enable the reader to understand the financial results of the Authority.

Financial results

Table 6.36: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Gross premiums	50.1	53.7	53.7
Returns from investments	18.4	21.6	15.5
Other	0.2	0.1	0.2
Income	**68.7**	**75.4**	**69.4**
Reinsurance expenses	(10.8)	(11.4)	(12.0)
Net insurance claims expenses	(39.1)	(62.0)	(51.8)
Other	(3.1)	(2.8)	(3.2)
Expenses	**(53.0)**	**(76.2)**	**(67.0)**
Operating surplus/(deficit)	**15.7**	**(0.8)**	**2.4**

6.245 The Authority's income consists mainly of insurance premiums collected from ACT Government agencies, recoveries from reinsurance arrangements with external insurance providers and investment returns.

6.246 Income exceeded the budgeted amount by $6 million (8.6 percent) due largely to better than expected returns from the Authority's investments.

6.247 The Authority's expenses mostly consist of the costs of insurance claims made by ACT Government agencies and reinsurance premiums paid to external insurance providers.

6.248 Net insurance claims expenses consist of insurance claims payments to ACT Government agencies, the increase or decrease in the actuarially assessed estimate of claims liabilities over the reporting period and recoveries from reinsurance arrangements.

6.249 In 2011-12, the net insurance claims expenses exceeded the budgeted cost by $10.2 million (19.7 percent) and prior year cost by $22.9 million (58.6 percent). This was due mainly to changes in actuarial assumptions, including the use of a lower discount rate used to estimate the present value of the non-current claims liability. (A lower discount rate leads to an increase in the claims expense because the liability has a lower discount applied to it.)

6.250 The Authority incurred an operating deficit of $0.8 million compared to the budgeted surplus of $2.4 million and prior year's surplus of $15.7 million due mainly to the increase in net insurance claims expenses referred to above.

Short-term financial position

Table 6.37: Short-term financial position

As at 30 June	Actual 2011 $m	Actual 2012 $m	Budget 2012 $m
Short-term assets	256.1	294.2	268.0
Short-term liabilities	(47.1)	(39.0)	(60.9)
Net short-term assets	**209.0**	**255.2**	**207.1**
Short-term liquidity ratio	**5.4 to 1**	**7.5 to 1**	**4.4 to 1**

6.251 The Authority's short-term financial position at 30 June 2012 was stronger than the budgeted and prior year positions and continues to be strong.

Long-term financial position

Table 6.38: Long-term financial position

As at 30 June	Actual 2011 $m	Actual 2012 $m	Budget 2012 $m
Total assets	396.4	443.4	392.4
Total liabilities	(379.3)	(427.1)	(386.4)
Net assets	**17.1**	**16.3**	**6.0**
Ratio of total assets to total liabilities	**1.0 to 1**	**1.0 to 1**	**1.0 to 1**

6.252 The Authority's long-term financial position at 30 June 2012 was slightly stronger than the position anticipated in the budget.

6.253 The Authority had sufficient assets to meet its short term and long term liabilities at 30 June 2012.

Audit findings

Table 6.39: Status of audit findings (number of findings)

Previously Reported	Resolved	New	Balance
1	(1)	1	1

6.254 The Authority resolved the one previously reported finding. The Authority improved the quality of the statement of performance by including additional explanatory notes to better explain the Authority's accountability indicators and performance.

6.255 The Authority's financial statements are complex. Therefore, clear, informative and 'plain English' explanations of the financial information included in the financial statements are needed to assist readers to understand the information presented in the financial statements.

6.256 The explanatory information included in the Authority's financial statements was often insufficient to assist readers to understand the information being presented. The Authority improved this information during the audit.

6.257 Financial information included in the management discussion and analysis of the Authority's financial statements was presented in a different format to that used to prepare the financial statements. Therefore, the management discussion and analysis is not as useful as it should be in assisting readers to understand the financial results reported in the financial statements of the Authority.

6.258 The Authority has agreed to address this audit finding.

JUSTICE AND COMMUNITY SAFETY DIRECTORATE

6.259 The Justice and Community Safety Directorate (the Directorate) aims to maintain a fair, safe and peaceful community in the ACT where people's rights and interests are respected and protected.

6.260 The Directorate consists of the Legislation and Policy Branch, Courts and Tribunal, ACT Government Solicitor's Office, ACT Parliamentary Counsel's Office, ACT Corrective Services, Office of Regulatory Services, Security Emergency and Management Branch and Emergency Services Agency.

6.261 Independent statutory offices within the Directorate include the Director of Public Prosecutions, Electoral Commission, Public Advocate of the ACT, Human Rights Commission and Victim Support ACT.

6.262 The Directorate is also responsible for the management of services provided by the Commonwealth via the Australian Federal Police and Privacy Commissioner. The services provided by the Ombudsman were transferred to the Chief Minister and Cabinet Directorate on 23 November 2012.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Directorate's 2011-12 financial statements.
- The Audit Office issued a qualified report of factual findings on the Directorate's 2011-12 statement of performance because the Directorate did not maintain sufficient records to enable the reported results for four accountability indicators to be independently verified.
- The Directorate's net cost of services excluding asset transfer expenses exceeded the budgeted cost by $5.1 million (2 percent) due mainly to higher than expected employee costs, including the use of a higher rate to estimate the present value of the long service liability ($4.6 million).
- Territorial expenses exceeded the budgeted cost by $4.6 million (3.1 percent). This increase was mainly due to higher payments to fund the Australian Federal Police as a result of certified wage increases and higher legal expenses.
- The Directorate improved the accuracy of reporting in its 2011-12 statement of performance on the results of accountability indicator 'Reduced risk of offender re-offending for clients of ACT Corrective Services - % and number of offenders whose assessed risk reduces over time'.

KEY ISSUES – CONTINUED

- The Directorate has not implemented arrangements that ensure that security patches are promptly installed on the rego.act servers. This presents a risk of unauthorised and possibly fraudulent access to rego.act.
- The Directorate has not developed and approved a specific disaster recovery plan for the rego.act application. This presents a risk that the Directorate may not be able to promptly recover rego.act in an effective manner should a major unplanned incident occur.
- The Directorate did not consistently have evidence that goods and services were satisfactorily received prior to payment. This control weakness presents a risk of errors and fraud.
- Motor vehicle registration fee waivers examined during the audit did not have evidence of having been authorised by an approved delegate. There is risk of fees being incorrectly or fraudulently waived where waivers can be made without evidence of having been authorised.
- The processes implemented by the Directorate for measuring and reporting the results of its accountability indicators did not always provide reasonable assurance that claimed results were correctly measured, accurately reported and properly explained. There is a risk of erroneous and fraudulent reporting of results when evidence supporting claimed results is weak.

Financial results

Table 6.40: Key results – directorate

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses (excluding asset transfer expenses)	(248.6)	(290.4)	(278.2)
Income	28.4	31.7	24.6
Net cost of services (excluding asset transfer expenses)	**(220.2)**	**(258.7)**	**(253.6)**
Government contributions	206.6	235.0	232.1
Gains from contributed assets/asset transfers	0.5	0.5	-
Asset transfer expenses	-	(2.0)	-
Operating deficit	**(13.1)**	**(25.2)**	**(21.5)**

6.263 Most of the Directorate's expenses are related to employees, computing, information technology and telecommunications, accommodation costs and depreciation.

6.264 Expenses excluding asset transfer expenses exceeded the budgeted cost by $12.2 million (4.4 percent) mainly due to higher than expected employee costs.

6.265 Employee expenses exceeded the budgeted cost due mainly to an increase in the rate used to estimate the present value of the long service leave liability, higher workers' compensation premiums, and additional staffing as part of an approved initiative to address waiting times at the Supreme Court.

6.266 Most of the Directorate's income is derived from fire protection and fire alarm monitoring fees, ambulance transport fees and professional services provided by areas such as the ACT Government Solicitor.

6.267 Income was $7.1 million (28.9 percent) higher than the budgeted amount. This was mainly due to:

- compensation received for late completion of the prison project;
- higher revenue for Emergency Services Agency fees and professional services fees; and
- insurance recoveries for flood damage at the Emergency Services Agency Headquarters in Fairbairn and the Supreme Court.

6.268 The Directorate's net cost of services excluding asset transfer expenses exceeded the budgeted cost by $5.1 million (2 percent) due mainly to higher than expected employee costs, including the use of a higher rate to estimate the present value of the long service liability ($4.6 million).

Table 6.41: Key results – territorial expenses

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Payments to the Australian Federal Police	138.6	142.1	140.1
Other expenses	5.2	11.2	8.6
	143.8	**153.3**	**148.7**

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

6.269 The Directorate's territorial expenses are largely comprised of payments to the Australian Federal Police for the provision of policing services in the Territory and legal expenses.

6.270 Territorial expenses exceeded the budgeted cost by $4.6 million (3.1 percent). This increase was mainly due to higher payments to fund the Australian Federal Police as a result of certified wage increases and higher legal expenses.

6.271 Other expenses increased by $6 million compared to the previous year. There was an increase of:

- $3.2 million associated with traffic infringement debts as the Directorate was responsible for traffic infringement debts for all of 2011-12 but was only responsible for this function for part of 2010-11; and
- $2.4 million in legal expenses and criminal injuries compensation expenses awarded against the Territory.

Audit findings

Table 6.42: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
6	4	2	-	15	17

6.272 The Directorate reduced the risk of errors and fraud by improving controls over cash and the associated records in the Office of Regulatory Services. Controls over cash were improved by ensuring that:

- recorded cash receipts could not be changed (or manipulated) after cash receipts had been recorded; and
- variances between the accounting records and bank records were investigated and resolved in a timely manner.

6.273 The Directorate also improved the accuracy of reporting in its 2011-12 statement of performance on the results of accountability indicator 'Reduced risk of offender re-offending for clients of ACT Corrective Services - % and number of offenders whose assessed risk reduces over time'.

