AUDITOR-GENERAL

Australian Capital Territory

PA04/05

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

Dear Mr Speaker

I am pleased to forward to you a report titled '2003-04 Financial Audits', which provides a summary of the audit outcomes of the Territory and agency financial statements.

I would appreciate if you could arrange for the tabling of this report in the Legislative Assembly pursuant to Section 17(4) of the *Auditor-General Act 1996.*

Yours sincerely

Tu Pham
Auditor-General
6 December 2004

Scala House, 11 Torrens Street Braddon ACT 2612 PO Box 275, Civic Square ACT 2608
Telephone: (02) 620 70833 Facsimile: (02) 620 70826
Office Email: actauditorgeneral@act.gov.au

Contributors to the 2003-04 Financial Audit Program

Staff of the Audit Office

Graeme Adler
Joseph Bartone
Barbara Becerra
Naomi Behla
Kate Chambers
Paul Grant
Michael Lai
Jordan Langford-Smith
Tim Larnach
Claudia Liu
Brianna Luscombe
Kamlesh Mudaliar
Katinka Mutandadzi
Chris Peterson
Malcolm Prentice
Jason Pye
Ajay Sharma
Bernie Sheville
Graham Smith
Leigh Taylforth
Truc Tran
Erica Wilson

Contracted Firms

Deloitte Touche Tohmatsu
Duesburys
Ernst and Young
Fielden Hummer/Ascent
KPMG
PricewaterhouseCoopers

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I also acknowledge the efforts and commitment of all staff in the Audit Office in completing the program and delivering the audit reports within the shorter timeframe during the election year.

Tu Pham
Auditor-General

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REPORT SUMMARY

1. Scope

This report summarises the results of the audits of the financial statements of the Territory and its agencies in 2003-04. The report also includes comments on significant matters found during these audits.

2. Financial Statement Audits

73 financial statement audits were undertaken in 2003-04, including:

- 1 Territory;
- 18 Departments;
- 21 Statutory authorities;
- 10 Territory owned corporations and other companies;
- 13 Land development joint ventures and partnerships; and
- 10 other audits.

Most Audit Opinions were Unqualified…

Consistent with the results of recent years, the majority of audit opinions issued (97%) were unqualified. Two qualified audit opinions were provided for departing from the requirements of the Australian Accounting Standards and eight unqualified audit opinions included an 'emphasis of matter' paragraph drawing attention to performance measures that were not measured or could not be independently verified.

Significantly, the major 2002-03 qualifications of audit opinions expressed on the financial statements of the Territory and the Superannuation Unit were removed from the 2003-04 audit report. This followed a change by Government to remove the past accounting policy of smoothing the effects of movements in the superannuation liability over a number of years.

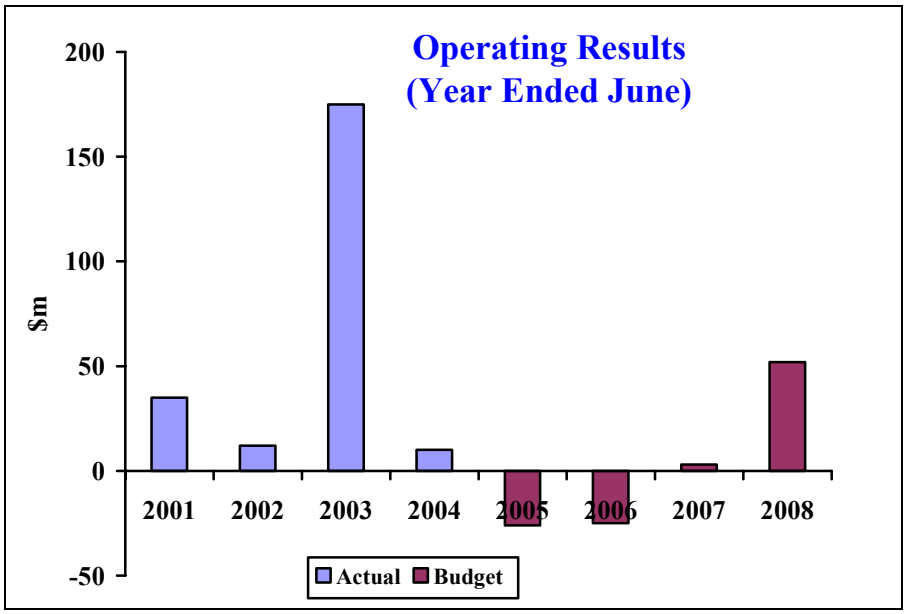
Processes to prepare Financial Statements could be improved…

Nearly all audits were completed in accordance with the reporting timetable issued by the Department of Treasury. Two audit opinions were not provided by the scheduled date because signed financial statements were not provided to the Audit Office by that date.

Although the Audit Office managed to provide the vast majority of audit opinions on time, many financial statements were not provided to the Audit Office in accordance with Treasury's reporting timetable. In addition, the Audit Office was often required to provide assistance to agencies to bring financial statements to an acceptable standard. This indicates that there is scope for reporting agencies to improve their processes for preparing timely financial statements.

3. Financial State of the Territory

The Territory's operating result shows the extent to which the costs of service delivery are covered by the revenue raised in a year. When assessed over a number of years, the operating result is an important indicator of the financial sustainability of the Government's strategies and policies.



Operating Results Reflect 'Balanced Budgets'…

With the exception of the operating surplus of $175m reported in 2002-03, the Territory's operating results since 2000-01 have consistently been very small, relative to the size of the Budget. According to the Budget Papers, this trend is expected to continue for the next few years. In reality, these results reflect budgets that are 'in balance' rather than 'in surplus' or 'in deficit'.

These projected 'in balance' results mean that the Territory is vulnerable to significant deficits should there be negative fluctuations in revenue and expenses from adverse events. Although there is some risk that significant deficits may occur, the Territory has a significant capacity to meet adverse events. The options available to meet adverse events include increasing taxes and charges, cutting or reprioritising expenditure, raising borrowings and selling assets.

The short-term financial position remains strong…

The Territory's short-term financial position strengthened substantially over the last 12 months to 30 June 2004, continuing a steady trend of improvement in recent years. The short-term financial position is expected to remain strong over the next few years.

The long-term financial position is weakening…

The Territory's financial assets continued to be less than its liabilities and this shortfall increased by $169m in 2004 due to a substantial rise in the Territory's unfunded superannuation liabilities. The Territory's long-term financial position is expected to further decline with the shortfall forecast to rise substantially by $657m over the next few years. The main factors contributing to this decline include the use of financial assets to fund capital activities and the essentially break-even operating results forecasted for these years.

Unfunded Superannuation Liabilities

A major challenge for the Territory is to meet the rapidly rising superannuation liabilities. These liabilities are expected to rise significantly over the next few years (to $2.7b in 2007) and corresponding increases in investments are needed to keep pace with the forecast superannuation liabilities. As the full extent of unfunded superannuation liabilities does not have to be met for some years, there is no current threat to the Territory's finances. However, the Territory will have to fund its superannuation commitment to ensure that the current shortfall does not continue to grow to a size that will create significant financial difficulties. Prudent planning and effective financial management is essential particularly as an increasing number of employees are anticipated to retire over the next ten years.

4. Budget Management

The Territory and most departments and authorities were found to have managed their operations to within their budgets. Five agencies were unable to manage their operations to budgets and three agencies exceeded their budget but not significantly.

The management of allocated capital works funding remains an area of concern. Although showing improvement in 2003-04, the large amount underspent indicates that the management and delivery of capital projects needs to be further improved.

5. Agency Issues

Matters of concern noted during the audit of individual agency's 2003-04 financial statements included:

- ACTEW - There is a significant risk that none of the $60m invested in TransACT will be recovered in the short to medium term.
- ACT Health - ACT Health's systems used for recording and reporting performance information need to be significantly improved before the accuracy and reliability of information can be assured. ACT Health's reported waiting times for emergency department were unable to be independently verified.
- Insurance Authority - At 30 June 2004, the Authority did not have enough assets to meet its liabilities and its ability to meet long term liabilities and any unexpected losses has deteriorated in recent years.
- Legislative Assembly Secretariat - Significant weaknesses in controls (mostly in relation to payments) were found and reported to the Secretariat. The cumulative effect of these weaknesses is that the Secretariat is at particular risk of errors and irregularities (including fraud).

- Totalcare - Following discovery that Totalcare had incorrectly exited the Commonwealth and Public Sector Superannuation Schemes, Totalcare recognised a liability of $17.3m for the estimated superannuation contributions owing in respect of its employees. The exact amount of this liability cannot be known for some time.
- A range of other matters found during audits were reported to agency management, including control weaknesses and data deficiencies and errors.

1. REPORTING AND AUDITING FRAMEWORK

1.1 This chapter provides an overview of the main legislative requirements for financial and performance reporting in the Territory's public sector and the auditing requirements under this framework.

REPORTING AND AUDITING FRAMEWORK

1.2 The *Financial Management Act 1996,* the *Territory Owned Corporations Act 1990,* the *Annual Reports (Government Agencies) Act 2004* and the *Auditor-General Act 1996* provide most of the legislative framework for financial and performance reporting and audit arrangements for the Territory's public sector. These Acts also include mechanisms for the public scrutiny of the financial and operational performance of agencies in the Territory's public sector.

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

1.4 Relevant aspects of this legislation are outlined below.

Financial Management Act

1.5 The *Financial Management Act 1996* addresses the financial management and associated accountability requirements of the Territory and its departments and authorities.

1.6 Amongst other things, this Act requires the Territory and its departments and authorities to prepare annual financial and performance statements, which can be easily compared to their budget, and to have these statements audited by the Audit Office.

1.7 This Act requires financial statements to be prepared in accordance with generally accepted accounting practices, which refer to the Australian Accounting Standards and other mandatory professional reporting requirements.

Territory Owned Corporations Act

1.8 The *Territory Owned Corporations Act 1990* addresses the reporting requirements of Territory owned corporations. These corporations are required to appoint the Auditor-General as their statutory auditor under the *Corporations Act 2001*. Consequently, the Audit Office performs the audit of the financial statements of these corporations under this Act.

1.9 The *Corporations Act 2001* requires financial statements to present a 'true and fair view' and to be prepared in accordance with accounting standards and other mandatory professional reporting requirements in Australia.

Annual Reports Act

1.10 The *Annual Reports (Government Agencies) Act 2004* requires departments, authorities and Territory owned corporations to prepare annual reports that provide information on their financial and operational performance. This Act also requires these annual reports to be tabled in the Legislative Assembly.

1.11 The audited annual financial and performance statements of these agencies and the accompanying audit opinion are published in agencies' annual reports.

Auditor-General Act 1996

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

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

FINANCIAL STATEMENT AUDITING

Purpose of a Financial Statement Audit

1.14 The Legislative Assembly and the community rely on the Audit Office to provide an impartial opinion on whether financial statements of the Territory and its agencies present a true and fair view of reported performance.

1.15 Audits conducted by the Audit Office are required to be performed in accordance with the Australian Auditing Standards.

Public Reporting

Audit Reports

1.16 The main 'visible' outcome of a financial statement audit is an independent written audit report which includes an opinion on whether the audited financial statements fairly present the financial results of reporting agencies in accordance with Australian Accounting Standards and other mandatory reporting requirements.

1.17 This audit report is published in agencies' annual reports and accompanies the audited financial statements.

Other Public Reporting

1.18 In addition to the audit reports issued on individual agencies and on the consolidated Territory financial statements, the Audit Office also publishes an annual report which provides a summary of the overall results of the financial audit program. This report also includes matters of significance identified during the audits that warrant reporting to the Legislative Assembly.

Types of Audit Opinion

1.19 Under Australian Auditing Standards, audit opinions may be 'qualified' or 'unqualified'.

Unqualified Audit Opinions

1.20 An **'unqualified opinion'** is issued when the Audit Office is satisfied, in all material respects, that the financial statements are in accordance with the relevant accounting standards and other mandatory reporting requirements and fairly reflect the agencies' performance and financial position.

1.21 An unqualified audit report may be modified by the inclusion of an **'emphasis of matter'** paragraph in the report where the auditor wishes to emphasise matters that are relevant to users of the financial statements.

Qualified Audit Opinions

1.22 The types of **'qualified'** opinions are briefly explained below.

- An **'except for opinion'** indicates the financial statements are in accordance with the relevant accounting standards and 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 errors and deficiencies of data provided are so fundamental or pervasive that the financial statements are misleading or of little use.
- An **'inability to form an opinion'** is issued where the limitation on the scope of the audit is such that the auditor is unable to form an opinion.

1.23 Few audit opinions are qualified. Before expressing a qualified opinion, the Audit Office is required by the Australian Auditing Standards to take reasonable steps to be in a position to express an unqualified opinion. Potential audit qualifications are usually averted through consultation with the agency. Often financial statements are amended through this consultative process before the financial statements are published. However, unresolved differences of opinion occasionally arise between an

agency and the Audit Office on significant matters resulting in a qualification of the audit opinion.

1.24 In the past, the most common type of 'qualified' audit opinion issued by the Audit Office has been the 'except for' opinion arising from a 'disagreement with management'. These opinions are not necessarily a reflection on the integrity or quality of an agency's management. The Chief Executives are solely responsible for the financial statements and are required to form their own views on the financial statements independently of any opinion that may be expressed by the Audit Office[1].

Reporting to Management

1.25 The main purpose of a financial statement audit is to express an opinion on the financial statements of an agency. Other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Audit Office is required by the Australian Auditing Standards to report these matters to an agency's management.

1.26 Matters reported in these management reports are not publicly reported to the Legislative Assembly unless the matter is serious (eg legislative breach or fraud) or systemic (eg major weaknesses in the control) that further public reporting is warranted to facilitate an appropriate level of accountability to the Legislative Assembly and the wider community.

[1]An example of 'except for' qualified audit opinions arising from 'a disagreement with management' are the 2002-03 qualifications issued because the Audit Office considered the superannuation accounting policy used to prepare financial statements of the Territory and the Superannuation Unit did not comply with the Australian Accounting Standards.

2. SUMMARY OF RESULTS OF FINANCIAL STATEMENT AUDITS

INTRODUCTION

2.1 This chapter provides a summary of the results of the completed financial statement audits with years ending to 31 December 2003 and 30 June 2004.

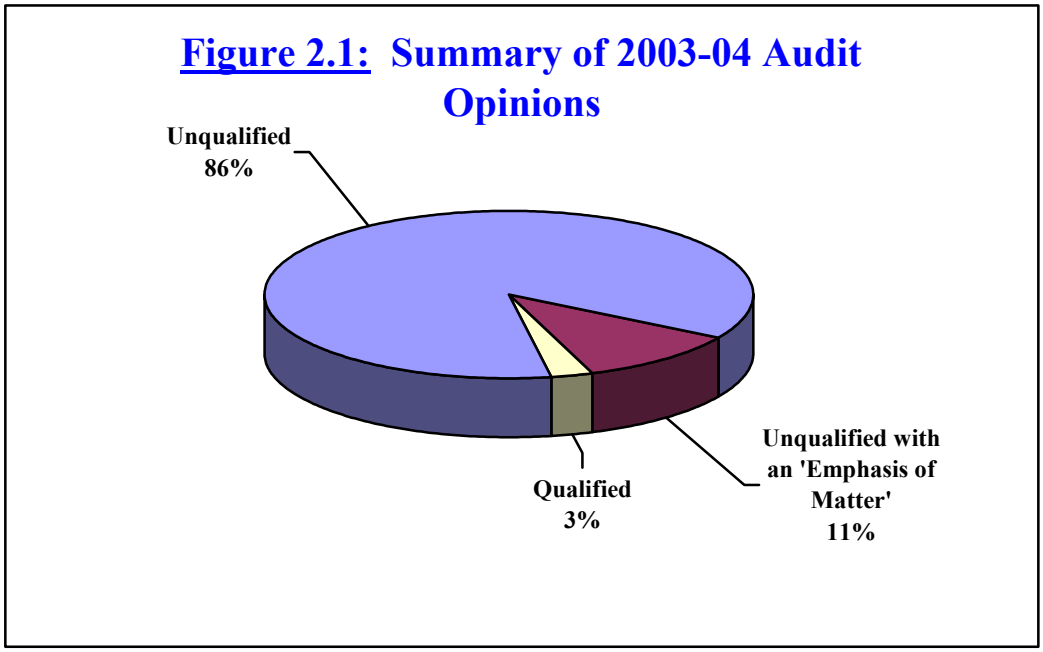
HIGHLIGHTS

Audit Reports

- 71 (97%) of the 73 audit opinions issued were unqualified.
- Eight (11%) of the unqualified audit opinions included an 'emphasis of matter' paragraph drawing attention to performance measures that were not measured or could not be independently verified.
- Two (3%) audit opinions were qualified due to non compliance with Australian Accounting Standards.

Management Reports

- One agency (the Legislative Assembly Secretariat) was found to have major weaknesses in its internal controls. These weaknesses increase the risk of errors and irregularities (including fraud) in that agency.
- One agency (ACT Health) used systems to record and report on its performance measure results which did not provide assurance that the reported results were free from errors or irregularities.
- The Audit Office also reported a range of matters found during the audits to agency management, including control weaknesses and data deficiencies and errors.
- Many agencies' statements were revised to bring them to an acceptable standard.



RESULTS OF FINANCIAL STATEMENT AUDITS

2.2 71 (97%) of the 73 audit opinions issued on financial statements with years ending 31 December 2003 and 30 June 2004 were unqualified. Eight (11%) contained an 'emphasis of matter' paragraph and two (3%) were qualified.

Table 2.1: Summary of 2003-04 Audit Opinions

Classification of Financial Statements	Unqualified Audit Opinions	Unqualified Audit Opinions with an 'Emphasis of Matter'	Total Unqualified Audit Opinions	'Except for' Qualified Audit Opinions	Total Audit Opinions Issued
Territory	0	0	0	1	1
Departments	12	6	18	0	18
Statutory authorities	19	2	21	0	21
Territory owned corporations and other companies	9	0	9	1	10
Land joint ventures and partnerships	13	0	13	0	13
Other financial statement audits	10	0	10	0	10
Total	**63**	**8**	**71**	**2**	**73**

Audit Opinions Issued in 2003-04

Agency	Type of Audit Opinion	Emphasis of Matter
Territory		
Territory	Qualified	No
Departments		
Central Financing Unit	Unqualified	Yes
Chief Minister's Department	Unqualified	No
Disability, Housing and Community Services	Unqualified	No
Education and Training	Unqualified	No
Executive	Unqualified	No
Forests	Unqualified	No
Health	Unqualified	Yes
Home Loan Portfolio	Unqualified	No
Housing ACT	Unqualified	No
InTACT	Unqualified	Yes
Justice and Community Safety	Unqualified	No
Legislative Assembly Secretariat	Unqualified	No
Office for Children, Youth and Family Support	Unqualified	No
Planning and Land Authority	Unqualified	Yes
Superannuation Unit	Unqualified	No
Treasury	Unqualified	No
Urban Services	Unqualified	Yes
Workcover	Unqualified	Yes
Authorities		
ACTION	Unqualified	No
Agents Board of the ACT	Unqualified	No
Australian Capital Tourism Corporation	Unqualified	Yes
Australian International Hotel School	Unqualified	No
Building and Construction Industry Training Fund Board	Unqualified	No
Canberra Institute of Technology	Unqualified	No
Canberra Public Cemeteries Board	Unqualified	No
Cleaning Industry Long Service Leave Board	Unqualified	No
Construction Industry Long Service Leave Board	Unqualified	No
Cultural Facilities Corporation	Unqualified	No
Gambling and Racing Commission	Unqualified	No
Healthpact	Unqualified	Yes
Independent Competition and Regulatory Commission	Unqualified	No
Insurance Authority	Unqualified	No
Land Development Agency	Unqualified	No
Legal Aid Commission	Unqualified	No
National Exhibition Centre Trust (EPIC)	Unqualified	No
Public Trustee Office Account	Unqualified	No
Public Trustee Trust Account	Unqualified	No

Audit Opinions Issued in 2003-04

Agency	Type of Audit Opinion	Emphasis of Matter
Stadiums Authority	Unqualified	No
University of Canberra	Unqualified	No
Territory Owned Corporations and Other Companies		
ACTEW China Pty Limited	Unqualified	No
ACTEW Corporation Limited	Qualified	No
ACTEW Distribution Limited	Unqualified	No
ACTEW Retail Limited	Unqualified	No
ACTTAB Limited	Unqualified	No
CIT Solutions Pty Limited	Unqualified	No
Community Housing Canberra Limited	Unqualified	No
ECOWISE Environmental Pty Limited	Unqualified	No
Totalcare Industries Limited	Unqualified	No
University of Canberra College Pty Limited	Unqualified	No
Land Joint Ventures and Partnerships		
ActewAGL Joint Venture General Purpose Statements	Unqualified	No
ActewAGL Concise Statements	Unqualified	No
ActewAGL Distribution Partnership	Unqualified	No
ActewAGL Retail Partnership	Unqualified	No
Amaroo 3 Joint Venture	Unqualified	No
Amaroo 3 Joint Venture Pty Limited	Unqualified	No
Gold Creek Country Club Pty Limited	Unqualified	No
Harcourt Hill Estate	Unqualified	No
Harcourt Hill Estate Pty Limited	Unqualified	No
Kingston Stage 1A Joint Venture	Unqualified	No
Nicholls Lakeside Estate	Unqualified	No
Nicholls Lakeside Estate Pty Limited	Unqualified	No
Southside Estate Joint Venture	Unqualified	No
Other Audits		
Canberra Bushfire Recovery Appeal Fund	Unqualified	No
Canberra Business Development Fund – December 2003	Unqualified	No
Canberra Business Development Fund – June 2004	Unqualified	No
Canberra Public Cemeteries Trust	Unqualified	No
Gungahlin Cemetery Perpetual Care Trust	Unqualified	No
Hall Cemetery Perpetual Care Trust	Unqualified	No
Nicholls Primary School Joint Facilities	Unqualified	No
Nominal Insurer	Unqualified	No
Woden Cemetery Perpetual Care Trust	Unqualified	No
Workers' Compensation Supplementation Fund	Unqualified	No

2.3 The Audit Office was satisfied, in all material respects, that the large majority of financial statements (97%) were prepared in accordance with Australian Accounting Standards and presented a true and fair view of the financial position and performance of the agency.

