

AUSTRALIAN CAPITAL TERRITORY

ACT AUDITOR-GENERAL'S OFFICE

ANNUAL REPORT 2004-05
REPORT NO.5 / 2005

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The Auditor-General's Office

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

The Auditor-General's Office undertakes audits on financial statements of Government agencies, and the whole-of-Government consolidated financial statements.

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

The Auditor-General and the Office act independently of the Government, and report the results of the audits directly to the Assembly.

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AUDITOR-GENERAL
AUSTRALIAN CAPITAL TERRITORY



M05/5

The Speaker
ACT Legislative Assembly
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to present to you the Annual Report of the ACT Auditor-General's Office (the Office) for the year ended 30 June 2005.

This report has been prepared under Section 6(1) of the *Annual Reports (Government Agencies) Act 2004*, in accordance with the requirements referred to in the Chief Minister's Annual Reports Directions and in conformity with other applicable legislation.

I hereby certify that the attached Report includes all material information on the operations of the Office, and is an honest and accurate account of its operations during the period from 1 July 2004 to 30 June 2005.

I also hereby certify that fraud prevention has been managed in accordance with the Public Sector Management Standard 1, Part 4.

Section 15(2)(b) and (c) of the *Annual Reports (Government Agencies) Act 2004* requires that you arrange for a copy of this report to be given to each member of the Legislative Assembly on the same day that you receive it and for its subsequent tabling in the Assembly.

Yours sincerely

Tu Pham
Auditor-General
30 September 2005

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AUDITOR-GENERAL'S OVERVIEW

The year 2004-05 reflected a period of consolidation, after significant changes at management, strategic and operational levels in the preceding year.

With commitment from all staff, the Office has during the year progressively implemented its Strategic Plan, which identified and addressed a number of areas that needed improvement. I am pleased to see better practices in the management of the Office, with improved communications within and outside the Office, and increased attention to staff career and professional development.

During the year, the Office fulfilled its functions and worked hard to meet the expectations of the Office's stakeholders, namely the ACT Legislative Assembly, ACT public sector agencies and the ACT community.

The Office successfully completed the annual program of 83 financial statement audits, including the audits of the Territory and its agencies in accordance with the required timetable. In addition, the Office tabled a report summarising the outcomes of the 2003-04 financial audits.

The Office also completed eight performance reports and reviews, which covered a wide range of issues of significant interest to the Legislative Assembly and the general public, such as hospital waiting lists and the ACT development application and approval system. Audit recommendations from these reports were well received by the audited agencies, and generally supported by the Government and the Assembly.

The Office met other key legislative responsibilities under the *Government Procurement Act 2001* and the *Public Interest Disclosure Act 1994*.

During the year, the Office continued to experience difficulties in retaining and attracting skilled staff in accounting and auditing fields. The Office lost a number of its senior staff to private firms, which were able to offer significantly more attractive salaries. To address this situation, the Office has placed greater emphasis on recruiting graduates and providing on-the-job training.

Looking forward, given the wide range of issues requiring audit attention, the challenge for the Office will be to fulfil its functions and meet the expectations of the ACT Legislative Assembly and the general public with its limited resources. In particular, the areas of focus for the Office continue to be the capacity of the performance audit function, and its IT and research capabilities. As well, a priority for the Office will be to replace its electronic financial audit methodology, which is no longer supported by its commercial provider.

The Office continues to work closely with the Public Accounts Committee and government agencies to better target its resources and focus on areas of significance.

AUDITOR-GENERAL'S OVERVIEW

As the key provider of independent and impartial information on ACT public sector accountability and performance, the Office is looking forward to working with its key stakeholders, and to making a difference to the effective and efficient delivery of services to the ACT community.

I wish to acknowledge and thank all staff for their commitment, dedication, and hard work during the year to meet a demanding workload with limited resources. I also look forward to working closely with them in the coming years to ensure that the Office continues to achieve its main objectives.

A handwritten signature in blue ink that reads "Tu Pham". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Tu Pham
Auditor-General
30 September 2005

1 OVERVIEW OF THE OFFICE

THE ROLE OF THE OFFICE

The role and responsibilities of the Auditor-General and hence the ACT Auditor-General's Office (the Office) are set out in the *Auditor-General Act 1996*. The Act provides the Auditor-General with a broad mandate to do anything that is incidental or conducive to carrying out the functions of the Auditor-General, which, amongst other things, are:

- (i) to promote public accountability in the public administration of the Territory;
- (ii) to audit annual financial statements of the Territory, departments and Territory authorities under the *Financial Management Act 1996*; and
- (iii) to conduct performance audits.

This role is fulfilled by reporting the results of financial statement and performance audits to the ACT Legislative Assembly to keep Assembly members informed on the accountability and performance of ACT public sector.

The Office also provides advice and recommendations for improving the management of ACT public sector resources.

THE OUTCOME AND OBJECTIVES OF THE OFFICE

The desired outcome is an accountable, effective and efficient ACT public sector.

The Office's objectives are to:

- (i) inform the ACT Legislative Assembly and the community of the performance of the ACT public sector; and
- (ii) contribute to improving the performance of ACT public sector agencies.

VALUES OF THE OFFICE

The Office upholds the following values in the performance of its work:

Independence: The views expressed by the Office will be impartial and objective.

Integrity: The Office will exhibit the highest standards of ethical behaviour.

Professionalism: The Office's work will be of a consistently high standard and reflect its commitment to become a highly valued organisation.

Respect: The Office will be honest and respectful in its dealings with its stakeholders.

Learning and innovation: The Office will continually seek better ways of performing its work.

THE OFFICE'S STAKEHOLDERS

The Office's stakeholders and the Office's relationship to those stakeholders are set out below.

The ACT Legislative Assembly and the ACT Community

The ACT Legislative Assembly and the ACT community rely on the Office to provide impartial assurance on whether public money is being efficiently and effectively spent and whether financial and performance reports for the Territory and its agencies present a credible, true and fair view of their performance.

ACT Public Sector Agencies

ACT public sector agencies use the work of the Office to assist them in improving their operations. The Office's audit work keeps the agencies accountable for their performance and also assists agencies in meeting their obligation to provide credible financial and performance statements.

Audit Office Staff

The Office values its staff and aims to provide them with job satisfaction, professional development and a rewarding career.

RELEVANT LEGISLATION

The legislation that has the greatest impact on the Office is the *Auditor-General Act 1996*. Other relevant legislation includes the *Financial Management Act 1996*, *Territory Owned Corporations Act 1990*, *Public Interest Disclosure Act 1994* and *Government Procurement Act 2001*.

Auditor-General Act 1996

The Office operates principally under the *Auditor-General Act 1996*. This Act requires the Territory to have an Auditor-General and prescribes the functions and powers of the Auditor-General, as well as the administration of the Office.

The Act provides a statutory mandate for the Auditor-General to conduct audits of ACT public sector agencies, including financial and performance audits.

The Act supports the independence of the Auditor-General by specifically providing that the Auditor-General and the Office are not subject to direction by the Executive or any Minister in the exercise of the Office's functions. The Office reports directly to the ACT Legislative Assembly on any matter in the connection with the exercise of its functions.

Financial Management Act 1996

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

This Act requires the Office to audit the financial statements of the Territory and its departments and authorities.

Territory Owned Corporations Act 1990

The *Territory Owned Corporation Act 1990* addresses the financial management and associated accountability requirements of Territory owned corporations (TOCs).

TOCs are required to appoint the Auditor-General as their statutory auditor under the *Corporations Act 2001*. Consequently, the Office performs the audit of the financial statements of all TOCs under the Corporations Act.

Public Interest Disclosure Act 1994

The Auditor-General is a 'proper authority' for the receipt of disclosures under the *Public Interest Disclosure Act 1994*.

The Office has specific responsibilities regarding any disclosure received, essentially to investigate the disclosure or to refer it to another 'proper authority' for investigation. The Office also has the authority to act on a disclosure where there is not a 'proper authority' to investigate it, or a 'proper authority' has been unable or failed to adequately act on a disclosure.

Government Procurement Act 2001

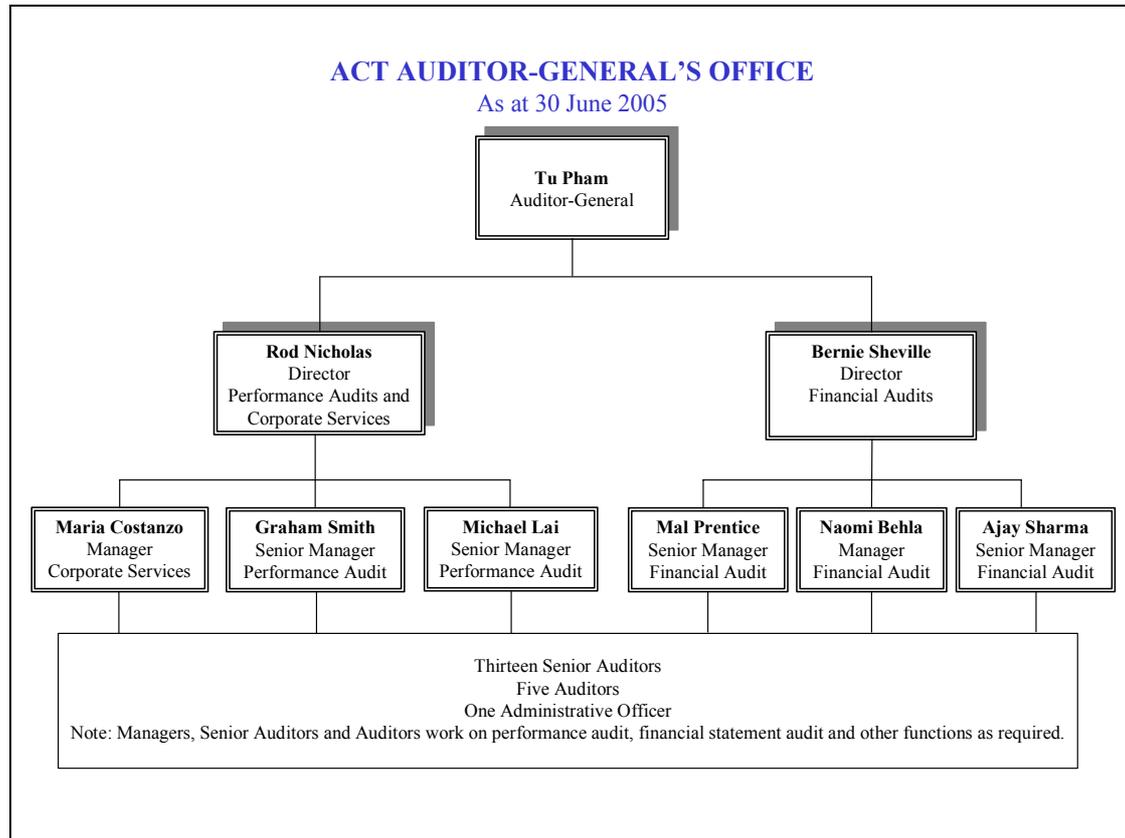
The Office maintains a register of certain contracts containing 'confidential text' that are provided to the Office by various government entities. The Office is required under the *Government Procurement Act 2001* to report biannually on contract information provided to the Office to the appropriate Legislative Assembly Committee (currently, the Public Accounts Committee).

2 GOVERNANCE

INTERNAL ACCOUNTABILITY

Management and organisational structure

The management and organisational structure of the Office is shown below.



Reflecting the operation of a small office, management of Office activities in 2004-05 was conducted primarily through regular meetings between the Auditor-General, Directors and Managers.

The Management Committee, comprising the Auditor-General and the two Directors meet on a weekly basis to discuss Office policies, set strategic direction, monitor the Office's overall performance and determine priorities for the Office.

Fortnightly meetings were also conducted with the management team comprising the Auditor-General, Directors and Managers to discuss the Office activities, report on progress against targets and raise audit and corporate issues requiring attention.

Monthly staff meetings were held to share information and discuss general and specific Office issues.

The Auditor-General issued revised personnel delegations, and revised financial instructions and delegations, in July 2004 and August 2004 respectively.

Senior executive remuneration

The Australian Capital Territory Remuneration Tribunal determines the remuneration of senior executives.

STRATEGIC AND ORGANISATIONAL PLANNING

The year 2004-05 was the first full year of operation under the Office's *Strategic Plan 2004-07*. The Strategic Plan was finalised in May 2004, following consultation with the Office's key stakeholders, including members of the Public Accounts Committee, Chief Executives of key agencies and staff of the Office. In February 2005, the Office reviewed the Plan and confirmed its continuing relevance.

The Strategic Plan is supported by an action plan that assigns responsibility for specific actions and timeframes for completion of those actions. This plan targets those areas identified as requiring improvement. The Auditor-General, Directors and Managers meet regularly to monitor progress against this plan. Progress against the action plan is also discussed at monthly staff meetings.

FRAUD PREVENTION

Fraud risks were analysed during the year as part of the development of a Risk Management Plan (see below). No significant fraud risks were identified. The Office handles no cash other than petty cash. The Directors and Managers work closely with staff in small audit teams and are also directly involved in all activities and this provides a reasonable safeguard against fraud and corruption.

The Office has policies and practices in place to minimise the risk of fraud and corruption. These policies and procedures include the Office's *Integrity Code* on the required standards of conduct, and instructions on the *Acceptable Access and Use of IT Resources*. Staff have been made aware of these policies and practices with new staff being introduced to them as part of induction training.

Reflecting the nature of fieldwork during audits, there are sound controls over staff attendance and leave. The Office also ensures it minimises the risk of fraud by segregating the performance of incompatible functions.

No fraudulent activity or unethical behaviour was identified during 2004-05.

RISK MANAGEMENT

During 2004-05, the Office developed a Risk Management Framework and a Risk Management Plan, which were consistent with the ACT Government's 'Risk

Management Policy' released in early 2004. The Office also continued to participate in risk management benchmarking coordinated by the ACT Insurance Authority.

The Office's main risks relate to audit activities. The realisation of these risks could compromise the reputation and integrity of the Office. Where practicable, measures have been put in place to minimise these identified risks, and are monitored throughout the year by the management team.