6.274 On 17 May 2011, the responsibility for the system used to process motor vehicle registrations, drivers' licences and parking and other infringements (rego.act) was transferred from the Territory and Municipal Services Directorate to the Directorate.

6.275 Security patches update the rego.act servers to ensure they are protected from known vulnerabilities. Since 2006-07, the Audit Office has reported rego.act servers were not being 'patched' on a timely basis even though security patches were being released.

6.276 The Directorate undertook a 'Server Transition Project' in 2011-12 where old servers that were difficult to patch were either turned off or replaced with newer equipment. However, no formal arrangements between the Directorate and Shared Services were put in place for regularly applying security patches to the new servers. As a result, critical patches may not have been installed on the rego.act servers. This presents a risk of unauthorised and possibly fraudulent access to rego.act.

6.277 Although Shared Services (ICT) has disaster recovery plans for systems it supports, including rego.act, the Directorate has not developed and approved Disaster Recovery Plans specifically for the rego.act application. This presents a risk that the Directorate may not be able to promptly recover rego.act in an effective manner should a major unplanned incident occur.

6.278 Information on control weaknesses relating to the rego.act application is provided in Chapter 4: 'Computer information systems' (pages 45 to 46).

6.279 In some instances, the Directorate did not have evidence that goods and services were satisfactorily received prior to payment. While these payments were considered to be related to the Directorate's operations, there is a risk of payment errors and fraud when payments are made without evidence of the goods and services having been satisfactorily received.

6.280 The Directorate records the collection of motor vehicle registration fees in the rego.act system. In some circumstances a fee can be waived, however, the waiver must be authorised by an approved delegate before being processed in the system. The authority to approve these waivers is restricted to small number of Directorate staff.

6.281 In some instances, motor vehicle registration fee waivers examined during the audit did not have evidence of having been authorised by an approved delegate. There is risk of fees being incorrectly or fraudulently waived where waivers can be made without evidence of having been authorised.

6.282 The Audit Office issued a qualified report of factual findings on the Directorate's 2011-12 statement of performance because the Directorate did not maintain sufficient records to enable the reported results for the following four accountability indicators to be independently verified.

Table 6.43: Accountability indicators

Outputs	Accountability indicators
Protection of Rights	Number of participants in community education or engagement activities
Regulatory Services	High level of response to public complaints about faulty ticket machines and parking meters – percentage response within 60 minutes
Regulatory Services	Percentage of parking meters operational within 24 hours from the time of failure reported
Emergency Services	Field assessment of bushfire operational plans

6.283 The processes implemented by the Directorate for measuring and reporting the results of its accountability indicators did not always provide reasonable assurance that claimed results were correctly measured, accurately reported and properly explained. There is a risk of erroneous and fraudulent reporting of results when evidence supporting claimed results is weak.

6.284 The Audit Office has recommended that the Directorate:

- comprehensively review the methods used to calculate the results of all accountability indicators to ensure that these methods enable accountability indicators to be accurately measured and independently verified; and
- improve the processes used to prepare its statement of performance.

6.285 The Directorate has either agreed, agreed-in-principle or partially agreed with the audit findings. There are several instances where the Directorate has partially agreed with audit findings. In most cases, this has occurred where the Directorate has disagreed with various aspects of audit findings. Despite these differences of opinion, the Directorate has indicated that it intends to address the audit recommendations.

LAND DEVELOPMENT AGENCY AND THE LAND JOINT VENTURES

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

6.287 The LDA is part of the Economic Development Directorate, however, it is a separate entity for reporting purposes.

KEY ISSUES

Land Development Agency

- The Audit Office issued an unqualified audit report on the LDA's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- The LDA's operating profit ($142.4 million) was $12.5 million (8.1 percent) below the budgeted profit ($154.9 million). This mostly reflects lower than expected profits generated by land sales due to delays in the release of developments, and deferral of land releases to future periods.
- The LDA's operating profit ($142.4 million) exceeded the prior year's profit ($36.9 million) by $105.5 million (285.9 percent) due mainly to higher land sales in Bonner, Wright and Harrison.
- The LDA has not developed and approved, and therefore does not have, an information technology strategic plan.
- Internal audit arrangements could be improved by implementing policies and procedures for the review of the work performed by contracted internal auditors.
- In 2011-12, the LDA made significant changes to its non-financial accountability indicators. In particular, Indicative Land Release Program targets were removed. The non-financial accountability indicators included in LDA's statement of performance do not provide the basis for a comprehensive and meaningful assessment of the LDA's performance in meeting its objectives.

Land Joint Ventures

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

Financial results

Table 6.44: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Income	218.6	445.1	696.4
Expenses	(187.5)	(279.3)	(513.1)
Share of operating profit from land joint ventures	21.6	37.6	38.0
Operating profit before income tax expense	**52.7**	**203.4**	**221.3**
Income tax expense	(15.8)	(61.0)	(66.4)
Operating profit	**36.9**	**142.4**	**154.9**

6.288 The LDA's income and expenses mostly consist of land sales and costs relating to these sales.

6.289 The LDA's income was $251.3 million (36.1 percent) below the budgeted amount. This was mainly due to:

- lower englobo[5] and direct land sales[6] because of delays in the release of developments (such as Molongolo Stage Three); and
- the deferral of land releases to future periods.

6.290 The LDA's income exceeded the prior year's income by $226.5 million (103.6 percent) as a result of higher land sales in Bonner, Wright and Harrison.

6.291 Expenses were $233.8 million (45.6 percent) below the budgeted cost. This was due to a lower cost of land sold as a result of fewer land sales.

6.292 The LDA's operating profit was $12.5 million (8.1 percent) below the budgeted profit. This mostly reflects lower than expected profits generated by land sales due to delays in the release of developments, and deferral of land releases to future periods.

6.293 The LDA's operating profit exceeded the prior year's profit by $105.5 million (285.9 percent) due mainly to higher land sales in Bonner, Wright and Harrison.

[5] Englobo land sales are sales of undeveloped parcels of land which have the capacity to be developed into smaller parcels of land.

[6] Direct land sales relate to land sales which have not been through a competitive process such as an auction or ballet.

Land joint ventures

6.294 The LDA manages the ACT Government's interest in the development and sale of land in the suburbs of Forde, Crace and Woden East.

Forde

6.295 The Forde Joint Venture was established in May 2005 as a joint venture between the LDA and Forde Developments Pty Limited (a subsidiary of CIC Australia Limited) for the development of Forde.

6.296 The LDA and Forde Developments Pty Limited each contributed 50 percent of the Forde Joint Venture's capital.

6.297 The LDA's share in the Forde Joint Venture at 30 June 2012 was $1.1 million (30 June 2011: $3.3 million).

6.298 There were 319 settlements in Forde in 2011-12 (2010-11: 191 settlements).

6.299 According to its 'Business Exit Plan', the Forde Joint Venture is expected to wind up in late 2013, after completing the remaining settlements and remaining development work.

6.300 The Audit Office issued unqualified audit reports on the Forde Joint Venture's half and full-year financial statements.

Woden East

6.301 The Woden East Joint Venture was established in November 2006 for the development and sale of land in Woden East.

6.302 The LDA and Woden East Developments Pty Limited (a related party of the Hindmarsh Property Group) each contributed 50 percent of the Woden East Joint Venture's capital.

6.303 At 30 June 2012, the LDA's interest in the Woden East Joint Venture was $9.1 million (30 June 2011: $2.4 million).

6.304 In 2011-12, the Woden East Joint Venture commenced sales for the Avoca residential development. A total of 111 units and one block of land were sold.

6.305 The Audit Office issued an unqualified audit report on the Woden East Joint Venture's financial statements.

Crace

6.306 The Crace Joint Venture commenced operations in January 2008. The principal objective of this joint venture is the development of Crace.

6.307 The LDA and Crace Developments Pty Limited each contributed 50 percent of the Crace Joint Venture's capital.

6.308 The LDA's interest in the Crace Joint Venture at 30 June 2012 was $26.4 million (30 June 2011: $27.1 million).

6.309 There were 352 settlements in Crace in 2011-12 (2010-11: 246 settlements).

6.310 The Audit Office issued unqualified audit reports on the Crace Joint Venture's half and full-year financial statements.

Audit findings

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

Previously Reported	Resolved	New	Balance
-	-	4	4

6.311 The LDA has not developed and approved, and therefore does not have, an information technology strategic plan. An approved information technology strategic plan would provide additional assurance that the acquisition and development of information technology systems and infrastructure will be effective and responsive to the LDA's emerging needs and priorities.

6.312 The internal audit function could be improved by developing policies and procedures for the quality assurance review of work performed by internal audit contractors.

6.313 In 2011-12, the LDA made significant changes to its non-financial accountability indicators. In particular, Indicative Land Release Program targets were removed and three new accountability indicators were introduced. The new indicators are:

- Percentage of projects with specific Water Sensitive Urban Design Strategies, ensuring that the strategies appropriate to the size and location of the project;
- Percentage of projects with over 500 dwellings that have a community development program – Mingle; and
- Percentage of englobo (greenfield) estates to have 20 percent of sites released for the purpose of providing affordable housing.

6.314 These new accountability indicators do not provide the basis for a comprehensive and meaningful assessment of the LDA's performance in meeting its objectives. In particular, these new indicators:

- do not address the development and release of land, which is a key objective of the LDA; and
- only provide information on a small aspect of the LDA's performance.

6.315 There were also errors in the targets for two financial accountability indicators included in the LDA's 2011-12 Statement of Intent.

6.316 The LDA has agreed to address these findings.

SHARED SERVICES CENTRE INCLUDING THE SHARED SERVICES PROCESSING BUREAU

6.317 The Shared Services Centre (Shared Services) provides human resource, finance, information and communication technology, procurement support, publishing, and records management services to other reporting agencies in the ACT Government.