2.4 The qualifications for the two audit opinions are referred to below.

QUALIFIED OPINIONS

2.5 A qualified audit opinion was included in the audit report on the financial statements of the Territory and ACTEW. Details of the basis for these qualifications are provided in Chapters 3 and 5.

2.6 Previous year's audit reports on the financial statements of the Territory and the Superannuation Unit were qualified for non compliance with the requirements of Australian Accounting Standards. This qualification was removed in 2003-04 because the accounting policy for superannuation was changed to comply with these requirements.

'EMPHASIS OF MATTER' PARAGRAPHS

2.7 Eight (11%) unqualified audit opinions included an 'emphasis of matter' paragraph drawing attention to performance measures that were not measured or could not be independently verified. Details are provided below.

Agency	Number of Performance Measures referred to in the Audit Opinion as 'not measured' or 'not independently verified'
ACT Health	5
Workcover	2
Australian Capital Tourism Corporation	1
Central Financing Unit	1
InTACT	1
ACT Planning and Land Authority	1
Urban Services	1
Healthpact	1
Total	**13**

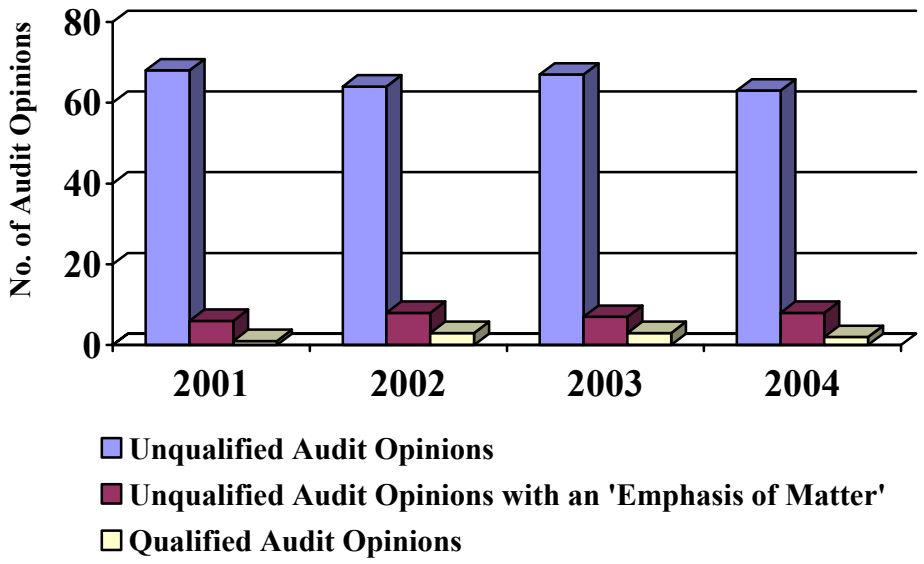
2.8 Although the Audit Office found that problems existed in the reporting of some performance measure results, the number of measures that could not be independently verified or had not been measured was very small compared to the number of performance measures audited (around 1,100).

2.9 Of the agencies examined by the Audit Office, only ACT Health's systems for reporting its performance measure results were found to need significant improvement.

2.10 Agencies were also alerted to instances where performance measures reported in the statement of performance were incorrectly reported, poorly defined and/or were not supported by sufficient evidence.

TREND IN AUDIT OPINIONS

Figure 2.2: Trend in Audit Opinions



2.11 Over the last four years, there were no significant fluctuations to the number and type of opinions issued.

MANAGEMENT REPORTS

2.12 The main purpose of a financial statement audit is to express an opinion on the financial statements of an agency. However, other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Audit Office is required by the Australian Auditing Standards to report these matters to an agency's management.

2.13 The contents of management reports are not provided to the Legislative Assembly and the wider community unless the matter is significant (eg legislative breach or fraud) or systemic (eg major weaknesses in the control) that further public reporting is warranted to facilitate an appropriate level of accountability. For 2003-04, two significant matters as identified in management reports are highlighted below.

Agency	Chapter	Significant Matters
ACT Health	5	The systems used by ACT Health to record and report on its performance measure results were found to need significant improvement and did not provide assurance that its reported results were free from errors or irregularities.
Legislative Assembly Secretariat	5	Significant weaknesses in controls (mostly in relation to payments) were found and reported to the Secretariat. The cumulative effect of these weaknesses is that the Secretariat is at particular risk of errors and irregularities (including fraud).

2.14 The Audit Office also alerted agencies to a range of other matters of concern found during the conduct of audits, including internal control weaknesses, data errors or deficiencies in financial reporting systems which are likely to place the agency at risk of errors and irregularities (including fraud). For example, the Audit Office reported instances where:

- financial delegations were not complied with;
- bank reconciliations were not prepared in a timely manner;
- payments were made without evidence of approval and/or goods and services having been satisfactorily received;
- password controls could be improved;
- inappropriate levels of access to IT systems had been granted;
- evidence of salary reconciliations and the review of the validity and correctness of payments to employees had not been retained;
- the approval of changes to supplier records was not documented or where there was no evidence that these records were being monitored;
- incompatible functions were not appropriately segregated, particularly in relation to cash management; and
- regular reconciliations of assets records were not being performed.

2.15 Although most of these issues were resolved by the time the financial statements and audit reports were published, these issues indicate that there is scope for improving the systems used for financial reporting purposes.

2.16 While most financial statements presented to the Audit Office were found to be satisfactory, a significant number of agencies were alerted to errors in their financial statements with a number of (mainly smaller) agencies' financial statements needing to be revised to bring them up to an acceptable standard.

3. THE TERRITORY'S FINANCIAL STATEMENTS

INTRODUCTION

3.1 This chapter comments on the results of the audit of the Territory's financial statements including the financial statements of the General Government and Public Trading Enterprises Sectors.

3.2 Previous years' audit opinions on the Territory's financial statements were **qualified** as a result of non-compliance with Australian Accounting Standard AAS 31 'Financial Reporting by Governments' in relation to the Territory's accounting for its superannuation liability. This chapter presents the financial results and projected information that would have been reported if the Territory's financial statements and projected information reported in the 2004-05 Budget Papers had been prepared in accordance with AAS 31.

HIGHLIGHTS

- A **qualified** audit opinion on the Territory's 2003-04 financial statements was provided to the Treasurer on 30 September 2004. This qualification related to the 2002-03 comparatives, because the Audit Office was unable to form an opinion on whether the $40m reported for the TransACT investment at 30 June 2003 reflected fairly the value to be recovered from this investment.

- In 2003-04, the Government changed its accounting policy for the superannuation liability. The accounting treatment for this liability in the 2003-04 financial statements complied with the Australian Accounting Standard AAS 31 'Financial Reporting by Governments'.

AUDIT QUALIFICATION OF THE 2002-03 COMPARATIVES

3.3 The audit opinion on the financial statements of the Territory and the Public Trading Enterprises Sector was qualified because there was insufficient evidence available for the Audit Office to reliably assess whether the reported value for the TransACT investment of $40m recorded in the Statements of Financial Position at 30 June 2003 reflected fairly its recoverable amount.

3.4 The detailed reasons for this audit qualification have been previously reported in Chapters 12 and 19 of Auditor-General's Report No. 10 of 2003 titled 'Financial Audits with Years Ending to 30 June 2003'.

REMOVAL OF PREVIOUS AUDIT QUALIFICATIONS

3.5 Prior to 2003-04, the Government adopted an accounting policy of smoothing the effects of changes in the superannuation liability over a number of

years. This policy, used in the preparation of the financial statements of the Territory and General Government Sector of previous years, did not comply with Australian Accounting Standard AAS 31 'Financial Reporting by Governments' (AAS 31). Audit opinions on the Territory's financial statements were therefore qualified in previous years.

3.6 During 2003-04, the Government changed its accounting policy for the superannuation liability. The new policy complied with AAS 31 resulting in the removal of the audit qualification on this issue. The financial effects of this change on the 2003-04 and 2002-03 results are disclosed in Note 3.2 'Superannuation' to the Territory's financial statements.

OPERATING RESULTS

3.7 The operating result shows the extent to which the costs of service delivery are covered by the revenue raised in that year. When assessed over a number of years, the operating result is an important indicator of the financial sustainability of the Government's strategies and policies.

HIGHLIGHTS

- The Territory achieved an operating surplus of $10m in 2003-04 compared to the $3m surplus forecast in the budget.
- The Territory is expected to operate at a deficit over the next two years, before returning to small surpluses in 2006-07 and 2007-08. In reality, these small results reflect budgets that are 'in balance' rather than 'in surplus' or 'in deficit'.
- Given the projected 'in balance' results, there is some risk that the budgeted operating results could become significant deficits, should there be negative fluctuations in revenue and expenses from unforeseen and adverse events that may occur. The Territory nevertheless retains a significant capacity to meet adverse events by other means such as increasing revenue (eg by raising taxes and charges), cutting and deferring expenses, raising borrowings or selling assets.

Table 3.1: Operating Results[2]

	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Budget[3] 2003-04 $m
Revenue	2,298	2,354	2,588	2,928	2,511
Expenses	2,263	2,342	2,413	2,918	2,508
Operating surplus	35	12	175	10	3
Operating surplus as a percentage of revenue	1.5%	0.5%	6.8%	0.3%	0.1%

3.8 The Territory achieved the budget operating result. Given the size of the budget of over $2.9b, the operating surplus of $10m in 2003-04 was in line with the $3m surplus forecast in the budget.

Expected Trends

Table 3.2: Projected Operating Results[4]

	Actual 2003-04 $m	Budget 2004-05 $m	Budget 2005-06 $m	Budget 2006-07 $m	Budget 2007-08 $m
Revenue	2,928	2,695	2,796	2,915	3,064
Expenses	2,918	2,721	2,821	2,912	3,012
Operating surplus/ (deficit)	**10**	**(26)**	**(25)**	**3**	**52**
Operating surplus/(deficit) as a percentage of revenue	**0.3%**	**(1.0%)**	**(0.9%)**	**0.1%**	**1.7%**

3.9 The Territory is expected to operate at a small deficit over the next two years, with small surpluses forecast for 2006-07 and 2007-08. In reality, these small results reflect budgets that are 'in balance' rather than 'in surplus' or 'in deficit'.

[2] Revenue and expenses relating to the January 2003 bushfire are regarded as 'extraordinary' and have been excluded from this analysis. Extraordinary items were $20m in 2002-03 and ($13m) in 2003-04.

[3] For the purpose of this analysis, the budgeted Revenue ($2,511m), Expenses ($2,491m) and Operating surplus of $17m as reported on page 129 of 2003-04 Budget Paper No. 3 have been amended to exclude the effects of amortisation on the actuarial gain/(loss) on superannuation liability. The Superannuation Unit provided the budget projections for the effects of amortisation on the actuarial gain/(loss) on superannuation liability.

[4] Projected figures are sourced from page 143 of 2004-05 Budget Paper No.3. The projected Expenses and Operating surplus/(deficit) have been adjusted to remove the effects of amortisation on the actuarial gain/(loss) on superannuation liability. The Superannuation Unit provided the budget projections for the effects of amortisation on the actuarial gain/(loss) on superannuation liability.

3.10 Although 'in balance' results are projected, there is some risk that the Territory's operating results could become significant deficits in the next three years, should there be adverse fluctuations in revenue and expenses from unforeseen events that may occur. The Territory nevertheless retains a significant capacity to meet adverse events by other means such as increasing revenue (eg by raising taxes and charges), cutting and deferring expenses, raising borrowings or selling assets.

FINANCIAL POSITION

3.11 The Statement of Financial Position summarises the Territory's assets and liabilities and is an important indicator of the Territory's financial strength.

HIGHLIGHTS

Net Asset Position

- The Territory's Net assets have grown steadily in recent years.
- The Net asset position improved by $640m (7.3%) over the year to 30 June 2004 mostly due to increases in the Territory's assets, which more than offset a $245m (40.4%) increase in the Territory's Unfunded superannuation liabilities.
- Growth in property, plant and equipment valuations and purchases contributed to steady increases in the Territory's assets in recent years. Liabilities have also risen, reflecting the increases in Unfunded superannuation liabilities which have more than doubled since 2001.

Short Term Financial Position

- The Territory has a strong short term financial position with $6.22 in current assets being available to cover current liabilities at 30 June 2004.
- The Territory's short term financial position strengthened substantially over the last 12 months to 30 June 2004, continuing a steady trend of improvement in recent years.
- The Territory's ability to cover its current liabilities is expected to remain at its current healthy levels for the next few years.

HIGHLIGHTS (CONTINUED)

Long Term Financial Position

- In recent years, the Territory's long term financial assets have been less than its liabilities and this shortfall increased by $169m in 2003-04 due to a substantial rise in the Territory's Unfunded superannuation liabilities.
- The Territory's long term financial position is expected to rapidly decline over the next few years with the expected shortfall rising by $658m (70.6%).
- In 2003-04 there was $0.60 in financial assets available to cover each dollar of liabilities. By 2007, it is expected that there will be $0.34 in financial assets to cover each dollar of liabilities.

ASSETS AND LIABILITIES

3.12 The Territory's assets are mostly (88%) comprised of assets that are not readily convertible to cash and therefore cannot, in the normal course of events, be converted to cash in order to cover the Territory's liabilities. These assets are generally comprised of property, plant and equipment such as land, buildings, infrastructure, capital works and investments in joint ventures and other entities.

3.13 The remaining financial assets (12%) are generally comprised of cash, receivables and investments and are comparatively easy to convert to cash to cover the Territory's liabilities.

Figure 3.1: Composition of Assets at 30 June 2004

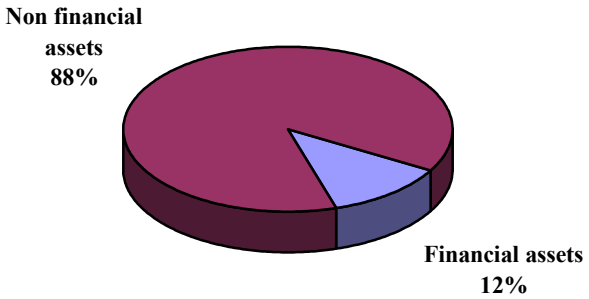
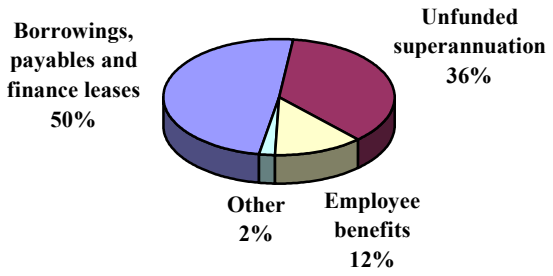


Figure 3.2: Composition of Liabilities at 30 June 2004



3.14 Half of the Territory's liabilities are comprised of borrowings, payables and finance leases with the remainder being mostly represented by employee related liabilities including Unfunded superannuation liabilities[5].

CHANGES IN TERRITORY FINANCIAL POSITION

Table 3.3: Statement of Financial Position

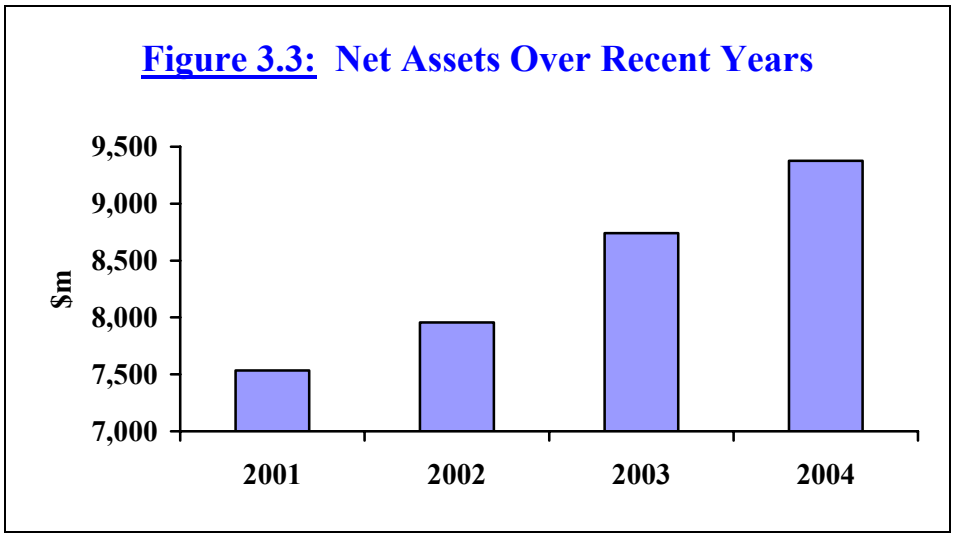
	Actual 2001 $m	Actual 2002 $m	Variation from prior year %	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %
Assets							
Financial assets	937	1,081	15.4	1,326	22.7	1,414[6]	6.6
Non financial assets	8,335	8,792	5.5	9,502	8.1	10,311	8.5
	9,272	**9,873**	**6.5**	**10,828**	**9.7**	**11,725**	**8.3**
Liabilities							
Borrowings, payables and finance leases	1,151	1,127	(2.1)	1,120	(0.6)	1,151	2.8
Unfunded superannuation	318	507	59.4	606	19.5	851	40.4
Employee benefits	229	235	2.6	271	15.3	291	7.4
Other	40	49	22.5	91	85.7	52	(42.9)
	1,738	**1,918**	**10.4**	**2,088**	**8.9**	**2,345**	**12.3**
Net assets	**7,534**	**7,955**	**5.6**	**8,740**	**9.9**	**9,380**	**7.3**

[5] Unfunded superannuation is the amount by which Superannuation liabilities exceed Superannuation investments. 'Unfunded Superannuation Liabilities' are discussed in the 'Superannuation Unit' section in Chapter 5.

[6] Financial assets are represented by the $3,008m in financial assets recorded on page 52 of the 2003-04 Territory's financial statements less the Territory's investments in joint ventures of $357m, and superannuation investments of $1,237m as reported in Superannuation Unit's financial statements.

3.15 Assets increased by $897m (8.3%) mostly due to growth in Non financial assets following upward asset revaluations[7] ($643m) and purchases of property, plant and equipment[8] ($400m), partially offset by depreciation ($195m).

3.16 Financial assets increased by $88m (6.6%) following rises in the value of investments ($135m) and cash ($19m) partially offset by a reduction in receivables ($66m). Liabilities grew by $257m (12.3%) mainly due to a substantial increase of $245m (40.4%) in Unfunded superannuation liabilities.



3.17 The Territory's net assets have grown steadily in recent years.

SHORT TERM FINANCIAL POSITION

3.18 The 'short term' generally refers to the next 12 month period. The Territory's 'short term' financial position can be assessed by comparing the amount of assets available to cover liabilities that are expected to be payable over the next 12 months.

[7] Mainly land and infrastructure assets revaluations.
[8] Mainly purchases of infrastructure assets and buildings.

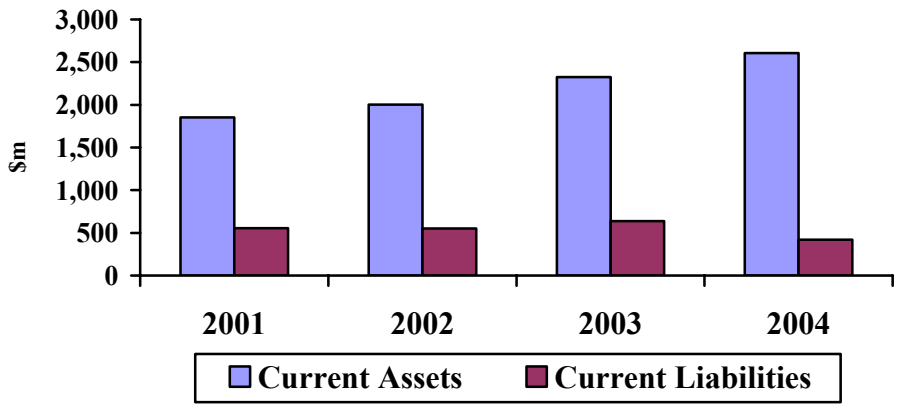
Table 3.4: Short Term Financial Position

	Actual 2001 $m	Actual 2002 $m	Variation from prior year %	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %
Current assets							
Financial assets[9]	937	1,081	15.4	1,326	22.7	1,414	6.6
Funded superannuation assets[10]	915	922	0.8	1,000	8.5	1,193	19.3
	1,852	**2,003**	**8.2**	**2,326**	**16.1**	**2,607**	**12.0**
Current liabilities							
Current liabilities[11]	554	553	(0.2)	637	15.2	419	(34.2)
Net current assets	**1,298**	**1,450**	**11.7**	**1,689**	**16.5**	**2,188**	**29.5**
Current assets to current liabilities	**3.34 to 1**	**3.62 to 1**		**3.65 to 1**		**6.22 to 1**	

Past Trends

3.19 The Territory has a strong short term financial position with $6.22 in current assets being available to cover each dollar of current liabilities at 30 June 2004.

Figure 3.4: Comparison of Current Assets to Current Liabilities Over Recent Years



[9] Financial assets exclude Territory's investments in joint ventures and superannuation investments.

[10] 'Funded superannuation assets' are calculated by subtracting Current Employee Superannuation Benefits as reported in the Territory's financial statements from Superannuation Investments as reported in Superannuation Unit's financial statements.

[11] These figures are calculated by subtracting Current Employee Superannuation Benefits and 'Unrealised Gain from Actuarial Review of Employee Superannuation Benefits' from Total Current Liabilities as reported in the Territory's financial statements in the respective years.