The Office has an appropriate internal control environment in place to support the Office's legislated functions and provide assurance that the policies, aims and objectives set for the Office are being achieved.

Audits and related activities are conducted using audit methodologies and practices that comply with Australian Auditing Standards and quality control procedures. All audits are completed and reviewed by staff with the required technical proficiency.

Audit work is performed in accordance with approved audit plans, including budgets. The time and cost of projects and other activities are monitored using the Office's 'Time and Cost' system.

Reports on the Office's financial operations are regularly prepared, reviewed, and monitored against the Office's overall budget. All expenditure is approved in accordance with the Office's financial delegations framework.

Incompatible functions associated with the Office's financial management are segregated, where possible, to ensure that the Office's financial records including its asset records are generally not maintained by those with the authority to approve expenditure.

EXTERNAL SCRUTINY

The *Annual Reports (Government Agencies) Act 2004* and the *Auditor-General Act 1996* provide mechanisms for the external scrutiny of the Office.

The Annual Reports Act requires the Office's annual report to be provided to the ACT Legislative Assembly. The Public Accounts Committee reviews the Office's annual report including the Office's audited financial statements.

The Auditor-General Act provides for an annual audit of the Office's financial statements by an auditor selected by the relevant Minister. In 2004-05, PKF Chartered Accountants and Business Advisers was selected as the independent auditor. PKF provided an unqualified audit opinion on the Office's financial statements and no significant matters were identified from the audit process.

WalterTurnbull undertook an audit of the Office's compliance with taxation legislation as part of a whole of government program arranged by the Department of Treasury. No significant issues were identified from this audit.

3 THE OFFICE'S PERFORMANCE AND FINANCIAL RESULTS

THE OFFICE'S PERFORMANCE

The Office's objectives are to:

- inform the Legislative Assembly and the community of the performance of the ACT public sector;
- contribute to improving agency performance;
- shape its services to anticipate and respond to the needs of the Legislative Assembly and other stakeholders;
- enhance staff competencies, knowledge and experience; and
- maintain the cost efficiency of the Office.

The Office is committed to achieving these objectives by:

- (i) providing relevant and timely advice, briefings and reports to the Legislative Assembly, in particular the Public Accounts Committee;
- (ii) working closely with agencies and their audit committees through regular meetings and discussions of issues of governance, risk management and financial reporting; and
- (iii) conducting audits in a professional manner, and providing high quality and timely audit reports that focus on issues of significance and include practical recommendations.

During 2004-05, the Office improved its performance in most areas identified as in need of improvement in its strategic plan. The Office achieved the target number of performance audit reports and again completed the financial audit program on a timely basis. The Office continues to be rated highly in feedback provided by its major stakeholders and staff.

The Office improved communication with its major stakeholders by providing a number of meetings with agencies during audits and offering briefings to the Public Accounts Committee. The Office has also established formal liaison arrangements with audit committees of major agencies, which greatly assisted in the sharing of information and improving the Office's understanding of agencies' emerging issues.

The engagement of two additional performance auditors in 2004-05 improved the Office's capacity to complete performance audits. However, these staff only brought the size of the performance audit team to six, and this did not enable the Office to keep pace with the increasing demand for performance audit work and other matters

referred to the Office. It remains a concern that the Office's resources are less than that needed to review, on a timely basis, the many areas in the ACT public sector and other matters referred to the Office. During the 2005-06 budget process, both the Public Accounts Committee and the Estimates Committee supported the Office's request for additional funding of three additional performance audit positions. However, this funding was not provided in the 2005-06 budget, reflecting the tight financial situation faced by the Territory.

The high staff turnover rates, difficulties in attracting staff replacements and the diversion of staff away from performance audits to address the more urgent requests referred to the Office, will continue to restrict the Office's capacity to complete planned performance audits in a timely fashion.

The Office implemented a 'learning and development program' during 2004-05. This program recognised the importance of matching individual development and training to the needs of the Office, if the Office is to achieve its strategic objectives. Staff participated in a wide range of professional development opportunities and training, covering technical and non-technical topics.

There was also increased participation in national audit forums such as working committees on audit methodology, performance audit issues and benchmarking. As well, the Office briefed a number of overseas delegations on the operations of the Office.

The Office's certified agreement was amended in 2004-05. These changes improved the working conditions and career structure for staff. The agreement was modified to give greater emphasis to career advancement based on performance and capacity, rather than qualifications alone, and to strengthen the corporate and administrative functions of the Office. A significant proportion of staff was involved in the bargaining process, with the changes being supported by most staff.

The Office's working environment was significantly improved towards the end of 2004-05, when the Office relocated to more suitable accommodation. The improved facilities enable the Office to better meet its occupational health and safety obligations, and improve security, as well as providing staff a pleasant working environment.

The Office's performance on its key activities are discussed in detail in the following paragraphs.

Performance Audit Activities

Table 3.1: Performance Measures for Performance Audit

	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2004-05 Target
Number of audit reports presented to the Legislative Assembly ¹	11	10	4	9	9
Percentage of performance audits completed within 9 months	Not measured	50%	0%	38%	95%
Percentage of audits completed within 12 months	Not measured	62%	33%	62%	100%
Percentage of Chief Executives satisfied with performance audit reports	100%	100%	100%	>95%	>95%

¹ This includes the annual report summarising the outcomes of the financial audits.

The Office achieved its target number of reports in 2004-05 and has established a three-year program for performance audits. This program is amended as needed to respond to any new priorities.

The percentage of audits completed within nine months continues to be well below the level the Office considers desirable, although the percentage completed within 12 months was significantly better than the previous year. Resource limitations created by turnover of performance audit staff and the complexity of some of the audit subjects are major contributing factors to the timeliness of audits. With only a small performance audit team (an average of around four persons during the year), the loss of key staff during audits continued to affect the Office's ability to consistently complete performance audits in a timely fashion.

The following performance audit reports were presented in the Legislative Assembly:

1. Data Reliability for Reporting on the ACT 'No Waste by 2010 Strategy'.
2. Leave Management.
3. Workers' Compensation Supplementation Fund.
4. Waiting Lists for Elective Surgery and Medical Treatment.
5. Administration and Monitoring of Youth Service Contracts.
6. 2003-04 Financial Audits.
7. Management of Government Grants to the ACT Multicultural Council Inc.
8. Development Application and Approval Process.

In addition, the Office published a Review Report – **Matters Relevant to the Office of Special Advisor, Council of Australian Governments and Inter-governmental Relations**.

Most reports include recommendations, which, if implemented, are expected to improve the performance of ACT public sector agencies. Most recommendations contained in the following reports were agreed to by the relevant agencies.

A brief summary of the matters contained in these reports is provided below. The reports may be obtained from the Office's website at <http://www.audit.act.gov.au/>.

Report No. 4 of 2004, titled **Data Reliability for Reporting on the ACT 'No Waste by 2010 Strategy**, was tabled in August 2004.

The audit found the procedures used to collect waste and recycle data needed improvement. The administration of recycling and waste data maintained in electronic format was effectively managed by the Department of Urban Services (DUS) and cost data regarding payments to contractors was accurate and complete.

The audit report included four recommendations, which were accepted or accepted in principle by DUS.

Report No. 5 of 2004, titled **Leave Management**, was tabled in August 2004.

The audit found that many agencies managed leave well, but there were some risks of unrecorded absences. This could lead to significant costs to the ACT Government, given that leave entitlements are currently in excess of \$75m per year, and that effective management of leave is central to the management of the workforce.

The audit also found that there was little action to actively review and manage leave, and that there were opportunities to improve leave management through more comprehensive analysis of leave patterns on a whole-of-government basis and for each agency.

The report includes 10 recommendations, which were all agreed to, except for one recommendation by one agency.

Report No. 6 of 2004, titled **Workers' Compensation Supplementation Fund**, was tabled in September 2004.

The audit reviewed the management of the Fund and found the Fund Manager had administered the Fund in accordance with the *Workers' Compensation Supplementation Fund Act 1980*. However, processes for selection of providers of legal services and other services were not in accordance with Government procurement legislation, policy and guidelines and the provisions

of relevant legislation concerning the public availability of information on government contracts were not adhered to.

Legally binding contracts to provide legal services to the Fund were created by the Fund Manager, notwithstanding the failure to comply with the provisions of the *Government Procurement Act 2001* or the *Public Access to Government Contracts Act 2000*. Accordingly, payments by the Fund Manager for these services were legal. Further, nothing came to the attention of the audit that indicated or implied any irregularity in the allocation of work to legal firms on the panel.

The report included five recommendations, which were agreed to by relevant agencies.

Report No. 8 of 2004, titled **Waiting Lists for Elective Surgery and Medical Treatment**, was tabled in December 2004.

The audit found that there were long waiting times in the ACT and that ACT Health could improve information on waiting times. For example, there was a lack of controls on changes to waiting list categories, and non-surgical data was patchy and inconsistent. There was some lack of equity, in that some Category 2 patients wait longer than category 3 patients, and some patients have vastly different waits for similar conditions.

The audit considered communication with patients could be improved. The audit also found that information was broadly reliable to support management decisions and that ACT Health directed funding to areas with longer waiting times.

The report included 29 recommendations. The Government agreed with 21 recommendations, disagreed with two, and agreed in part or in principle with the remaining six.

Report No. 9 of 2004, titled **Administration and Monitoring of Youth Service Contracts**, was tabled in December 2004.

The audit included a review of the administration of contracts that provided services to youth at risk. The audit found all agencies audited had adequate research and specific programs to support young people at risk. There were sound frameworks and plans, but less evidence of effective implementation, as agencies had relied on informal mechanisms to achieve service coordination. Agencies did not consistently conduct reviews of performance of contracted youth service providers or provide timely feedback to them. Further, methods used to determine costs of contracted youth services did not provide a robust basis for agencies to assess value for money. However, improvements were made prior to the completion of the audit.

The report included four recommendations, all of which were agreed or agreed in principle by ACT Health and the Department of Disability, Housing and Community Services (DHCS).

Report No. 10 of 2004, titled **2003-04 Financial Audits**, provides a summary of the results of the financial audit program during 2003-04.

This report summarises the results of the Office's audit program of the financial statements of the Territory and its agencies in 2003-04. The report also provides an analysis of the Territory's financial statements, and comments on significant matters found during conduct of the financial audit program.

Report No. 1 of 2005, titled **Management of Government Grants to the ACT Multicultural Council Inc**, was tabled in April 2005.

As the ACT Multicultural Council (ACTMC) is outside the mandate of the Office, the audit focussed on the administration of grants by the Department of DHCS. The audit found the governance of ACTMC had improved, and that recent funding agreements now encouraged good governance and accountability. There had been significant efforts by DHCS to work with the ACTMC to improve its performance.

Although the audit involved only a small amount of money paid to one organisation, some of the lessons learned could also be applied to other grants to community groups.

The audit report included four recommendations, which were agreed to by DHCS.

Report No. 2 of 2005, titled **Development Application and Approval Process**, was tabled in May 2005.

The audit assessed the efficiency and effectiveness of the development application and approval (DAA) processes. The audit found that the processes were not efficient, primarily due to complexity of legislation and guidelines, lack of consistent documentation and document management, inadequate compliance activities and shortcomings in the referral and consultation processes. DAA processes were fair in most cases and although they were often timely for single residential developments, they often failed to meet statutory timeframes for non-residential developments.

DAA processes were generally applied in a manner consistent with relevant guidelines and legislation, but there was a need for improvement of the consistency and transparency of processes.

Although the DAA process had some regard for the principles of Ecologically Sustainable Development (ESD), further work was required to ensure that ESD has clear and measurable impacts on DAA decisions.

The audit made 22 recommendations. The ACT Planning and Land Authority agreed to 14, agreed in part to six, and indicated that consideration would be given to the remaining two recommendations.

A Review Report, titled **Matters Relevant to the Office of Special Advisor, Council of Australian Governments and Inter-governmental Relations**, was issued in April 2005.

The review found that the Office of Special Adviser (OSA) was created in accordance with relevant legislation but the role and functions of the Office were not well documented and accountability arrangements for the OSA were unclear. Since April 2004, there had been only a tenuous connection to the outputs of the Chief Minister's Department.

Financial reporting arrangements met requirements of the *Financial Management Act 1996*, but the Special Adviser's Annual Report did not fully meet the requirements of the Annual Reports Act or the Annual Reports Directions.

The review highlighted the need to develop clear policy and guidelines for secondment arrangements and that decisions should be documented to demonstrate the benefits of these arrangements.

Financial Audit Activities

Table 3.2: Performance Measures for Financial Audit

	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2004-05 Target
Number of financial statement audit opinions issued	85	81	86	83	86
Percentage of financial audits completed within the required timetable	94%	100%	100%	95%	100%
Percentage of recommendations accepted in financial audits (new measure)	-	-	-	93%	>95%
Percentage of Chief Executives satisfied with financial audits	100%	100%	100%	98%	>95%

The Office provides an independent written audit opinion on agency financial statements, and hence assurance to the ACT Legislative Assembly and the ACT community that the information in the financial statements is materially correct.

As in previous years, the Office completed a program of financial audits. These included the audits of the financial statements, including performance measures, of the Territory, its departments, authorities and corporations. The Office also completed a range of other audits as required by legislation or other requirement such as grant acquittal audits.

The number of annual audit opinions issued is a result of legislative requirements or other external requirements and has not changed significantly in recent years. In 2004-05 the Office has completed all required audits, with nearly all being completed within the required timeframes.

The percentage of Chief Executives satisfied with the Office's conduct of the financial audit process has remained consistently high. Ninety-eight percent of Chief Executives rated the Office's performance as 'satisfactory' or better, with 82% rating the Office's performance as 'good' or 'very good'.

As part of the financial audit process, the Office assists agencies by alerting them to errors in their financial statements and by improving the quality of their financial statements. Similarly, the Office assists management of the agencies by identifying major concerns such as internal control weaknesses and poor financial management procedures and practices, and making recommendations to address them. These recommendations are usually reported directly to agency management, and are not publicly reported unless the matter is assessed to be so serious or systemic as to warrant public reporting.

For the first time this year, the Office collected information on the recommendations accepted by audited agencies resulting from matters identified during financial audits. This measure provides an indication of the extent to which agencies have accepted the findings and recommendations by the Office contained in management reports provided to the agency.