6.318 The Audit Office reviews controls over the human resource and finance systems implemented by the Shared Services Processing Bureau because these controls affect the reliability of financial statements of these agencies. The results of these reviews are discussed in this chapter.

6.319 Controls over the computer information systems environment implemented by Shared Services were also reviewed. The results of this review are discussed in Chapter 4: 'Computer information systems' (pages 52 to 55).

KEY ISSUES

Shared Services Centre

- The Audit Office issued an unqualified audit report on Shared Services' 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- Shared Services' net cost of services ($6.2 million) was $9.3 million (60 percent) below the budgeted cost ($15.5 million). The revenue generated by a higher demand for services (in particular, information and communication technology and procurement support services) exceeded the costs of providing those services.
- Shared Services reduced the risk of material errors in its financial statements by improving documentation supporting revaluations of leasehold improvements and infrastructure assets.
- Shared Services needs to finalise the treatment of additional funds received for fees charged for providing salary packaging services to ACT Government employees.
- Shared Services has not implemented adequate processes for estimating the accrued liability for capital works completed but not yet billed by building contractors and corresponding amounts receivable from agencies.
- Shared Services' disaster recovery arrangements need to be improved to provide assurance that major systems, applications and data are promptly available and/or recoverable in the event of a disaster or other adverse event.

KEY ISSUES - CONTINUED

Shared Services Processing Bureau

- Overall, controls over the human resource and finance systems implemented by the Shared Services Processing Bureau were generally satisfactory. However, some control weaknesses and areas for improvement were identified.
- Shared Services reduced the risk of fraudulent payments by addressing weaknesses in controls over access to cheque printers.
- Shared Services has not implemented automated controls within the CHRIS 21 application (human resource management system) which 'enforce' the operation of manual controls currently in place. Automated controls can be more efficiently and consistently applied than these manual controls.
- Shared Services is often processing payments for agencies on the basis of scanned and emailed or photocopied invoices (rather than originals). There is a risk of payment errors (including duplicate payments) and fraud when scanned or photocopied invoices are used for processing payments.

Financial results

Table 6.46: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(184.5)	(196.1)	(188.8)
Income	189.1	189.9	173.3
Net revenue/(cost) from the provision of services	**4.6**	**(6.2)**	**(15.5)**
Government contributions	6.3	8.0	9.5
Operating surplus /(deficit)	**10.9**	**1.8**	**(6.0)**

6.320 Most of Shared Services' expenses consist of employee, contractor and consultant costs, information and communication technology expenses, and depreciation of the Territory's information and communication technology infrastructure assets.

6.321 Expenses exceeded the budgeted cost by $7.3 million (3.9 percent) as Shared Services engaged contractors to meet a higher than anticipated demand for information and communication technology project development by ACT Government agencies. This was partially offset by lower than anticipated employee costs. There were fewer employees than were anticipated in the budget due to resource restraints, staff turnover and timing of recruitment activity to replace departing staff.

6.322 Shared Services' income mostly consists of fees charged for human resource, finance, information and communication technology, procurement support, publishing, and record management services provided to other reporting agencies in the ACT Government.

6.323 Income exceeded the budgeted amount by $16.6 million (9.6 percent). This reflects a higher than expected demand for information and communication technology services and procurement support services from other agencies.

6.324 Shared Services' net cost of services ($6.2 million) was $9.3 million (60 percent) below the budgeted cost ($15.5 million). The revenue generated by a higher demand for services (in particular, information and communication technology and procurement support services) exceeded the costs of providing those services.

Audit findings

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

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

6.325 Shared Services reduced the risk of material errors in its financial statements by improving documentation supporting revaluations of leasehold improvements and infrastructure assets. This improved documentation included information on the method used to estimate fair value, assumptions used in the revaluation and calculation of revaluation movements.

6.326 Shared Services provides a salary packaging service to ACT Government employees. A fee is charged to employees to recover the administrative costs of the service. In 2010-11, Shared Services only recognised as revenue that portion of the administrative fee which reflected the actual costs of the service. The difference between the fee charged and fee recognised as revenue was recorded as 'revenue received in advance' (a liability).

6.327 In 2010-11, the Audit Office queried whether the liability (revenue in advance) should be recorded because there was no evidence of a present obligation for Shared Services to pay this amount to anyone.

6.328 Shared Services partially addressed this audit finding in 2011-12 by adjusting its accounting treatment for salary packaging revenue and bringing to account all revenue received except for $1.44 million because at the time of the audit, Shared Services had not obtained formal approval to either retain these funds or return these funds to the appropriate authority. Shared Services therefore needs to finalise the treatment of additional funds received for fees charged for providing salary packaging services to ACT Government employees.

6.329 Shared Services manages capital works projects performed under contracts between other ACT Government agencies and building contractors. Under these arrangements, Shared Services pays invoices from building contractors and then recovers these amounts from these agencies. Shared Services recognises a payable (accrued liability) for capital works performed by contractors up to the end of the reporting period and a corresponding receivable from these agencies to recover these costs.

6.330 Shared Services has not implemented adequate processes for estimating the accrued liability for capital works completed but not yet billed by suppliers and corresponding amounts receivable from agencies.

6.331 Most disaster recovery plans for Shared Services were prepared in 2009 and training was not provided to staff on disaster recovery arrangements. Where disaster recovery plans are not regularly reviewed, approved and tested, there is a risk that major systems, applications and data used may not be available and/or recoverable in the event of a disaster or other adverse event.

Shared Services Processing Bureau

6.332 The controls over the human resource and finance systems implemented by the Shared Services Processing Bureau were found to be generally satisfactory. However, some control weaknesses and areas for improvement were identified.

6.333 The assessment of controls over the computer information systems environment implemented by Shared Services is discussed in Chapter 4: 'Computer information systems' (pages 52 to 55).

Audit findings

Table 6.48: Status of audit findings (number of findings)

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

This table does not include audit findings for the applications managed by the Shared Services Processing Bureau (ORACLE Financials and CHRIS 21). Audit findings relating to these applications are reported in Chapter 4: 'Computer information systems' (pages 39 to 41).

6.334 Shared Services prints cheques using dedicated printers in a secure room located in the Shared Services' office building. However, any person logged onto the ACT Government network was able to print files using the cheque printer. Furthermore, USB ports on cheque printers gave staff an opportunity to bypass the normal payment approval process and produce fraudulent cheques.

6.335 Shared Services addressed this control weakness by disabling the USB port on the cheque printers and restricting access by ACT Government network users to the cheque printers.

6.336 Shared Services did not perform reviews of the access by users to secure directories which contain electronic funds transfer payment files. In addition, a few staff members were granted inappropriate access to these secure directories. This presents a risk of payment and salary errors, irregularities and fraud.

6.337 Shared Services has not implemented automated controls within the CHRIS 21 application (human resource management system) which enforce manual controls currently in place. For example, there is no:

- 'forced' review and validation of amendments to an employee's record by a second officer; and
- restriction on rates of pay allocated to position numbers which ensures that the rate of pay is consistent with the rates in agencies' enterprise agreements.

6.338 There are some compensating manual controls in place at Shared Services and individual agencies. These include the review of key amendments to employee records and reviews of salary reports by agencies. However, the automated controls described above, can be more efficiently and consistently applied than these manual controls.

6.339 Shared Services is responsible for the payment of invoices received from agencies once the delegated authorisation and forms have been completed. However, most agencies provide scanned and emailed or photocopied invoices (rather than originals) along with authorisation for payment cover sheets when providing their requests for payment to Shared Services.

6.340 There is a risk of payment errors (including duplicate payments) and fraud when scanned or photocopied invoices are used for processing payments.

6.341 Shared Services has either addressed or agreed to address all audit findings.

SUPERANNUATION PROVISION ACCOUNT

6.342 The Superannuation Provision Account manages the investments set aside to meet the defined benefit employer superannuation liabilities of the Territory.

6.343 The ACT Government has a long term target of extinguishing the Territory's unfunded superannuation liabilities associated with ACT Government employee membership of the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) by 30 June 2030. These liabilities are expected to be met by cash injections and investment returns.

6.344 The CSS and PSS are administered by the Commonwealth Government agency, ComSuper with all benefits paid to CSS and PSS members by ComSuper. The Territory reimburses ComSuper for the cost of superannuation benefits paid in respect of current and former Territory employees that reflects the period of service with the ACT Government from 1 July 1989. The Commonwealth is liable for all superannuation benefits incurred prior to that date. The CSS and PSS were closed to new members from 1 July 1990 and 1 July 2005 respectively. These were replaced with fully funded superannuation schemes for new Territory employees.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Superannuation Provision Account's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- The Superannuation Provision Account's operating deficit of $403.4 million exceeded the budgeted deficit of $231.3 million by $172.1 million (74.4 percent) and prior year's deficit of $186.9 million by $216.5 million (115.8 percent). The higher deficit was mostly due to the net losses incurred on the fair value of investments as a result of weaker global equity markets.
- The long-term rate of return on superannuation investments (CPI plus 4.1 percent) is currently below the planned long-term rate of return (CPI plus 5 percent). The failure to achieve the planned long-term rate of investment return increases the risk that the Territory will not achieve its objective of fully funding its superannuation liability by the year 2030.
- The unfunded superannuation liability was expected to decrease by $509.9 million (19.4 percent) from $2 622.8 million at 30 June 2011 to $2 112.9 million at 30 June 2012. However, this liability doubled from $2 622.8 million at 30 June 2011 to $5 236.6 million at 30 June 2012. This substantial increase in the unfunded superannuation liability in 2011-12 was mainly due to a decrease in the discount rate used to estimate the value of the superannuation liability in today's dollars.