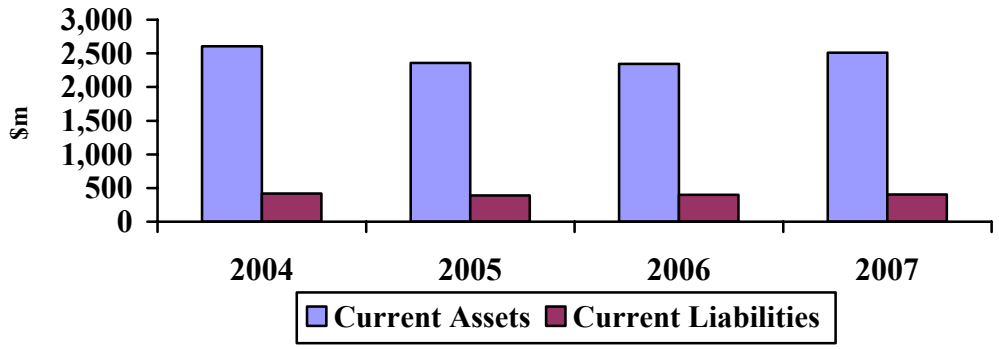
3.20 The Territory's short term financial position strengthened substantially over the last 12 months to 30 June 2004, continuing a trend of improvement in recent years.

Expected Trends

Table 3.5: Short Term Financial Position (Projections)

	Actual 2004 $m	Budget 2005 $m	Variation from prior year %	Budget 2006 $m	Variation from prior year %	Budget 2007 $m	Variation from prior year %
Current assets							
Financial assets	1,414	1,047	(26.0)	859	(18.0)	835	(2.8)
Funded superannuation assets	1,193	1,311	9.9	1,488	13.5	1,674	12.5
Total current assets	**2,607**	**2,358**	**(9.6)**	**2,347**	**(0.5)**	**2,509**	**6.9**
Current liabilities[12]	419	392	(6.4)	398	1.5	405	1.8
Net current assets	**2,188**	**1,966**	**(10.1)**	**1,949**	**(0.9)**	**2,104**	**7.9**
Current assets to current liabilities	**6.22 to 1**	**6.02 to 1**		**5.90 to 1**		**6.19 to 1**	

Figure 3.5: Comparison of Current Assets to Current Liabilities Over the Next Few Years



3.21 The Territory's ability to cover its current liabilities is expected to remain at its current healthy levels for the next few years.

[12] These figures are calculated by subtracting Current Employee Superannuation Benefits and Unrealised Gain from Actuarial Review of Employee Superannuation Benefits from Total Current Liabilities as reported in the Territory's financial statements in the respective years. The Superannuation Unit provided the budget amounts for the Unrealised Gain from Actuarial Review of Employee Superannuation Benefits so that these amounts, which are not liabilities, could be excluded from the budget liability figures.

LONG TERM FINANCIAL POSITION

3.22 Assets that are generally considered to be available to cover long term[13] liabilities exclude 'Non financial assets'. While some of these assets might be realisable to meet liabilities over the long term, most are not available to do so. Many of the Territory's assets (e.g. infrastructure assets essential to the provision of Government services to the community) are not realistically available to be sold to meet long term debt.

3.23 The Territory's Financial assets are therefore the primary means of covering short and long term obligations even though a significant amount of the Territory's liabilities, particularly superannuation liabilities, are not due and payable for several years. The Territory's long term financial position can therefore be assessed by comparing the amount of Financial assets to its liabilities.

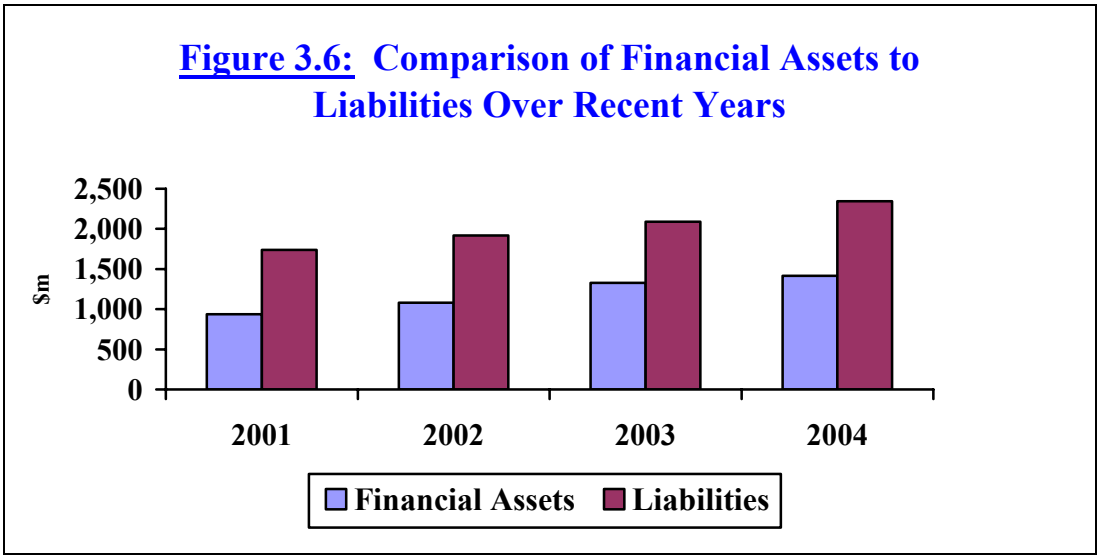
Past Trends

3.24 The extent of the shortfall in the Territory's financial assets to cover liabilities over recent years is presented below.

Table 3.6: Unfunded Financial Liabilities (including Superannuation Liabilities)

	Actual 2001 $m	Actual 2002 $m	Variation from prior year %	Actual 2003 $m	Variation from prior year %	Actual 2004 $m	Variation from prior year %
Financial assets	937	1,081	15.4	1,326	22.7	1,414	6.6
Unfunded superannuation liabilities	(318)	(507)	59.4	(606)	19.5	(851)	40.4
Other liabilities	(1,420)	(1,411)	(0.6)	(1,482)	5.0	(1,494)	0.8
Liabilities	(1,738)	(1,918)	10.4	(2,088)	8.9	(2,345)	12.3
Unfunded financial liabilities	**801**	**837**	**4.5**	**762**	**(9.0)**	**931**	**22.2**
Ratio of financial assets to financial liabilities	**0.54 to 1**	**0.56 to 1**		**0.64 to 1**		**0.60 to 1**	

[13] 'Long term' generally includes the period beyond 12 months.



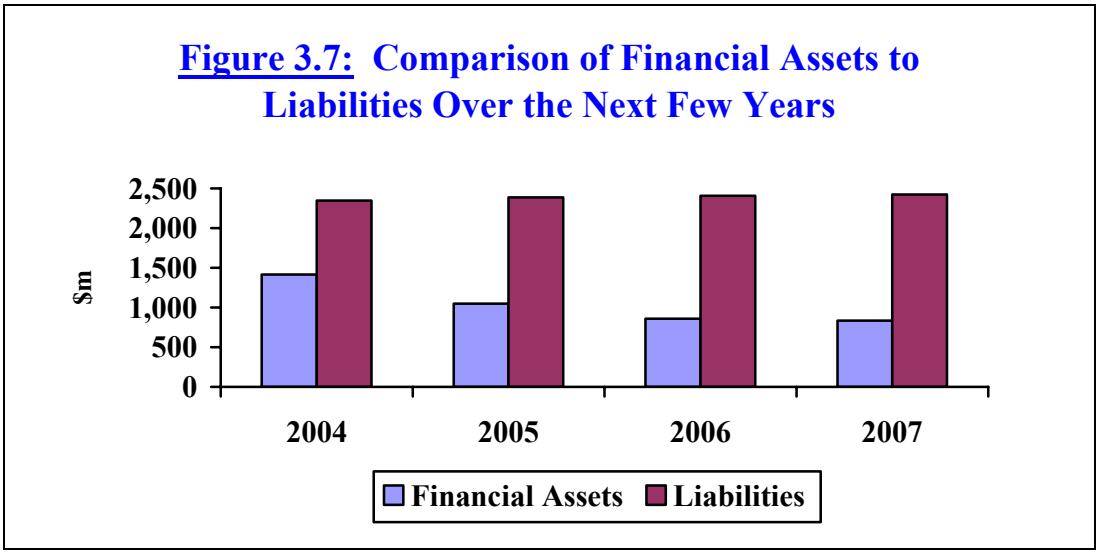
3.25 The Territory's Financial assets have been less than its liabilities in recent years and this shortfall has increased by $169m in 2004, mainly due to a substantial rise in Unfunded superannuation liabilities.

Expected Trends

Table 3.7: Assets Available to Meet Territory's Liabilities (Projections)

	Actual 2004 $m	Budget 2005 $m	Variance from prior year %	Budget 2006 $m	Variance from prior year %	Budget 2007 $m	Variance from prior year %
Assets							
Financial assets	1,414	1,047	(26.0)	859	(18.0)	835	(2.8)
Liabilities							
Unfunded superannuation[14] liabilities	(851)	(923)	8.5	(947)	2.6	(972)	2.6
Other liabilities	(1,494)	(1,467)	(1.8)	(1,461)	(0.4)	(1,452)	(0.6)
	(2,345)	**(2,390)**	**1.9**	**(2,408)**	**0.8**	**(2,424)**	**0.7**
Unfunded financial liabilities	**931**	**1,343**	**44.3**	**1,549**	**15.4**	**1,589**	**2.5**
Ratio of financial assets to liabilities	**0.60 to 1**	**0.44 to 1**		**0.36 to 1**		**0.34 to 1**	

[14]'Unfunded superannuation' is the amount by which Superannuation liabilities exceed Superannuation investments. 'Unfunded Superannuation Liabilities' are discussed in the 'Superannuation Unit' section in Chapter 5.



3.26 The Territory's long term financial position is expected to worsen over the next few years with the expected shortfall in the Territory's Financial assets to cover these liabilities rising by $658m (70.6%) to $1,589m over the next few years. By 2007, it is expected that there will be $0.34 in Financial assets to cover each dollar of these liabilities.

3.27 This major decline in the long term financial position is mainly due to an expected substantial fall in Financial assets of $367m (26%) over the next 12 months and a $212m (20.2%) fall in these assets over the following years. The main factors contributing to this decline include the use of these assets to fund capital activities and the essentially break-even operating results forecasted for these years.

CASH FLOWS

3.28 The Statement of Cash Flows informs readers about the amount of cash provided by the Territory's main revenue sources and how much of this cash was used on 'operating' and 'capital' activities. This section provides information on the Territory's Cash Flows in 2003-04 compared to prior years, and on expected cash flow trends, based on information contained in the 2004-05 Budget Papers.

3.29 'Cash flows from operating activities' are those receipts and payments that relate to the operations of the Territory in providing goods and services. 'Operating receipts' include cash received from taxes, fees and fines, receipts from providing goods and services and grants received from the Commonwealth. 'Operating payments' include payments to employees and contractors and other costs of the Territory's operations. Further information on these operating receipts and payments is provided later in this chapter in the section on 'Revenue and Expenses'.

3.30 'Cash flows from capital activities' are mostly comprised of payments for property, plant and equipment and capital works. Further information on the Territory's capital assets is provided later in this chapter in the section titled 'Capital Assets'.

HIGHLIGHTS

- Net cash inflows from operating activities in 2003-04 ($471m) remained at similar levels to the previous year but increased significantly by $111m or 31% since 2000-01.
- Net outflows from capital activities increased sharply by $92m (53%) in 2003-04 and was much higher than capital payments in recent years. This led to a significant fall of $100m or 33% in Net cash inflows after funding operating and capital activities.
- The Territory's Net cash inflows after meeting operating and capital activities are expected to decline over the next few years, before returning to small positive levels in 2006-07 and 2007-08.

CASH FLOWS AFTER OPERATING AND CAPITAL ACTIVITIES

Table 3.8: Cash Flows from Operating and Capital Activities[15]

	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m
Cash flows from operating activities				
Receipts	2,223	2,371	2,530	2,811
Payments	(1,863)	(1,955)	(2,051)	(2,340)
Net cash inflows from operating activities	**360**	**416**	**479**	**471**
Cash flows from capital activities				
Payments for property, plant and equipment and capital works	(196)	(202)	(210)	(309)
Sale of property, plant and equipment	47	45	38	45
Net outflows from capital activities	**(149)**	**(157)**	**(172)**	**(264)**
Net cash inflows after funding operating and capital activities	**211**	**259**	**307**	**207**
Net cash inflows after funding operating and capital activities as a percentage of Operating receipts	**9.5%**	**10.9%**	**12.1%**	**7.4%**

[15] Cash flows relating to the January 2003 bushfire are regarded as 'extraordinary' and have been excluded from this analysis. Net cash outflows from the January 2003 bushfire were $24m in 2002-03 and $3m in 2003-04.

Cash Flows from Operating Activities

3.31 Operating receipts rose by $281m (11%) compared to 2002-03, continuing the growth trend of recent years. As discussed later in this chapter, most of this growth occurred in Sales/rentals of land stocks, Taxes and Commonwealth grants.

3.32 Operating payments also continued the upward trend and grew by $289m (14%) due mainly to higher employee costs and other operating costs (including materials, equipment and supplies costs, repairs and maintenance costs and insurance claim payments).

3.33 While Net cash inflows from operating activities ($471m) remained at similar levels to 2002-03, they have increased significantly by $111m (31%) since 2000-01 because operating receipts have grown at a faster rate than payments over the period.

Cash Flows from Capital Activities

3.34 Net outflows from capital activities increased sharply by $92m (53%) during 2003-04 and were at much higher levels than in previous years.

Net Cash Inflows after Funding Operating and Capital Activities

3.35 Net cash inflows after funding operating and capital activities provides an indication of the Territory's ability to accumulate cash to meet its future liabilities.

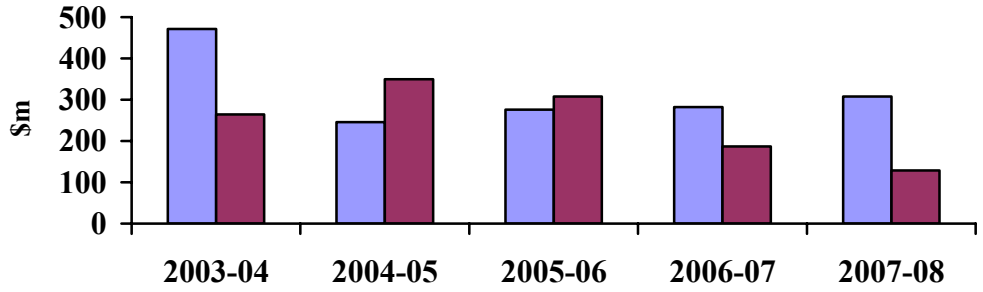
3.36 In 2003-04, Net cash inflows after funding operating and capital activities fell significantly by $100m (33%), due to much higher spending on capital activities.

Expected Trends

Table 3.9: Projected Cash Flows from Operating and Capital Activities

	Actual 2003-04 $m	Budget 2004-05 $m	Budget 2005-06 $m	Budget 2006-07 $m	Budget 2007-08 $m
Cash flows from operating activities					
Receipts	2,811	2,764	2,846	2,943	3,065
Payments	(2,340)	(2,517)	(2,570)	(2,661)	(2,757)
Net cash inflows from operating activities	**471**	**246**	**276**	**282**	**308**
Net outflows from capital activities	**(264)**	**(350)**	**(308)**	**(187)**	**(129)**
Net cash inflows/(outflows) after funding operating and capital activities	**207[16]**	**(104)**	**(32)**	**95**	**179**
Net cash inflows/(outflows) after funding operating and capital activities as a percentage of Operating receipts	**7.4%**	**(3.8%)**	**(1.1%)**	**3.2%**	**5.8%**

Figure 3.8: Projected Cash Flows from Operating and Capital Activities Over Next Few Years



Net cash inflows from operating activities Net outflows from capital activities

3.37 Significant cash surpluses are not expected to be generated in the near future as the Territory's Net cash inflows after meeting operating and capital activities are expected to decline in the next few years, before returning to small positive levels in 2006-07 and 2007-08.

[16] This excludes the Net cash outflows from extraordinary items from the January 2003 bushfire of $3m.

REVENUE AND EXPENSES

3.38 This section compares the Territory's revenue and expenses in 2003-04 to prior years.

HIGHLIGHTS

Revenue

- Revenue rose by $341m (13.2%) in 2003-04. The largest increase was from superannuation investments ($102m), followed by land ($74m), taxes ($58m) and Commonwealth grants ($46m).
- Revenue also increased significantly in recent years, noticeably from land sales in strong property markets.

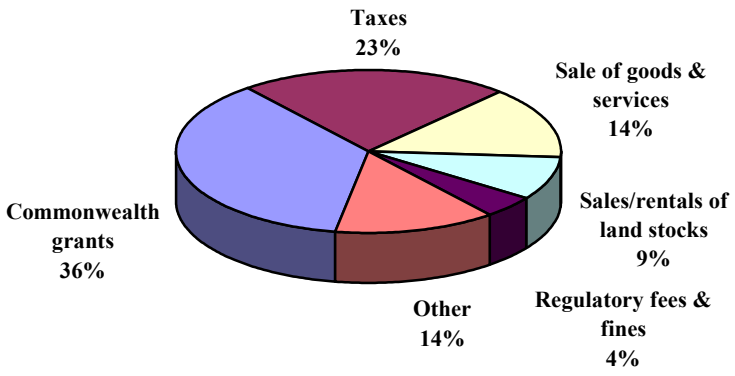
Expenses

- Expenses rose by $505m (20.9%) in 2003-04 mostly due to higher Employee expenses ($377m). $101m of this increase was mainly a result of pay rises flowing from agencies' Enterprise Bargaining Agreements.
- Expenses have also increased significantly over the last three years ($576m) largely matching revenue growth ($575m).

REVENUE

3.39 Most revenue comes from Commonwealth grants, Taxes, Sale of goods and services and Sales/rentals of land stocks.

Figure 3.9: Composition of 2003-04 Revenue

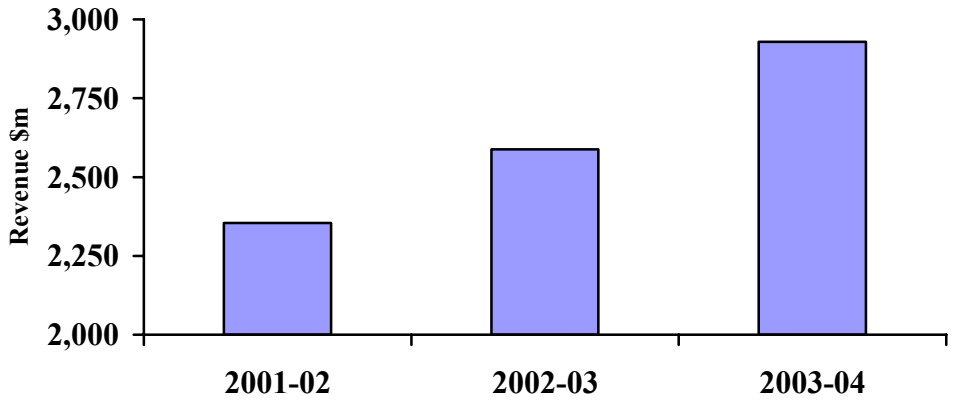


3.40 Revenue rose by $341m (13.2%), mostly from the major revenue sources, as indicated below.

Table 3.10: Revenue

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Commonwealth grants	996	1,018	2.2	1,064	4.5
Taxes	519	612	17.9	670	9.5
Sale of goods and services	388	393	1.3	412	4.8
Sales/rentals of land stocks	125	178	42.4	252	41.6
Regulatory fees and fines	112	122	8.9	131	7.4
Gains on superannuation investments	0	0	-	102	-
Asset revaluations	24	32	33.3	75	134.4
Interest	69	93	34.8	74	(20.4)
Revenue from joint ventures	60	46	(23.3)	56	21.7
Other	61	94	54.1	93	(1.1)
Territory revenue	**2,354**	**2,588**	**9.9**	**2,929**	**13.2**

Figure 3.10: Revenue Over Recent Years



3.41 Revenue has also increased steadily in recent years.

3.42 The main sources of revenue are discussed below.

Commonwealth Grants

Table 3.11: Commonwealth Grants

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
GST revenue grant	544	616	13.2	658	6.8
Specific purpose grants	345	347	0.6	358	3.2
Other grants	107	55	(48.6)	48	(12.7)
Commonwealth grants	**996**	**1,018**	**2.2**	**1,064**	**4.5**

3.43 Commonwealth grants increased by $46m (4.5%) in 2003-04, mostly due to a $42m (6.8%) rise in the ACT share of GST revenue.

3.44 This growth in GST revenue grant has more than compensated for the significant reduction in other grants over the past two years.

Taxes

Table 3.12: Taxes

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Stamp duty	176	238	35.2	269	13.0
Payroll tax	149	165	10.7	173	4.8
General rates	101	106	5.0	112	5.7
Gambling taxes	42	45	7.1	48	6.7
Land tax	31	38	22.6	47	23.7
Other taxes	20	20	-	21	5.0
Taxes	**519**	**612**	**17.9**	**670**	**9.5**

3.45 Taxes rose by $58m (9.5%) in 2003-04 mainly due to increases in Stamp duty ($31m) and, to a lesser extent, rises in Land tax ($9m), Payroll tax ($8m) and General rates ($6m).

3.46 The increases in Stamp duty and Land tax were the result of a strong property market. The rise in Payroll tax reflected growth in the ACT economy including employment and wages. General rates rose due a CPI increase of 3.2% being applied to overall rates charges levied on residential and rural land and an increase in the number and unimproved value of new residential and commercial properties.

3.47 Taxes have risen by $151m, or an average of 14.5% per annum over the past two years, mostly due to growth in Stamp duty, Payroll tax and Land tax.