In 2004-05, the Office made 235 recommendations of which 219 (93%) were accepted by agencies. This highlights the ability of the Office to add value to public sector financial management and reporting processes.

Other Activities

In addition to performance audit and financial audit activities, the Office provided advice to the Legislative Assembly members as requested and appropriate, and provided briefings to the Public Accounts Committee.

The Office also provided comments and suggestions on relevant draft cabinet submissions, Treasury finance memorandums and other guidance material. During

THE OFFICE'S PERFORMANCE AND FINANCIAL RESULTS

the year, the Office participated in regular meetings of Internal Audit Committees of all major agencies.

The Office met its obligations under the *Government Procurement Act 2001* (Section 39) to provide the Public Accounts Committee with biannual reports on Government contracts that contained confidential text.

The Office contributed to the national review and development of accounting and auditing policy and standards through its input to the Australasian Council of Auditors-General (ACAG), and also provided briefings on the Office to a number of overseas delegations.

FINANCIAL RESULTS

Table 3.3: Summary of Financial Results

	2001-02 Actual \$'000	2002-03 Actual \$'000	2003-04 Actual \$'000	2004-05 Actual \$'000	2004-05 Budget \$'000
Financial Audit Fees	2,111	2,076	2,424	2,283	2,365
Appropriation	925	943	961	1,279	1,279
Other	6	11	34	51	23
Revenue	3,042	3,030	3,419	3,613	3,667
Employee	1,821	1,915	2,038	2,378	2,358
Supplies and Services	1,065	1,036	1,086	1,246	1,202
Depreciation	30	37	37	23	25
Expenses	2,916	2,988	3,161	3,646	3,585
Operating Surplus / (Deficit)	126	42	258	(33)	82

Revenue

The Office's revenue base is mostly comprised of financial audit fees and appropriation, and is fairly predictable. The Office's 2004-05 revenue was consistent with the 2004-05 budget expectations.

Revenue has increased by \$571,000 (18.8%) since 2001-02, which equates to an annual average increase of 6.3%.

Financial audit fees have increased by \$172,000 (8.1%) since 2001-02. This equates to an average annual increase of 2.7% per annum. Such increases are modest given the high cost associated with meeting the need of the Office for skilled audit and accounting professionals, and the many changes to audit and reporting requirements.

The Office's **appropriation** has increased by \$354,000 (38.2%) since 2001-02. This increase is largely due to the provision of funds in 2004-05 to fund two additional performance audit positions and other unavoidable cost increases (e.g. higher IT costs charged by InTACT, accommodation and printing). Except for this 'one off' funding, revenue increases in past years have been limited to the indexation provided to the ACT public sector.

Expenses

Expenses in 2004-05, which are mainly comprised of employee costs (65%) and supplies and services expenses (34%), were in line with the 2004-05 budget.

Overall expenses have increased by \$730,000 (25.0%, or 8.3% annually) since 2001-02, mostly due to rising employee expenses.

Employee Expenses

Most of the increase in employee costs was due to the recruitment of additional staff in 2004-05. The Office has also incurred significant costs associated with annual and long service leave liabilities of new employees in 2004-05, and increasing staff remuneration to retain experienced staff.

The Office has also sought to contain employment costs by ensuring that remuneration offered is reasonable compared to that available elsewhere in the ACT public sector, actively managing of recreation leave liabilities by ensuring staff take their full recreation leave entitlements each year and, where possible, entering into short term employment arrangements, rather than engaging more expensive contractors.

Supplies and Services

Supplies and services expenses increased by \$181,000 (17.0%) since 2001-02 representing an average increase of 5.7% per annum over the last three years.

Nearly all this increase has occurred in 2004-05 mainly to meet accommodation costs, higher IT costs, and additional printing costs for audit reports.

Operating Results

The Office results are essentially breakeven indicating that it recovers the costs of its activities. As the Office essentially operates on a cost recovery basis, its operating results can therefore easily fluctuate from small deficits to small surpluses, when relatively minor changes to revenue and expenses occur.

OUTLOOK FOR THE COMING YEAR

The Office expects to continue to operate in a tight budgetary environment for the foreseeable future, due to the shortage of skilled audit staff and the increased demand for audit work.

A significant focus of the Office over the next year will be to improve the timeliness of performance audit reports. The Office also plans to develop better capacity to review agency IT systems and implement a new financial audit methodology presently being jointly developed by other Audit Offices.

Continuing changes to relevant legislation, and to audit and reporting standards are expected to place further demands on the Office to provide sound advice on audit and accounting issues as they emerge. In this regard, the Office will look to develop its capacity to research audit and accounting issues and provide timely advice and guidance to its stakeholders.

4 HUMAN RESOURCE MANAGEMENT

OVERALL PERFORMANCE

Consistent with the needs of a professional Office, all staff with audit responsibilities have tertiary qualifications and most are either members of a professional body (such as the Institute of Chartered Accountants in Australia or CPA Australia) or are undertaking programs of study to become eligible to join a relevant body.

Senior Managers and Directors have considerable technical and management experience in public and/or private sector organisations (usually 10 to 20 years experience). There is much less experience below these levels with most staff having less than five years experience.

At 30 June 2005, 25% of the Office's workforce had been with the Office for less than one year and 21% of staff ceased employment with the Office during 2004-05.

Table 4.1: Staff Movements

Staff Movements	2001-02	2002-03	2003-04	2004-05
Recruitment	5	5	9	7
Attrition	4	4	7	6
Number of Staff	24	25	27	28
Turnover	17%	16%	26%	21%

The Office's workforce is small and changes to staffing levels have a significant impact on the Office's operations. It has been difficult to consistently retain skilled staff in recent years, largely due to the competitive and strong demand for experienced and qualified accountants and auditors. The Office continued to compete for staff resources with many larger organisations such as the Australian National Audit Office, private sector audit and accounting firms and ACT and Commonwealth public sector agencies. These organisations often have more capacity to offer better salaries and better employment opportunities for advancement.

During the year, the Office continued to implement a number of measures to improve retention rates of skilled staff, and aimed to achieve a target staff turnover rate of 20% in 2004-05, declining to 15% by 2005-06. These measures include better performance management, improving the Office's working conditions, promoting diversity, expanding the range of training and learning opportunities available for staff and implementing flexible and family friendly work practices. The Office's Certified Agreement was also amended to provide more opportunities for career progression within the Office. Details of these amendments are provided in the section titled 'Workplace Relations'. The Office has also been supportive of secondment arrangements within the ACT public sector to provide staff with broader experience and knowledge of other government agency operations.

The Office's 2004-05 staff turnover rate of 21% was reasonably close to the target rate of 20%. The Office recognises that it will need to work hard to achieve the 2005-06 target rate of 15% over the next twelve months.

WORKFORCE PLANNING

The Office conducted workforce planning during the year through assessments of the resources needed to complete the Office's annual program of financial statement audits, performance audits and other activities. These assessments also make allowances for staff training, leave, secondment opportunities and other administrative activities.

Most staff were involved in the major activities of the Office. During the peak financial statement audit period, which extends from March to October each year, most staff work on the statutory financial statement audits of agencies. Outside this peak period, available staff are assigned to performance audit and other activities.

Staff also receive regular training on financial and performance auditing to facilitate a higher degree of mobility between the major activities of the Office.

The Office minimises the use of external audit contractors when completing the financial audit program. Audits are outsourced to external contractors where the Office considers the audit requires specialised skills such as high level of IT or tax knowledge that are not available within the Office.

STAFFING PROFILE

There were 28 staff employed in the Office (including the Auditor-General) as at 30 June 2005. The Auditor-General is appointed for a term of seven years as a full time statutory office holder under the *Auditor-General Act 1996*. All other staff are employed under the *Public Sector Management Act 1994*.

Table 4.2: Staffing Profile – Men (M) and Women (W) by Employment Classification

Classification	Men	Women	Total	Part Time	Permanent	Fixed Term	Temporary
					M/W	M/W	M/W
Auditor-General	0	1	1	0	0/0	0/1	0/0
Directors	2	0	2	0	0/0	2/0	0/0
Senior Managers	4	0	4	0	3/0	1/0	0/0
Managers	0	2	2	0	0/2	0/0	0/0
Senior Auditors	8	5	13	0	6/5	0/0	2/0
Auditors	2	3	5	0	2/3	0/0	0/0
Administrative Officers	0	1	1	0	0/1	0/0	0/0
TOTAL	16	12	28	0	11/11	3/1	2/0

Table 4.3: Age Profile

Age	No.	Percentage
20 to 25	6	25%
26 to 30	5	18%
31 to 35	6	21%
36 to 40	2	4%
41 to 45	2	7%
46 to 50	2	7%
51 to 55	2	7%
56 to 60	2	7%
61 to 65	1	4%
TOTAL	28	100%

CULTURE AND VALUES

In addition to the Office’s implementation of its *Integrity Code*, most staff are members of professional bodies and receive ethical training as part of their professional qualifications. This training also provides specific guidance on matters of particular relevance to auditors.

The Office held a planning day in 2004-05 to revisit its ‘Strategic Plan 2004-07’, and provided a further opportunity for staff to agree on the shared values that staff should exhibit in the performance of their work.

The Office has mechanisms in place to receive and handle potential breaches of the Office’s *Integrity Code*. Staff may raise issues directly with the Auditor-General and members of the management team, or may raise matters of concern anonymously.

WORKPLACE DIVERSITY

Under its *Equity and Diversity Guidelines*, the Office continued to promote and maintain equity and diversity at the workplace. All staff have the opportunity to be involved in the Office’s decision-making processes and are encouraged to express their views freely through internal consultative mechanisms, regular staff meetings, and various discussion forums.

With its small yet diversified workforce, the Office has been successful in achieving a supportive and inclusive working environment. The Office has a significant number of staff (46%) from linguistically and culturally diverse backgrounds. In 2004-05, no staff or applicants for positions within the Office indicated that they had a disability or came from an Aboriginal and Torres Strait Islander background.

Table 4.4: Staff Diversity Profile

Classification	Male	Female	Total	Culturally & Linguistically Diverse Background	Aboriginal & Torres Strait Islander	Disabled
Auditor-General	0	1	1	1	0	0
Directors	2	0	2	0	0	0
Senior Managers	4	0	4	2	0	0
Managers	0	2	2	2	0	0
Audit Seniors	8	5	13	5	0	0
Auditors	2	3	5	3	0	0
Administrative Officers	0	1	1	0	0	0
TOTAL	16	12	28	13	0	0

WORKPLACE HEALTH AND SAFETY

There were no workplace accidents or injuries sustained during 2004-05.

The Office has guidelines regarding the Occupational Health and Safety (OH&S), which are accessible to all staff.

In 2004-05, a staff member was appointed as the OH&S officer, responsible for facilitating a safe working environment.

The Office has implemented several measures to provide a safe and healthy working environment.

HUMAN RESOURCE MANAGEMENT

- (i) Office furniture and equipment is acquired taking into account OH&S requirements.
- (ii) Staff may have their individual workstations professionally assessed at any time. Where staff have sustained injuries or have other specific requirements, individual workstations are professionally assessed taking into account the specific medical needs of the individual.
- (iii) The Office invests a considerable amount of time in forward planning its activities and commitments and monitors hours being worked by staff, particularly during peak workload periods. Planning decisions share the workload amongst staff, as far as reasonably practicable, so that staff are not required to work excessive periods of long hours. The Office's forward planning activities also facilitates a whole of Office approach to planning leave, study, family and other commitments and encourages staff to take their leave entitlements each year.
- (iv) Staff are offered the option of having injections against influenza.
- (v) Stress is managed through ongoing coaching and supervision of staff, and supporting staff through difficulties they may experience in their personal and professional life. The Office also has a zero tolerance policy towards workplace discrimination, harassment and bullying.

There were no accidents or dangerous occurrences that required the giving of notices under Section 204 of the *Occupational Health and Safety Act 1989*. No investigations were conducted during the year and there were no improvement notices, prohibition notices and notices of non-compliance given to the Office under sections 146, 155 or 212 of the OH&S Act.

LEARNING AND DEVELOPMENT

A learning and development program was developed in 2003-04 with implementation commencing in 2004-05. A significant emphasis of the learning and development program continues to be focussed on ensuring the Office has the capacity to meet its audit responsibilities. Coaching of staff on audits and technical training remains an integral part of the learning and development of staff. However, the program also gives attention to the development of the broader needs of staff such as report writing, communication, presentation skills and time management.

The Office encourages all staff to work towards obtaining professional status in their careers. The Office met the course fees for two staff to undertake their post graduate studies in Accounting and Commerce and provided financial support to nine staff in participating in the programs run by CPA Australia and the Institute of Chartered Accountants in Australia. The Office also provides study leave and examination leave and the activities of the Office are planned so that staff have access to this leave when needed.

Training provided during 2004-05 included training on IT applications, the Office's financial audit methodology, performance auditing, writing skills and International Accounting Standards, and attendance at various professional and business forums.

Expenditure on external training courses totalled around \$31,000. Training expenditure, including internal costs and time allowed for study leave totalled over \$180,000. This represented over 7% of total employee expenses. Time spent on training averaged over eight days per staff member.

During the year, the Office brought training associated with the financial audit methodology in-house. This training was previously provided by external firms every second year at a cost of \$40,000. The Office also made savings of around \$50,000 by developing the training materials in-house.

WORKPLACE RELATIONS

During 2004-05, staff voted in support of changes to the Office's Certified Agreement, and also to extend the Certified Agreement to 2 February 2007.

The changes were aimed at improving retention of skilled staff by providing more flexible salary bands, a better career structure, and placing greater emphasis on performance outcomes. The main changes to the agreement were:

- (i) amendment of the Office's employment conditions to match those provided elsewhere in the ACT public service;
- (ii) removal of mandatory qualification requirements which previously prevented skilled staff from progressing to more senior positions;
- (iii) creation of a new 'senior manager' position to recognise the high level of skills and experience of the Office's senior officers, and to facilitate the progression of senior auditors to 'manager' positions; and
- (iv) removal of 'input based productivity targets' measured by hours spent on audits to refocus performance on the outcomes of the Office.