KEY ISSUES (CONTINUED)

- The Superannuation Provision Account's failure to achieve its budgeted financial position increases the risk that the Territory will not achieve its objective of fully funding its superannuation liability by the year 2030.
- According to updated budget figures that were used in the preparation of the 2012-13 Pre-Election Budget Update, the unfunded superannuation liability is anticipated to decrease significantly from the position that existed at 30 June 2012. However, this would require a substantial reduction in the superannuation liability in 2012-13.
- The unfunded superannuation liability doubled from $2 622.8 million at 30 June 2011 to $5 236.6 million at 30 June 2012. If this liability were to remain at similar levels over the forward years to that which existed at 30 June 2012, then the Superannuation Provision Account's financial position would be much weaker than the position indicated in the 2012-13 Pre-Election Budget Update.
- Significant increases in capital injections may be required to achieve the long-term objective of fully funding the superannuation liability by the year 2030.

Financial results

Table 6.49: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Income	166.7	173.9	99.7
Net gains/(losses) on the fair value of investments	52.6	(147.3)	78.7
Expenses	(410.2)	(431.3)	(409.7)
Net cost of services	**(190.9)**	**(404.7)**	**(231.3)**
Government contributions	4.0	1.3	0
Operating deficit	**(186.9)**	**(403.4)**	**(231.3)**

6.345 The Superannuation Provision Account's income consists mainly of dividends and interest from investments set aside to meet the Territory's superannuation liabilities.

6.346 Income ($173.9 million) exceeded the budgeted amount ($99.7 million) by $74.2 million (74.4 percent) due to higher than expected dividends and interest earned from investments.

6.347 The investments held by the Superannuation Provision Account are subject to market risk and therefore fluctuate according to the conditions that exist in global investment markets.

6.348 In 2011-12, the Superannuation Provision Account incurred net losses in the fair value of investments of $147.3 million compared to net gains of $78.7 million anticipated in the budget, and net gains obtained in the prior year of $52.6 million. These losses reflect weaker global equity markets.

6.349 The Superannuation Provision Account's expenses largely consist of the superannuation liability expense. These expenses were $21.6 million (5.3 percent) higher than the budgeted cost due mainly to a lower discount rate being used to estimate the value of the superannuation liability in today's dollars.

6.350 The Superannuation Provision Account's operating deficit of $403.4 million exceeded the budgeted deficit of $231.3 million by $172.1 million (74.4 percent) and prior year's deficit of $186.9 million by $216.5 million (115.8 percent). The higher deficit was mostly due to the net losses incurred on the fair value of investments as a result of weaker global equity markets.

6.351 The Superannuation Provision Account's 2011-12 statement of performance discloses that the long-term rate of return[7] on the superannuation investments (CPI plus 4.1 percent) is currently below the planned long-term rate of return (CPI plus 5 percent). The failure to achieve the planned long-term rate of investment return increases the risk that the Territory will not achieve its objective of fully funding its superannuation liability by the year 2030.

[7] The long-term rate of return is the annualised return on superannuation investments over the past 15 years.

Financial position

Table 6.50: Financial position

As at 30 June	Actual 2009 $m	Actual 2010 $m	Actual 2011 $m	Actual 2012 $m	Budget 2012 $m
Investments	1 809.0	2 019.5	2 250.6	2 257.9	2 463.2
Superannuation liability	(4 061.5)	(4 603.4)	(4 873.4)	(7 494.5)	(4 576.1)
Unfunded superannuation liability	**(2 252.5)**	**(2 583.9)**	**(2 622.8)**	**(5 236.6)**	**(2 112.9)**
Investments to superannuation liability	**0.45 to 1**	**0.44 to 1**	**0.46 to 1**	**0.30 to 1**	**0.54 to 1**

6.352 The Superannuation Provision Account continues to have insufficient investments set aside to fully meet the superannuation liability.

6.353 The Superannuation Provision Account's financial position at 30 June 2012, represented by an unfunded superannuation liability of $5 236.6 million, exceeded the budgeted unfunded liability of $2 112.9 million by $3 123.7 million (147.8 percent).

6.354 The unfunded superannuation liability was expected to decrease by $509.9 million (19.4 percent) from $2 622.8 million at 30 June 2011 to $2 112.9 million at 30 June 2012. However, this liability doubled from $2 622.8 million at 30 June 2011 to $5 236.6 million at 30 June 2012. This substantial increase in the unfunded superannuation liability in 2011-12 was mainly due to a decrease in the discount rate used to estimate the value of the superannuation liability in today's dollars.

6.355 The Superannuation Provision Account's failure to achieve its budgeted financial position increases the risk that the Territory will not achieve its objective of fully funding its superannuation liability by the year 2030.

6.356 Table 6.51 shows an actuarial assessment of the estimated annual amounts payable to meet superannuation payments in nominal and real terms in future years.

Table 6.51: Future superannuation payments schedule

Year Ending 30 June	Nominal Terms[8] $m	Real Terms[9] $m
2013	161.8	161.8
2019	269.8	232.6
2025	396.0	294.5
2031	516.5	331.2
2037	623.8	344.9
2043	664.1	316.6
2049	624.2	256.6

Source: Information on future superannuation payments was obtained from the Chief Minister and Treasury Directorate.

6.357 Table 6.51 shows that annual cash payments to meet the Territory's superannuation obligations are expected to increase steadily for many years. This is due to:

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

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

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

Unfunded superannuation liability

Table 6.52: Projected unfunded superannuation liability

As at 30 June	Actual 2012 $m	Budget 2013 $m	Budget 2014 $m	Budget 2015 $m	Budget 2016 $m
Investments	2 257.9	2 410.3	2 560.8	2 708.2	2 852.3
Superannuation liability	(7 494.5)	(5 099.8)	(5 373.9)	(5 642.2)	(5 904.0)
Unfunded superannuation liability	**(5 236.6)**	**(2 689.5)**	**(2 813.1)**	**(2 933.9)**	**(3 051.6)**
Investments to superannuation liability	**0.30 to 1**	**0.47 to 1**	**0.48 to 1**	**0.48 to 1**	**0.48 to 1**

Source: Updated budget figures were obtained from the Chief Minister and Treasury Directorate. These figures were current at 17 September 2012 and were used in the preparation of the 2012-13 Pre-Election Budget Update.

6.358 According to updated budget figures that were used in the preparation of the 2012-13 Pre-Election Budget Update, the unfunded superannuation liability is anticipated to decrease significantly from the position that existed at 30 June 2012. However, this would require a substantial reduction in the superannuation liability in 2012-13.

6.359 As noted in paragraph 6.354, the unfunded superannuation liability doubled from $2 622.8 million at 30 June 2011 to $5 236.6 million at 30 June 2012. If this liability were to remain at similar levels over the forward years to that which existed at 30 June 2012, then the Superannuation Provision Account's financial position would be much weaker than the position indicated in the 2012-13 Pre-Election Budget Update.

6.360 Significant increases in capital injections may be required to achieve the long-term objective of fully funding the superannuation liability by the year 2030.

TERRITORY AND MUNICIPAL SERVICES DIRECTORATE

6.361 The Territory and Municipal Services Directorate (the Directorate) provides various municipal services to the ACT community. These services include public transport, libraries, Canberra Connect shopfronts, ranger, waste management and linen services.

6.362 The Directorate also manages and maintains the Territory's infrastructure assets such as buildings, roads, bridges, streetlights, stormwater systems, parks and nature reserves.

6.363 Responsibility for the National Arboretum Canberra was transferred to the Directorate from the Economic Development Directorate on 23 November 2011 under changes to administrative arrangements.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the Directorate's 2011-12 financial statements.
- The Audit Office issued a qualified report of factual findings on the Directorate's 2011-12 statement of performance because a result for one timeliness accountability indicator ('reports of attacking dogs responded to within 4 hours') was not measured as required by the *Financial Management Act 1996.*
- The Directorate's net cost of services exceeded the budgeted cost by $14.2 million (3.5 percent). This was mainly due to the unexpected expensing of some capital works project costs.
- The Directorate's net cost of services was $32.7 million (7.2 percent) below the prior year's cost. This cost reduction was mainly due to the transfer of the Sport and Recreation, Transport Regulation and Territory Venues and Events functions on 17 May 2011 as part of changes to administrative arrangements.
- In 2011-12, the Directorate received additional appropriation and Treasurer's Advance to assist ACTION to meet its higher costs.
- The Directorate did not draw down $56.7 million (24 percent) of the funds appropriated for capital works due to delays in the completion of major capital projects and delivery of buses.
- The Directorate reduced the risk of undetected incorrect, irregular or fraudulent salary payments by retaining evidence of the consistent review of salary reports.
- The Directorate reduced the risk of reporting errors by improving its processes for recording accrued expenses and drafting instruments prepared under Section 19D of the *Financial Management Act 1996* for the transfer of accountability indicators between agencies.

KEY ISSUES - CONTINUED

- The Directorate reduced the risk of an error in reporting the result of one accountability indicator ('library visits per capita') reported in its statement of performance by improving the reliability of the system used to calculate the number of library visitors.
- As reported in previous years, the recording systems implemented by the Directorate to report on the results of accountability indicators in its statement of performance were not always reliable. There were several instances where the results of indicators required correction, or explanatory information included in the statement of performance was unclear.
- Reporting of customer satisfaction with several key services provided by the Directorate in the statement of performance needs to be significantly improved.
- While aspects of the Directorate's internal audit function support its independence, there is scope for improving the independence of this function.
- While the Directorate has established formal agreements for accommodation tenancies for some ACT Government agencies, there are several ACT Government agencies that do not have formal agreements.
- The Directorate improved its risk management arrangements by updating its draft risk register to focus on the main risks of the Directorate. However, these arrangements need to be further improved to provide assurance that the Directorate consistently identifies and responds effectively to its major operational risks.
- The Directorate's business continuity arrangements need to be improved to provide assurance that the Directorate can resume its operations in a timely manner in the event of a disaster or other adverse event.
- Controls over the system used to record passenger and fare information (MyWay) need to be improved to reduce the risk of errors, irregularities and fraud.
- While the Directorate has prepared a business continuity plan for MyWay, this plan has not been finalised and tested to provide assurance that the Directorate will be able to resume the operations of ACTION in a timely manner in the event of an outage or other disruption.
- Controls over cash collected at the resource management centres located at Mugga Lane and Mitchell are weak and expose the Directorate to a high risk of errors, irregularities and fraud.