Sale of Goods and Services

Table 3.13: Sales of Goods and Services

	Actual 2001-02 $m	Actual 2002-03 $m	Variance From prior year %	Actual 2003-04 $m	Variance from prior year %
Water, sewerage, electricity and other services	102	108	5.9	109	0.9
Hospital and other health services	89	91	2.2	100	9.9
Housing rentals	55	60	9.1	61	1.7
Other	51	46	(9.8)	50	8.7
Vocational, tertiary education and training	27	29	7.4	31	6.9
Totalisator sales	23	24	4.3	26	8.3
Bus services	14	16	14.3	16	-
Parking fees	11	10	(9.1)	12	20.0
Fire and ambulance services	7	1	(85.7)	5	400.0
Forestry log sales	9	8	(11.1)	2	(75.0)
Sale of goods and services	**388**	**393**	**1.3**	**412**	**4.8**

3.48 The 4.8% increase in the Sale of goods and services since 2002-03 was mainly due to a growth in the provision of hospital and other services.

Sales/Rentals of Land Stocks

Table 3.14: Sales/Rentals of Land Stocks

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Sales/rentals of land stocks	125	178	42.4	252	41.6

3.49 A higher volume of land sales and increased land prices contributed to an increase of $74m (41.6%) in Sales/rentals of land stocks. The substantial upward trend in this revenue has occurred since 2001-02.

Regulatory Fees and Fines

Table 3.15: Regulatory Fees and Fines

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Motor vehicle registrations	49	54	10.2	59	9.3
Other regulatory fees and fines	64	68	6.3	72	5.9
Regulatory fees and fines	**113**	**122**	**8.0**	**131**	**7.4**

3.50 Regulatory fees and fines showed steady increases since 2001-02, with a $9m (7.4%) increase in 2003-04, largely from Motor vehicle registrations ($5m).

Gains on Superannuation Investments

Table 3.16: Gains on Superannuation Investments

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Gains on superannuation investments	0	0	-	102	-

3.51 The Gains on superannuation investments ($102m) reflected significantly improved conditions in investment markets. The positive return from superannuation investments represented a significant turnaround from the losses of $83m and $41m incurred in 2001-02 and 2002-03 respectively. Losses on superannuation investments are included in Operating expenses mentioned later in this chapter.

EXPENSES

3.52 Most expenses relate to Employee expenses, Operating expenses and Grants and purchased services.

Figure 3.11: Composition of 2003-04 Expenses

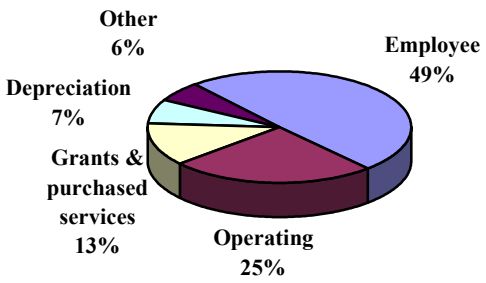
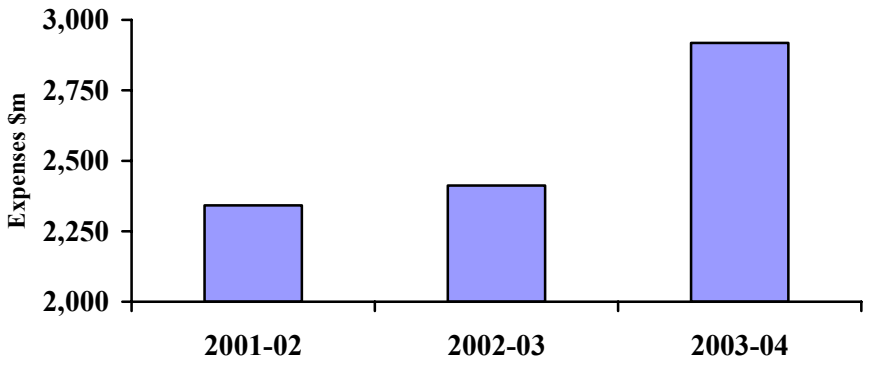


Table 3.17: Expenses

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Wages, salaries and other employee costs	742	816	10.0	917	12.3
Superannuation	264	247	(6.4)	523	111.7
Employee	**1,006**	**1,063**	**5.7**	**1,440**	**35.5**
Operating	696	666	(4.3)	740	11.1
Grants and purchased services	321	338	5.3	369	9.2
Depreciation	180	180	-	195	8.3
Other	139	166	19.4	174	4.8
Expenses	**2,342**	**2,413**	**3.0**	**2,918**	**20.9**

Figure 3.12: Expenses Over Recent Years



Employee Expenses

Table 3.18: Employee Expenses

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Wages, salaries and other employee costs	742	816	10.0	917	12.4
Superannuation expenses	264	247	(6.4)	523	111.7
Employee expenses	**1,006**	**1,063**	**5.7**	**1,440**	**35.5**

3.53 Employee expenses increased sharply by $377m (35.5%) since 2002-03. Contributing factors included higher Superannuation expenses ($276m) and Wages, salaries and other employee costs ($101m), which flowed from pay increases in agencies' Enterprise Bargaining Agreements.

3.54 Most of the increase in Employee expenses since 2001-02 occurred in 2003-04.

Operating Expenses

Table 3.19: Operating Expenses

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Loss on superannuation investments	83	41	(50.6)	0	(100.0)
Other operating expenses	613	625	2.0	740	18.4
Operating expenses	**696**	**666**	**(4.3)**	**740**	**11.1**

3.55 Operating expenses rose by $74m (11.1%) over the past year with the 18.4% increase in Other operating expenses more than offsetting the reduction in losses from superannuation investments[17].

3.56 Most operating expenses rose over the past year. In particular, significant increases were experienced in relation to materials, equipment and supplies expenses, repairs and maintenance costs, insurance claim payments and the provision for diminution expense associated with ACTEW's investment in TransACT[18].

Grants and Purchased Services

Table 3.20: Grants and Purchased Services

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Grants and purchased services	321	338	5.3	369	9.2

3.57 The $31m (9.2%) increase in Grants and purchased services in 2003-04 mainly resulted from additional funding being provided to non-government schools ($12m) and Calvary Hospital ($8m).

3.58 This increase represents a continuation of a pattern of steady growth experienced in recent years.

[17] Superannuation investments made a positive return for the first time since 2001-02.
[18] Further information on the provision for diminution is provided in the 'ACTEW' section in Chapter 5.

Depreciation

Table 3.21: Depreciation

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Depreciation	180	180	-	195	8.3

3.59 Depreciation expenses increased by $15m (8.3%) due to a higher value of depreciable assets.

Other

Table 3.22: Other

	Actual 2001-02 $m	Actual 2002-03 $m	Variance from prior year %	Actual 2003-04 $m	Variance from prior year %
Cost of goods sold	82	111	35.3	122	9.9
Borrowing costs	57	55	(3.5)	52	(5.4)
Other	**139**	**166**	**19.4**	**174**	**4.8**

3.60 Other expenses rose by $8m (4.8%) and were comprised of an increase in the cost of land sold during the year ($11m) partially offset by a fall in borrowing costs ($3m).

Extraordinary Expenses and Revenue

Table 3.23: Extraordinary Expenses and Revenue

	Actual 2002-03 $m	Actual 2003-04 $m
Extraordinary expenses – January 2003 bushfire	(95)	(21)
Extraordinary revenue – January 2003 bushfire	115	8
Net extraordinary (expenses)/revenue	**20**	**(13)**

3.61 Extraordinary expenses relate to the January 2003 bushfire and include the cost of the damaged assets and other bushfire related initiatives. Extraordinary revenue represents insurance recoveries related to the bushfire.

CAPITAL ASSETS

3.62 Each year, the Territory's planned expenditure on capital works is included in the Budget Papers. The information in the Budget Papers provides the Assembly

and the community with details of the planned projects and the associated expenditure on these projects.

3.63 Previous Auditor–General reports[19] have reported that the allocated capital works budget was significantly underspent mainly due to delays in projects.

HIGHLIGHTS

- Capital works funding was underspent by $49m (20%) in 2003-04 due mainly to delays in projects, continuing a trend of significant under-expenditure since 2001-02.
- This under-expenditure, while getting better, indicates that the planning, management and delivery of capital projects needs to be further improved.

CAPITAL WORKS

3.64 The Territory's capital works funding ($241m in 2003-04) includes funding for schools, construction, road, bridge and other infrastructure and minor new works. The capital works program also includes major upgrades to Territory owned buildings and other facilities.

3.65 The extent to which agencies spent the allocated funding is presented below.

Table 3.24: Capital Works Funding and Expenditure

	Budget $m	Expenditure $m	Underspending $m
Department of Urban Services	77	53	24
ACT Health	25	9	16
Department of Justice and Community Safety	14	5	9
Office for Children, Youth and Family Support	10	4	6
Department of Education and Training	34	30	4
Other	10	7	3
ACT Housing[20]	71	84	(13)
	241	**192**	**49**

3.66 In 2003-04, the allocated funding was underspent by $49m (20%) due to delays in a number of projects, as follows.

[19] Auditor-General's Report No. 10 of 2003 'Financial Audits with Years Ending to 30 June 2003' and Report No. 7 of 2002 'Financial Audits with Years Ending to 30 June 2002'.

[20] ACT Housing's capital works program is based on an internal budget of $71m, which was predominantly funded from the sale of land and housing rather than by capital appropriations.

Department of Urban Services ($24m)

- Mugga Lane Disposal Cell;
- Fairbairn Avenue Upgrade;
- Glassworks Facility at the Powerhouse Kingston;
- Gungahlin Drive Extension; and
- Heavy Vehicle Routes Bridges Upgrading.

ACT Health ($16m)

- ANU Medical School;
- Karralika Redevelopment;
- Restoration of Roof Decking at Calvary Hospital;
- The Canberra Hospital Refurbishment of Paediatrics; and
- Sub and Non Acute Inpatient Services.

Department of Justice and Community Safety ($9m)

- Woden Police Station;
- West Belconnen Joint Emergency Services Centre; and
- Belconnen Joint Emergency Services Centre.

Office for Children, Youth and Family Support ($6m)

- Quamby Youth Detention Centre.

Department of Education and Training ($4m)

- Older Schools Refurbishment.

3.67 As the Audit Office does not audit the individual capital works projects when completing the financial statement audits of these agencies, no opinion is expressed on how well these capital works projects were being managed.

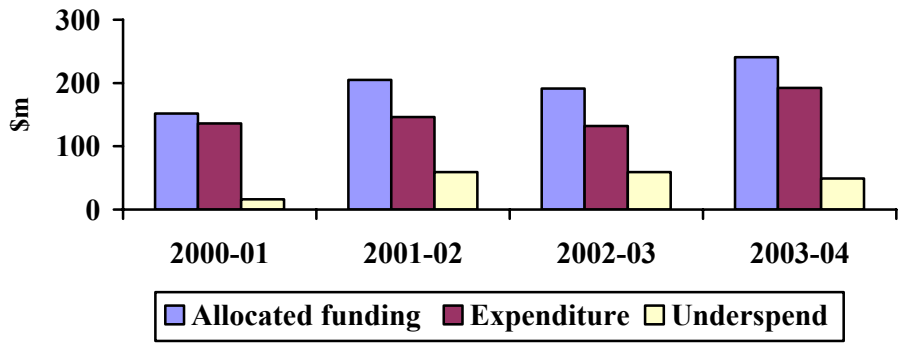
RECENT TRENDS

3.68 The trend of capital works underspent in recent years is presented below.

Table 3.25: Capital Works Funding and Expenditure in Recent Years

	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m
Allocated funding	152	205	191	241
Expenditure	136	146	132	192
Underspending	**16**	**59**	**59**	**49**
Percentage Underspend of the Allocated funding	**11%**	**29%**	**31%**	**20%**

Figure 3.13: Capital Works Funding and Expenditure in Recent Years



3.69 The underspending in 2003-04, while representing an improvement over the previous two years, indicates a continued trend of capital works not being managed and delivered to budgets.

4. AGENCIES' BUDGET PERFORMANCE

INTRODUCTION

4.1 The *Financial Management Act 1996* requires departments and authorities to prepare financial statements that facilitate a comparison with their budgets. As a result, budget information is included in their financial statements. This chapter provides an overview of performance against their budgets.

4.2 It is important to note that an agency's budget is not examined during a financial statement audit and no opinion is provided on the accuracy or appropriateness of the budget.

HIGHLIGHTS

- Most agencies managed their financial operations within budget.
- Five agencies were unable to manage their operations within budget.
- Capital works funding was significantly underspent due to delays in projects.

AGENCIES' PERFORMANCE AGAINST BUDGET

4.3 Most agencies were assessed to have operated their financial operations to within their budgets.

4.4 Five agencies did not manage their financial operations to budget. These agencies' Net cost of services were significantly higher[21] than budgets due to varying reasons.

Agency[22]	Main Reasons
Forests	Higher costs incurred due to the acceleration of work on the removal of debris and the replantation of forests following the January 2003 bushfire.
Home Loan Portfolio	Doubtful debts and investment losses were not allowed for in the budget, but were included in the financial statements.
Legislative Assembly Secretariat	Higher employee expenses resulting from wage increases and higher leave entitlement liabilities.

[21] For the purpose of audit analysis, 'materially significant' means variations of greater than 5%.
[22] These agencies are reported in Chapter 5.

Agency[23]	Main Reasons
Insurance Authority	An estimate of the insurance claims liability was revised following the identification of significant medical insurance claims near the end of the financial year.
Superannuation Unit	A significant increase in superannuation expenses far outweighed the above-budget investment returns.

4.5 ACTION, Education and Training and Justice and Community Safety were found to have exceeded their budgeted Net cost of services but not significantly[24].

[23] These agencies are reported in Chapter 5.
[24] These agencies are reported in Chapter 6.

5. AGENCIES WITH SIGNIFICANT ISSUES

ACTEW

5.1 ACTEW Corporation Limited (ACTEW) is a holding company with $1.3 billion in assets and investments in water, sewerage, electricity, gas and telecommunications.

5.2 ACTEW has three subsidiaries (ACTEW Distribution Limited, ACTEW Retail Limited and ACTEW China Pty Limited). ACTEW also has significant investments in the ActewAGL Joint Venture[25] and TransACT Communications Pty Limited[26] (TransACT).

5.3 This chapter discusses ACTEW's consolidated results, which include the financial results of ACTEW and its subsidiaries and ACTEW's share of the financial results of the ActewAGL Joint Venture and TransACT.

5.4 Prior to 2003-04, audit reports on ACTEW's financial statements were **qualified** as a result of non-compliance with Australian Accounting Standard AASB 1016 'Accounting for Investments in Associates' when accounting for ACTEW's investment in TransACT. This chapter presents the financial results that would have been reported if ACTEW's statements had been prepared in accordance with AASB 1016.

HIGHLIGHTS

- A **qualified** audit opinion was issued on ACTEW's financial statements.
- **Unqualified** audit opinions were issued on the financial statements of ACTEW's subsidiaries.
- ACTEW's operating profits fell substantially from $54m in 2002-03 to $12m in 2003-04 mainly due to a $40m writedown of ACTEW's investment in TransACT. This writedown was comprised of a $34m increase in the provision for diminution in TransACT investment plus $6m in equity accounted[27] losses.
- ACTEW's investment in TransACT at 30 June 2004 was written down to nil indicating there is a significant risk that none of the $60m invested in TransACT will be recovered in the short to medium term.

[25] Further commentary on ActewAGL is provided in Chapter 6.
[26] References in this report to 'TransACT' refer to TransACT Communications Pty Limited and a number of entities that it controlled during the year. TransACT is not audited by the Auditor-General. Further commentary on TransACT is provided later in this chapter.
[27] 'Equity accounted' losses are ACTEW's share of TransACT's losses.

HIGHLIGHTS (CONTINUED)

- Notwithstanding the significant reduction in profits in 2003-04, ACTEW continues to be in a strong financial position and has sufficient assets to comfortably meet its liabilities.
- TransACT's has accumulated losses of $105m at 30 June 2004. ACTEW's share of these losses is $26m.

AUDITS OF THE 2003-04 FINANCIAL STATEMENTS

5.5 The following audit opinions were issued on the financial statements of ACTEW and its subsidiaries.

Company	Audit Opinion	Date of Issue
ACTEW Corporation Limited	**Qualified**	2 September 2004
ACTEW Retail Limited	Unqualified	31 August 2004
ACTEW Distribution Limited	Unqualified	31 August 2004
ACTEW China Pty Limited	Unqualified	31 August 2004

AUDIT QUALIFICATIONS

5.6 The qualified audit opinion issued on ACTEW's financial statements, related to similar issues as those of previous years.

5.7 Detailed explanations of the basis for these qualifications, including ACTEW's comments on these qualifications, were previously provided in Auditor-General's Report No. 10 of 2003 titled 'Financial Audits with Years Ending to 30 June 2003' (Audit Report No. 10 of 2003).

Departure from Australian Accounting Standards

5.8 Prior to 2003-04, ACTEW had not equity accounted its investment in TransACT as required by AASB 1016.

5.9 ACTEW commenced equity accounting in 2003-04. However, the past non-compliance affected the reporting of ACTEW's 2003-04 results as well as its prior year comparatives. The audit opinion was therefore qualified in respect of this departure from AASB 1016. The financial effects of this departure are explained later in this section and in the published audit report.

5.10 ACTEW has provided the following comments in relation to this qualification:

> *'In general terms Accounting Standard AASB 1016 requires a company to equity account another company if the former has 'significant influence' over the latter. The standard describes a number of relevant factors to determining the existence or otherwise of 'significant influence'. In the opinion of the Directors of ACTEW, and of its legal advisor, the application of those factors make it abundantly clear that, for the purpose of the standard, ACTEW does not have and is unable to exert significant influence over TransACT prior to 2003-04.'*

5.11 The Audit Office remains of the view that ACTEW had significant influence over TransACT prior to 2003-04 and therefore disagrees with the conclusions reached by ACTEW and its legal advisor. The basis for the Audit Office's view, including a discussion of the conclusion reached by ACTEW and its legal advisor, was previously reported in Chapter 19 of Audit Report No. 10 of 2003.

Use of Unaudited Information to Equity Account TransACT

5.12 ACTEW used unaudited and therefore less reliable financial information on TransACT to equity account ACTEW's investment in TransACT because TransACT's audit had not been completed when ACTEW's financial statements and audit report were signed. The audit report therefore disclosed that information relating to TransACT in ACTEW's statements had not been audited.

5.13 The use of unaudited information did not have a material impact on ACTEW's statements on this occasion because TransACT's subsequently audited results[28] did not vary significantly from the unaudited financial results used in preparing ACTEW's statements.

5.14 Audit Report No. 10 of 2003 includes a recommendation that:

> *'the Annual Reports of Territory entities be legally required to include the audited financial statements of all entities in which the Territory has a 'controlling interest'.*

5.15 Implementation of this recommendation would require the audited financial results of TransACT to be available when ACTEW's financial statements are signed and ensure that TransACT's financial statements are tabled in the Legislative Assembly on a timely basis.

Recoverable Amount of TransACT

5.16 The audit opinion on ACTEW's financial statements was qualified because there was insufficient evidence available for the Audit Office to reliably assess whether

[28] TransACT's statutory auditor (Ernst & Young) issued an **unqualified** audit opinion on TransACT's financial statements on 7 October 2004.

the $40m reported for the TransACT investment at 30 June 2003 reflected fairly the value to be recovered from this investment.

ACTEW Board's Disagreement with Accounting Treatment (UIG 11)

5.17 As in recent years, in ACTEW's financial statements, the ACTEW Board stated that it strongly disagreed with recording contributed assets as revenue as required by Urgent Issues Group Abstract 11 'Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets' (UIG 11).

5.18 Although the accounting treatment used in ACTEW's statements complied with UIG 11, the audit opinion was qualified in relation to these additional comments as required by Australian Auditing Standard AUS 702. The Audit Office considers that the accounting treatment required by UIG 11 is required to show a true and fair view of the financial statements and is not misleading.

FINANCIAL PERFORMANCE

Table 5.1: ACTEW
Summary Statement of Financial Performance

	2003-04 $m	2002-03 $m	2001-02 $m
Revenue			
Water	62	66	63
Sewerage	64	61	57
Other sales	9	9	11
Other	14	12	12
	149	**148**	**143**
Expenses			
Cost of sales	8	6	6
Depreciation and amortisation	20	20	20
Borrowing costs	23	25	26
Project related expenses – water contract	61	55	52
Provision for diminution in TransACT **(Note 1)**	34	-	-
Other	7	8	8
	153	**114**	**112**
Share of profits - ActewAGL Joint Venture	52	43	42
Share of losses - TransACT **(Note 1)**	(6)	(3)	(11)
Operating profit before tax equivalents expense	**42**	**74**	**62**
Income tax equivalents expense	30	20	26
Operating profit (Note 2)	**12**	**54**	**36**

Financial effects of ACTEW's departure from AASB 1016

Note 1 ACTEW's published statements for 2003-04 report a 'Provision for diminution in TransACT' expense of $14m and 'Share of losses – TransACT' of $26m in 2003-04. This table presents the amounts that would have been reported if ACTEW's statements had been prepared in accordance with AASB 1016.

Note 2 ACTEW's reported 2003-04 Operating profit of $12m was unaffected by the departure from AASB 1016, however, the published 2002-03 Operating profit of $43m was understated by $11m.

Comparison to Prior Year

5.19 ACTEW's operating profits fell substantially from $54m in 2002-03 to $12m in 2003-04 even though revenue earned in 2003-04 remained at similar levels to 2002-03.

5.20 The large fall in profits was due to:

- a $40m writedown of ACTEW's investment in TransACT comprised of an increase to the provision for diminution in the TransACT investment ($34m) plus $6m in equity accounted losses;
- increased income tax equivalents expense ($10m);
- higher project related expenses ($6m) due to catchment remediation, bushfires and major maintenance; and
- lower water revenue due to the implementation of stage 3 water restrictions.

5.21 The above was partially offset by higher profits derived from the ActewAGL Joint Venture of $9m.

SHORT TERM FINANCIAL POSITION

Table 5.2: ACTEW
Summary Current Assets and Current Liabilities

	Actual 2004 $m	Actual 2003 $m	Actual 2002 $m
Current assets			
Cash and investments	49	35	17
Other	27	23	24
	76	**58**	**41**
Current liabilities	**52**	**42**	**39**
Current ratio	**1.46 to 1**	**1.38 to 1**	**1.05 to 1**

5.22 ACTEW's current ratio at 30 June 2004 of $1.46 in current assets to each dollar of liabilities is reasonably consistent with the 30 June 2003 ratio of 1.38 to 1.