At 30 June 2005, the Office did not have any employees that were covered by an Australian Workplace Agreement or Special Employment Arrangement.

The Certified Agreement applies to 25 staff represented by senior managers, managers, senior auditors, auditors and administration staff.

5 REPORTS REQUIRED BY LEGISLATION AND OTHER REQUIREMENTS

FREEDOM OF INFORMATION

The *Freedom of Information Act 1989* (the FoI Act) provides people with a legally enforceable right of access to information in the possession of the ACT Government. The object of the FoI Act is to encourage the prompt release and disclosure of information.

The Auditor-General Act contains specific provisions aimed at protecting the integrity of an audit or investigation by the Auditor-General. Under these provisions, it is an offence for a person exercising, or who has exercised, a function of the Auditor-General to disclose protected information to someone else. Any documents obtained in reviewing matters relevant to an audit or investigation are, for the purposes of the Auditor-General Act, protected information.

The specific prohibition on the disclosure of protected information in the Auditor-General Act overrides the general provisions of the FoI Act. This is in accordance with generally accepted principles of statutory interpretation, where general provisions are read subject to specific provisions.

Based on the above, any information or documentation that comes into the possession of this Office as a result of the performance of a function of the Auditor-General is exempt from production under the FoI Act.

Publication of documents and information (Section 7 statement)

Participation in the Work of the Office by Members of the Public

The usual method used by members of the public to participate in the work of the Office is by the making of representations directly to the Office or by making representations to their elected representatives in the Legislative Assembly who may, in turn, decide to make representations to the Office. For some performance audits, the Office will directly consult selected stakeholders.

Categories of documents in the possession of the Office

The Office holds the following categories of documents:

- (i) *Documents freely available on request and without charge.* Documents in this category include audit reports produced by the Office. These documents are available from the Office website <http://www.audit.act.gov.au> or on request from the Office, and are also distributed from public counters and libraries throughout the Territory.

- (ii) *Other kinds of documents that may be available under the FoI Act.* A wide range of documents, held in the Office, may be available under the Act. These documents may include general administrative files including internal, interagency and public documents, minutes of meetings of management and other committees, agendas and background papers, policies, diaries, work sheets, (computer or paper) in connection with Office administrative functions, photographs, financial and accounting records, leases and deeds of agreement.
- (iii) *Documents obtained in the exercise of a function of the Auditor-General Act 1996.* These documents cannot be disclosed (under Section 34(1) of the *Auditor-General Act 1996*) and include all documents and materials relating to audits of government agencies as well as other reviews and investigations.

Facilities provided by the Office for enabling members of the public to obtain physical access to the documents

Those seeking information should seek access by contacting the Office before resorting to a formal FoI application. In many cases, access to information can be gained more efficiently through such an approach.

Any enquiries concerning FoI matters should be addressed to the Office's FoI Coordinator:

Mr Rod Nicholas
FoI Coordinator
ACT Auditor-General's Office
Level 4, 11 Moore Street, Canberra City ACT 2601
Phone 6207 0833; Fax 6207 0826

Certain documents available for inspection and purchase (Section 8 statement)

Section 8 of the FoI Act requires the Office to prepare and make available each year, a statement (which may be an index) of the documents that are provided by the Office for the purposes of an enactment or scheme administered by the Office.

The Office's 'Section 8 Statement' is included in an Office document titled '*Freedom of Information Act 1989 Section 7 and Section 8 Statements*'. The Section 8 statement may be obtained by contacting the Office's FoI Coordinator.

Report on the operation of the FoI Act 1989 (Section 79 statement)

The Office received one application for access to documents under the FoI Act during the year. Access to these documents was denied because the information requested was obtained in the exercise of a function of the Auditor-General. The information in these documents could not be disclosed under Section 34(1) of the *Auditor-General Act 1996*. The applicant was advised of this decision within 31 days.

PUBLIC INTEREST DISCLOSURES

Proper Authority

The Auditor-General is a ‘proper authority’ to receive public interest disclosures under the *Public Interest Disclosure Act 1994* (the PID Act).

Procedures

The Office has procedures for receiving and handling public interest disclosures. The Office’s procedures:

- (i) provide background information on the objectives of the PID Act;
- (ii) explain the requirements imposed on agencies in relation to the receipt and investigation of PIDs and the investigation process including the need for the investigation process to be fair, flexible, speedy and as informal as possible;
- (iii) provide for the handling of disclosures by suitably experienced officers. The Auditor-General and the Director, Performance Audit and Corporate Services are the contact officers for providing information and assistance to those wishing to make a disclosure under the PID Act;
- (iv) emphasise the importance of treating all parties involved in any disclosure fairly and impartially and ensuring that the confidentiality and security of information is protected; and
- (v) include a ‘public interest disclosure model’ – a flowchart of the typical key steps involved in handling any public interest disclosure.

Table 5.1: Statistics Relating to the Reporting Year

Disclosure Requirement	Details
The number of disclosures received.	Three
Type of disclosures under Section 4(2) of the PID Act.	Each disclosure alleged conduct that could, if substantiated, amount to ‘disclosable conduct’ under Section 4(2)(a) and (b) of the PID Act.
The number of disclosures referred by other agencies	Nil
The number of public interest disclosures investigated	Two The Office obtained and examined further information regarding two disclosures to determine whether there were grounds under Section 14 of the PID Act for the Auditor-General to intervene in the proper authority’s investigation of the matters.

Table 5.1: (continued)

Disclosure Requirement	Details
The number of disclosures referred to other government agencies for investigation. The identity of the other government agency. The number and type of disclosures referred to each agency	One A disclosure, that could, if substantiated, amount to ‘disclosable conduct’ under Section 4(2)(a) and (b) of the PID Act was referred to the Department of Disability, Housing and Community Services without investigation under Section 18 of the PID Act.
The number of disclosures on which the Office has declined to act under Section 17 of the PID Act.	Nil.
The number of disclosures substantiated by investigation.	Nil. Of the two disclosures that were examined further, the Auditor-General determined that there were no grounds to intervene in the investigations undertaken by the proper authority.

Other representations to the Auditor-General

The Auditor-General received a further nine representations from various persons – Members of the Legislative Assembly, and members of the public – requesting the Auditor-General to undertake some audit activity on a variety of matters. Such representations do not meet the definition of public interest disclosure within Section 3 of the *Public Interest Disclosure Act 1994*. Rather, they tend to reflect areas of interest or concern to the individual, and are considered by the Auditor-General under the provisions of the *Auditor-General Act 1996*.

The Office carefully examines the information provided to the Auditor-General by way of such representations to determine whether audit investigation is warranted. Often, additional information is obtained from the relevant government agency to assist in making any decision on the matter.

It is not possible to investigate in detail many of the matters referred to the Auditor-General, given the limited resources of the Office. In the selection of a potential audit topic or a special investigation, the Office takes into consideration a number of factors, including the extent of financial risks and impacts, and potential for wider implications for the delivery of government services. Any new potential audit topic needs to be viewed in terms of its relative priority with respect to other audit activities of the Office.

The information provided through representations to the Auditor-General is also considered in the context of planning future audits.

Details on Remedial Action on Each Substantiated Disclosure

There were no substantiated disclosures. As indicated above, the Office obtained and examined further information regarding two disclosures to determine whether there

were grounds under Section 14 of the PID Act for the Auditor-General to intervene in the proper authority's investigation of the matters. The Auditor-General determined that there were no grounds to intervene in the investigations.

Details of Remedial Action Taken on Ombudsman Recommendations

The ACT Ombudsman made no recommendations regarding the Office.

TERRITORY RECORDS

The *Territory Records Act 2002* requires each agency to have an approved records management program. The records management program must consist of a records management policy document, records management procedures and a records disposal schedule that is approved by the Director of Territory Records. This aspect of the Act came into effect on 1 July 2003.

The Auditor-General has approved a Records Management Policy and Records Management Procedures, 'subject to approval of the Records Disposal Schedule by the Director of Territory Records'. During the year, the Records Disposal Schedule was submitted to the Director of Territory Records for consideration and approval. The Office expects that the Records Disposal Schedule will be considered and endorsed by the Territory Records Advisory Council early in 2005-06.

In developing these documents, the Office has undertaken an examination of the activities of the Office and the Office's legal, professional, and administrative requirements, to determine which records need to be captured into record keeping systems, and how long those records need to be kept in order to satisfy operational needs and meet accountability requirements.

Further work is necessary to fully implement the Records Management Procedures, including implementing an appropriate electronic file management system. The Office is presently reviewing the suitability of systems used by other agencies, for adoption (with necessary modifications) by the Office. The Office is taking steps to ensure staff are appropriately informed of the new record requirements and procedures and receive relevant training.

In the meantime, it is our view that current procedures allow the Office to make and keep full and accurate records of its activities, including providing the steps necessary to ensure that the information in its records continues to be accessible in accordance with the FoI Act and the Territory Records Act.

HUMAN RIGHTS

The *Human Rights Act 2004* was enacted at the beginning of 2004-05. The Office has responsibilities to ensure that human rights principles are integrated into all aspects of its operations.

The Office's operating practices and policies are consistent with the aims of the Act. For example:

- (i) The Office ensures procedural fairness is maintained and natural justice is afforded to those affected by the reporting of audit findings and recommendations. Those affected by these reports are provided with the opportunity to provide comments on the reports and these comments are carefully considered before reports are finalised.
- (ii) The Office is a proper authority for the receipt of disclosures under the *Public Interest Disclosure Act 1994*. Disclosures received by the Office may identify human rights concerns. Details of the Office's procedures for handling these disclosures and statistical information on disclosures made to the Office in 2004-05 are provided elsewhere in this report.
- (iii) Management has promoted an organisational culture which is inclusive, respectful and responsive to staff and auditees. Regularly held staff and audit team meetings provide a forum for staff to raise any issues or concerns regarding the operations of the Office including human rights matters. Staff may also raise concerns directly with the Auditor-General or other senior executives or may provide information and suggestions anonymously. Management respond openly to staff suggestions and concerns at monthly staff meetings.
- (iv) The 'ACT Auditor-General's Office Certified Agreement 2004-2007' incorporates ACT public sector wide conditions of employment. This Agreement promotes diversity in the workplace, requires prompt responses to any discrimination or harassment and provides personal, maternity, bereavement and other leave which recognises the broad cultural and other needs of staff. The Agreement recognises the need to balance work and life responsibilities and provide a safe and healthy working environment.
- (v) The Office has *Equity and Diversity Guidelines* in place and a *Workplace Discrimination, Harassment and Bullying* policy to support a diverse and non discriminatory workplace where different cultures and talents of staff are recognised and valued.
- (vi) A briefing for staff on the Human Rights Principles is planned in 2005-06.

ACCESS TO GOVERNMENT STRATEGY

The 'Access to ACT Government Strategy' has a goal of ensuring that services and facilities provided by the ACT Government are provided to members of the ACT community who have a disability.

The main services provided by the Office are audit and advisory services. These services are provided to the ACT Legislative Assembly and ACT public sector agencies. The work of the Office often identifies areas where public services could be improved, and wherever appropriate this would include services to people with a disability.

A significant benefit of the Office's recent relocation to new accommodation is that the modern accommodation is equipped to cater for those with a disability.

The Office's recruitment activities do not disadvantage those with a disability and all applicants are assessed on a merit basis. In 2004-05, no applicant identified themselves as having a disability. Some staff with recruitment responsibilities attended an ACT Disability Employment Framework awareness training workshop run by CRS Australia in February 2005.

COMMUNITY ENGAGEMENT

The Office's major external stakeholders are the ACT Legislative Assembly and ACT public sector agencies.

The Office continuously monitors community issues via local media and Legislative Assembly debates and consults regularly with its stakeholders when formulating its audit work programs.

Where appropriate, the Office has consulted representatives of relevant interest groups in the course of performance audits. Some individuals or community groups may initiate contact with the Office in relation to audits.

Members of the Legislative Assembly, ACT public sector agencies, public servants and the wider community may also provide information to the Office which is taken into account during the forward planning of its work programs.

MULTICULTURAL FRAMEWORK

The 'Framework for a Multicultural Australian Capital Territory 2001-05' outlines the Government's vision for a multicultural ACT. This vision is to strengthen partnerships among government, business and community sectors so that cultural and linguistic diversity continues to be embraced, valued and utilised in the ACT.

The Office promotes an inclusive workplace by ensuring that all its staff enjoy equal rights, responsibilities and opportunities to participate in and contribute to the Office's objectives.

The Office also has in place 'Equity and Diversity Guidelines' and a 'Workplace Discrimination, Harassment and Bullying Prevention' policy to support a diverse and non discriminatory workplace.

In a staff survey conducted by the Office in December 2004, almost all staff agreed that the Office values diversity and assists staff to balance their home and work life.

SUSTAINABILITY AND ENVIRONMENT

Commissioner for the Environment Reporting

The Office did not receive any requests from the Commissioner for the Environment in 2004-05 to assist in the preparation of the 'State of the Environment Report' and no investigation was carried out by the Commissioner on the Office's operations.

Ecologically sustainable development

The *Environment Protection Act 1997* requires the Office to report on how its operations accord with and contribute to the principles of ecologically sustainable development (ESD).

The Office has recently completed two performance audits that are relevant to ecologically sustainable development (ESD). Report No. 2 of 2005, titled **The Development Application and Approval Process**, amongst other things, examined ESD issues in the ACT Planning and Land Authority. Report No. 3 of 2005, titled **Reporting on Ecologically Sustainable Development** examined ESD reporting practices across the ACT public sector, and was tabled shortly after the reporting year.

The work of the Office is administrative in nature. In the performance of its work, the Office contributes to the principles of ecologically sustainable development by:

- (i) minimising the number of hardcopy publications of audit reports. These reports can be accessed on the Office's website;
- (ii) maximising the use of electronic work papers, messaging and on-line technical and information services; and
- (iii) recycling paper and using equipment with electricity saving features where possible; and office-based staff have been provided with low radiation emitting LCD monitors. A plastic and glass recycling bin is located in the kitchen.