Financial results

Table 6.53: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(508.3)	(540.7)	(526.6)
Income	55.0	120.1	120.2
Net cost of services	**(453.3)**	**(420.6)**	**(406.4)**
Government contributions	296.0	280.7	271.0
Net gains from asset transfers and revaluations	49.3	94.6	71.2
Assets transferred to ACT Government agencies	(0.3)	(5.9)	-
Operating deficit	**(108.3)**	**(51.2)**	**(64.2)**
Capital injections	**224.8**	**179.1**	**235.8**

6.364 The Directorate's major expenses largely consist of repairs and maintenance and operating costs associated with building and facilities, depreciation, amortisation, employee costs, and payments to ACTION to meet the costs of providing bus services to the ACT community.

6.365 Most of the Directorate's income is obtained from fees charged for property management, linen services and waste acceptance.

6.366 The Directorate's net cost of services exceeded the budgeted cost by $14.2 million (3.5 percent). This was due mainly to the unexpected expensing of some capital works project costs, including costs associated with the National Arboretum Canberra.

6.367 The Directorate's net cost of services was $32.7 million (7.2 percent) below the prior year's cost. This cost reduction was mainly due to the transfer of the Sport and Recreation, Transport Regulation and Territory Venues and Events functions on 17 May 2011 as part of changes to administrative arrangements.

6.368 Net gains from asset transfers and revaluations were $23.4 million (32.9 percent) and $45.3 million (91.9 percent) higher than the budgeted and prior year amounts respectively. This was due to the recognition of a number of completed infrastructure assets transferred to the Directorate from private land developers.

6.369 Government contributions exceeded the budgeted amount by $9.7 million (3.6 percent). This was mainly due to the Directorate receiving additional appropriation and Treasurer's Advance to assist ACTION to meet its higher costs.

6.370 The Directorate's operating result was $13.0 million (20.2 percent) below the budgeted deficit. This was mainly due to higher than expected gains from completed infrastructure assets transferred to the Directorate; partially offset by the higher than expected net cost of services referred to previously.

6.371 The Directorate did not draw down $56.7 million (24 percent) of the funds appropriated for capital works. This mainly reflects:

- delays in capital works projects, including the construction of major roads (Barry Drive, Gungahlin Drive and Constitution Avenue); and
- revised delivery schedules for buses which delayed the delivery of buses. (The Directorate receives funding for ACTION's capital works projects as part of the Directorate's appropriation and passes this funding on to ACTION.)

Audit findings

Table 6.54: Status of audit findings (number of findings)

Previously Reported (Note 1)	Resolved	Partially Resolved	Not Resolved	New	Balance
21	(9)	3	9	13	25

Note 1: Previously reported audit findings include six audit findings relating to the MyWay ticketing system used by ACTION.

6.372 The Directorate resolved several previously reported audit findings. The Directorate reduced the risk of:

- undetected incorrect, irregular or fraudulent salary payments by retaining evidence of the consistent review of salary reports;
- reporting errors by improving the procedures for recording accrued expenses; and
- reporting errors by improving its processes for drafting instruments prepared under Section 19D of the *Financial Management Act 1996* for the transfer of accountability indicators between agencies.

6.373 The Directorate reduced the risk of an error in reporting the result of one accountability indicator ('library visits per capita') reported in its statement of performance by improving the reliability of the system used to calculate the number of library visitors.

6.374 The Directorate did not measure a result for one of its timeliness accountability indicators included in its statement of performance ('reports of attacking dogs responded to within 4 hours'). The Audit Office therefore issued a qualified report of factual findings on the 2011-12 statement of performance.

6.375 As reported in previous years, the recording systems implemented by the Directorate to report on the results of accountability indicators in its statement of performance were not always reliable. In particular, there were several instances where the:

- results of indicators required correction because they were incorrectly calculated, or did not agree to the supporting records; and/or
- explanatory information included in the statement of performance was unclear and/or assumed knowledge that readers external to the Directorate would be unlikely to have.

6.376 The Directorate's statement of performance includes nine accountability indicators where the reported results are based on customer satisfaction surveys. For seven of these indicators, two external providers performed satisfaction surveys on behalf of the Directorate. Depending on the provider used to undertake these surveys, customers were asked rate their satisfaction on a scale from:

- one to ten, with a rating of 'one' being 'extremely dissatisfied' and 'ten' being 'extremely satisfied'; or
- one to six, with a rating of 'one' being 'very dissatisfied' and 'six' being 'very satisfied'.

6.377 In the statement of performance provided to the Audit Office for review, survey responses of 'four' (on a scale of 'one to six') and responses of 'six' (on a scale of 'one to ten' scale), which represented a 'somewhat satisfied' response, were counted as 'satisfied' in measuring the result for this indicator. This response is lower than the 'satisfied' ratings of 'five' and 'seven' in each survey respectively.

6.378 The inclusion of 'somewhat satisfied' responses in the reported results as 'satisfied' is potentially misleading because the response indicates that the customer is not fully 'satisfied' with the service. The customer had the option of providing a 'satisfied' response but has chosen not to do so.

6.379 To ensure readers were not misled by the results on customer satisfaction, the Directorate subsequently disclosed two results for these accountability indicators. The results for these accountability indicators are shown in Table 6.55.

Table 6.55: Customer satisfaction with services

Accountability indicator	Target	Result including 'somewhat satisfied' responses	Result excluding 'somewhat satisfied' responses
Customer satisfaction with library services	85 percent	97 percent	90 percent
Customer satisfaction with the public road network	>70 percent	85 percent	68 percent
Customer satisfaction with waste collection services	>90 percent	93 percent	82 percent
Customer satisfaction with the maintenance and pruning of street trees	80 percent	55 percent	37 percent
Customer satisfaction with the management of Nature Parks	90 percent	99 percent	89 percent
Customer satisfaction with children's play equipment being well maintained	90 percent	89 percent	89 percent
Customer satisfaction with the general look and feel of local suburban shopping centres	89 percent	65 percent	44 percent

6.380 The Audit Office has recommended that the Directorate:

- comprehensively review the methods used to calculate the results of accountability indicators, and implement quality assurance processes to provide assurance that errors and irregularities in the reporting of results are identified and rectified prior to reporting; and
- improve the processes used to prepare its statement of performance.

6.381 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.

6.382 There are aspects of the Directorate's internal audit arrangements that support the independence of the internal audit function. These include having the Chief Internal Auditor report directly to the Audit Committee on internal audit matters, and the Audit Committee having an independent chair.

6.383 However, the Directorate's internal audit function is not fully independent as the Chief Internal Auditor is also responsible for corporate governance. Therefore, the Chief Internal Auditor cannot be free of the influences of operational management and responsibility. As a result, the Directorate's internal audit arrangements fall short of better practice and provide less assurance that its internal audit function will operate independently.

6.384 The Directorate is responsible for the management of the accommodation of most ACT Government agencies. While the Directorate has established formal agreements which reflect the terms and conditions of tenancies and identify the responsibilities of the Directorate and the agency in relation to these tenancies for some ACT Government agencies, there are several (nine) ACT Government agencies that do not have formal agreements.

6.385 The Directorate improved its risk management arrangements by updating its draft risk register to focus on the main risks of the Directorate. However, these arrangements need to be further improved to provide assurance that the Directorate consistently identifies and responds effectively to its major operational risks. For example:

- the Directorate's risk register has not been approved and is incomplete;
- the Directorate's risk register does not include risk mitigation strategies, responsible officers and dates of review;
- risk registers for business units were prepared on a basis that was inconsistent with the Directorate's risk management framework; and
- registers for some business units only include occupational health and safety risks and do not address other operational risks.

6.386 The Directorate's business continuity arrangements need to be improved to provide assurance that the Directorate can resume its operations in a timely manner in the event of a disaster or other adverse event. In particular, business continuity plans prepared for each business unit:

- were not prepared and coordinated in a consistent manner; and
- have not been updated and tested on a regular basis.

6.387 MyWay is the system used by ACTION to record passenger and fare information. MyWay is owned and maintained by the Directorate.

6.388 Controls over MyWay need to be improved to reduce the risk of errors, irregularities and fraud. In particular, the Directorate has not implemented regular reviews of:

- access levels provided to users to ensure that access is commensurate with the current roles and responsibilities of users; and
- audit logs for the MyWay application and databases to detect and remedy accidental or fraudulent changes to MyWay and its data.

6.389 Information on control weaknesses relating to MyWay is provided in Chapter 4: 'Computer information systems' (page 47).

6.390 In 2010-11, the Audit Office reported that there were two generic administrator accounts that were shared between vendor support staff who are external to the Directorate. Administrators may perform powerful functions using these accounts such as creating, modifying and deleting user accounts and changing security configurations.

6.391 In 2011-12, the Directorate informed the Audit Office that the vendors of MyWay had advised that the use of the generic user accounts was unavoidable. While this may be the case, the Directorate has not monitored the use of these generic accounts to minimise the risk of erroneous or fraudulent use of these accounts.

6.392 While the Directorate has prepared a business continuity plan for MyWay, this plan has not been finalised and tested to provide assurance that the Directorate will be able to resume the operations of ACTION in a timely manner in the event of an outage or other disruption.