5.23 ACTEW's operations continue to generate sufficient cash to comfortably meet its liabilities.

ACTEW'S INVESTMENT IN TRANSACT

Background Information

5.24 TransACT was incorporated and commenced operations on 25 February 2000. TransACT was formed to construct and operate an open, full-service, broadband communications network in the ACT.

5.25 TransACT is not a subsidiary of ACTEW. ACTEW's $60m investment in TransACT at 30 June 2004 represents a 24.9% interest.

5.26 TransACT is a relatively new business operating in a high risk industry. It is therefore difficult to assess with any degree of certainty the underlying value of the business and hence ACTEW's investment in TransACT.

5.27 The previously mentioned increase in the provision for diminution in ACTEW's investment in TransACT during 2003-04 means this $60m investment has been written down to nil. Cash flow estimates for the next seven to nine years prepared by ACTEW indicated that a nil value is reasonable at this time. The nil value indicates that there is a significant risk that none of the $60m invested in TransACT will be recovered in the short to medium term.

FINANCIAL PERFORMANCE

Table 5.3: TransACT
Summary Statement of Financial Performance

	Actual 2003-04 $m	Actual 2002-03 $m	Actual 2001-02 $m
Revenue	**33**	**22**	**7**
Expenses			
Employee	14	13	11
Depreciation and amortisation	23	18	8
Borrowing costs	2	1	0
Other	20	19	17
	59	**51**	**36**
Operating loss	**(26)**	**(29)**	**(29)**
Accumulated losses at the end of the year	**(105)**	**(78)**	**(49)**

5.28 TransACT's 2003-04 Operating loss was similar to the losses incurred in recent years. By 30 June 2004, TransACT had accumulated losses of $105m.

5.29 ACTEW's share of TransACT's accumulated losses at 30 June 2004 of $105m was $26m. This was represented by ACTEW's share of TransACT's Operating losses for 2003-04 of $6m, 2002-03 of $3m, 2001-02 of $11m and 2000-01 of $6m.

5.30 ACTEW has provided the following information on TransACT.

> *'ACTEW is required under Australian Accounting Standards to consider the value of its investments. The assessment of value, from an investor's viewpoint, is based on cash flows from anticipated dividends and return in value from its assets. In 2003-04, taking into consideration the most recent*

information available, ACTEW decided it would reduce the book value of its investment in TransACT by $40m.

Following the alliance with ActewAGL on 1 February 2004, TransACT's business focus shifted from providing dividends to shareholders, to increasing revenue and network coverage in the ACT. The alliance with ActewAGL significantly improves the efficiency of TransACT by providing a reduction in operating costs. Over the long term this will improve operational cash flow and provide some scope for dividends to shareholders (including ACTEW).

However, in the short to medium term TransACT's operating cash flows will be reinvested in the business. This will ensure there is sufficient cash to further roll out telephone and data services to the remaining areas of Canberra, Queanbeyan and the region.

The 2003-04 valuation by ACTEW is not a reflection of the Corporation's commitment to TransACT. ACTEW considers TransACT to be a viable entity and strongly supports its new business focus. Our valuation simply reflects our expectation that the profit potential of TransACT will be realised not in the short to medium term but in the future, as TransACT management now concentrate on investing in the network and growing customers.'

5.31 The Audit Office has not conducted an audit of the future viability of TransACT and is therefore not in a position to comment on ACTEW's advice.

FORESTS

5.32 ACT Forests (Forests) manages 26,900 hectares of land, including 4,800 hectares of established pine plantation, and is playing a key role in delivering the Government's re-greening program in the Stromlo, Pierces Creek and Uriarra areas.

5.33 Forests is responsible for protecting natural and cultural heritage sites and plantation resources and provides diverse forest-based recreational and educational opportunities for the community.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Minister for Urban Services on 25 August 2004.
- Forests did not manage its operations to budget due to higher than expected costs resulting from the acceleration of work on the removal of debris and the replantation of forests following the January 2003 bushfire. These additional costs were funded by insurance recoveries recognised as extraordinary revenue in 2002-03.
- Due to these circumstances, Forests was unable to achieve its budgeted Net cost of services.

FINANCIAL PERFORMANCE

Table 5.4: Forests
Summary Statement of Financial Performance

	Budget[29] 2004 $000	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Expenses				
Employee	2,338	2,692	2,130	3,144
Log harvesting and other operating	6,012	12,677	6,956	8,947[30]
Other	313	1,016	247	350
	8,663	**16,385**	**9,333**	**12,441**
Revenue				
Log sales and forestry services	1,268	1,984	8,247	8,854
Interest	2,520	50	52	128
Other	2,571	2	0	0
	6,359	**2,036[31]**	**8,299[32]**	**8,982**
Net cost of services	**2,304**	**14,349**	**1,034**	**3,459**
Government contributions				
Government funding for public use and policy, insurance and other	2,230	2,580	2,313	4,314
	2,230	**2,580**	**2,313**	**4,314**
Operating (deficit)/surplus	**(74)**	**(11,769)**	**1,279**	**855**

Comparison to Budget and Prior Year

5.34 Expenses ($16.4m) and Net cost of services ($14.3m) exceeded budget by $7.7m (89%) and $12.1m (523%) respectively mostly due to an increase in costs associated with log harvesting and other operating expenses. These additional expenses were due to the acceleration of work on the removal of debris and the replantation of forests following January 2003 bushfire. These costs were funded by insurance recoveries recognised as extraordinary revenue in 2002-03.

5.35 Expenses and Net cost of services rose significantly from 2002-03 because of the above-mentioned cost increases.

[29] The original budget included in the 2003-04 Budget Papers was amended in accordance with the *Financial Management Act 1996*.
[30] Costs directly associated with the December 2001 bushfire of $0.9m were excluded because they are not relevant to the assessment of Forests' performance.
[31] Revenue reported in the published financial statements was adjusted by excluding $1.2m in gains from the valuation of the plantation growing stocks as these gains are not relevant to the assessment of Forests' performance.
[32] Revenue reported in the published financial statements was adjusted by excluding the $3.6m gains from the valuation of the plantation growing stocks. An insurance recovery of $1.0m relating to loss of forests from the December 2001 bushfire and the related expenses of $1.0m relating to the insurance recovery were also excluded from this analysis because they are not relevant to the assessment of Forests' performance against budget.

5.36 Forests did not manage its operations to budget due to higher than expected costs resulting from the acceleration of work on the removal of debris and the replantation of forests following the January 2003 bushfire.

5.37 Due to these circumstances, Forests was unable to achieve its budgeted Net cost of services.

ACT HEALTH

5.38 ACT Health plans and implements health policy and provides public health services. ACT Health purchases public health services to meet the needs of residents of the Canberra region and evaluates those services.

HIGHLIGHTS

- An **unqualified** audit opinion with 'emphasis of matter' was provided to the Minister for Health on 17 September 2004.
- ACT Health managed its overall operations within budget.
- Net cost of services of $452.7m in 2003-04 was $40.4m higher than the preceding year.
- $9.0m in funding for Capital injections was not drawn down because projects relating to the medical school and building refurbishment were delayed.
- As ACT Health has only $0.86 in current assets to meet each dollar of current liabilities at 30 June 2004, it will need to manage its expenses carefully to avoid unexpected cash injections being required from the Government over the next 12 months.
- Systems used by ACT Health to record and report on its performance measure results were found to need significant improvement before the accuracy and reliability of information can be assured.

MATTERS ARISING FROM THE AUDIT

5.39 The audit report includes an 'emphasis of matter' paragraph highlighting that the following performance measures in 'Output 1.1 Health and Community Care: Acute Services (Timeliness)' could not be independently verified.

> 'Percentage of patients in emergency departments seen within standard timeframes:
>
> (i) Category 1 (Treated immediately).
> (ii) Category 2 (Treated within 10 min).
> (iii) Category 3 (Treated within 30 min).
> (iv) Category 4 (Treated within 1 hour).
> (v) Category 5 (Treated within 2 hours).'

5.40 The Audit Office was therefore unable to express an opinion on these measures.

5.41 The systems used by ACT Health to record and report on its performance measure results were found to need significant improvement and did not provide assurance that its reported results were free from errors or irregularities. These problems were reported to ACT Health.

FINANCIAL PERFORMANCE

Table 5.5: ACT Health Summary Statement of Financial Performance

	Budget[33] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses			
Purchase of health services			
Calvary Hospital (**Note 1**)	71,316	73,848	66,155
Grants to non Government organisations (**Note 1**)	40,760	34,362	35,147
Employee	274,791	275,936	249,806
Supplies and services	153,772	156,407	141,787
Depreciation	14,941	14,343	11,450
Other	5,497	7,564	6,420
	561,077	**562,460**	**510,765**
Revenue			
Cross border receipts (**Note 1**)	43,600	54,197	49,676
Fees from services (**Note 1**)	44,254	53,793	47,269
Other	868	1,775	1,511
	88,722	**109,765**	**98,456**
Net cost of services	**472,355**	**452,695**	**412,309**
Government contributions			
Government payment for outputs	445,860	435,098	401,527
Capital injections	25,432	16,411	9,073
Grants from the Commonwealth	5,331	6,074	5,377
Resources received free of charge	391	664	604
	477,014	**458,247**	**416,581**
Operating surplus[34]	**4,659**	**5,552**	**4,272**

Note 1: These figures are not separately reported in the Budget Papers and were provided by ACT Health.

Comparison to Budget

5.42 ACT Health managed its overall operations within budget.

[33] The original budget included in the 2003-04 Budget Papers was amended in accordance with the *Financial Management Act 1996*.

[34] The Operating result varies from the published Operating deficit due to the inclusion of Capital injections in Government contributions.

5.43 Net cost of services ($452.7m) in 2003-04 was less than budgeted amount ($472.4m) due to higher than expected cross border revenue and fees from services.

5.44 Government contributions were $18.8m less than budgeted amounts because:

- Government payment for outputs funding was not needed to the full extent anticipated. Costs associated with Visiting Medical Officer contract negotiations, medical school and other social and community programs were less than expected; and
- funding for Capital injections was not drawn down as projects relating to the medical school and building refurbishment were delayed.

Comparison to Prior Year

5.45 Net cost of services ($452.7m) rose by $40.4m in 2003-04 due to higher expenses ($51.7m) partially offset by increases in revenue ($11.3m).

5.46 Expenses increased because of higher:

- employee costs from pay rises associated with a new Enterprise Bargaining Agreement and higher staffing levels;
- medical and surgical supply costs; and
- payments to the Calvary hospital to meet pay rises provided to its nursing staff.

5.47 Government contributions rose by $41.7m to meet the previously mentioned higher costs.

5.48 Higher cross border receipts and other fees from providing services also contributed to increased revenue.

SHORT TERM FINANCIAL POSITION

Table 5.6: ACT Health
Summary Current Assets and Current Liabilities

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Current assets	67,595	64,150	26,845
Current liabilities	78,162	79,841	23,891
Current ratio	**0.86 to 1**	**0.80 to 1**	**1.12 to 1**

5.49 ACT Health's current ratio is low with only $0.86 in current assets to meet each dollar of current liabilities.

5.50 ACT Health will need to manage its expenses carefully to avoid the need for unexpected cash injections from the Government to support its operations over the next 12 months.

HOME LOAN PORTFOLIO

5.51 The Home Loan Portfolio is responsible for the administration of home loans which were granted in accordance with the Commonwealth State Housing Agreement to assist low income households in achieving home ownership. All lending to ACT home buyers under this scheme ceased in 1996.

HIGHLIGHTS

- An **unqualified** audit opinion on the Home Loan Portfolio's financial statements was provided to the Treasurer on 30 July 2004.
- The 2003-04 operating result was significantly less than the budgeted operating surplus because the Home Loan Portfolio did not allow for Doubtful debts and investment losses in the budget.

FINANCIAL PERFORMANCE

Table 5.7: Home Loan Portfolio Summary Statement of Financial Performance

	Budget 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Revenue	**8,103**	**8,004**	**10,763**	**8,607**
Expenses				
Doubtful debts	0	4,795	4,825	14
Loss on investments	0	1,849	0	0
Borrowing costs	4,680	4,680	4,757	4,854
Other	403	426	509	680
	5,083	**11,750**	**10,091**	**5,548**
Operating surplus/(deficit)	**3,020**	**(3,746)**	**672**	**3,059**

5.52 The 2003-04 operating result (a $3.7m deficit) was significantly less than the budgeted operating surplus of $3.0m because the Home Loan Portfolio did not allow for Doubtful debts ($4.8m) and investment losses ($1.8m) in the budget.

INSURANCE AUTHORITY

5.53 The Insurance Authority (the Authority) commenced operations on 1 April 2001 as an independent statutory authority under the *ACT Insurance Authority Act 2000*.

5.54 The objectives of the Authority are to enable the Territory to effectively meet the costs of its insurable claims and losses and to ensure these costs are fully reflected in the Territory accounts. The Authority operates a centrally managed fund to cover the insurable risks of Territory agencies.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Treasurer on 25 August 2004.
- The Authority did not manage its operations within its overall budget. However, it is doubtful that the budget could have been achieved, given the late identification of significant medical insurance claims.
- The net insurance loss from the January 2003 bushfire was $6.7m in 2003-04 and $15.7m overall.
- At 30 June 2004, the Authority did not have enough assets to meet its liabilities and its ability to meet long term liabilities and any unexpected losses has deteriorated in recent years.

FINANCIAL PERFORMANCE

Table 5.8: Insurance Authority
Summary Statement of Financial Performance

	Budget 2004 $000	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Revenue				
Net premiums earned	17,467	16,480	16,691	12,109
Other	3,880	3,797	6,920	4,432
	21,347	**20,277**	**23,611**	**16,541**
Expenses				
Claims	18,480	30,408	9,489	15,668
Other	1,553	3,134	3,964	2,347
	20,033	**33,542**	**13,453**	**18,015**
Operating surplus/(deficit) from ordinary activities	**1,314**	**(13,265)**	**10,158**	**(1,474)**
January 2003 bushfire				
Reinsurance recoveries	0	5,366	113,948	0
Claims expense	0	(12,102)	(122,966)	0
Net loss from bushfire	**0**	**(6,736)**	**(9,018)**	**0**
Operating surplus/(deficit)	**1,314**	**(20,001)**	**1,140**	**(1,474)**

Comparison to Budget and Prior Year

5.55 The 2003-04 Operating result (a deficit of $13.3m) was significantly worse than budgeted and the prior year mainly because the estimate of the insurance claims liability was revised following the identification of significant medical insurance claims near the end of the financial year.

5.56 While the Authority did not manage its operations to its overall budget, it is doubtful that budget could have been achieved in the circumstances described above.

Impact of the January 2003 Bushfire

5.57 In 2003-04, the Authority incurred insurance claims expenses of $12.1m relating to the January 2003 bushfire. This expense exceeded the expected reinsurance recoveries of $5.4m, resulting in a net loss to the Authority and the Territory of $6.7m ($9.0m in 2002-03). Total insurance losses stemming from the January 2003 bushfire are now $15.7m.

SHORT TERM FINANCIAL POSITION

Table 5.9: Insurance Authority Summary Current Assets and Current Liabilities

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Current assets	76,177	128,158	44,896
Current liabilities	58,652	127,289	14,132
Current ratio	**1.30 to 1**	**1.01 to 1**	**3.18 to 1**

5.58 The current ratio of 1.30 to 1 indicates that the Authority can meet its current obligations when they fall due.

LONG TERM FINANCIAL POSITION

Table 5.10: Insurance Authority Summary Total Assets and Total Liabilities

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Total assets	140,333	166,242	46,722
Total liabilities	157,866	163,775	45,396
Net (Liabilities) / Assets	**(17,533)**	**2,467**	**1,326**
Ratio of total assets to total liabilities	**0.89 to 1**	**1.02 to 1**	**1.03 to 1**

5.59 The Authority did not have enough assets to meet its liabilities at 30 June 2004 and that its ability to meet long term liabilities and any unexpected losses has deteriorated in recent years.

5.60 The General Manager of the Authority provided the following advice in relation to this matter.

> *'I agree with the audit findings on the Authority's financial statements as contained in this report. In particular, I concur with the Audit Office comment relating to the Authority's present ability to meet its long term liabilities. The Authority has been involved for some time with Treasury in exploring options for addressing this issue. Hopefully this matter will be resolved shortly.'*

LEGISLATIVE ASSEMBLY SECRETARIAT

5.61 The Legislative Assembly Secretariat (the Secretariat) provides procedural, policy and administrative advice necessary to conduct the business of the Legislative Assembly and its committees. The Secretariat also provides a range of services and facilities for Legislative Assembly Members and their staff.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Clerk on 27 August 2004.
- Significant weaknesses in controls (mostly in relation to payments) were found and reported to the Secretariat. The cumulative effect of these weaknesses is that the Secretariat is at particular risk of errors and irregularities (including fraud).
- The Secretariat's operating results have deteriorated significantly in recent years.
- The Secretariat did not fully manage its Departmental operations to budget because its Net cost of services materially exceeded budget.
- For the first time in recent years, the Secretariat did not have sufficient current assets to meet current liabilities at 30 June 2004.

MATTERS ARISING FROM THE AUDIT

5.62 The Audit Office reported significant weaknesses in controls (mostly related to payments) to the Secretariat. The Audit Office found:

- functions associated with payments were not appropriately segregated. For instance, one officer could approve payments and at the same time be responsible for maintaining the associated payment records;
- bank reconciliations were not performed on a timely basis throughout the year and there was no independent review of the proper performance of these reconciliations;
- some invoices were approved after being entered into the accounting system and in some cases after payment; and
- no evidence of independent review of the validity of changes made to vendor records and journals.

5.63 The cumulative effect of these weaknesses is that the Secretariat is at particular risk of errors and irregularities (including fraud).

5.64 The Secretariat has advised the Audit Office that action will be taken to address the weaknesses identified above as part of a review of its corporate services function.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 5.11: Legislative Assembly Secretariat Summary Statement of Financial Performance

	Budget 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Expenses	5,014	5,402	4,676	4,221
Revenue	31	126	66	47
Net cost of services	**4,983**	**5,276**	**4,610**	**4,174**
Government contributions	**4,905**	**4,883**	**4,616**	**4,301**
Operating (deficit)/surplus	**(78)**	**(393)**	**6**	**127**

Comparison to Budget and Prior Year

5.65 Net cost of services in 2003-04 exceeded budget by $0.3m (5.8%) and the previous year by $0.7m (14.4%). Most of the cost increases have been related to higher employee expenses resulting from wage increases and higher leave entitlement liabilities.

5.66 Government contributions have not increased at the same rate as expenses causing a significant deterioration in the Secretariat's financial performance in recent years.

5.67 The Secretariat did not fully manage its Departmental operations to budget because its Net cost of services materially exceeded[35] budget.

[35] For the purposes of audit analysis, 'materially significant' changes mean variations of greater than 5%.

SHORT TERM FINANCIAL POSITION

Table 5.12: Legislative Assembly Secretariat Summary Current Assets and Current Liabilities

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000	Actual 2001 $000
Current assets	593	792	1,004	674
Current liabilities	674	521	730	372
Current ratio	**0.88 to 1**	**1.52 to 1**	**1.37 to 1**	**1.81 to 1**

5.68 For the first time in recent years, the Secretariat did not have sufficient current assets to meet its current liabilities at 30 June 2004. The Secretariat's ratio of current assets to current liabilities fell from 1.52 in 2003 to 0.88 in 2004 due to a fall in current assets combined with a large increase in employee benefit provisions.

5.69 The Secretariat will need to carefully manage its expenses to ensure it can continue to meet its liabilities as they fall due.

SUPERANNUATION UNIT

5.70 The Superannuation Unit manages funds set aside to meet the employer superannuation liabilities of the Territory agencies, authorities and Territory owned corporations. The *Territory Superannuation Provision Protection Act 2000* ensures that funds set aside to meet the Territory's future employer superannuation costs remain dedicated for this purpose.

HIGHLIGHTS

- An unqualified audit opinion was provided to the Treasurer on 13 September 2004.
- The Superannuation Unit was unable to achieve the budgeted operating result because the significant increase in superannuation expenses far outweighed the above-budget investment returns.
- There are insufficient investments set aside to meet superannuation liabilities. The ratio of investments to superannuation liabilities has declined steadily in recent years from $0.75 in 2001 to $0.59 in 2004 in investments for each dollar of superannuation liabilities.

HIGHLIGHTS (CONTINUED)

- According to the Budget Papers, unfunded superannuation liabilities are expected to grow by $121m from $851m in 2004 to $972m in 2007.
- As the full extent of unfunded superannuation liabilities does not have to be met for some years, there is no current threat to the Territory's finances. However, the Territory will have to fund its superannuation commitment to ensure that the current shortfall does not grow to a size that will create significant financial difficulties.

FINANCIAL PERFORMANCE

5.71 Previous years' audit reports on the Superannuation Unit's financial statements were qualified for non-compliance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments' in relation to the accounting for its superannuation liability. This section presents the financial results and projected information that would have been reported in the 2004-05 Budget Papers if the Superannuation Unit's financial statements and projected information had been prepared in accordance with AAS 29.

Table 5.13: Superannuation Unit Summary Statement of Revenue and Expenses on Behalf of the Territory

	Budget 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Revenue				
Reimbursement of annual pension costs to the Commonwealth	43,968	43,968	39,169	33,400
Investment income	52,889	29,202	47,762	43,477
Superannuation contributions	14,734	11,508	13,482	13,815
Gain in the net market value of investments	9,375	102,125	0	0
	120,966	**186,803**	**100,413**	**90,692**
Expenses				
Superannuation	217,137	495,704[36]	221,755	239,856
Loss in the net market value of investments	0	0	41,231	83,503
Fund manager and administration fees	3,200	2,449	2,883	3,042
Other	3,775	3,460	3,314	3,143
	224,112	**501,613**	**269,183**	**329,544**
Operating deficit	**(103,146)**	**(314,810)**	**(168,770)**	**(238,852)**

Comparison to Budget and Prior Year

5.72 Revenue in 2003-04 exceeded budget and the preceding year by $65.8m (54.4%) and $86.4m (86%) respectively, due to a significant increase in the market value of investments, partially offset by a fall in interest earnings following a restructuring of the investment portfolio.