ASSET MANAGEMENT

The Office undertook a major property upgrade in May 2005 when it moved from its former Scala House location in Braddon to new office accommodation at 11 Moore Street in the City. This relocation was undertaken to address many problems identified with the Scala House location including the lack of security, meeting room and staff facilities. The relocation also enabled the Office to meet the Occupational Health and Safety minimum space requirements per office employee.

The new accommodation at 11 Moore Street contains several energy reduction measures that are expected to allow the Office to satisfy the requirements set in the ACT Greenhouse Strategy.

CAPITAL WORKS MANAGEMENT

The Office received a capital injection of \$650,000 as part of *Appropriation Act No. 2 of 2004-05* for the fit-out of its new office accommodation at 11 Moore Street.

At 30 June 2005, the Office had spent \$272,000 with further amounts to be spent in 2005-06 once the final accounts have been received. Any unspent balance will be returned to the ACT Government following the completion of all work.

PROCUREMENT CONTRACTING PRINCIPLES AND PROCESSES

Nearly all of the Office's significant contracts are with audit contractors who complement the in-house audit capacity.

The selection and management of audit contractors was consistent with the ACT Government procurement guidelines. The Office does not have an accredited procurement unit. Consequently, the Office's procurement plans for significant contracts are reviewed and approved by Procurement Solutions or the Procurement Board as appropriate, prior to market testing and selection of audit contractors.

Similarly, during the year, the accommodation project followed the Government procurement policy and guidelines.

Details of the other expenses incurred by the Office under contracts and an outline of the services provided are provided in Appendix 1.3 'External Sources of Labour and Services'.

6 ANALYSIS OF FINANCIAL PERFORMANCE

The Office's financial performance for 2004-05 is summarised below:

Table 6.1: Financial Performance for the Year Ended 30 June 2005

	Actual 2004-05 \$	Amended Budget 2004-05 \$	Actual 2003-04 \$
Revenue	3,613,177	3,667,000	3,419,142
Expenses	3,646,627	3,585,000	3,160,924
Operating (Deficit)/Surplus	(33,450)	82,000	258,218

OPERATING RESULTS

The Office's operating result in 2004-05 was a deficit of \$33,450 compared to a budget surplus of \$82,000. This reflected lower revenue (\$53,823 or 1.5%) combined with higher expenditure (\$61,627 or 1.7%).

As the Office essentially operates on a cost recovery basis, its operating results can therefore easily fluctuate from small deficits to small surpluses when relatively minor changes to revenue and expenses occur.

REVENUE

Most of the Office's revenue (64%) comes from financial statement audit fees. The remainder was derived predominantly from appropriations (35%).

Table 6.2: Revenue

	Actual 2004-05 \$	Amended Budget 2004-05 \$	Actual 2003-04 \$
REVENUE			
Appropriation	1,279,000	1,279,000	961,000
Financial Statement Audit Fees	2,282,721	2,365,000	2,424,247
Other	51,456	23,000	26,569
Resources Received Free of Charge	-	-	7,326
Total Revenue	3,613,177	3,667,000	3,419,142

ANALYSIS OF FINANCIAL PERFORMANCE

Revenue increased by \$194,035 (5.7%) over 2003-04 mainly due to a \$318,000 (33.1%) increase in Office's appropriation, offset by lower financial statement audit fees of \$141,526 (5.8%).

The Office received an additional appropriation mainly to:

- (i) fund two additional audit positions to conduct performance audits;
- (ii) meet higher IT costs charged by InTACT; and
- (iii) provide additional training for staff and essential Office equipment.

Financial statement audit fees were lower than the prior year because the financial audit program commenced later in 2004-05 compared to 2003-04.

EXPENSES

Most of the Office's expenses (65%) are employee expenses. Supplies and services (34%) make up most of the rest of expenditure and are mainly comprised of audit contractors' expenses, office accommodation lease, information technology, printing, and training costs.

Table 6.3: Expenses

	Actual 2004-05 \$	Amended Budget 2004-05 \$	Actual 2003-04 \$
EXPENSES			
Employee	2,377,807	2,358,000	2,037,848
Supplies and Services	1,245,728	1,202,000	1,086,107
Depreciation	23,092	25,000	36,969
Total Expenses	3,646,627	3,585,000	3,160,924

Overall expenses were 1.7% higher than the amended budget.

Expenses rose significantly by \$485,703 (15.4%) over 2003-04 with employee and supplies and services rising by \$339,959 (16.7%) and \$159,621 (14.7%) respectively.

The increase in employee expenses is mostly due to:

- (i) the transfer to the Office of employee entitlements (salary, leave and related on costs) associated with the recruitment of senior audit and administrative staff in 2004-05; and
- (ii) increased salary costs due to the need to maintain competitive salaries and conditions for audit staff.

ANALYSIS OF FINANCIAL PERFORMANCE

Factors contributing to the increase in the supplies and services expenses include:

- (i) accommodation lease costs associated with the Office's new accommodation. The Office also incurred accommodation costs on its previous and new accommodation for seven months of 2004-05;
- (ii) Information Technology charges by InTACT; and
- (iii) printing costs following an additional five performance audit reports being produced in 2004-05.

FINANCIAL POSITION

Key indicators of the strength of the Office's financial position are its ability to meet its short and long term liabilities.

Table 6.4: Short Term Financial Position

	Actual 2005 \$	Amended Budget 2005 \$	Actual 2004 \$
Current Assets	1,929,502	991,000	1,355,378
Current Liabilities	650,882	243,000	357,791
Net Current Assets	1,278,620	748,000	997,587
Current Ratio	2.96	4.08	3.79

The current ratio shows that as at 30 June 2005, the Office had \$2.96 in current assets available to meet each dollar of current liability. Even though the current ratio declined from 2004, the Office has the financial capacity to comfortably meet its short term obligations.

Table 6.5: Long Term Financial Position

	Actual 2005 \$	Amended Budget 2005 \$	Actual 2004 \$
Current Assets	1,929,502	991,000	1,355,378
Total Liabilities	1,208,638	502,000	744,202
	720,864	489,000	611,176
Ratio of Current Assets to Total Liabilities	1.60	1.97	1.82

The Office's non current assets are comprised of plant and equipment. These assets are not available to meet the Office's liabilities. Consequently, the long term position of the Office can best be assessed by comparing the Office's current assets to its total liabilities.

ANALYSIS OF FINANCIAL PERFORMANCE

The Office's ratio shows that the Office has \$1.60 to meet each dollar of the Office's total liabilities. The Office's capacity to meet its short and long term obligations is satisfactory but has declined since 2004 and reflected the cost pressures experienced in recent years. The Office will need to carefully manage its expenses going forward.

APPENDICES

- 1.1 Audited Financial Statements
- 1.2 Financial Statement Audit Fees
- 1.3 External Sources of Labour and Services
- 1.4 Contact Information

APPENDIX 1.1 - AUDITED FINANCIAL STATEMENTS

THE ACT AUDITOR-GENERAL'S OFFICE

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2005**

STATEMENT OF RESPONSIBILITY

In my opinion, the accompanying financial statements and notes of the ACT Auditor-General's Office (the Office) for the year ended 30 June 2005, consisting of a:

Statement of Financial Performance;

Statement of Financial Position;

Statement of Cash Flows;

Statement of Appropriation; and

Statement of Performance

fairly reflect the financial operations and performance of the Office for the year ended 30 June 2005 and the financial position of the Office at the end of the year.



Tu Pham
Auditor-General
15 July 2005

THE ACT AUDITOR-GENERAL'S OFFICE

**Statement of Financial Performance
for the Year Ended 30 June 2005**

	Note	Actual 2005 \$	Amended Budget 2005 \$	Actual 2004 \$
REVENUE FROM ORDINARY ACTIVITIES				
Appropriation		1,279,000	1,279,000	961,000
Financial Statement Audit Fees		2,282,721	2,365,000	2,424,247
Other		51,456	23,000	26,569
Resources Received Free of Charge	21	-	-	7,326
Total Revenue from Ordinary Activities		3,613,177	3,667,000	3,419,142
EXPENSES FROM ORDINARY ACTIVITIES				
Employee	4	2,377,807	2,358,000	2,037,848
Supplies and Services	5	1,245,728	1,202,000	1,086,107
Depreciation	6	23,092	25,000	36,969
Total Expenses from Ordinary Activities		3,646,627	3,585,000	3,160,924
Operating (Deficit) / Surplus from Ordinary Activities		(33,450)	82,000	258,218
Changes in Equity other than those Resulting from Transactions with Owners as Owners				
Capital Injection	15	650,000	650,000	-
Total Changes in Equity including those Resulting from Transactions with Owners as Owners	15	616,550	732,000	258,218

This Statement of Financial Performance should be read in conjunction with the accompanying notes. Budget amounts included in the financial statements differ from those included in the Budget Papers. Variations relate to approved amendments during the year. Reconciliation of the original and amended budget amounts are included in the financial statements.

THE ACT AUDITOR-GENERAL'S OFFICE

Statement of Financial Position
as at 30 June 2005

	Note	Actual 2005 \$	Amended Budget 2005 \$	Actual 2004 \$
CURRENT ASSETS				
Cash	7	432,491	127,000	194,512
Receivables	8	839,348	555,000	853,663
Investments	9	650,000	300,000	300,000
Other	10	7,663	9,000	7,203
Total Current Assets		1,929,502	991,000	1,355,378
NON-CURRENT ASSETS				
Plant and Equipment	11	546,210	672,000	39,348
Total Non-Current Assets		546,210	672,000	39,348
Total Assets		2,475,712	1,663,000	1,394,726
CURRENT LIABILITIES				
Payables	12	397,692	100,000	154,338
Employee Benefits	13	230,965	130,000	168,674
Other	14	22,225	13,000	34,779
Total Current Liabilities		650,882	243,000	357,791
NON-CURRENT LIABILITIES				
Employee Benefits	13	509,836	254,000	368,236
Other	14	47,920	5,000	18,175
Total Non-Current Liabilities		557,756	259,000	386,411
Total Liabilities		1,208,638	502,000	744,202
NET ASSETS		1,267,074	1,161,000	650,524
EQUITY				
Accumulated Funds	15	1,267,074	1,161,000	650,524
Total Equity		1,267,074	1,161,000	650,524

This Statement of Financial Position should be read in conjunction with the accompanying notes. Budget amounts included in the financial statements differ from those included in the Budget Papers. Variations relate to approved amendments during the year. Reconciliation of the original and amended budget amounts are included in the financial statements.

THE ACT AUDITOR-GENERAL'S OFFICE

Statement of Cash Flows
for the Year Ended 30 June 2005

	Note	Actual 2005 \$	Amended Budget 2005 \$	Actual 2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
RECEIPTS				
Appropriation		1,279,000	1,279,000	961,000
Financial Statement Audit Fees		2,312,142	2,365,000	2,142,664
Interest		39,544	23,000	25,576
GST Collected and Office Reimbursements		232,676	236,000	214,434
Other		14,624	-	18
Total Inflows from Operating Activities		3,877,986	3,903,000	3,343,692
PAYMENTS				
Employee		2,168,243	2,311,000	1,949,317
Supplies and Services		1,226,324	1,215,000	996,966
GST Paid on Goods and Services		155,093	137,000	104,499
Net GST Remitted to the Australian Taxation Office		114,814	100,000	96,335
Total Outflows from Operating Activities		3,664,474	3,763,000	3,147,117
Net Cash Inflows from Operating Activities	16	213,512	140,000	196,575
CASH FLOWS FROM INVESTING ACTIVITIES				
PAYMENTS				
Purchase of Plant and Equipment		275,533	650,000	-
Net Cash Outflows from Investing Activities		275,533	650,000	-
CASH FLOWS FROM FINANCING ACTIVITIES				
RECEIPTS				
Capital Injection		650,000	650,000	-
Net Cash Inflows from Investing Activities		650,000	650,000	-
Net Increase in Cash Held		587,979	140,000	196,575
Cash at the Beginning of the Financial Year		494,512	287,000	297,937
Cash at the End of the Financial Year	16	1,082,491	427,000	494,512

This Statement of Cash Flows should be read in conjunction with the accompanying notes. Budget amounts included in the financial statements differ from those included in the Budget Papers. Variations relate to approved amendments during the year. Reconciliation of the original and amended budget amounts are included in the financial statements.

THE ACT AUDITOR-GENERAL'S OFFICE

Statement of Appropriation
for the Year Ended 30 June 2005

	2005 Original Budget \$	2005 Total Appropriated \$	2005 Appropriation Drawn \$	2004 Appropriation Drawn \$
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Appropriation	1,279,000	1,279,000	1,279,000	961,000
Capital Injection	-	650,000	650,000	-
Total Appropriation	1,279,000	1,929,000	1,929,000	961,000

During the year, the Office relocated to new accommodation. The Office received a *Capital Injection* of \$650,000 to meet the costs of fitting out the new accommodation.

This Statement of Appropriation should be read in conjunction with the accompanying notes.

THE ACT AUDITOR-GENERAL'S OFFICE

Reconciliation of Original Budget to Amended Budget
Statement of Financial Performance for the Year Ended 30 June 2005

	Original Budget 2005 \$	Supplementary Appropriation 2005 \$	Amended Budget 2005 \$
REVENUE FROM ORDINARY ACTIVITIES			
Appropriation	1,279,000	-	1,279,000
Financial Statement Audit Fees	2,365,000	-	2,365,000
Other	23,000	-	23,000
Resources Received Free of Charge	-	-	-
Total Revenue from Ordinary Activities	3,667,000	-	3,667,000
EXPENSES FROM ORDINARY ACTIVITIES			
Employee	2,358,000	-	2,358,000
Supplies and Services	1,202,000	-	1,202,000
Depreciation	25,000	-	25,000
Total Expenses from Ordinary Activities	3,585,000	-	3,585,000
		-	
Operating Surplus from Ordinary Activities	82,000	-	82,000
Changes in Equity other than those Resulting from Transactions with Owners as Owners			
Capital Injection	-	650,000	650,000
Total Changes in Equity including those Resulting from Transactions with Owners as Owners	82,000	650,000	732,000

This Reconciliation of Original Budget to Amended Budget - Statement of Financial Performance should be read in conjunction with the accompanying notes.