6.393 The Directorate provides recycling and waste drop-off services at resource management centres located at Mugga Lane, Mitchell and West Belconnen. Controls over cash collected at the resource management centres located at Mugga Lane and Mitchell are weak and expose the Directorate to a high risk of errors, irregularities and fraud.

6.394 The Directorate should reduce the risk of errors in its financial statements by ensuring that unidentified cash receipts included in bank reconciliations are resolved, the financial effects of internal transactions between the Directorate's business units are eliminated from the Directorate's financial results, and workpapers supporting the financial statements are complete and free of errors.

6.395 The Directorate has agreed to address all except one audit finding.

6.396 As discussed in paragraphs 6.381 to 6.383, the Audit Office believes that there is scope for improving the independence of the Directorate's internal audit function. The Directorate has advised that it recognises the potential risk to independence that results from the Chief Internal Auditor having responsibilities for corporate governance. However, the Directorate considers that its internal audit arrangements provide an appropriate balance between this risk and the Directorate's resource constraints.

6.397 The Audit Office acknowledges that there are aspects of the internal audit arrangements which support the independence of the internal audit function. However, these measures do not fully address the inherent risk to independence that arises from the Chief Internal Auditor having responsibilities for corporate governance.

TREASURY DIRECTORATE

6.396 The Treasury Directorate (Treasury) was abolished following the changes to administrative arrangements on 10 November 2012.

6.397 Treasury was responsible for managing the overall financial, budgetary, revenue and economic management functions of the Territory. Treasury also collected taxes, fees and fines on behalf of the Territory. These functions were transferred to the Chief Minister and Treasury Directorate and Commerce and Works Directorate following the above mentioned changes to administrative arrangements.

KEY ISSUES

- The Audit Office issued an unqualified audit report on Treasury's 2011-12 financial statements and an unqualified report of factual findings on its 2011-12 statement of performance.
- Treasury's net cost of services was $18 million (33 percent) below the budgeted cost.
- The systems used to account for taxes, fees and fines receivables have improved, however, these systems need further improvement to enable Treasury to more effectively and efficiently meet its internal and external reporting requirements.
- Control weaknesses exist in Treasury's main revenue applications.
- While aspects of Treasury's internal audit function support its independence, there is scope for improving the independence of this function.
- There was often no documentary evidence of the satisfactory receipt of goods or services before payments were made. This increases the risk of payment errors and fraud.
- Treasury needs to review and improve its revenue management systems to enable Treasury to more effectively and efficiently meet its internal and external reporting requirements.
- The Commissioner for Revenue obtains information on unimproved land values from the Australian Valuation Office. The Commissioner uses this information to determine unimproved land valuations for the purposes of calculating general rates revenue. Treasury has not obtained signed valuation reports and supporting valuation workpapers from the Australian Valuation Office to support these valuations.

Financial results

Table 6.56: Key results

	Actual 2010-11 $m	Actual 2011-12 $m	Budget 2011-12 $m
Expenses	(44.1)	(41.0)	(60.2)
Income	3.2	4.6	5.8
Net cost of services	**(40.9)**	**(36.4)**	**(54.4)**
Government contributions	40.1	34.7	52.0
Operating deficit	**(0.8)**	**(1.7)**	**(2.4)**

6.398 Treasury's expenses mostly consist of employee costs, supplies and services expenses and payments to ACT Government agencies from the Restructure Fund and Capital Improvement Project Fund.

6.399 The Restructure Fund is used for restructuring initiatives that are expected to provide cost savings or longer-term budgetary or economic benefits. The Capital Improvement Project Fund is used to assist agencies to meet the cost of urgent, unforseen, or other required capital works.

6.400 Treasury's net cost of services ($36.4 million) was $18 million (33 percent) below the budgeted cost ($54.4 million). This was mainly resulted from:

- agencies making less than anticipated claims for reimbursement from the Restructure Fund after the Administrative Arrangement Orders of 17 May 2011; and
- lower than expected costs being incurred on an initiative to improve efficiency and reduce 'red tape' by better integrating State and Federal regulation reforms ('Seamless National Economy').

6.401 Government contributions were $17.3 million (33.3 percent) below the budgeted amount. Treasury did not need to use all of the appropriated funding because of the lower than expected expenses referred to above.

6.402 Treasury's territorial operations mainly consist of revenue from taxes, fees and fines, Commonwealth grants and dividends. These sources of revenue are discussed in Chapter 5: 'The Territory's financial statements'.

Audit findings

Table 6.57: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	New	Balance
4	-	4	6	10

This table does not include audit findings for Treasury's revenue applications (Territory Revenue System and Community 2008). Audit findings relating to these applications are reported in Chapter 4: 'Computer information systems' (pages 42 to 44).

6.403 The Chief Minister and Treasury Directorate has agreed to three, agreed in principle to four and partially agreed with three audit findings.

6.404 Treasury partially resolved all previously reported audit findings. In particular, Treasury improved systems used to account for taxes, fees and fines receivables. These improvements included:

- documenting an approved method of assessing whether receivables were impaired; and
- producing reports that show the age of taxes, fees and fines receivables (aged receivables reports).

6.405 However, the accuracy of these aged receivables reports need to be further improved to assist in the effective identification and management of overdue taxes, fees and fines.

6.406 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.

6.407 As reported in previous years, aspects of Treasury's internal audit arrangements support the independence of the internal audit function. These include the Audit Committee having an independent chair, and having the Internal Audit Manager report to a Director in the Office of the Under-Treasurer on internal audit matters.

6.408 However, the Internal Audit Manager continues to be a Senior Manager in the Directorate's Accounting Branch. The Internal Audit Manager has operational responsibilities for financial management and reporting and, in that capacity, reports to the Chief Finance Officer. As a result, the Internal Audit Manager is not free of the influences of operational management and responsibility, particularly on financial management and reporting matters.

6.409 The Audit Office therefore believes there is scope for improving the independence of this function, and recommends that the Internal Audit Manager be freed from the influences of operational management and responsibility.

6.410 The former Treasury Directorate has previously advised that it believes changes to internal audit arrangements are not warranted because Treasury has assessed the risks to independence from these arrangements to be low.

6.411 The Chief Minister and Treasury Directorate has also provided the following comments in relation to the finding on internal audit arrangements:

> The Chief Minister and Treasury Directorate considers that the current structure of its internal audit function adequately addresses the issue of independence.
>
> Whilst the internal audit function might appear to fall short of best practice, the following continuing measures provide reasonable assurance on the independence and effectiveness of the internal audit function:
>
> - the internal audit work program is approved by the Director-General and overseen by the Internal Audit Committee;
> - neither the Financial Controller nor the Chief Finance Officer have operational access to any of Treasury's financial management or revenue systems;
> - internal audits are conducted by independent audit firms that report their findings directly to the Internal Audit Committee;
> - an independent person chairs the Internal Audit Committee and reports directly to the Director-General. In addition, the Committee includes two members from another Directorate; and
> - the Internal Audit Manager has direct access to the Independent Chair of the Internal Audit Committee at all times.

6.412 The Audit Office acknowledges that there are aspects of the internal audit arrangements that support the independence of the internal audit function. Although some of the measures referred to by the Directorate support the independence of the internal audit function, they do not fully address the inherent weaknesses in arrangements that result from the Internal Audit Manager also being a Senior Manager in the Accounting Branch and, in that capacity, reporting to the Chief Finance Officer.

6.413 There was often no documentary evidence of the satisfactory receipt of goods or services before payments were made. This increases the risk of payment errors and fraud.

6.414 The Chief Minister and Treasury Directorate has provided the following comments in relation to the finding on documenting the satisfactory receipt of goods and services:

> This audit finding was the result of Treasury not using the updated accounts payable template which incorporated the words 'by signing this form the signatories warrant the Directorate has received the above mentioned goods and/or services (excluding prepayments and deposits).'
>
> The Directorate would like to note that the sample reviewed by the Audit Office included a number of ongoing invoices from internal ACT Government agencies including ICT services, human resources services, office rent and financial audit fees charged by the Audit Office.
>
> Given the on-going nature of these services the authorised delegate was aware that these services had been provided and did not require independent evidence of the goods or services being received before signing off the invoice. The focus for the delegate was that the correct amount had been charged on these on-going services. In addition, a number of payments in the sample including those against the Restructure Fund had been approved to pay via a sign off process prior to being approved by the authorised delegate.
>
> The Directorate considers that existing procedures and controls provide reasonable assurance against the risk associated with erroneous, irregular or fraudulent payments.

6.415 The Audit Office considers that there should be documentary evidence of the satisfactory receipt of goods and services for 'ongoing services' to provide assurance that these services have been received. The former Treasury Directorate's Financial Instructions require the satisfactory receipt of goods and services to be certified on all payments regardless of whether these services are of an ongoing nature.

6.416 A revenue management system should enable Treasury to meet its internal and external reporting requirements. This system should interface with the financial accounting system to enable the efficient production of information needed to meet these reporting requirements.

6.417 Treasury uses the 'tax workbook' (an Excel spreadsheet) to calculate tax receivables and related revenue, because the two main revenue systems (Territory Revenue System and Community 2008) are unable to automatically provide such reports. These revenue systems do not interface with Treasury's financial accounting system, or facilitate the efficient production of reports on tax receivables and the related revenue.

6.418 The Audit Office recommends that Treasury review and improve its revenue management systems (Territory Revenue System and Community 2008), including the tax workbook, to enable Treasury to more effectively and efficiently meet its internal and external reporting requirements.