5.73 Expenses for 2003-04 were higher than budgeted and the prior year by $277.5m (123.8%) and $232.4m (86.3%) respectively. A major actuarial estimate of the superannuation liability was undertaken, involving a review of all financial and demographic assumptions. This resulted in additional unbudgeted expenses during 2003-04.

5.74 The Superannuation Unit was unable to achieve the budgeted operating result because the significant increase in superannuation expenses far outweighed the above budget investment returns.

[36] Superannuation and Other expenses differ from the amounts reported in the Superannuation Unit's audited financial statements due to the reclassification of $17m relating to Totalcare Industries Limited from Other expenses to Superannuation expenses.

LIABILITY FOR SUPERANNUATION

5.75 The Territory is responsible for meeting superannuation payments for ACT Public Sector employees as members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS).

5.76 The following table shows an actuary's[37] assessment of the estimated annual amounts payable to meet superannuation payments for these employees, in nominal and 'real terms'[38].

Table 5.14: Superannuation Future Payments Schedule

Year Ending 30 June	Nominal Terms[39] $m	Real Terms[40] $m
2005	43.4	42.3
2011	87.1	73.3
2017	174.3	126.5
2023	292.0	182.6
2029	432.2	233.1
2035	609.4	283.5
2041	824.1	330.4

5.77 Superannuation cash payments will continue to rise steadily for the foreseeable future. This escalation is the result of the combination of the short period of the Territory's responsibility for employees' superannuation and the age profile of its employees. The primary factor in the initial years is that the Territory liability related only to CSS/PSS members employed with the ACT Public Service from 1 July 1989. The Commonwealth is liable prior to that date. This means that the Territory's share of the superannuation payments to its long-serving retirees is presently quite low. This share will rapidly increase as service with the ACT Public Service becomes a larger proportion of the total service.

5.78 Another factor is the age profile of ACT employees. In the early years of the 21st century, many of these employees will be reaching retirement age when it will become necessary for the Territory to meet its obligations for their superannuation entitlements. For many current employees, retirement benefits will be taken as indexed pensions that will continue over the lives of the members and their surviving spouses.

[37] The Territory's consulting actuary provides these estimates.
[38] 'Real terms' is the restatement of the nominal amount in 'today's dollars'. For example, in the year 2035 it is expected that the Territory will have to pay $609.4m. In today's dollars the $609.4m equates to a payment of $283.5m.
[39] Towers Perrin's 'Projection of Emerging Cost Payment Schedule based on Membership Data as at 30 June 2003' report dated 29 January 2004.
[40] The Finance and Investment Group, Department of Treasury provided the figures for Superannuation cash payments included in the table.

Unfunded Superannuation Liabilities

5.79 The Territory has been setting aside investment funds to meet superannuation liabilities as payments fall due. From 1 July 2000, these funds were quarantined to be used for superannuation purposes by the *Territory Superannuation Provision Protection Act 2000*. At 30 June 2004, these investments totalled $1,237m.

5.80 The Territory continues to have insufficient investments set aside to meet its superannuation liabilities. The unfunded liabilities for superannuation in recent years are shown below.

Table 5.15: Unfunded Superannuation Liabilities

	Actual 2001	Actual 2002	Variation from prior year	Actual 2003	Variation from prior year	Actual 2004	Variation from prior year
	$m	$m	%	$m	%	$m	%
Investments	946	960	1.5	1,043	8.6	1,237	18.6
Superannuation liabilities[41]	(1,264)	(1,467)	16.1	(1,649)	12.4	(2,088)[42]	26.6
Unfunded superannuation liabilities	318	507	59.4	606	19.5	851	40.4
Investments to superannuation liabilities	**0.75 to 1**	**0.65 to 1**		**0.63 to 1**		**0.59 to 1**	

5.81 Unfunded superannuation liabilities increased significantly by $245m (40.4%) from 30 June 2003. Superannuation liabilities rose by a much higher amount ($439m or 26.6%) than the investments set aside to meet these liabilities ($194m or 18.6%).

5.82 The ratio of investments to superannuation liabilities has declined steadily in recent years from $0.75 in investments for each dollar of superannuation liabilities in 2001 to $0.59 in 2004.

[41] For the years ending 2001 to 2003, superannuation liabilities exclude amounts reported as 'Unrealised Gain on Actuarial Review'.

[42] Superannuation liabilities differ from the Superannuation Unit's audited financial statements due to the inclusion of $17m relating to Totalcare Industries Limited.

Table 5.16: Funding of Superannuation Liabilities (Projections)[43]

	Actual 2004 $m	Budget 2005 $m	Variation from prior year %	Budget 2006 $m	Variation from prior year %	Budget 2007 $m	Variation from prior year %
Investments	1,237	1,360	9.9	1,542	13.4	1,734	12.5
Superannuation liabilities	(2,088)	(2,282)	9.3	(2,489)	9.1	(2,706)	8.7
Unfunded superannuation liabilities	**851**	**923**	**8.5**	**947**	**2.6**	**972**	**2.6**
Ratio of investments to superannuation liabilities	**0.59 to 1**	**0.60 to 1**		**0.62 to 1**		**0.64 to 1**	

5.83 It is clear that significant increases in investments are needed in the next few years to keep pace with the expected significant rise in superannuation liabilities.

5.84 According to the Budget Papers, unfunded superannuation liabilities are expected to grow by $121m from $851m in 2004 to $972m in 2007.

5.85 As the full extent of unfunded superannuation liabilities does not have to be met for some years, there is no current threat to the Territory's finances. However, the Territory will have to fund its superannuation commitment to ensure that the current shortfall does not continue to grow to a size that will create significant financial difficulties. Prudent planning and effective financial management is essential particularly as an increasing number of employees will retire over the next ten years.

TOTALCARE

5.86 Totalcare Industries Limited (Totalcare) is a Territory owned corporation. Totalcare's main business activities during 2003-04 were the provision of the following services:

- Health, including linen hire, laundry and sterilising;
- assets and infrastructure management, including property management, building maintenance, project management, road maintenance and associated civil infrastructure services; and
- fleet management for passenger and light commercial vehicles, plant and equipment.

[43] Budget Figures are based on page 128 of 2004-05 Budget Papers No. 4. These figures are calculated by subtracting the 'Unrealised Gain from Actuarial Review of Employee Superannuation Benefits' from Total Superannuation Liabilities.

HIGHLIGHTS

- An **unqualified** audit opinion on Totalcare's financial statements was issued on 17 September 2004.
- Following discovery that Totalcare had incorrectly exited the Commonwealth and Public Sector Superannuation Schemes, Totalcare recognised a liability of $17.3m for the estimated amount superannuation contributions owing in respect of its employees. The exact amount of this liability cannot be known for some time.
- Most of Totalcare's activities were transferred to ACT Government agencies during the year.

LIABILITY FOR SUPERANNUATION

5.87 In late 2003, Totalcare commissioned an independent audit of the company's superannuation practices since its formation. The report found that Totalcare had not correctly carried out the legal processes required to exempt it from contributing to the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). In particular, many employees were eligible to be members of the CSS or PSS between 1991 and 2004 but were not advised of this right.

5.88 Consequently, an estimate of the liability (based on factors such as average salary and average length of service) for the superannuation contributions owing in respect of these employees of $17.3m was recognised in Totalcare's financial statements. However, as up to 1,200 employees may have been affected, the exact amount of this liability cannot be known for some time.

TRANSFER OF ACTIVITIES BACK TO THE ACT GOVERNMENT

5.89 Following a decision by its shareholders in June 2003, most of Totalcare's activities, including assets and liabilities (other than contingent liabilities) relating to these activities, were transferred to ACT Government agencies in 2003-04.

5.90 At 30 June 2004, Totalcare fleet management services still remained with Totalcare. These operations are expected to be transferred to another newly established Territory owned corporation in 2004-05.

5.91 The winding up of Totalcare will commence once the Fleet business has been transferred to a new Territory owned corporation with any liabilities remaining at the time of the wind up being transferred to the ACT Government.

6. OTHER AGENCIES

ACTEWAGL JOINT VENTURE

6.1 The ActewAGL Joint Venture (the Joint Venture) was formed on 3 October 2000. On formation of the Joint Venture, ACTEW Corporation Limited (ACTEW) transferred its electricity business and the Australian Gas Light Company (AGL) transferred its ACT, Queanbeyan and Yarrowlumla Shire's gas business to the Joint Venture.

6.2 ACTEW holds a 50% interest in the Joint Venture. The Joint Venture is comprised of the ActewAGL Retail Partnership, the ActewAGL Distribution Partnership and ECOWISE Environmental Pty Limited (ECOWISE).

6.3 Financial statements, aggregating the results of the Partnerships, were prepared to provide an overall view of the Joint Venture for public reporting purposes. These statements are included in a supplementary report to ACTEW's 2003-04 Annual Report.

6.4 The Joint Venture entered into a strategic alliance by way of a management agreement with TransACT Communications Pty. Limited[44] (TransACT) on 1 February 2004 to manage the TransACT business. The management agreement expires on 30 June 2007.

6.5 The principal activities of the Joint Venture are to:

- operate the energy networks;
- supply energy to customers in the ACT region;
- operate TransACT's business operations pursuant to a management agreement;
- operate the water and sewerage services of the ACT; and
- undertake other related business activities.

[44] Further commentary on TransACT is provided in the 'ACTEW' section in Chapter 5.

HIGHLIGHTS

- **Unqualified** audit opinions were issued on the financial statements prepared in relation to the ActewAGL Joint Venture and ECOWISE.
- The Joint Venture's operating profit of $102m in 2003-04 represented a significant increase in profits compared to recent years.
- Cash distributions of $48m were paid to ACTEW in 2003-04 ($48.5m in 2002-03).
- The Joint Venture is in a strong financial position and has sufficient assets to comfortably meet its liabilities.

AUDITS OF THE 2003-04 FINANCIAL STATEMENTS

6.6 The *ActewAGL Partnership Facilitation Act 2000* requires the Joint Venture's financial statements to be audited jointly by the Auditor-General and an auditor appointed by AGL[45] (Deloitte). The Auditor-General is the sole auditor of ECOWISE's financial statements.

6.7 The following audit opinions were provided:

Entity	Audit Opinion	Date
ActewAGL Joint Venture 'General Purpose' Financial Statements	Unqualified	31 August 2004
ActewAGL Joint Venture 'Special Purpose' Financial Statements	Unqualified	31 August 2004
ActewAGL Retail Partnership	Unqualified	31 August 2004
ActewAGL Distribution Partnership	Unqualified	31 August 2004
ECOWISE	Unqualified	2 September 2004

[45] Deloitte has been AGL's appointed auditor since the inception of the Joint Venture.

FINANCIAL PERFORMANCE

Table 6.1: ActewAGL Joint Venture Summary Statement of Financial Performance

	Actual 2003-04 $m	Actual 2002-03 $m	Actual 2001-02 $m
Revenue			
Sale and supply of energy	417	386	403
Operations management (Water and Sewerage and TransACT[46])	102	69	62
Other	28	32	24
	547	**487**	**489**
Expenses	445	402	406
Operating profit	**102**	**85**	**83**

6.8 The Joint Venture's operating profit of $102m in 2003-04 represented a significant increase in profits compared to recent years.

6.9 The significant growth in profits was largely due to the retention and growth in the customer base in and around the Canberra region. The increase in regulated charges for both electricity and gas networks also contributed to the increase in revenue and profitability. The Water Division also received greater revenues and incurred higher expenses for capital works relating to Googong and Stromlo projects. The Joint Venture also earned revenue from managing TransACT's operations.

DISTRIBUTIONS TO JOINT VENTURE PARTNERS

6.10 In 2003-04, $96m (preceding year $97m) was paid to the Joint Venture's partners including cash distributions to ACTEW of $48m (2002-03 $48.5m).

SHORT TERM FINANCIAL POSITION

Table 6.2: ActewAGL Joint Venture Summary Current Assets and Liabilities

	Actual 2004 $m	Actual 2003 $m	Actual 2002 $m
Current assets	126	108	130
Current liabilities	111	99	101
Current ratio	**1.14 to 1**	**1.09 to 1**	**1.29 to 1**

[46] A management agreement with TransACT was entered into on 1 February 2004.

6.11 The Joint Venture's current ratio at 30 June 2004 of $1.14 in current assets to each dollar of liabilities is reasonably consistent with the 30 June 2003 ratio of 1.09 to 1.

6.12 The Joint Venture continues to have sufficient current assets to meet its current liabilities and its operations generate sufficient cash to comfortably meet its liabilities.

ACTION

6.13 The ACTION Authority (ACTION) operates Canberra's public bus network and school bus services with the objective of providing effective and accessible passenger services. ACTION also provides special needs services and charter bus services.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003-04 financial statements was provided to the Minister for Urban Services on 13 August 2004.
- ACTION is considered to have generally managed its operations to budget because its Net cost of services did not materially exceed budget.

FINANCIAL PERFORMANCE

Table 6.3: ACTION
Summary Statement of Financial Performance

	Budget 2004 $000	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Expenses				
Employee	46,519	49,484	45,928	42,574
Bus running and maintenance	18,385	19,538	17,673	17,204
Depreciation and amortisation	5,288	5,115	4,824	4,734
Other	1,494	1,768	2,412	2,765
	71,686	**75,905**	**70,837**	**67,277**
Revenue				
Bus fares and other charges	16,354	16,890	16,927	15,445
Commonwealth grants and other	130	1,367	573	445
	16,484	**18,257**	**17,500**	**15,890**
Net cost of services	**55,202**	**57,648**	**53,337**	**51,387**
Government contributions				
Government payments for public transport services	49,218	52,253	51,271	46,936
Capital injections	7,449	13,149	1,550	5,650
Other	50	50	180	4,053[47]
	56,717	**65,452**	**53,001**	**56,639**
Operating surplus/(deficit)	**1,515**	**7,804**	**(336)**	**5,252**

Comparison to Budget

6.14 Expenses ($75.9m) in 2003-04 exceeded budget by $4.2m (5.9%) mostly due to an increase in Employee expenses flowing from pay rises. Net cost of services ($57.6m) in 2003-04 exceeded budget by $2.4m (4.4%) due to the previously mentioned increase in Employee expenses offset by an increase in Commonwealth grants and interest revenue.

6.15 Government contributions were higher than budget by $8.7m because ACTION received additional funding of $5.7m for the purchase of 20 new buses acquired in January 2004 and for contribution towards increased employee expenses. This funding caused ACTION's operating surplus to be significantly higher than expected.

[47] Includes a $4m Injection for operations.

6.16 ACTION is considered to have managed its operations to budget because its Net cost of services in 2003-04 did not materially[48] exceed budget.

Comparison to Prior Years

6.17 Compared to 2002-03, expenses and Net cost of services increased by $5.1m (7.2%) and $4.3m (8.1%) in 2003-04 respectively mainly due to the previously mentioned pay rises. These increases represented a reasonably consistent trend of rising costs in providing services in recent years.

6.18 Government contributions rose by $11.5m in 2003-04 mainly due to an increase in Capital injections provided to fund the acquisition of new buses.

CANBERRA INSTITUTE OF TECHNOLOGY

6.19 The Canberra Institute of Technology (the CIT) is a statutory authority established on 4 January 1988 under the *Canberra Institute of Technology Act 1987*.

6.20 The functions of the CIT include conducting an educational institution for the purpose of fostering excellence in the fields of technical and further education and supporting industry, commerce and the community in the ACT. The CIT serves the vocational, educational and training needs of the ACT and its region.

6.21 The CIT has a 31 December year-end for financial reporting.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003 financial statements was provided to the Minister for Education and Training on 11 March 2004.
- CIT's Net Cost of Services remained within budget expectations, although this cost has increased in recent years due to rising employee and operating expenses.

[48] For the purpose of this analysis the Net cost of services would need to have exceeded budget by more than 5% before a different conclusion would be reached.

FINANCIAL PERFORMANCE

Table 6.4: Canberra Institute of Technology
Summary Statement of Financial Performance (Calendar Years)

	Budget 2003 $000	Actual 2003 $000	Actual 2002 $000	Actual 2001 $000
Expenses				
Employee	47,500	48,405	46,228	43,911
Operating	24,597	27,844	24,146	23,158
Depreciation and amortisation	3,300	3,325	3,185	3,082
	75,397	**79,574**	**73,559**	**70,151**
Revenue				
Courses, student fees and other charges	11,059	12,343	12,798	13,278
Grants and other	4,884	8,581	4,902	4,256
	15,943	**20,924**	**17,700**	**17,534**
Net cost of services	**59,454**	**58,650**	**55,859**	**52,617**
Government contributions				
Government payments for education and training programs	55,646	52,750	52,073	51,138
Capital injections	5,170	4,970	3,001	4,545
Other	0	43	47	51
	60,816	**57,763**	**55,121**	**55,734**
Operating surplus/(deficit)[49]	**1,362**	**(887)**	**(738)**	**3,117**

Comparison to Budget and Prior Years

6.22 Expenses in 2003 exceeded budget and the preceding year's amount, mainly due to higher than expected:

- Employee expenses flowing from pay rises awarded in the new Enterprise Bargaining Agreement; and
- Operating expenses related to a Communication and Leadership program conducted in 2003.

6.23 Revenue in 2003 was also higher than the budget and the prior year, contributed to by a significant increase in Grant revenue received from Australian National Training Authority for the Communication and Leadership program.

[49] For the purpose of this analysis, the Operating surplus/(deficit) varies from the published Operating surplus/(deficit) due to inclusion of Capital injections in the Government contributions.

6.24 Net Cost of Services increased in recent years due to rising Employee and Operating expenses, but remained within budget expectations.

CHIEF MINISTER'S DEPARTMENT

6.25 The Chief Minister's Department (the Department) objectives include:

- providing policy and strategic advice to the Chief Minister and Cabinet;
- exhibiting leadership in public sector reform;
- attracting new business investment and assisting existing businesses to grow; and
- guiding, coordinating and supporting various activities across all Government agencies.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003-04 financial statements was provided to the Chief Minister on 10 September 2004.
- $6.4m of budget Capital injections funding was not drawn down due to the deferral of the upgrade of the Human Resources System.
- $10.9m of budget Grants and purchased services funding was not expended, because of a delay in expenditure associated with the Commercialisation Investment Fund.
- The Department is considered to have generally managed within its overall budget.

FINANCIAL PERFORMANCE

Table 6.5: Chief Minister's Department Summary Statement of Financial Performance

	Budget[50] 2004 $000	Actual 2004 $000	Actual 2003 $000
Expenses			
Employee	23,850	23,701	19,324
Grants and purchased services	49,313	38,462	36,972
Other	24,696	24,655	26,279
	97,859	**86,818**	**82,575**
Revenue	**952**	**1,345**	**1,527**
Net cost of services	**96,907**	**85,473**	**81,048**
Government contributions			
Government payments for outputs	89,466	85,772	70,015
Capital injections	7,958	1,523	4,860
Other	6,197	7,331	7,638
	103,621	**94,626**	**82,513**
Operating surplus[51]	**6,714**	**9,153**	**1,465**

Comparison to Budget

6.26 Expenses ($86.8m) and Net cost of services ($85.5m) in 2003-04 were significantly less than budgeted. A $10m grant expected to be paid to the Australian National University for the Commercialisation Investment Fund[52] was not expended in 2003-04.

6.27 Government contributions were $9m less than budgeted because Capital injections of $6.4m were not drawn down following a deferral of the upgrade of the Human Resources System.

6.28 The Department is considered to have generally managed within its overall budget as its Net cost of services did not exceed budget.

[50] The original budget, approved by the Legislative Assembly and included in the 2003-04 Budget papers, was amended in accordance with the *Financial Management Act 1996*.

[51] The Operating surplus in the table differs from the published Operating surplus because, for the purpose of this analysis, Capital injections have been included in the Government contributions.

[52] The objective of the Commercialisation Investment Fund is to bring venture capital and commercialisation skills to the ACT.

Comparison to Prior Year

6.29 The increase in expenses ($4.2m) and Net cost of services ($4.4m) in 2003-04 was mainly due to a $4.4m rise in Employee expenses flowing from a new Employee Bargaining Agreement and higher staffing levels.

6.30 Government contributions rose by $12.1m. This increase included the provision of $10m in funding for the Commercialisation Investment Fund which was being managed by the Australian National University and $10m to fund capital works for the University of Canberra, partially offset by a non-recurrence of a $10m grant in 2002-03 to National ICT Australia.

6.31 The Operating surplus ($9.2m) in 2003-04 was significantly higher than the prior year surplus ($1.5m) because funding drawn down for the Commercialisation Investment Fund was not expended.

DEPARTMENT OF DISABILITY, HOUSING AND COMMUNITY SERVICES

6.32 The Department of Disability, Housing and Community Services (the Department) commenced operations on 1 July 2002. The Department has responsibilities for disability services and policy, concessions, community services and facilities, supported accommodation and therapy services.

6.33 On 1 July 2003, the Housing Policy function was transferred to Housing ACT as part of an administrative restructuring of the Department.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003-04 financial statements was provided to the Minister for Disability, Housing and Community Services on 10 August 2004.

- The Department is considered to have generally managed its Departmental and Territorial operations within its overall budget.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 6.6: Disability, Housing and Community Services Summary Statement of Financial Performance

	Budget[53] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses	80,350	80,170	102,609
Revenue	3,823	4,361	5,253
Net cost of services	**76,527**	**75,809**	**97,356**
Government contributions	**77,089**	**75,517**	**101,109**
Operating surplus/(deficit)[54]	**562**	**(292)**	**3,753**

Comparison to Budget

6.34 The Department managed its operations within the budget with its Net cost of services being generally in line with budget expectations.