THE ACT AUDITOR-GENERAL'S OFFICE

Reconciliation of Original Budget to Amended Budget
Statement of Financial Position for the Year Ended 30 June 2005

	Original Budget 2005 \$	Supplementary Appropriation 2005 \$	Amended Budget 2005 \$
CURRENT ASSETS			
Cash	127,000	-	127,000
Receivables	555,000	-	555,000
Investments	300,000	-	300,000
Other	9,000	-	9,000
Total Current Assets	991,000	-	991,000
NON-CURRENT ASSETS			
Plant and Equipment	22,000	650,000	672,000
Total Non-Current Assets	22,000	650,000	672,000
Total Assets	1,013,000	650,000	1,663,000
CURRENT LIABILITIES			
Payables	100,000	-	100,000
Employee Benefits	130,000	-	130,000
Other	13,000	-	13,000
Total Current Liabilities	243,000	-	243,000
NON-CURRENT LIABILITIES			
Employee Benefits	254,000	-	254,000
Other	5,000	-	5,000
Total Non-Current Liabilities	259,000	-	259,000
Total Liabilities	502,000	-	502,000
NET ASSETS	511,000	650,000	1,161,000
EQUITY			
Accumulated Funds	511,000	650,000	1,161,000
Total Equity	511,000	650,000	1,161,000

This Reconciliation of Original Budget to Amended Budget - Statement of Financial Position should be read in conjunction with the accompanying notes.

THE ACT AUDITOR-GENERAL'S OFFICE

Reconciliation of Original Budget to Amended Budget
Statement of Cash Flows for the Year Ended 30 June 2005

	Original Budget 2005 \$	Supplementary Appropriation 2005 \$	Amended Budget 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Appropriation	1,279,000	-	1,279,000
Financial Statement Audit Fees	2,365,000	-	2,365,000
Interest	23,000	-	23,000
GST Collected and Office Reimbursements	236,000	-	236,000
Other	-	-	-
Total Inflows from Operating Activities	3,903,000	-	3,903,000
PAYMENTS			
Employee	2,311,000	-	2,311,000
Supplies and Services	1,215,000	-	1,215,000
GST Paid on Goods and Services	137,000	-	137,000
Net GST Remitted to the Tax Office	100,000	-	100,000
Total Outflows from Operating Activities	3,763,000	-	3,763,000
Net Cash Inflows from Operating Activities	140,000	-	140,000
CASH FLOWS FROM INVESTING ACTIVITIES			
PAYMENTS			
Purchase of Plant and Equipment	-	650,000	650,000
Net Cash Outflows from Investing Activities	-	650,000	650,000
CASH FLOWS FROM FINANCING ACTIVITIES			
RECEIPTS			
Capital Injection	-	650,000	650,000
Net Cash Inflows from Financing Activities	-	650,000	650,000
Net Increase in Cash Held	140,000	140,000	140,000
Cash at the Beginning of the Financial Year	287,000	287,000	287,000
Cash at the End of the Financial Year	427,000	427,000	427,000

This Reconciliation of Original Budget to Amended Budget - Statement of Cash Flows should be read in conjunction with the accompanying notes.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

1. Objectives

The objectives of the ACT Auditor-General's Office (the Office) are to:

- (i) inform the ACT Legislative Assembly and the community of the performance of the ACT public sector; and
- (ii) contribute to improving the performance of ACT public sector agencies.

2. Significant Accounting Policies

(a) Basis of Accounting

These general purpose financial statements have been prepared in accordance with the Accounting Standards, authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Financial Management Act 1996*.

These financial statements have been prepared in accordance with the historical cost convention.

Unless otherwise stated the accounting policies are consistent with those of the previous year.

(b) Revenue Recognition

Revenue is recognised for the major activities as follows:

(i) Appropriation

The Office's performance audit and other activities are mostly funded by an appropriation. The presiding member of the Standing Committee on Public Accounts advises the Treasurer of the appropriation that should be made for the operations of the Auditor-General for the year.

This Appropriation is brought to account as revenue on receipt.

(ii) Financial Statement Audit Fees

The Office charges fees for all financial statement audits. Revenue from these audits is recognised by reference to the stage of completion of the audit and the estimated fee for the audit. The stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each audit.

(c) Employee Benefits

(i) Salaries

The liability for *Salaries*, including non monetary benefits, expected to be settled within 12 months of the reporting date is recognised for employees' services provided up to the reporting date and is measured at the amounts expected to be paid when the liability is settled.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

2. Significant Accounting Policies (Continued)**(ii) Annual Leave**

The liability for *Annual Leave*, including any non monetary benefits, is recognised for employees' services provided up to the reporting date and is measured at the amounts expected to be paid when the liability is settled.

(iii) Long Service Leave

The liability for *Long Service Leave* expected to be settled within 12 months of the reporting date is recognised for services provided up to the reporting date and is measured at the amounts expected to be paid when the liabilities are settled.

The liability for *Long Service Leave* expected to be settled more than 12 months from the reporting date is measured using an approximation method that reliably estimates the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(iv) Sick Leave

No provision has been made for sick leave as the average sick leave taken by employees is less than the annual entitlement for sick leave.

(d) Depreciation of Plant and Equipment

Plant and Equipment, having a limited useful life, is systematically depreciated over its useful life in a manner that reflects the consumption of its service potential.

Depreciation is calculated on a straight-line basis using rates that are reviewed annually.

Depreciation of *Plant and Equipment* is determined as follows:

Computer Equipment	5 Years
Office Equipment	5 Years
Office Fitout	12 Years
Furniture and Fittings	5 Years

(e) Superannuation

No liability for superannuation is recognised in these financial statements as the Superannuation Unit recognises the superannuation liability of all agencies in the Territory. The Office makes superannuation payments to the Superannuation Unit each year. As shown in Note 4 \$283,653 (\$189,055 in 2004) was paid during 2004-05 to meet the accrued superannuation expense for staff in the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

2. Significant Accounting Policies (Continued)

(f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. Operating leases are leases where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased assets. The Office has only entered into operating leases.

Operating Leases

The minimum lease payments of operating leases are recognised as an expense on a straight line basis.

The Office's accommodation lease incentive liability is a non-cancellable operating and is being reduced on a straight line basis over the lease term (six years).

(g) Cash

Cash is stated at its nominal amount.

(h) Receivables

Receivables are recognised at the amount expected to be received when they are due for settlement. The collectability of receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when the collection of the recorded amount of the receivable is not considered probable. Receivables that are known to be uncollectible are written off.

(i) Payables

Payables represent amounts payable for goods and services provided to the Office prior to the end of the financial year. Liabilities are recognised at the amount to be paid for these goods and services.

(j) Investments

The Office invests surplus cash with the Central Financing Unit (CFU). The CFU coordinates the investment of this money with various fund managers. These fund managers then have the discretion to invest this money in a variety of different investments, within certain parameters.

(k) Comparatives

Where necessary, the prior year comparatives and budget information have been reclassified to facilitate a comparison with the current year presentation of financial information.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

3. Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Staff involved in the preparation of the Office's financial statements have familiarised themselves with the Australian Equivalents to International Financial Reporting Standards (AIFRS) and assessed the impact of adopting AIFRS. Based on this assessment, there will be no material impact on the Office's 2004-05 financial statements had they been prepared using AIFRS.

4. Employee Expenses

	2005	2004
	\$	\$
Salaries	1,787,135	1,480,081
Annual Leave	93,052	125,831
Long Service Leave	93,769	124,911
Fringe Benefits Tax	41,980	39,467
Vehicle Lease	50,953	29,357
Superannuation		
- Former Auditor-General	-	19,693
- Other Staff [see Note (2e)]	283,653	189,055
Temporary Audit Staff – Financial Audits	27,265	29,453
	2,377,807	2,037,848

The \$339,959 (17%) increase in *Employee Expenses* is mostly due to:

- (i) the transfer to the Office of employee entitlements (leave and related on costs) associated with the recruitment of senior audit and administrative staff in 2004-05; and
- (ii) increased salary costs due to the need to maintain competitive salaries and conditions for audit staff.

5. Supplies and Services

	2005	2004
	\$	\$
Contractors – Performance Audits	-	2,655
– Financial Statement Audits	605,499	585,258
– Other	14,940	23,586
	620,439	611,499
Office Accommodation Lease	206,528	100,421
Electricity, Gas and Cleaning	15,825	13,864
Information Technology	170,252	131,606
Computer Software and Consumables	5,884	9,957
Library Journals and Subscriptions	9,363	19,364
Legal Services Received Free of Charge (Note 21)	-	7,326
Printing	31,581	12,811
Telephones	15,934	16,403
Payroll and Recruitment Processing	23,486	14,364
Training	30,943	55,441
Resources Provided Free of Charge (Note 21)	-	5,309
Write-off of Plant and Equipment	20,713	7,440
Other	94,780	80,302
	1,245,728	1,086,107

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

5. Supplies and Services (continued)

	2005	2004
	\$	\$
Proceeds from the disposal of assets	-	-

The \$159,621 (15%) increase in *Supplies and Services* is mostly due to increases in:

- (i) Office accommodation lease costs associated with Office's new accommodation. The Office also incurred expenditure on its previous and new accommodation for seven months of during 2004-05;
- (ii) Information Technology charges by InTACT; and
- (iii) Printing costs following an additional five reports in 2004-05.

6. Depreciation Expense

	2005	2004
	\$	\$
Office Fitout	18,019	15,832
Office Equipment	1,180	1,180
Computer Equipment	3,009	18,672
Furniture and Fittings	884	1,285
	23,092	36,969

7. Cash

	2005	2004
	\$	\$
Bank	431,991	194,012
Petty Cash	500	500
	432,491	194,512

The \$237,979 (122%) increase in *Cash* is mainly due to the receipt of a *Capital Injection* to fitout the Office's new accommodation. Final payments associated with the fitout are expected be made in 2005-06. (Refer *Payables* explanation in Note 12).

8. Receivables

	2005	2004
	\$	\$
Invoiced Financial Statement Audit Debtors (i)	49,500	182,050
Accrued Financial Statement Audit Income (ii)	739,370	663,642
Goods and Services Tax Net Receivable (iii)	46,888	3,227
Other Accrued Revenue (iv)	2,900	4,744
Other Debtors	690	-
	839,348	853,663

- (i) *Invoiced Financial Statement Audit Debtors* – represents amounts billed to auditees for the audit of their financial statements. Credit terms are net 14 days.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

8. Receivables (continued)

- (ii) *Accrued Financial Statement Audit Income* – represents unbilled amounts receivable from auditees for audit work performed up until the end of the financial year.
- (iii) *Goods and Services Tax Net Receivable* – is the amount receivable from the Australian Taxation Office (ATO) when the Business Activity Statement is lodged on a quarterly basis. The amount is the net of the Goods and Services Tax (GST) paid on supplies and the GST collected from financial statement audits payable to the ATO.
- (iv) *Other Accrued Revenue* – is the amount receivable in respect of interest earned on investments up until the end of the financial year.

Aging of Receivables	2005	2004
	\$	\$
Not Overdue	789,158	671,613
Overdue for less than 30 days	50,190	182,050
Overdue for 30 to 60 days	-	-
Overdue for more than 60 days	-	-
Sub Total	<u>839,348</u>	<u>853,663</u>
Less: Allowance for Doubtful Debts	-	-
	839,348	853,663

	2005	2004
	\$	\$
Receivables with other ACT Government Entities		
Invoiced Financial Statement Audit Debtors	49,500	182,050
Accrued Financial Statement Audit Income	724,170	645,036
Other Accrued Revenue	2,900	2,063
Sub Total	<u>776,570</u>	<u>829,149</u>
Less: Allowance for Doubtful Debts	-	-
	776,570	829,149

	2005	2004
	\$	\$
Receivables with Non ACT Government Entities		
Accrued Financial Statement Audit Income	15,200	18,606
Good and Services Tax Paid on Supplies	46,888	3,227
Other Accrued Revenue	-	2,681
Other Debtors	690	-
Sub Total	<u>62,778</u>	<u>24,514</u>
Less: Allowance for Doubtful Debts	-	-
	62,778	24,514
Total Receivables	839,348	853,663

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

9. Investments

	2005	2004
	\$	\$
Investments with the Central Financing Unit	650,000	300,000
	650,000	300,000

The \$350,000 (117%) increase in *Investments* is the result of the Office investing cash not immediately required to meet expenses.

10. Other Current Assets

	2005	2004
	\$	\$
Prepayments	7,663	7,203
	7,663	7,203

11. Plant and Equipment

	2005	2004
	\$	\$
Office Equipment (at cost)	-	5,900
Less Accumulated Depreciation	-	(4,203)
	-	1,697
Office Fitout (at cost)	545,279	79,161
Less Accumulated Depreciation	(4,357)	(45,313)
	540,922	33,848
Computer Equipment (at cost)	5,378	71,034
Less Accumulated Depreciation	(90)	(68,115)
	5,288	2,919
Furniture and Fittings (at cost)	-	15,862
Less Accumulated Depreciation	-	(14,978)
	-	884
Total Plant and Equipment (at cost)	550,657	171,957
Less Accumulated Depreciation	(4,447)	(132,609)
Total Carrying Value	546,210	39,348

The \$506,862 (1,288%) increase in *Plant and Equipment* was primarily due to the capitalisation of costs associated with the fitout of the Office's new accommodation.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

11. Plant and Equipment (Continued)

Reconciliations of the carrying amounts of Plant and Equipment at the beginning and at the end of the current and previous financial years		
	2005	2004
	\$	\$
Office Equipment		
Carrying Amount at the Beginning of the Year	1,697	2,877
Additions	-	-
Depreciation	(1,180)	(1,180)
Write-offs	(517)	-
Carrying Amount at the End of the Year	<u>-</u>	<u>1,697</u>
Office Fitout		
Carrying Amount at the Beginning of the Year	33,848	49,680
Additions	545,279	-
Depreciation	(18,019)	(15,832)
Write-offs	(20,186)	-
Carrying Amount at the End of the Year	<u>540,922</u>	<u>33,848</u>
Computer Equipment		
Carrying Amount at the Beginning of the Year	2,919	29,032
Additions	5,378	-
Write-offs	-	(7,441)
Depreciation	(3,009)	(18,672)
Carrying Amount at the End of the Year	<u>5,288</u>	<u>2,919</u>
Furniture and Fittings		
Carrying Amount at the Beginning of the Year	884	2,168
Additions	-	-
Depreciation	(884)	(1,284)
Carrying Amount at the End of the Year	<u>-</u>	<u>884</u>

12. Payables

	2005	2004
	\$	\$
Creditors and Accruals (i)	<u>397,692</u>	<u>154,338</u>
	397,692	154,338

The \$243,354 (157%) increase in *Payables* is largely due to the amounts owed in relation to the fitout of the Office's new accommodation at the end of the reporting period.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

12. Payables (continued)

- (i) *Creditors and Accruals* – represents amounts payable for goods and services provided to the Office prior to the end of the financial year. Liabilities are recognised at the amount to be paid for these goods and services. These liabilities are settled on 28 day terms.