6.419 The Chief Minister and Treasury Directorate has provided the following comments on these audit findings:

> Aged receivables reports
>
> The ageing reports from the Territory Revenue System and Community 2008 are used for disclosure purposes and were not created with the intention of being used for the identification and management of overdue amounts. Separate reports are generated from the systems to undertake this function.
>
> Further work will be undertaken in 2012-13 on the accuracy of the ageing report in Community 2008. Work on the ageing report from the Territory Revenue System will commerce after the upgrade to the system is completed.
>
> Revenue management systems including the tax workbook
>
> The Directorate has undertaken a separate internal audit of the tax workbook that was finalised in 2011-12. This internal audit provided assurance as to the reliability of information flowing through the tax workbook. All recommendations made as part of the internal audit were adopted by Treasury. However, to ensure that the quality of the workbook continues to improve, ACT Revenue Office will review the workbook during 2012-13.

6.420 The Commissioner for Revenue obtains information on unimproved land values from the Australian Valuation Office. The Commissioner uses this information to determine unimproved land valuations for the purposes of calculating general rates revenue.

6.421 Treasury reviews this valuation information by reviewing large changes in unimproved land values from the previous year. However, signed valuation reports and valuation workpapers, including:

- explanatory information on the methods and assumptions used by the Australian Valuation Office to value unimproved land; and
- any restrictions or limitations on the valuation,

are not obtained from the Australian Valuation Office to support these valuations.

6.422 The Audit Office therefore recommends that signed valuation reports and valuation workpapers be obtained from the Australian Valuation Office.

6.423 The Chief Minister and Treasury Directorate has provided the following comments on this audit finding:

> The Directorate will ask the Australian Valuation Office to provide a summary document (letter) that outlines the valuation methodology used and the movement in unimproved land values in the various sectors (residential, commercial, minor industrial, rural). The document will be requested at the time the annual unimproved land valuation is provided.

UCU LTD

6.424 UCU Ltd is a wholly-owned subsidiary of the University of Canberra. UCU Ltd is a not-for-profit company that provides goods and services to staff and students of the University and visitors to the campus.

6.425 UCU Ltd operates a union shop and post office, coffee shop, recreation centre, a functions and catering service and campus food outlets.

KEY ISSUES

- The Audit Office issued an unqualified audit report on UCU Ltd's 2011 financial statements.
- UCU Ltd's operating deficit of $0.9 million in 2011 was unchanged from the deficit incurred in 2010.
- UCU Ltd's short-term and long-term financial positions are weak and have declined since 2010. As in the prior year, UCU Ltd could not pay its liabilities without financial support from the University of Canberra.
- To address the decline in UCU Ltd's financial performance, UCU Ltd restructured some business lines to try and improve its financial performance.
- UCU Ltd has made some progress in resolving previously reported audit findings but has not fully resolved them. This indicates UCU Ltd's processes for resolving audit findings need to be improved. UCU Ltd has advised that it is improving its processes for resolving audit findings.
- UCU reduced the risk of errors and fraud by strengthening controls over inventory and cash. However, there is scope to further improve controls in these areas.
- UCU Ltd improved its risk management and business continuity arrangements, however, these arrangements need to be further improved.
- Weaknesses in controls over payroll were identified. These weaknesses increase the risk of errors, irregularities and fraud.

Financial results

Table 6.58: Key results (calendar years)

	Actual 2010 $m	Actual 2011 $m
Income	5.8	6.7
Expenses	(6.7)	(7.6)
Operating deficit	**(0.9)**	**(0.9)**

6.426 UCU Ltd's income mostly consists of sales revenue from its retail outlets. UCU Ltd obtains income from academic dress hire, subscriptions and events, hire of sport and recreation facilities and staging of live entertainment events. UCU Ltd also received fees from the University of Canberra for providing services to University students and staff. Most goods and services are offered at discounted rates to students and staff.

6.427 UCU Ltd's income increased by $900 000 (15.5 percent). This was due mainly to higher:

- fees from the University for providing services to University students and staff. This included fees for additional programs undertaken for the University such as student orientation week (designed to help newly enrolled students to build academic and social foundation skills), music events and concerts, contribution for the Australian University Games (an annual multi-sport competition held between number of Australian universities and tertiary institutions) and upgrading of equipment;
- income from venue, staff and equipment hire because two graduation ceremonies were held in 2011 compared one in 2010; and
- fees from the University of Canberra for managing other tenants at the University, including a bank, bookshop and hairdresser.

6.428 UCU Ltd's expenditure mainly consists of employee costs and cost of goods sold.

6.429 Expenses increased by $900 000 (13.4 percent) from the previous year. This was due mainly to an increase in:

- employee expenses due mainly to pay rises and promotion of some staff;
- the costs of providing administrative support for clubs and societies to participate in additional programs mentioned above;
- consultancy fees for rebranding products and services from 'UC Union' to 'UC Life', business advice, training and improving the website;
- the costs of advertising the change in the branding and delivery of products; and
- rent and licence fee expenses relating to new food outlets from which additional income has been generated.

6.430 UCU Ltd's operating deficit of $0.9 million in 2011 was unchanged from the deficit incurred in 2010.

Short-term financial position

Table 6.59: Short-term financial position (calendar years)

As at 31 December	Actual 2010 $m	Actual 2011 $m
Short-term assets	1.4	1.0
Short-term liabilities	1.8	2.4
Net short-term liabilities	**(0.4)**	**(1.4)**
Short-term liquidity ratio	**0.7 to 1**	**0.4 to 1**

Long-term financial position

Table 6.60: Long-term financial position (calendar years)

As at 31 December	Actual 2010 $m	Actual 2011 $m
Assets	1.8	1.4
Liabilities	1.9	2.4
Net liabilities	**(0.1)**	**(1.0)**
Long-term liquidity ratio	**0.9 to 1**	**0.6 to 1**

6.431 The above tables show that UCU Ltd's short-term and long-term financial positions have declined since 2010. As in the prior year, UCU Ltd could not pay its liabilities without financial support from the University of Canberra.

Audit findings

Table 6.61: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
11	(2)	8	1	5	14

6.432 UCU Ltd has made some progress in resolving audit findings but has not fully resolved most previously reported audit findings. This indicates UCU Ltd's processes for resolving audit findings need to be improved. UCU Ltd has advised that it is improving its processes for resolving audit findings.

6.433 UCU Ltd strengthened controls over inventory and reduced the risk of errors and fraud by:

- updating its stocktake instructions and ensuring staff responsible for conducting stocktakes were familiar with these instructions; and
- recording and investigating reasons for inventory write-offs and ensuring inventory write-offs were approved by a delegated officer who was not responsible for the maintenance of inventory records or custody of inventory.

6.434 UCU Ltd also strengthened controls over cash and reduced the risk of errors and fraud by regularly performing bank reconciliations and investigating variances.

6.435 Although controls over cash and inventory have improved, there is scope for further improvement. In particular:

- documentation of the investigation and resolution of variances between stocktake counts and inventory records was not maintained for most of the year;
- significant variances between inventory records and physical counts performed at the year-end stocktake indicate that inventory records are not reliable or accurate; and
- there was no evidence that monthly bank reconciliations were reviewed by an officer who is independent of the preparer of the reconciliation.

6.436 UCU Ltd is reviewing its operations and restructured some business lines to improve its financial performance.

6.437 UCU Ltd approved its business continuity plan. However, the effectiveness of this plan has not been tested to provide assurance that applications and data will be promptly recovered in the event of a disaster or other adverse event.

6.438 UCU Ltd also improved its risk management arrangements by developing a risk register and risk treatment plans. However, these arrangements need to be reviewed and approved to provide assurance that significant risks relating to the Company's operations are addressed.

6.439 Weaknesses in controls over payroll were also identified. These weaknesses increase the risk of errors, irregularities and fraud. In particular:

- there was no independent review of the payroll by an officer who is independent of the processing of payroll; and
- some payments to employees were found to be incorrect.

6.440 UCU Ltd has advised that it intends to address all audit findings in 2012.

UNIVERSITY OF CANBERRA

6.441 The University of Canberra (the University) provides graduate and post-graduate education to Australian and international students. The University also conducts research and consultancy activities.

6.442 The University controls the University of Canberra College Pty Limited, UCU Ltd and NATSEM Pty Limited.

6.443 University of Canberra College Pty Limited provides a range of programs to prepare students for university. UCU Ltd provides goods and services to the staff, students and visitors. NATSEM Pty Limited conducts research and social modelling services.

KEY ISSUES

- The Audit Office issued an unqualified audit report on the 2011 financial statements of the University.
- The University's operating deficit, excluding capital grants and assets received free of charge from the ACT and Commonwealth Governments, increased from $5.1 million in 2010 to $6.5 million in 2011.
- The University resolved or partially resolved all previously reported audit findings, with improvements being made to controls over key computer information systems and business applications and expenditure. These improvements reduce the risk of errors, irregularities and fraud.
- Detailed business continuity and disaster recovery plans have not been completed for most business units, faculties and key computer information systems and none of these plans have been tested. This presents a higher risk that critical business applications and data will not be promptly recovered in the event of a disaster or other adverse event.
- The operating results and financial position NATSEM Pty Limited and UCU Ltd declined significantly in 2011. If their financial position does not improve, there is a higher risk that the University will need to provide ongoing financial support to these entities to prevent these companies from becoming insolvent. The University has recognised this risk and is taking action to improve their financial positions.
- The University's fraud prevention and control framework has not been reviewed since 2009. This presents a higher risk that the University's processes for addressing fraud and corruption will not be effective.
- Controls over access to student records and student fee revenue reconciliations should be strengthened to reduce the risk of errors, irregularities and fraud. The University implemented controls to minimise this risk from December 2011.

Financial results

Table 6.62: Key results (calendar years)

	Actual 2010 $m	Actual 2011 $m
Income including capital grants and assets received free of charge	177.0	192.7
Expenses	(169.0)	(183.5)
Operating surplus including capital grants and assets received free of charge	**8.0**	**9.2**
Capital grants for buildings and equipment upgrades and student accommodation building received free of charge	(13.1)	(15.7)
Operating deficit excluding capital grants and assets received free of charge	**(5.1)**	**(6.5)**

6.444 The University obtains most of its income from financial assistance provided by the Commonwealth Government and fees from domestic and international students. Government financial assistance includes capital grants and assets received free of charge to upgrade campus buildings, equipment and student accommodation facilities.