Comparison to Prior Year

6.35 The Net cost of services and Government contributions fell significantly in 2003-04 due mainly to the transfer of the Housing Policy function to Housing ACT.

FINANCIAL RESULTS – TERRITORIAL OPERATIONS

Table 6.7: Disability, Housing and Community Services Territorial Expenses

	Budget[55] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000
Concession and community service obligation payments	21,968	22,747	21,273

[53] The Department's budget included in Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.

[54] The Operating surplus/(deficit) from ordinary activities in the table differs from the Department's published Operating (deficit)/surplus from ordinary activities because, for the purpose of this analysis, Capital injections have been included in the Government contributions.

[55] The Department's Territorial budget included in the Budget Papers No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.

6.36 Concession and community service obligation payments include payments to low income earners, pensioners and people with disability for general rates, motor vehicle registrations and licences, pensioner transport, spectacles, electricity and water and sewerage.

6.37 The Department managed its Territorial operations within its overall budget. The Concession and community service obligation payments did not vary significantly from budget.

EDUCATION AND TRAINING

6.38 The Department of Education and Training (the Department) works in partnership with the community to provide school education, training and preschool services to meet the needs of the people of Canberra.

6.39 The Department's services include the provision of government school education, registration of non-Government schools, coordination and purchase of vocational education and training and the provision of preschool and early intervention education programs.

6.40 On 26 May 2004, functions relating to children, youth and family support were transferred to the Office for Children, Youth and Family Support.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003-04 financial statements was provided to the Minister for Education and Training on 26 August 2004.

Departmental Operations

- The Department generally managed its operations to budget. Its Net cost of services, while approximately $8.2m higher than budgeted, did not materially exceed budget.

Territorial Operations

- Payments of Grants to non-government schools rose from $109m to $119m in 2003-04.
- The Department managed its Territorial operations to within budget.

FINANCIAL RESULTS - DEPARTMENTAL OPERATIONS

Table 6.8: Education and Training Summary Statement of Financial Performance

	Budget[56] 2004 $000	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Expenses				
Employee	293,428	300,793	267,805	255,103
Purchase of CIT training services	51,112	50,858	48,070	45,744
Grant payments	33,951	32,661	30,389	44,070
Costs incurred directly by schools	45,312	46,401	43,081	41,076
Supplies and services	39,821	43,784	37,450	36,930
Depreciation	25,056	25,024	24,029	23,838
Other	688	3,207	1,134	11,697
	489,368	**502,728**	**451,959**	**458,458**
Revenue	**26,407**	**31,544**	**30,467**	**27,090[57]**
Net cost of services	**462,961**	**471,184**	**421,492**	**431,368**
Government contributions				
Government payment for outputs	435,762	430,201	399,115	417,157
Capital injections	48,830	41,330	14,189	19,782
Other	413	445	963	1,145
	485,005	**471,976**	**414,267**	**438,084**
Operating surplus/(deficit)	**22,044**	**792**	**(7,225)**	**6,716**

Comparison to Budget and Prior Year

6.41 Expenses ($502.7m) and the Net cost of services ($471.1m) in 2003-04 exceeded budget by $13.4m (2.7%) and $8.2m (1.8%) respectively mainly due to increases in:

- Employee expenses relating to new Enterprise Bargaining Agreements for teaching and administrative staff; and
- Supplies and services resulting from additional costs for care and protection services for children.

6.42 Expenses and Net cost of services in 2003-04 rose significantly from the prior year because of the above-mentioned cost increases.

[56] The Department's budget included in Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.

[57] A 'one-off' asset revaluation increment of $10.1m has been excluded from revenue, as it is not relevant to the assessment of the Department's performance.

6.43 Government contributions were significantly higher than the previous year as funding was provided to meet the costs associated with:

- employee expenses relating to funding for teachers' Enterprise Bargaining Agreements;
- care and protection services for children at risk; and
- capital works projects.

6.44 The Department generally managed its Departmental operations to its budget. Its Net cost of services did not materially exceed[58] budget.

FINANCIAL PERFORMANCE - TERRITORIAL OPERATIONS

Table 6.9: Education and Training Territorial Expenses

	Budget 2004 $000	Actual 2004 $000	Actual 2003 $000
Grants – non Government schools	118,863	118,552	108,889
Junior Bursary Scheme	419	226	258
Other grants	67	46	49
	119,349	**118,824**	**109,196**

6.45 2003-04 expenses were in line with budget expectations. The trend of increasing payments for Grants to non-Government schools continued due mainly to the receipt of additional Commonwealth government grants.

6.46 The Department managed its Territorial operations within budget.

HOUSING

6.47 Housing ACT (Housing) is part of the Department of Disability, Housing and Community Services. Its principal objective is to provide people of Canberra with safe, affordable and appropriate social housing that supports the needs of clients.

6.48 Housing provides property management and tenancy management services for public housing in accordance with the *Housing Assistance Act 1987* and the '2003-2008 Commonwealth State Housing Agreement'. It also manages the Territory's public housing assets, including the acquisition, disposal, redevelopment and repairs, maintenance and improvement of those assets.

[58] For the purposes of this analysis 'materially significant' means variations greater than 5%.

6.49 On 1 July 2003, the Housing Policy function was transferred to Housing from the Department of Disability, Housing and Community Services as part of an administrative restructure.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003-04 financial statements was provided to the Minister for Disability, Housing and Community Services on 17 August 2004.
- Housing managed its operations to its overall budget, with both the Net cost of services and Operating surplus being in line with budget.
- As at 30 June 2004, Housing held and managed the Territory's significant public housing assets, valued at over $2.8 billion.
- The net value of the property portfolio at 30 June 2004 increased by 20% or $475m from 2002-03. This increase was comprised of rises in the value of land ($399m) and dwellings ($76m).

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 6.10: Housing Summary Statement of Financial Performance

	Budget[59] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Expenses				
Employee	18,504	17,209	16,098	12,924
Operating	58,066	59,301	47,009	48,833
Depreciation and amortisation	12,690	13,264	12,431	11,198
Grants and purchased services	8,222	3,936	0	0
Other	9,277	10,744	10,292	13,165
	106,759	**104,454**	**85,830**	**86,120**
Revenue				
Net rental	58,665	58,733	56,078	52,490
Other[60]	8,738	7,699	7,539	10,069
	67,403	**66,432**	**63,617**	**62,559**
Net cost of services	**39,356**	**38,022**	**22,213**	**23,561**
Government contributions				
Government payments for outputs	35,210	32,823	30,648	30,561
Capital injections	37,600	36,164	4,400	10,000
Resources received free of charge	0	0	64	0
	72,810	**68,987**	**35,112**	**40,561**
Operating surplus[61]	**33,454**	**30,965**	**12,899**	**17,000**

Comparison with Budget

6.50 Housing managed its operations to its overall budget, with both the Net cost of services and Operating surplus being in line with budget.

[59] Housing's budget included in the Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.

[60] Other revenue for 2001-02 differs from the published total because, for the purpose of this analysis, settlement of properties previously transferred to the community-housing sector has been excluded. In 2001-02, this amounted to $3.01m representing property received from sale/transfer of MacPherson Court (City Edge).

[61] The Operating surplus differs from Housing's published Operating surplus because, for the purposes of this analysis, Capital injections have been included in Government contributions.

Comparison with Prior Year

6.51 Total expenses ($104.4m) and Net cost of services ($38m) in 2003-04 rose significantly from the preceding year by $18.6m (22%) and $15.8m (71%) respectively mainly due to increases in:

- Employee expenses due to pay rises;
- Operating expenses caused by higher repairs and maintenance costs and new corporate overhead charges by the Department of Disability, Housing and Community Services; and
- Grants and purchased services expenses which were incurred by Housing for the first time following the administrative restructure.

6.52 Government contributions ($69m) exceeded last year by $34m (97%) due to an additional $32m in Capital injections being provided to address homelessness and housing affordability through the expansion of public and community housing, and to replace rural properties destroyed in the January 2003 bushfire.

6.53 The 2003-04 Operating surplus ($31m) was higher than the prior year's surplus ($13m) primarily due to the above-mentioned increase in capital injections.

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

6.54 Housing's Territorial operations consist mainly of the Commonwealth grants received in accordance with the 'Commonwealth State Housing Agreement'. This revenue is reported in the 'Revenue and Expenses' section in Chapter 3.

PROPERTY PORTFOLIO

6.55 As at 30 June 2004, Housing held and managed the Territory's significant public housing assets, valued at over $2.8 billion.

6.56 Housing's land and dwellings are revalued at 31 March each year to incorporate valuation changes reflecting market conditions. As a result of the 31 March 2004 revaluation, subsequent acquisitions, disposals, capital improvements and depreciation, the net value of the property portfolio as at 30 June 2004 increased from last year by 20% or $475m. This increase was comprised of rises in the value of land ($399m) and dwellings ($76m).

Table 6.11: Housing
Number and Value of Land and Dwellings

	Actual 2004	Actual 2003	Actual 2002
Number of land parcels	6,983	6,944	7,078
Land value ($000)	**$1,984,663**	**$1,585,324**	**$1,133,651**
Number of dwellings	11,509	11,382	11,467
Dwellings value ($000)	**$900,151**	**$824,363**	**$722,165**
Total value of land and dwellings ($000)	**$2,884,814**	**$2,409,687**	**$1,855,816**

6.57 Property numbers also increased slightly during 2003-04. The numbers of land parcels and dwellings increased by 39 and 127 respectively.

INTACT

6.58 Information Technology in the ACT (InTACT) commenced operations on 1 July 1996. The primary objectives of InTACT are to manage existing information technology (IT) infrastructure services on a whole of government basis and deliver cost efficient infrastructure services.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003-04 financial statements was provided to the Treasurer on 3 September 2004.
- An **'emphasis of matter'** was included in the audit report because one performance measure (Availability of Core Network during supported hours (excluding planned outages)) was not measured. As a result, an audit opinion could not be expressed on this performance measure.
- InTACT managed its operations within budget.

FINANCIAL PERFORMANCE

Table 6.12: InTACT Summary Statement of Financial Performance

	Budget 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses			
Supplies and services	37,677	37,545	33,582
Employee	14,490	11,575	10,464
Depreciation and amortisation	22,340	18,378	19,138
Other	2,019	1,192	2,148
	76,526	**68,690**	**65,332**
Revenue			
Other	1,876	955	1,465
	1,876	**955**	**1,465**
Net cost of services	**74,650**	**67,735**	**63,867**
Government contributions			
Fees from IT services to agencies	63,782	66,589	58,503
Government payments for outputs	6,271	1,839	5,000
Capital injections	5,920	5,661	5,213
Other	185	202	328
	76,158	**74,291**	**69,044**
Operating surplus[62]	**1,508**	**6,556**	**5,177**

Comparison to Budget

6.59 Expenses and Net cost of services in 2003-04 were less than budgeted amounts, mainly due to lower than expected:

- Employee costs due to staff numbers being below budget during the year; and
- Depreciation charges following delays in the implementation of a private data network[63] and server replacements.

6.60 InTACT managed its operations within budget.

[62] The Operating surplus in the table differs from the published Operating surplus because, for the purpose of this analysis, Capital injections have been included in the Government contributions.
[63] The private data network is an optical fibre telecommunications infrastructure network that will provide data communications to 90% of ACT Government staff for the next 5-10 years.

Comparison to Prior Year

6.61 Supplies and services expenses were higher in 2003-04, mostly from increases in software licence fees and telecommunication costs.

6.62 Government contributions were higher in 2003-04, reflecting increased fees from IT services charged to other ACT Government agencies, partially offset by lower Government payments for outputs as a result of employee costs being lower than expected.

DEPARTMENT OF JUSTICE AND COMMUNITY SAFETY

6.63 The Department of Justice and Community Safety (the Department) is responsible for the provision of legal and representation services, legislative drafting, the administration of justice, the independence of the courts, public prosecutions and the provision of corrective services. The Department also provided Ambulance, Fire Brigade, Bushfire and Emergency services. Emergency services were transferred on 1 July 2004 to the Emergency Services Authority.

6.64 Other services include the protection of rights, administration of the rental bonds scheme, conduct of elections and referenda, regulatory services and community policing services provided by the Australian Federal Police.

HIGHLIGHTS

- An **unqualified** audit report on the Department's financial statements was provided to the Attorney General on 31 August 2004.

Departmental Operations

- The Department generally managed its Departmental operations to its budget. Its Net cost of services (even when adjusting for 'one-off' revenue of $7.1m) did not materially exceed budget.

- The Department's current assets were not sufficient to meet its current liabilities. The Department will need to manage its expenses carefully to avoid unexpected cash injections being required from the Government over the next 12 months.

Territorial Operations

- Payments to the Australian Federal Police for community policing services have increased steadily from $74.5m 2001-02 to $85.2m in 2003-04.

- The Department generally managed its Territorial operations within overall budget with the Territorial expenses being generally in line with budget.

FINANCIAL PERFORMANCE - DEPARTMENTAL OPERATIONS

Table 6.13: Department of Justice and Community Safety Summary Statement of Financial Performance

	Budget[64] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Expenses				
Employee	81,345	85,598	79,275	70,626
Supplies and services	48,311	51,163	42,853	47,588
Other	5,035	4,467	4,022	4,044
	134,691	**141,228**	**126,150**	**122,258**
Revenue				
Fees and levies[65]	4,451	7,641	3,357	8,974
Other	1,500	9,948	3,037	2,894
	5,951	**17,589[66]**	**6,394**	**11,868**
Net cost of services	**128,740**	**123,639**	**119,756**	**110,390**
Government contributions				
Government payment for outputs	121,416	121,416	114,920	104,536
Capital injections	18,726	14,588	5,916	2,538
	140,142	**136,004**	**120,836**	**107,074**
Operating surplus/(deficit)[67]	**11,402**	**12,365**	**1,080**	**(3,316)[68]**

Comparison to Budget and Prior Year

6.65 In 2003-04, Expenses ($141.2m) exceeded budget by $6.5m (4.9%) mainly due to increases in:

- Employee expenses relating to higher than forecast overtime costs incurred by the former Emergency Services Bureau, workers' compensation premiums and pay rises from new Enterprise Bargaining Agreements; and

[64] The Department's budget included in Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.
[65] Fees and levies comprise ambulance transport fees, charges for fire services, workers' compensation levy, registration fees and other minor charges.
[66] Revenue includes 'one-off' unbudgeted revenue of $7.1m. These unbudgeted items were a Commonwealth Fire Levy relating to prior years ($5.2m) and a contribution to fit out costs by a building owner as part of a lease incentive for new Office accommodation ($1.9m).
[67] For the purpose of this analysis, the Operating surplus/deficit from ordinary activities varies from the published Operating surplus/(deficit) due to the inclusion of Capital injections in Government contributions.
[68] To allow for a consistent comparison of results, the reported Operating surplus/(deficit) is different to the published financial statements due to the removal of a 'one-off' asset revaluation increment of $2m.

- Supplies and services expenses from higher than expected costs relating to the coronial inquest into the January 2003 bushfire and increased information technology and communications charges.

6.66 Net cost of services ($123.6m) in 2003-04 was $5.1m less than budgeted mainly due to 'one-off' unbudgeted revenue ($7.1m) for a Commonwealth Fire Levy ($5.2m) relating to prior years and a contribution to fit out costs by a building owner ($1.9m). This was partially offset by the above-mentioned cost increases.

6.67 Expenses and Net cost of services in 2003-04 rose from the preceding year because of the above mentioned cost increases.

6.68 Government contributions in 2003-04 were significantly higher than the previous year as funding was provided to meet the costs associated with:

- new Enterprise Bargaining Agreements;
- the coronial inquest into the January 2003 bushfire; and
- replacing emergency services equipment lost in the January 2003 bushfire.

6.69 The Net cost of services would have been $130.8m, (or about $2.1m over budget) if unbudgeted revenue ($7.1m) was excluded. The Department generally managed its Departmental operations to its budget. Its Net cost of services (when adjusting for the 'one-off' revenue of $7.1m) did not materially exceed the budget.

SHORT TERM FINANCIAL POSITION

Table 6.14: Department of Justice and Community Safety Summary Current Assets and Current Liabilities

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Current assets	13,121	10,570	9,035
Current liabilities	22,181	22,758	20,625
Net current (liabilities)	**(9,060)**	**(12,188)**	**(11,590)**
Current ratio	**0.59 to 1**	**0.46 to 1**	**0.43 to 1**

6.70 The Department's current ratio of 0.59 to 1 continues to be very low. The Department will need to manage its expenses carefully to avoid the need for unexpected cash injections from the Government to support its operations in the next 12 months.

FINANCIAL PERFORMANCE - TERRITORIAL OPERATIONS

Table 6.15: Department of Justice and Community Safety Territorial Expenses

	Budget 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Payments to the Australian Federal Police	86,101	85,239	78,699	74,537
Payments to the Legal Aid Commission	6,011	6,011	6,228	5,090
Victims of crime – financial assistance, damages and settlements (**Note 1**)	3,170	3,153	5,230	3,946
Other (**Note 1**)	765	3,310	1,597	1,063
Total expenses	**96,047**	**97,713**	**91,754**	**84,636**

Note 1. These figures are not separately reported in the Budget Papers and were provided by the Department of Justice and Community Safety.

6.71 2003-04 expenses were in line with budget expectations. The trend of increasing payments for the Australian Federal Police continued into 2004.

6.72 The Department generally managed its Territorial operations to the overall budget. Territorial expenses were not significantly higher than budget.

LAND DEVELOPMENT AGENCY (including the Gold Creek Country Club, Kingston Stage 1A and other Joint Ventures)

6.73 The Land Development Agency (the Agency) was established by the *Planning and Land Act 2002* and commenced operations on 1 July 2003. The Agency incorporates those agencies formerly undertaking land development and sales functions on behalf of the Territory, being the Land Group in the Department of Urban Services, the Gungahlin Development Authority and the Kingston Foreshore Development Authority.

6.74 The Agency's objectives are to facilitate high quality design in its urban renewal projects, as well as developing greenfields, commercial and industrial land. The Agency provides land for development directly to the market, undertakes partnerships with the private sector and initiates land development of its own estates. The Agency is also responsible for the land joint ventures[69] and the Gold Creek Country Club.

[69] References in this report to the 'land joint ventures' means Harcourt Hill Estate, Amaroo 3, Nicholls Lakeside Estate and Condor 1/Gordon 9 (Southside Estates).

HIGHLIGHTS

- An **unqualified** audit opinion on the financial statements of the Land Development Agency was provided to the Minister for Planning on 10 September 2004.
- **Unqualified** audit opinions were also provided on the financial statements of the Gold Creek Country Club, Kingston Stage 1A and other Joint Ventures.
- The Agency's operating result substantially exceeded budget expectations. Land sales were $246m compared to the expected amount of $182.7m.
- The Gold Creek Country Club continued to operate at a loss and was reliant on financial support to continue operations. The Government has provided loans to the Gold Creek Country Club of $4.6m since it acquired full ownership on 24 December 1997.

FINANCIAL PERFORMANCE

Table 6.16: Land Development Agency Summary Statement of Financial Performance

	Budget 2003-04 $000	Actual 2003-04 $000
Revenue		
Land sales	182,682	246,021
Revenue from land joint ventures	5,942	3,947
Other	4,396	6,422
	193,020	**256,390**
Expenses		
Employee	3,309	5,079
Supplies and services	5,329	7,288
Cost of goods sold	83,696[70]	62,386
Other	1,166	3,180
	93,500	**77,933**
Operating surplus	**99,520[71]**	**178,457**

Comparison to Budget

6.75 Revenue for 2003-04 of $256m substantially exceeded the budget due mainly to continuing high prices achieved in land sale auctions.

[70] The budget amount reported in this table for Cost of goods sold is different to the budget published in 2003-04 Budget Paper No. 4 as cost of goods sold was classified as Other expenses in the budget.
[71] The budget and actual amounts have been adjusted to remove the financial effects of an inter-government transfer of land.

6.76 During 2003-04, the Agency finalised the sale of undeveloped land parcels in the East O'Malley, North Watson and Harrison estates. The Agency also finalised the sale of the fully developed Wells Station estate.

6.77 One component of the Cost of Goods Sold expense is the costs associated with developing estates (capitalised development costs). In 2003-04, these costs were less than budget due to a different number of estates being sold to that originally anticipated in the budget.

6.78 The combined effects of much higher than expected revenue and lower than expected expenses led to a significantly improved operating result for the Agency.

GOLD CREEK COUNTRY CLUB

6.79 On 24 December 1997, the Government acquired full ownership of the golf course and the outstanding shares in Gold Creek Country Club Pty Limited (the Club), which was the manager of the golf course.

6.80 Fees from the golf course, health club, bar and shop sales are the major sources of revenue for the Club. Major expenses relate to administration, employee expenses, operation of the clubhouse and health club and the maintenance of the golf course.

6.81 An **unqualified** audit opinion was issued to the Minister for Planning on 1 September 2004.

FINANCIAL PERFORMANCE

Table 6.17: Gold Creek Country Club Summary Statement of Financial Performance

	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Revenue	2,573	2,787	2,690
Expenses	3,577	3,517	3,346
Operating loss	**(1,004)**	**(730)**	**(656)**

6.82 The Club continued to operate at a loss with the 2003-04 operating loss ($1m) being similar to that incurred in 2002-03 ($0.7m). Expenses were higher due to increased water purchases and other expenses related to maintaining the golf course and clubhouse. Falls in revenue in relation to the golf course and the golf shop were partially offset by increases in food, beverage and health club revenue.

6.83 The Club was reliant on Government financial support to continue operations and to assist in meeting its commitments as they fell due. Since the Government acquired full ownership of the Club on 24 December 1997, it has provided loans to the Club of $4.6m ($3.6m at 30 June 2003).

KINGSTON STAGE 1A JOINT VENTURE

6.84 The Kingston Stage 1A Joint Venture (the Joint Venture) was created on 10 October 2001 under the Deed of Agreement between the former Kingston Foreshore Development Authority and Kingston (ACT) Pty Ltd (a wholly owned subsidiary of St. Hilliers Pty. Limited). The purpose of the Joint Venture is to construct medium density residential housing in Stage 1A of the Kingston Foreshore.