Aging of Payables	2005	2004
	\$	\$
Not Overdue	331,546	25,182
Overdue for less than 30 days	66,146	129,156
Overdue for 30 to 60 days	-	-
Overdue for more than 60 days	-	-
	397,692	154,338

Payables with other ACT Government Entities	2005	2004
	\$	\$
Creditors and Accruals	64,507	19,404
	64,507	19,404

Payables with other Non ACT Government Entities	2005	2004
	\$	\$
Creditors and Accruals	333,185	134,934
	333,185	134,934
Total Payables	397,692	154,338

13. Employee Benefits

	2005	2004
	\$	\$
Current		
Accrued Salaries	8,559	-
Provision for Salary Packaging Expenses	23,900	15,389
Provision for Annual Leave	198,506	153,285
	230,965	168,674
Non Current		
Provision for Annual Leave	122,266	74,436
Provision for Long Service Leave	387,570	293,800
	509,836	368,236
Total Employee Benefits	740,801	536,910

The \$203,891 (38%) increase in *Employee Benefits* was largely due to the increased accrual for annual leave and long service leave entitlements for employees and the transfer to the Office of employee entitlements (leave and associated on costs) associated with the recruitment of senior audit and administrative staff in 2004-05.

Staffing Levels

At 30 June 2005 the Office employed 27.3 full time staff equivalents (30 June 2004 – 26.25 full time staff equivalents).

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

14. Other Liabilities

	2005	2004
	\$	\$
Current		
Lease Incentive Liability	15,625	12,829
Revenue in Advance – Financial Statement Audit Fees	6,600	21,950
	<u>22,225</u>	<u>34,779</u>
Non Current		
Lease Incentive Liability	47,920	18,175
	<u>47,920</u>	<u>18,175</u>

The \$12,554 (36%) decrease in Current *Other Liabilities* is mainly due to the 2004 *Revenue in Advance – Financial Statement Audit Fees* balance including one large amount relating to an auditee that was charged in advance of the work being performed.

The increase of \$29,745 (164%) in Non Current Liabilities is due to lease incentives provided in relation to the Office's new accommodation.

15. Accumulated Funds

	2005	2004
	\$	\$
Balance at the Beginning of the Year	650,524	392,307
Capital Injection	650,000	-
Operating (Deficit)/Surplus from Ordinary Activities	(33,450)	258,217
Balance at the End of the Year	<u>1,267,074</u>	<u>650,524</u>

16. Cash Flow Reconciliation

Reconciliation of Cash and Cash Equivalents at the End of the Reporting Period in the Statement of Cash Flows to the Related Items in the Statement of Financial Position.

	2005	2004
	\$	\$
Cash at Bank	432,491	194,512
Investments with the Central Financing Unit - At call	650,000	300,000
Cash at the End of the Financial Year as recorded in the Statement of Cash Flows	<u>1,082,491</u>	<u>494,512</u>

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

16. Cash Flow Reconciliation (continued)

Reconciliation of Net Cash Inflows from Operating Activities to the Operating (Deficit) / Surplus

	2005	2004
	\$	\$
Operating (Deficit)/Surplus	(33,450)	258,217
Depreciation	23,092	36,969
Write-off of Plant and Equipment	20,703	7,440
Change in Assets and Liabilities		
Increase/(Decrease) in Payables	(31,957)	86,440
Increase in Employee Benefits	203,891	81,939
Increase in Other Liabilities	17,191	9,122
(Increase)/Decrease in Receivables	14,502	(288,820)
(Increase)/Decrease in Other Current Assets	(460)	5,268
Net Cash Inflows from Operating Activities	213,512	196,575

17. Auditor's Remuneration

The Treasurer appointed the auditor to audit the financial statements of the Office. The auditor's remuneration for 2005 is \$5,800 (2004: \$5,800). Neither the auditor nor a related practice of the auditor provided any other services to the Office during the year.

18. Commitments

Operating Lease Commitments

Operating lease commitments for IT equipment, accommodation and vehicles are as follows:

	2005	2004
	\$	\$
Not later than one year	470,446	352,610
Later than one year and not later than five years	1,496,297	182,290
Later than five years	99,317	-
	2,066,060	534,900

Operating Lease Commitments increased substantially by \$1,531,160 (286%) as new leases were entered into for the Office's new accommodation and Information Technology equipment.

Other Commitments

Other commitments to financial statement audit contractors are as follows.

	2005	2004
	\$	\$
Not later than one year	30,240	462,536
Later than one year and not later than five years	36,740	-
Later than five years	-	-
	66,980	462,536

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

18. Commitments (continued)

Other Commitments fell significantly by \$395,556 (86%) because most contracts for financial statement audits expire at the completion of the 30 June 2005 financial statement audit program.

19. Contingent Liabilities

There were no contingent liabilities known to exist in respect of the claims against the Office.

20. Act of Grace Payments, Waivers and Write-Offs

During the reporting period, there were no Act of Grace payments made by the Office pursuant to the *Financial Management Act 1996*. Similarly, there were no waivers or write-offs of public monies during the period.

21. Resources Free of Charge

No resources were received or provided free of charge during the reporting period.

22. Financial Instruments

a) Terms, Conditions and Accounting Policies

The Office's accounting policies and the terms and conditions for each class of financial asset and liability are as follows:

Recognised Financial Instruments	Note	Accounting Policies	Terms and Conditions
Financial Assets			
Cash	7	See Note 2 (g)	
Receivables	8	See Note 2 (h)	See Note 8
Investments	9	See Note 2 (j)	
Financial Liabilities			
Payables	12	See Note 2 (i)	See Note 12

b) Net Fair Values of Financial Instruments

Financial assets and liabilities are carried at their net fair value at balance date. The net fair value of financial assets and liabilities approximate their carrying value reported in the Statement of Financial Position because of the short term to maturity or realisation for cash and receivables and the expected short term to payment of payables.

c) Unrecognised Financial Instruments

There were no unrecognised financial assets or liabilities.

d) Credit Risk Exposure

The credit risk on the financial assets of the Office is the carrying amount of the receivables.

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

22. Financial Instruments (continued)

e) Interest Rate Exposure

The exposure to interest rate risk and the average interest rate for each class of financial assets and liabilities is set out below. As financial liabilities are non interest bearing the Office is not exposed to movements in interest rates.

2005

Financial Assets	Weighted Average Interest Rate %	Floating Interest Rate \$	Non Interest Bearing \$	Total \$
Cash	-	-	432,491	432,491
Receivables	-	-	839,348	839,348
Investments	5.43%	650,000	-	650,000
Total		650,000	1,271,839	1,921,839
Financial Liabilities				
Payables	-	-	397,692	397,692
Total		-	397,692	397,692
Net Financial Assets				
		650,000	874,147	1,524,147

2004

Financial Assets	Weighted Average Interest Rate %	Floating Interest Rate \$	Non Interest Bearing \$	Total \$
Cash	-	-	194,512	194,512
Receivables	-	-	853,663	853,663
Investments	5.39%	300,000	-	300,000
Total		300,000	1,048,175	1,348,175
Financial Liabilities				
Payables	-	-	154,338	154,338
Total		-	154,338	154,338
Net Financial Assets				
		300,000	893,837	1,193,837

THE ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Statements
For the Year Ended 30 June 2005

22. Financial Instruments (continued)

Reconciliation of Net Financial Assets to Net Assets

	2005	2004
	\$	\$
Net Financial Assets as above	1,524,147	1,193,837
Non Financial Assets and Liabilities		
Other Current Assets	7,663	7,203
Plant and Equipment	546,210	39,348
Employee Benefits	(740,801)	(536,910)
Other Liabilities	(70,145)	(52,954)
Net Assets as per the Statement of Financial Position	<u>1,267,074</u>	<u>650,524</u>

23. Related Parties

Australian Accounting Standard AAS 22: 'Related Party Disclosures' (AAS 22) applies only to private sector entities. One of the significant requirements of AAS 22 is to require the financial statements of private sector entities to disclose transactions that have taken place between the directors¹ of an entity and parties that are related to the directors.

The Audit Office considers that it represents better practice to include related party disclosures in its financial statements. The following disclosures are therefore made in relation to the Auditor-General, the Director, Performance Audits and Corporate Services and the Director, Financial Audits.

The Director, Financial Audits is the brother of an Executive Director in WalterTurnbull. WalterTurnbull conducts financial statements audits under contract for the Office from time to time. Any potential conflict of interest was addressed by the Director, Financial Audits not being involved in the selection of audit contractors or in the Office's management of any contract with WalterTurnbull. Any transactions with WalterTurnbull are conducted on an arms length basis and under terms and conditions that are no more favourable than those applicable to other audit contractors engaged by the Office.

During 2004-05, WalterTurnbull conducted an audit of the Office's compliance with taxation legislation as part of a whole of government program arranged by the Department of Treasury. The amount paid to WalterTurnbull for this audit was \$4,400 including GST.

During the year due to the relocation of the Office and the consequent disposal of Office furniture and equipment, eight employees acquired various items of office furniture and electrical equipment with an aggregate value of \$1,790 inclusive of GST. The items were sold to employees at market values which were determined via an independent valuation.

¹ AAS 22 defines a 'director' as any person that directs an entity in its financial and operating activities independently or in concert with others (regardless of whether known by that title); or any person occupying or acting in the position of director of an entity, by whatever name called and whether or not validly appointed to occupy or duly authorised to act in the position; or any person in accordance with whose directions or instructions the directors of an entity are accustomed to act.

THE ACT AUDITOR-GENERAL'S OFFICE
Statement of Performance
For the Year Ended 30 June 2005

Measures	Notes	Target	Result	Variance from Target (%)
Costs				
Audit costs per hour excluding contractor costs	1	\$100.81	\$98.30	(2.5)
Office costs as a percentage of total Territory expenditure	2	0.1229%	0.1202%	(2.2)
Quantity				
Number of financial statement audit opinions issued	3	86	83	(3.5)
Number of audit reports presented to the Legislative Assembly	4	9	9	-
Quality/Effectiveness				
Percentage of Chief Executives satisfied with financial audits	5	>95%	>95%	-
Percentage of Chief Executives satisfied with performance audit reports	6	>95%	>95%	-
Percentage of recommendations accepted in financial audits	7	>95%	93%	(2.1)
Timeliness				
Percentage of financial audits completed within the required timetable	8	100%	95%	(5)
Percentage of performance audits completed within 9 months	9	95%	38%	(60)

This Statement of Performance should be read in conjunction with the accompanying explanations on the following page.

Explanations

- 1 *Audit cost per hour excluding contractor costs* represents *Internal costs* (*Internal costs* are calculated by multiplying the number of hours charged to audits by the audit cost per hour for each officer) divided by *Total hours charged to audits*.

The target *Audit cost per hour excluding contractor costs* was calculated as the budget total expenses of \$3,585,000 less budget contractor costs of \$460,000 divided by the budget number of hours of 31,000 (based on 2003-04 actual hours).

The actual *Audit cost per hour excluding contract costs* was calculated as the actual total expenses of \$3,646,627 less actual contractor costs of \$620,439 divided by the actual number of hours of 30,784.

Audit costs per hour did not vary significantly from target.

- 2 *Office costs as a percentage of total Territory expenditure* represents total Office costs divided by total Territory expenditure adjusted for the financial effects of any audit qualification.

The target *Office costs as a percentage of total Territory expenditure* represents the budget Office expenses of \$3,585,000 divided by total Territory expenditure as reported in the audited 2003-04 Consolidated Financial Statements of the Australian Capital Territory of \$2,918m².

The actual *Office costs as a percentage of total Territory expenditure* (calculated as actual Office expenses of \$3,646,627 divided by the 2004-05 estimated outcome of the total Territory expenditure of \$3,034m³) was 0.1202%.

Office costs as a percentage of total Territory expenditure was in line with (slightly under) the target.

- 3 *Number of financial statement audit opinions issued* represents the financial statement audits that were completed and audit opinions issued in the period from 1 July 2004 to 30 June 2005. This list includes audits for years ending 30 June 2004 and 31 December 2004.

The *Number of audit opinions issued on financial statements* did not vary significantly from the target.

The audit opinions issued are listed later in these explanations.

- 4 *Number of audit reports presented to the Legislative Assembly*. The number of reports tabled was consistent with expectations.

The following audit reports were presented in the Legislative Assembly in 2004-05.

1. Data Reliability for Reporting on the ACT 'No Waste by 2010 Strategy'.
2. Leave Management.
3. Workers' Compensation Supplementation Fund.
4. Waiting Lists for Elective Surgery and Medical Treatment.
5. Administration and Monitoring of Youth Service Contracts.
6. 2003-04 Financial Audits.
7. Management of Government Grants to the ACT Multicultural Council Inc.

² Note 3.2 of the audited 2003-04 Annual Financial Statements of the Australian Capital Territory.

³ Estimated outcome of total Territory expenditure is \$2,820m (Source: 2005-06 Budget Paper No. 3) plus the effects of the audit qualification associated with exclusion, from total Territory expenditure, of the expected increase in the actuarially assessed superannuation liability of \$214m (Source: 2005-06 Budget Paper No. 4).

8. Review Report – Matters Relevant to the Office of Special Advisor, Council of Australian Governments and Inter-governmental Relations.
 9. Development Application and Approval Process.
- 5 *Percentage of Chief Executives satisfied with financial audits.* A survey of Chief Executives was conducted to rate their satisfaction with financial statement audits completed in 2003-04.