6.445 Income increased by $15.7 million (8.9 percent) compared to the previous year. This increase was due to the receipt of student accommodation building (Arscott House) valued at $9 million free of charge from the ACT Government as part of its contribution to the Commonwealth Government's National Rental Affordability Scheme.

6.446 There were also increases in other student fee income as a result of growing enrolments of international and domestic students, and greater financial assistance from state and local governments for student accommodation facilities.

6.447 Most of the University's expenses are related to employees, administration and depreciation.

6.448 Expenses increased by $14.5 million (8.6 percent) compared to the previous year. This mostly reflected increases in:

- employee expenses due to pay rises provided under the University's enterprise bargaining agreement; and
- depreciation resulting from capital expenditure on fixtures and fittings, buildings, equipment, computer equipment and software.

6.449 The University's operating deficit excluding capital grants and assets received free of charge increased from $5.1 million in 2010 to $6.5 million in 2011.

Audit findings

Table 6.63: Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
13	(8)	5	-	9	14

6.450 The University resolved or partially resolved all previously reported audit findings, with improvements being made to controls over key computer information systems and business applications and expenditure. These improvements reduce the risk of errors, irregularities and fraud.

6.451 The University reduced the risk of erroneous or fraudulent changes to key computer information systems and applications by documenting and approving processes for making changes to computer information systems and applications. The risk of unauthorised and possible fraudulent access to these systems and applications was also reduced by the approval of information security policies.

6.452 The University has:

- agreed to improve access controls over key computer information systems and business applications by requiring users to change their passwords every 90 days, in addition to an existing requirement to implement complex passwords; and
- improved controls over the installation of software by requiring changes to be approved prior to being installed. The University also agreed to further improve these controls by requiring its Information Technology Management Unit to install approved software programs rather than system users.

6.453 The University reduced the risk of erroneous, irregular and fraudulent payments by:

- updating and approving policies and procedures for credit card and travel expenditure;
- implementing a requirement to document the satisfactory receipt of goods and services prior to payment of suppliers from May 2011; and
- implementing the consistent review of payroll reports by business units and faculties.

6.454 Detailed business continuity and disaster recovery plans have not been completed for most business units, faculties and key computer information systems and none of these plans have been tested. This presents a higher risk that critical business applications and data will not be promptly recovered in the event of a disaster or other adverse event.

6.455 The operating results and financial position NATSEM Pty Limited and UCU Ltd declined significantly in 2011. There is a higher risk that the University will need to provide ongoing financial support to these entities to prevent these companies from becoming insolvent if their financial performance does not improve. The University has recognised this risk and is taking action to improve their financial positions and is regularly monitoring the financial results of these companies.

6.456 The University's fraud prevention and control framework has not been reviewed since 2009. This presents higher risk that the University's processes for addressing fraud and corruption will not be effective.

6.457 Controls over access to student records and student fee revenue reconciliations should be strengthened to reduce the risk of errors, irregularities and fraud. The University implemented controls to minimise this risk from December 2011.

6.458 The University has agreed to address the audit findings.

APPENDIX A REPORTING AND AUDITING

This appendix provides an overview of the main legislative requirements of the Auditor-General for auditing and reporting of financial and non-financial results of the ACT public sector and those entities in which the ACT Government has a direct financial interest.

REPORTING AND AUDITING REQUIREMENTS

The *Financial Management Act 1996*, *Territory-owned Corporations Act 1990*, *Annual Reports (Government Agencies) Act 2004* and *Auditor-General Act 1996* provide the legislative framework for auditing and reporting.

The auditing and reporting arrangements are an important means whereby the ACT Government is held accountable to the ACT Legislative Assembly and the public, for its management of public sector resources.

Key features of the above-mentioned legislation are outlined below.

Financial Management Act 1996

The *Financial Management Act 1996* presents the financial management and associated accountability requirements of the Territory, its directorates and authorities.

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

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

Territory-owned Corporations Act 1990

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

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

Annual Reports (Government Agencies) Act 2004

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

The annual financial statements and statements of performance and accompanying Auditor-General's audit opinions on financial statements and reports of factual findings on statements of performance are published in agencies' annual reports.

Auditor-General Act 1996

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

The Act supports the independence of the Audit Office by providing that the Auditor-General is not subject to direction by the Executive or any Minister in the exercise of the Auditor-General's functions. The Auditor-General reports directly to the ACT Legislative Assembly in undertaking the functions in the *Auditor-General Act 1996*.

FINANCIAL AUDITING

Purpose of a financial audit

The ACT Legislative Assembly and the community rely on the Auditor-General to provide an independent opinion on whether financial statements of the Territory and its agencies present a true and fair view of reported performance.

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

Public reporting

Audit reports

An independent written opinion is provided based on the Audit Office's examination of financial statements and statements of performance.

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

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

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

Types of opinion

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

Unmodified opinions

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

Modified opinions

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

The types of modified opinions are briefly explained below.

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

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

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

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

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

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

Reporting on significant matters

Significant matters, such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during audits. The Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for the governance of the agency. These matters are therefore reported in audit management reports provided to director-generals, chief executive officers, governing boards and the relevant ministers.

Matters reported in these audit management reports may be publicly reported to the ACT Legislative Assembly to facilitate an appropriate level of accountability to the Legislative Assembly and wider community.

APPENDIX B 'EXPECTATION GAP'

Purpose

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

This work is required to be performed in accordance with the Australian Auditing Standards.

Significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for governance of the agency. Those responsible for governance of the agency (for example, directors-general, chief executive officers, governing boards and the relevant ministers) are responsible for addressing these matters.

The 'Expectation Gap'

It is recognised in the auditing profession that an 'expectation gap' may exist because users of Auditor-General's reports on financial statements and statements of performance may tend to assume that the scope of the auditor's role and responsibilities are wider than they actually are. Therefore, the respective responsibilities of management of the reporting agency and the Audit Office need to be understood. The respective responsibilities are outlined below.

A reporting agency's management is responsible for maintaining adequate:

- accounting and other records, and preparing the financial statements and statements of performance; and
- systems of internal controls to prevent or detect errors, irregularities and fraud.

The Auditor-General:

- is responsible for forming an opinion on whether the financial statements prepared by management present a view that is consistent with the Audit Office's understanding of the reporting agency's financial position, its operations and cash flows in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia. Similarly, the Office is required to form an opinion on whether the accountability indicators included in statements of performance prepared by directorates and authorities fairly present the reported performance;

- does not provide an opinion on the appropriateness of budget information included in the financial statements and statements of performance for directorates and authorities, or whether a reporting agency could reasonably have been expected to achieve budget. No opinion is provided on the systems, significant accounting policies and estimates that have been used in preparing the budget;
- does not examine every transaction of the reporting agency. It is the responsibility of the reporting agency to ensure that all transactions are valid, checked and correctly recorded. If the Audit Office did check all transactions this then audits would be prohibitively expensive and time consuming. The Office reviews major systems and examines a sample of transactions for all items that are considered material and/or of higher risk. These are items that, if materially misstated as a result of an error or fraud, could adversely affect decisions made by users of financial statements or statements of performance;
- conducts audits and provide reports which provide users of financial statements and statements of performance with reasonable assurance that they are free of material errors. However, the audit cannot provide a guarantee of absolute accuracy of every amount and disclosure made in the financial statements and statement of performance;
- does not express a view on the efficiency and effectiveness with which the reporting agency conducts its affairs, nor do they guarantee a reporting agency's future viability;
- does not express a view on the prudence of decisions made by a reporting agency's management;
- does not attest to the information accompanying the financial statements or statement of performance provided by management to explain the performance of a reporting agency. The Audit Office is only required to check the information in any accompanying analysis to ensure that it is not materially inconsistent with the information reported in the reports; and
- responsibility is confined to providing an opinion on an agency's financial statements and statement of performance. The opinion only considers whether the financial statements and statement of performance comply with the provisions of the legislation that apply directly to the financial statements and statement of performance.

AUDIT REPORTS

Audit reports published in recent years are listed below.

Reports Published in 2012-13	
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
Reports Published in 2010-11	
Report No. 03 / 2011	The North Weston Pond Project
Report No. 02 / 2011	Residential land Supply and Development
Report No. 01 / 2011	Waiting Lists for Elective Surgery and Medical Treatment
Report No. 10 / 2010	2009-10 Financial Reports
Report No. 09 / 2010	Follow-up audit – Courts Administration
Report No. 08 / 2010	Delivery of Mental Health Services to Older Persons
Report No. 07 / 2010	Management of Feedback and Complaints
Report No. 06 / 2010	Annual Report 2009-10
Report No. 05 / 2010	Delivery of ACTION Bus Services
Reports Published in 2009-10	
Report No. 04 / 2010	Water Demand Management: Administration of Selected Initiatives
Report No. 03 / 2010	Delivery of Budget Initiatives
Report No. 02 / 2010	Student Support Services for Public High Schools
Report No. 01 / 2010	Performance Reporting
Report No. 08 / 2009	2008-09 Financial Audits
Report No. 07 / 2009	Annual Report 2008-09
Report No. 06 / 2009	Government Office Accommodation
Report No. 05 / 2009	Administration of employment issues for staff of Members of the ACT Legislative Assembly

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Details of reports published prior to 2009-10 can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: http://www.audit.act.gov.au.

AVAILABILITY OF REPORTS

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

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

or

PO Box 275
CIVIC SQUARE ACT 2608

Phone (02) 62070833 / Fax (02) 62070826

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