6.85 The Management Committee, which has equal representation from both partners, and an independent Chair, manage the Joint Venture. St. Hilliers Pty. Limited provides development, administrative and accounting services for the Joint Venture. Costs for these services are met by the Joint Venture through a management fee.

6.86 An **unqualified** audit opinion was provided to the Minister for Planning on 17 August 2004.

FINANCIAL PERFORMANCE

Table 6.18: Kingston Stage 1A Joint Venture Summary Statement of Financial Performance

	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Revenue	37,371	8,855	0
Expenses	29,685	7,530	1
Operating surplus/(deficit)	**7,686**	**1,325**	**(1)**

Comparison to Prior Year

6.87 Revenue for the Joint Venture is recognised based on the 'percentage of completion method'. Under this method, sales revenue is recognised on the basis of the percentage of construction completed multiplied by the value associated with units sold. The $28.5m increase in revenue was a result of increased progress on construction and completed stages of the Kingston Stage 1A Joint Venture.

6.88 Costs associated with the percentage of units completed have been recognised as cost of sales. Due to the number of completed units under the

'percentage of completion method', cost of goods sold increased by $22.2m in line with the sale of units.

SUMMARY OF THE LAND JOINT VENTURES

6.89 During 2003-04, the Agency was involved in four land development joint ventures. These joint ventures are expected to be completed in 2004-05.

Table 6.19: Summary of Financial Results of Land Joint Ventures

Joint Venture	Territory Share of Profit %	Joint Venture Operating Profit/(Loss) 2003-04 $000	Joint Venture Total Profit Since Inception $000
Harcourt Hill	50	162	28,837
Amaroo 3 (formerly Dunlop 4)	60	(64)	14,480
Nicholls Lakeside Estate	50	6	4,808
Condor 1/Gordon 9 (Southside Estates)	50	(3)	7,204
Total		**101**	**55,329**

6.90 As at 30 June 2004, these land joint ventures made profits of $0.1m in 2003-04 and have accumulated profits of $55.3m since their inception. The Territory shares in the profits of these joint ventures to varying degrees.

PLANNING AND LAND AUTHORITY

6.91 The ACT Planning and Land Authority (the Authority) was established as a statutory authority on 1 July 2003 by the *Planning and Land Act 2002*. Its principal objectives are, in partnership with all stakeholders in the community, to provide a planning and land system that contributes to the orderly and sustainable development of the Territory, consistent with the social, environmental and economic aspirations of the people of the ACT and in accordance with sound financial principles.

6.92 The Authority was deemed to be an administrative unit (a department) for financial reporting purposes effective from 1 October 2003 in accordance with the Administrative Arrangements 2003 (No. 3).

HIGHLIGHTS

- An **unqualified** audit opinion on the Authority's financial statements was provided to the Minister for Planning on 10 September 2004.
- The Authority managed its operations to budget.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 6.20: ACT Planning and Land Authority Summary Statement of Financial Performance

	Budget[72] 2003-04 $000	Actual 2003-04 $000
Expenses		
Employee	22,849	22,391
Supplies and services	12,782	12,797
Depreciation and amortisation	456	478
Other	29	714
	36,116	**36,380**
Revenue	**2,008**	**2,099**
Net cost of services	**34,108**	**34,281**
Government contributions		
Government payments for outputs	24,753	24,753
Revenue from government	8,393	8,393
Land asset transferred from the Land Development Agency	0	2,750
Capital injections	2,430	840
Other	39	574
	35,615	**37,310**
Operating surplus[73]	**1,507**	**3,029**

Comparison to Budget

6.93 The Authority managed its operations to budget. Its Net cost of services was in line with budget and its operating surplus was above budget expectations.

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

6.94 The Territorial operations of the Authority consist mainly of taxes, fees and fines. This revenue is reported in the 'Revenue and Expenses' section in Chapter 3.

[72] The original budget included in the 2003-04 Budget Papers was amended in accordance with the *Financial Management Act 1996*.

[73] The Operating surplus in the table differs from the published Operating surplus because, for the purpose of this analysis, Capital injections have been included in the Government contributions.

TREASURY

6.95 The Department of Treasury (Treasury) is responsible for managing the overall financial, budget, revenue and economic management functions of the Territory.

HIGHLIGHTS

- An **unqualified** audit opinion on Treasury's 2003-04 financial statements was provided to the Treasurer on 10 September 2004.
- Treasury managed its operations within its overall budget.

FINANCIAL PERFORMANCE – DEPARTMENTAL OPERATIONS

Table 6.21: Treasury Summary Statement of Financial Performance

	Budget[74] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000
Expenses	35,840	34,388	34,125
Revenue	681	1,401	1,214
Net cost of services	**35,159**	**32,987**	**32,911**
Government contributions	**35,528**	**34,249**	**47,500**
Operating surplus[75]	**369**	**1,262**	**14,589**

Comparison to Budget and Prior Year

6.96 Treasury managed its operations within its overall budget. Its 2003-04 Net cost of services was under budget.

6.97 Government contributions and Operating surplus fell from 2002-03 because 'one-off' funding was received for the Restructure Fund[76] in 2002-03.

[74] The original budget, included in the 2003-04 Budget Papers, was amended in accordance with the *Financial Management Act 1996*.

[75] The Operating surplus in the table differs from the published Operating surplus because, for the purpose of this analysis, Capital injections have been included in the Government contributions.

[76] The Restructure Fund was set up to fund whole-of-Government restructuring activities such as voluntary staff redundancies.

FINANCIAL PERFORMANCE – TERRITORIAL OPERATIONS

6.98 The Territorial operations of Treasury consist mainly of taxes, fees and fines and Commonwealth grants. This revenue is reported in the section on 'Revenue and Expenses' in Chapter 3.

UNIVERSITY OF CANBERRA

6.99 On 30 November 1997 the Commonwealth Government transferred the University of Canberra (the University) to the Territory under the *University of Canberra (Transfer) Act 1997*. The University has a 31 December year-end for financial reporting purposes.

6.100 The functions of the University include the:

- creation and communication of knowledge by means of teaching and research of the highest quality;
- encouragement of undergraduate and postgraduate study and research;
- provision of facilities and courses for Australian and international students for higher education generally, and particularly for professional occupations;
- awarding of degrees, diplomas and certificates, whether in its own right, jointly with other institutions, or as otherwise determined by the council;
- fostering of lifelong learning in graduates and others alike; and
- pursuing of community activities which benefit society at large.

HIGHLIGHTS

- An **unqualified** audit opinion for the 2003 financial statements was provided to the Minister for Education and Training on 13 March 2004.
- The Operating deficit in 2003 represented the continuation of a trend of declining operating results in recent years.
- The small operating results provided little protection from negative fluctuations in revenue and expenses from unforeseen and adverse events that may occur.

FINANCIAL PERFORMANCE

Table 6.22: University of Canberra
Summary Statement of Financial Performance (Calendar Years)

	Actual 2003 $000	Actual 2002 $000	Actual 2001 $000
Expenses			
Employee	71,858	72,732	64,779
Operating and other	36,047	29,302	29,903
Depreciation	7,110	7,047	6,457
	115,015	**109,081**	**101,139**
Revenue			
Government sources			
Commonwealth Government grants	39,706	36,373	37,801
Higher education contribution scheme	29,376	28,973	23,596
State Government grants	483	535	507
	69,565	65,881	61,904
Other sources			
Fees and charges	27,931	25,154	23,270
Other research grants and contracts	1,847	2,626	4,802
Investment income	830	941	1,037
Other	14,500	14,582	12,084
	45,108	43,303	41,193
	114,673	**109,184**	**103,097**
Operating (deficit)/surplus	**(342)**	**103**	**1,958**

Comparison to Prior Year

6.101 Expenses rose by $5.9m in 2003 mainly due to higher operating and other costs associated with:

- the write-off of a receivable relating to unfunded superannuation ($3.4m);
- improvements to buildings and grounds ($1m);
- increases in consultants fees ($0.9m); and
- increases in commission expenses related to the collection of monies from international agents fees[77] ($0.6m).

6.102 The increase in Commonwealth Government grants revenue reflected a rise in capital development grants ($1.6m), the receipt of a workplace reform grant ($0.9m)

[77] International agents fees are fees paid by the University for 'finding' international full fee paying students.

and a rise in Australian Research Council funding ($0.7m). Fees and charges also rose due to higher student enrolments for courses.

6.103 The Operating deficit in 2003 continued a trend of declining operating results in recent years. The small operating results provided little protection from unforeseen and adverse events that may negatively impact revenue and expenses.

6.104 The Vice Chancellor of the University provided the following advice in relation to this matter.

> *'The recent trend of declining operating surpluses is attributable to the nature of the sector in relation to overall funding levels. Such impact is more apparent in an institution of the size of the University of Canberra. The University has undertaken reviews of the organisation structure, course and program priorities and resource utilisation, affecting operating results in the short term. The University is confident of reversing the trend over the next few reporting periods.'*

URBAN SERVICES

6.105 The Department of Urban Services' (DUS) provides a wide range of services, including municipal, transport regulation, environment and heritage, arts and cultural services to the community. DUS also provides policy advice to Government on the strategic management of Government owned properties.

6.106 DUS supplies management support to the ACT Public Cemeteries Board and provides funds to ACTION and the Cultural Facilities Corporation. DUS also manages forestry services through ACT Forests.

6.107 On 1 July 2003, functions relating to DUS Planning and Land Management Group were transferred to the newly established ACT Planning and Land Authority. Totalcare Industries Limited's (Totalcare's) facilities management, property management and road maintenance services were transferred to DUS during 2003-04.

HIGHLIGHTS

- An **unqualified** audit opinion was provided to the Minister for Urban Services on 17 September 2004.
- An **'emphasis of matter'** was included in the audit report because one performance measure (Vehicle inspections within 15 minutes from booked appointment time) had not been measured. No audit opinion could therefore be expressed on this performance measure.
- DUS managed its overall operations within budget.
- Capital injections funding was less than budget by $16m due to deferral of some capital works projects.

FINANCIAL PERFORMANCE - DEPARTMENTAL OPERATIONS

Table 6.23: Department of Urban Services Summary Statement of Financial Performance

	Budget[78] 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Expenses				
Housing services – Housing **(Note 1)**	0	0	0	19,065
Transport services – ACTION **(Note 1)**	45,785	45,452	44,799	44,761
Arts and cultural facilities – Cultural Facilities Corporation **(Note 1)**	6,792	6,793	6,473	3,747
Forestry services – Forests **(Note 1)**	2,138	2,338	2,188	2,240
Grants to community organisations **(Note 1)**	664	2,449	2,974	1,266
Payments for services	**55,379**	**57,032**	**56,434**	**71,079**
Operating	146,778	156,442	133,649	119,593
Employee	72,518	75,024	81,279	75,868
Depreciation and amortisation	79,281	77,092	68,862	72,923
Other	6,159	9,550	14,862	6,452
	360,115	**375,140**	**355,086**	**345,915**
Revenue				
Sale of goods and services	39,766	58,687	45,146	21,307
Other	1,360	14,112	12,884	3,121
	41,126	**72,799**	**58,030**	**24,428**
Net cost of services	**318,989**	**302,341**	**297,056**	**321,487**
Government contributions				
Government payments for outputs	242,595	240,983	241,692	236,565
Capital injections	66,868	50,868	69,360	72,164
Injection for operations	0	0	0	9,798
Transfer of infrastructure assets	45,225	33,117	61,741	23,752
Resources received free of charge	61	604	1,758	1,678
	354,749	**325,572**	**374,551**	**343,957**
Operating surplus[79]	**35,760**	**23,231**	**77,495**	**22,470**

Note 1: These figures are not separately reported in the Budget Papers and were provided by DUS.

Comparison to Budget and Prior Year

6.108 Revenue for 2003-04 ($72.8m) significantly exceeded budget and the preceding year by $31.7m (77%) and $14.8m (26%) respectively because of the transfer of Totalcare's operations to DUS. Similarly, expenses ($375.1m) in 2003-04

[78] The Department's budget included in the Budget Paper No. 4 2003-04 was amended during the year in accordance with the *Financial Management Act 1996*.

[79] The Operating surplus differs from the published Operating surplus because Capital injections have been included in Government contributions and Assets recognised for the first time ($59.5m) in 2003-04 have been excluded from Other revenue.

were higher than budgeted and the preceding year by $15m (4.2%) and $20.1m (5.6%) respectively, due to costs associated with these operations.

6.109 Net cost of services were less than budgeted indicating that overall operations were managed to budget.

6.110 Capital injection funding was less than budget by $16m due to deferral of some capital works projects[80].

FINANCIAL PERFORMANCE - TERRITORIAL OPERATIONS

6.111 DUS Territorial operations consist mainly of taxes, fees and fines and Commonwealth grants. This revenue is reported in the 'Revenue and Expenses' section in Chapter 3.

WORKERS' COMPENSATION SUPPLEMENTATION FUND

6.112 The Workers' Compensation Supplementation Fund (the Fund) was established pursuant to the *Workers' Compensation Supplementation Fund Act 1980* (the Act). The purpose of the Fund is to accept responsibility for the payment of workers' compensation claims and settlements in the event that an insurance company failed or was unable to meet its liabilities arising from workers' compensation insurance policies, and to achieve the best possible outcome from the liquidation process.

6.113 From 1 July 2004, the Fund was transferred from ACT WorkCover to the Chief Minister's Department. A senior officer within the Chief Minister's Department has been appointed as the new Fund Manager.

6.114 In 2003-04, the Fund continued to make workers' compensation payments resulting from the collapses of National Employers Mutual Insurance and HIH Insurance.

[80] The projects that were deferred are reported 'Capital Assets' section in Chapter 3.

HIGHLIGHTS

- An **unqualified** audit opinion on the Fund's 2003-04 financial statements was provided to the Minister for Industrial Relations on 23 July 2004.
- The Fund managed its operations to its budget.
- The Fund's long-term financial position has significantly improved as a result of downward revisions in the actuarial assessments of the HIH liability.
- For the first time in recent years, the Fund had sufficient assets to meet its liabilities, however, it will still need to carefully manage its long-term liabilities.

FINANCIAL PERFORMANCE

Table 6.24: Workers' Compensation Supplementation Fund Summary Statement of Financial Performance

	Budget 2003-04 $000	Actual 2003-04 $000	Actual 2002-03 $000	Actual 2001-02 $000
Revenue				
Revaluation of HIH liability	0	5,453	20,860	0
Other	1,017	1,121	1,976	1,771
	1,017	**6,574**	**22,836**	**1,771**
Expenses				
Supplies and services	1,068	1,287	989	601
Depreciation and amortisation	413	415	210	6
Other	0	0	320	0
	1,481	**1,702**	**1,519**	**607**
Operating (loss)/profit	**(464)**	**4,872**	**21,317**	**1,164**

Comparison with Budget and Prior Year

6.115 The Fund's 2003-04 Operating profit ($4.9m) was $5.3m higher than budgeted due to a downward revision of the actuarially assessed HIH liability ($5.5m). Without this additional revenue, the Fund would have reported an operating loss of $0.6m[81], which was in line with the budgeted loss of $0.5m. The Fund is considered to have managed to its budget.

[81] $0.6m equals the Operating profit of $4.9m less revenue from Revaluation of HIH Liability $5.5m.

6.116 The 2003-04 Operating profit fell significantly by $16.5m from the preceding year primarily due to a decline in revenue from revaluation of HIH liability.

LONG TERM FINANCIAL POSITION

Table 6.25: Workers' Compensation Supplementation Fund Summary Total Assets and Total Liabilities

	Actual 2004 $000	Actual 2003 $000	Actual 2002 $000
Current assets	18,956	25,987	32,607
Non current assets	1,440	1,854	1,778
Total assets	**20,396**	**27,841**	**34,385**
Current liabilities	4,198	9,515	10,537
Non current liabilities	12,400	19,400	46,260
Total liabilities	**16,598**	**28,915**	**56,797**
Net assets/(liabilities)	**3,798**	**(1,074)**	**(22,412)**
Ratio of assets to liabilities	**1.23 to 1**	**0.96 to 1**	**0.61 to 1**

6.117 The ratio of assets to liabilities indicates the Fund's ability to meet its liabilities. This ratio improved significantly from 0.96 to 1 in 2002-03 to 1.23 to 1 in 2003-04.

6.118 The Fund's long-term financial position has improved as a result of significant downward revisions in the actuarial assessments of the HIH liability. For the first time in recent years, the Fund had sufficient assets to meets its liabilities, however, it will still need to carefully manage its long-term liabilities.

APPENDIX 1: SCOPE AND LIMITATION OF FINANCIAL AUDITS

Purpose

The main purpose of financial auditing by the Audit Office is to provide an impartial opinion to the Legislative Assembly 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.

Other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Audit Office is also required by the Australian Auditing Standards to report these matters to an agency's management.

The 'Expectation Gap'

The auditing profession recognises that an 'expectation gap' may exist because users of the financial statements and audit reports may tend to believe the auditor's roles and responsibilities are greater than they actually are. This may occur with audits undertaken by the Audit Office.

Users of audited statements therefore need to have a clear understanding of the respective responsibilities of management of the reporting entity and the auditor. Key elements of those responsibilities are:

- The reporting entity's management is responsible for maintaining adequate accounting records and preparing the financial and performance statements.
- The reporting entity's management is responsible for maintaining a system of internal controls to prevent or detect errors or irregularities (including fraud).
- The auditor is to form an opinion on whether the financial statements prepared by management present a view that is consistent with the auditor's understanding of the reporting entity's financial position, its operations and cash flows in accordance with the Australian Accounting Standards and other mandatory professional reporting requirements.
- The financial statements of departments and authorities include budget information. In performing audits of financial statements, the auditor provides no opinion on the accuracy or appropriateness of budget information or whether an agency could reasonably have been expected to achieve budget. No opinion is provided on the systems or the significant accounting policies and estimates that are used in preparing the budget.
- An audit does not involve an examination of every transaction of the reporting entity, as this would be prohibitively expensive and time consuming. Rather, an audit comprises a combination of system checks and examination of a sample of transactions for all items in the financial statements that are considered material and/or high risk in nature. 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.

- An audit opinion provides users of those statements with reasonable assurance that they are free of material errors. However, the audit opinion cannot provide a guarantee of absolute accuracy of every amount and disclosure made in the financial statements.
- An audit opinion on financial statements does not express a view on the efficiency and effectiveness with which management conducts its affairs, nor does it guarantee an entity's future viability.
- An audit opinion does not express a view on the prudence of decisions made by a reporting entity's management.
- An audit opinion does not cover information provided by management that seeks to explain the performance of a reporting entity. The auditor is only required to check that the information in any accompanying analysis is not materially inconsistent with the information reported in the audited financial statements.

The audit is generally confined to providing an opinion on a reporting entity's financial statements. The auditor's opinion only considers whether the financial statements comply with the provisions of the legislation that apply directly to the financial statements.

PREVIOUS AUDIT REPORTS[82]

Reports Published in 2004

1. Administration of Policing Services
2. Travel Arrangements and Expenses
3. Revenue Estimates in Budget Papers 2002-03
4. Data Reliability for Reporting on the ACT 'No Waste by 2010' Strategy
5. Leave Management
6. Workers' Compensation Supplementation Fund
7. Annual Report 2003-2004
8. Waiting Lists for Elective Surgery and Medical Treatment
9. Administration and Monitoring of Youth Service Contracts

Reports Published in 2003

1. Effectiveness of Annual Reporting
2. Belconnen Indoor Aquatic Leisure Centre
3. Emergency Services
4. Management of Fraud and Corruption Prevention in the ACT Public Sector
5. Lease of FAI House
6. Allegations of Financial Mismanagement University of Canberra Union
7. Compliance Performance Audit – Recruitment Processes
8. Financial Incentive Package for Fujitsu Australia Ltd (FAL)
9. Annual Management Report for the Year Ended 30 June 2003
10. Financial Audits with Years Ending to 30 June 2003

Reports Published in 2002

1. Special Purpose Review of Part of the Commission of Audit Report on the State of the Territory's Finances at 31 October 2001
2. Operation of the Public Access to Government Contracts Act
3. Governance Arrangements of Selected Statutory Authorities
4. Frameworks for Internal Auditing in Territory Agencies
5. V8 Car Races in Canberra – Costs and Benefits
6. Annual Management Report for the Year Ended 30 June 2002
7. Financial Audits with Years Ending to 30 June 2002

Reports Published in 2001

1. Financial Audits with Years Ending to 30 June 2000
2. Enhancing Professionalism and Accountability
3. Market Research and Marketing (Second Report)
4. Peer-Based Drug Support Services Tender – 1998
5. The Administration of Payroll Tax
6. Annual Management Report for the Year Ended 30 June 2001
7. Managing Canberra Urban Parks and Open Spaces
8. Canberra Tourism and Events Corporation – Relocation to Brindabella Business Park
9. Agents Board – Financial Administration of Training Grant Program
10. Corrective Services – Review of Certain Allegations
11. Financial Audits with Years Ending to 30 June 2001
12. The Freedom of Information Act

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[82] 57 Reports were issued prior to 1997. Details can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: http://www.audit.act.gov.au.

Reports Published in 2000

1 Bruce Stadium Redevelopment — Summary Report
2 Bruce Stadium Redevelopment — Value for Money
3 Bruce Stadium Redevelopment — Costs and Benefits
4 Bruce Stadium Redevelopment — Decision to Redevelop the Stadium
5 Bruce Stadium Redevelopment — Selection of the Project Manager
6 Bruce Stadium Redevelopment — Financing Arrangements
7 Bruce Stadium Redevelopment — Stadium Financial Model
8 Bruce Stadium Redevelopment — Actual Costs and Cost Estimates
9 Bruce Stadium Redevelopment — Market Research and Marketing
10 Bruce Stadium Redevelopment — Stadium Hiring Agreements
11 Bruce Stadium Redevelopment — Lawfulness of Expenditure
12 Bruce Stadium Redevelopment — Governance and Management
13 Annual Management Report for the Year Ended 30 June 2000

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