The results of the survey are shown below.

Rating	No. of Responses	%
Very Good	24	52
Good	14	30
Satisfactory	7	16
Poor	1	2
Very Poor	-	-
Total	46	100

All Chief Executives surveyed responded to the survey. 98% of Chief Executives rated the Office's performance as satisfactory or better with 82% rating the Office's performance a 'good' or 'very good'. The target of >95% rating the Office's performance as 'satisfactory' or better was achieved.

- 6 *Percentage of Chief Executives satisfied with performance audit reports* was based on a survey completed by the Chief Executives of audited agencies.

The results of the survey are shown below.

Rating	No. of Responses	%
Very Good	1	12
Good	5	63
Satisfactory*	2	25
Poor	-	-
Very Poor	-	-
Total	8	100

*One Chief Executive rated the Office overall performance as 'satisfactory' in relation to a performance audit on his agency but 'poor' in some respects.

One Chief Executive did not respond to the survey. All responses rated the Office's performance as 'satisfactory' or better with 75% rating the Office's performance as 'good' or 'very good'. The target of >95% rating the Office's performance as 'satisfactory' or better was achieved.

- 7 *Percentage of recommendations accepted in financial audits* is calculated as the number of recommendations accepted by the auditee divided by the number of recommendations made in management letters relating to financial audits. The result achieved of 93% (219 accepted out of 235 recommendations made in 2003-04) was generally in line with the target acceptance rate of 95%.

- 8 *Percentage of financial audits completed within the required timetable.* The 'required timetable' refers to the timetable as agreed between the Office and Treasury or as agreed with the audited agency to meet a legislative or other reporting timetable.

The result of 79 (95%) of the 83 audit opinions being issued within the required timetable did not vary significantly from the target of 100%.

Of the four audits not completed within the required timetable, two were not completed because the auditee did not provide signed statements by the due date for providing the audit opinion. The Office did not complete the remaining two audits on time.

- 9 *Percentage of audits completed within 9 months* covers the performance audits completed and reported in 2004-05.

This measure reports the duration of a performance audit, from commencement to completion. For the purposes of considering achievements against this target, a performance audit will be taken to have commenced when an engagement letter is sent to the relevant Chief Executive (or equivalent). Typically, some planning activity will have been undertaken prior to 'commencement' of the audit. Completion is taken to be the date the formal report is presented to the Speaker of the Legislative Assembly for tabling (or, if the report is not tabled, the date it is formally presented to the relevant agency or person).

The number of audits completed within 9 months was less than expected due to resource limitations created by turnover of performance audit staff and the complexity of some of the audit subjects.

THE ACT AUDITOR-GENERAL'S OFFICE

**Statement of Performance
for the Year Ended 30 June 2005**

Explanations (continued)

FINANCIAL STATEMENT AUDITS COMPLETED IN 2004-2005⁴

Territory Financial Statements

1. Consolidated Annual Financial Statements

Departmental Financial Statement Audits

2. Central Financing Unit
3. Chief Minister's Department
4. Disability, Housing and Community Services
5. Education and Training
6. Executive
7. Forests
8. Health
9. Home Loan Portfolio
10. Housing ACT
11. InTACT
12. Justice and Community Safety
13. Legislative Assembly Secretariat
14. Office for Children, Youth and Family Support
15. Planning and Land Authority
16. Superannuation Unit
17. Treasury
18. Urban Services
19. Workcover

Statutory Authorities

20. ACTION
21. Australian Capital Tourism Corporation
22. Australian International Hotel School
23. Building and Construction Industry Training Fund Board
24. Canberra Institute of Technology
25. Canberra Public Cemeteries Board
26. Cleaning Industry Long Service Leave Board
27. Construction Industry Long Service Leave Board
28. Cultural Facilities Corporation
29. Gambling and Racing Commission

⁴ These audits represent the financial audits that were completed and audit opinions issued in the period for 1 July 2004 to 30 June 2005. This list includes audits for years ending 30 June 2004 and 31 December 2004.

THE ACT AUDITOR-GENERAL'S OFFICE

**Statement of Performance
for the Year Ended 30 June 2005**

Explanations (continued)

Statutory Authorities (Continued)

30. Healthpact
31. Independent Competition and Regulatory Commission
32. Insurance Authority
33. Kingston Foreshore Development Authority
34. Land Development Agency
35. Legal Aid Commission
36. National Exhibition Centre Trust (EPIC)
37. Public Trustee Office Account
38. Public Trustee Trust Account
39. Stadiums Authority
40. University of Canberra

Territory Owned Corporations and Other Companies

41. ACTEW China Pty Ltd
42. ACTEW Corporation Ltd
43. ACTEW Distribution Ltd
44. ACTEW Retail Ltd
45. ACTTAB Ltd
46. CIT Solutions Pty Ltd
47. Community Housing Canberra Ltd
48. ECOWISE Environmental Pty Ltd
49. Totalcare Industries Ltd
50. University of Canberra College Pty Ltd

Land Joint Ventures and Partnerships

51. ActewAGL Concise Statements
52. ActewAGL Distribution Partnership
53. ActewAGL Joint Venture General Purpose Statements
54. ActewAGL Retail Partnership
55. Amaroo 3 Joint Venture
56. Amaroo 3 Joint Venture Pty Ltd
57. Gold Creek Country Club Pty Ltd
58. Gordon 1 / Gordon 9 Southside Estates
59. Harcourt Hill Estate
60. Harcourt Hill Estate Pty Ltd
61. Nicholls Lakeside Estate
62. Nicholls Lakeside Estate Pty Ltd

THE ACT AUDITOR-GENERAL'S OFFICE

**Statement of Performance
for the Year Ended 30 June 2005**

Explanations (continued)

Other Audits

63. Acquittal of Networking the Nation Grant from Australian Government. (Chief Minister's Department)
64. ACT Health – The Canberra Hospital Simplified Billing Special Purpose Financial Statements
65. Australian National Training Authority – AVETMISS
66. Australian National Training Authority – Baseline Funding
67. Australian National Training Authority - Recurrent
68. Canberra Bushfire Recovery Appeal Fund
69. Canberra Business Development Fund – June 2004
70. Canberra Business Development Fund – December 2004
71. Canberra Public Cemeteries Trust
72. Commonwealth Funding under Australian Land Transport Development Act 1988
73. Commonwealth Funding under Interstate Road Transport Act 1985
74. Commonwealth Funding under Roads to Recovery Act 2000
75. Commonwealth State Housing Agreement
76. DEST Grant Acquittal Audit
77. Gungahlin Cemetery Perpetual Care Trust
78. Hall Cemetery Perpetual Care Trust
79. Natural Disaster Relief Arrangements
80. Nicholls Primary School Joint Facilities
81. Nominal Insurer
82. Woden Cemetery Perpetual Care Trust
83. Workers' Compensation Supplementation Fund

Independent audit report

Di Bartolo Diamond & Mihailaros

An Australian Capital Territory Partnership



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**INDEPENDENT AUDIT REPORT
ACT AUDITOR GENERAL'S OFFICE**

To The Members of the Legislative Assembly for the Australian Capital Territory

Scope

The Annual Financial Report and ACT Auditor General's Responsibilities

The annual financial report of the ACT Auditor General's Office for the year ended 30 June 2005 comprises the Statement of Responsibility by the ACT Auditor General, Statement of Financial Performance, Statement of Financial Position, Statement of Cash flows, Statement of Appropriations, Statement of Performance and accompanying notes 1 to 23.

The ACT Auditor General is responsible for the preparation and true and fair presentation of the annual financial report in accordance with the Financial Management Act 1996. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the annual financial report.

Audit Approach

Our responsibility is to express an opinion on the annual financial report required under the Financial Management Act 1996. Our audit has been conducted in accordance with Australian Auditing and Assurance Standards to provide reasonable assurance as to whether the accounts are free of any material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal controls and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to establish whether in all material respects that annual financial report presents fairly, in accordance with the Financial Management Act 1996, Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the ACT Auditor General's Office's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed the audit opinion on the basis of these procedures, which included:

- Examination, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management and the ACT Auditor General.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Liability is limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

A Member Firm of
PKF International

PARTNERS:
Ross Di Bartolo B.A (Accounting), FCA
George Diamond B.Ec. FCA
John Mihailaros B.Comm (Accounting), CA

Our audit did not involve an analysis of the prudence of business decisions made by management of the ACT Auditor General's Office.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed applicable independence requirements of the Australian professional ethical pronouncements.

Audit Opinion

In our opinion, the financial report of the ACT Auditor General's Office:

- Gives a true and fair view of the financial position of the ACT Auditor General's Office as at 30 June 2005 and of its performance for the financial year ended on that date; and
- Is presented in accordance with the Financial Management Act 1996, Accounting Standards and other mandatory professional reporting requirements.

PKF - Di Bartolo Diamond & Mihailaros



Ross Di Bartolo
Partner

Canberra
3 August 2005

APPENDIX 1.2 - FINANCIAL STATEMENT AUDIT FEES

Section 16(6) of the *Auditor-General Act 1996* requires the Office's annual report to include details of the basis on which fees for audits conducted during the reporting period were decided by the Auditor-General.

Agencies are charged a fee for financial statement audits undertaken by the ACT Auditor-General's Office. Audit fees are estimated for each financial audit, broadly based on the estimated time needed to complete the audit. The Office prepares these time estimates using information on the actual time taken to complete these audits in previous years and takes into account any major factors that would cause significant changes to the resources needed to complete the audit. Major factors that tend to affect the time needed to complete an audit include changes to information systems used by the agency, variations to the number and type of performance measures, new audit or accounting issues and the effects of administrative restructures.

The Office aims to provide budget consistency and certainty, especially for small agencies, by minimising fee variations between years. This practice means that the Office, with few exceptions, charges the previously advised estimated fees regardless of whether small surpluses or losses are subsequently recorded on individual audits.

Overall audit fees also cover costs related to other general financial audit activities including the completion of the annual summary report to the Legislative Assembly on financial audits, maintaining and upgrading the Office's financial audit methodology and advice and liaison with Treasury on audit and accounting issues.

Agencies, on average, were paying in the range of \$90 to \$100 per hour for the completion of their financial audits in 2004 and 2003. This compares favourably to the rates charged by private audit firms for work outsourced by the Office, which typically range from \$120 to \$170 per hour.

Fees for audits undertaken principally by contractors are set on the basis of the audit fee payable to the contractors plus costs for associated work undertaken by Audit Office staff.

Financial Audit Fees

Agency	2004 Audit Fees ⁵ \$	2003 Audit Fees \$
Territory Financial Statements		
Consolidated Annual Financial Statements	62,000	58,900
	62,000	58,900
Departmental Financial Statement Audits		
Central Financing Unit	30,135	28,700
Chief Minister's Department	84,300	80,200
Disability, Housing and Community Services	42,000	40,000
Education and Training	79,000	84,600
Executive	5,636	5,900
Forests	35,500	33,500
Health	140,545	110,000
Home Loan Portfolio	10,000	9,500
Housing ACT	64,000	60,350
InTACT	48,000	45,700
Justice and Community Safety	91,200	86,700
Legislative Assembly Secretariat	17,000	14,000
Office for Children, Youth and Family Support	10,000	Nil
Planning and Land Authority	47,000	Nil
Superannuation Unit	32,600	30,000
Treasury	89,250	85,000
Urban Services	182,500	173,400
Workcover	20,300	19,250
	1,028,966	972,100
Statutory Authorities		
ACTION Authority	58,000	55,000
Agents Board of the ACT – 30 June 2003	Nil	8,900
Agents Board of the ACT – 31 October 2003	Nil	9,500
Australian Capital Tourism Corporation	19,300	15,000
Australian International Hotel School	18,900	18,000
Building and Construction Industry Training Fund Board	5,200	4,900
Canberra Institute of Technology	62,400	59,400
Canberra Public Cemeteries Board	20,000	13,950
Cleaning Industry Long Service Leave Board	12,090	11,500
Community Care	Nil	30,500
Construction Industry Long Service Leave Board	15,182	14,400
Cultural Facilities Corporation	18,900	18,000
Gambling and Racing Commission	17,500	16,650
Gungahlin Development Authority	Nil	12,000
Healthpact	6,818	6,500
Independent Competition and Regulatory Commission	6,000	5,400
Insurance Authority	36,700	34,000
Kingston Foreshore Development Authority	Nil	8,500
Land Development Agency	90,000	65,300 ⁶

⁵ The financial statement audit fees shown in this table represent the audit fees charged to auditees. The fees presented in the table varies from that reported in the annual financial statements due to accrual information being included in the audited financial statements.

⁶ This fee represents the amount charged to the former Land Group only. The Land Development Agency is the amalgamation of the former Land Group, Kingston Foreshore Development Authority and the Gungahlin Development Authority.

APPENDIX 1

Agency	2004 Audit Fees⁵ \$	2003 Audit Fees \$
Legal Aid Commission	19,700	18,700
National Exhibition Centre Trust (EPIC)	9,300	8,800
Public Trustee Office Account	12,000	11,850
Public Trustee Trust Account	13,600	12,900
Stadiums Authority	33,818	32,200
The Canberra Hospital	Nil	68,000
University of Canberra	99,300	94,500
	574,708	654,350
Territory Owned Corporations and Other Companies		
ACTEW China Pty Ltd	3,750	4,575
ACTEW Corporation Ltd	103,200	101,145
ACTEW Distribution Ltd	7,600	9,190
ACTEW Retail Ltd	7,600	8,730
ACTTAB Ltd	36,000	34,250
CIT Solutions Pty Ltd	19,600	18,600
Community Housing Canberra Ltd	8,200	7,800
ECOWISE Environmental Pty Ltd	50,900	16,500
Totalcare Industries Ltd	175,068	145,000
University of Canberra College Pty Ltd	10,900	10,300
	422,818	356,090
Joint Ventures and Partnerships		
ActewAGL Joint Venture	148,800	119,500
Amaroo 3 Joint Venture	6,000	7,000
Dunlop 1 – Jarramlee Park	Nil	1,909
Gold Creek Country Club Pty Ltd	15,000	14,000
Gordon 1 / Gordon 9 Southside Estates	2,700	3,000
Harcourt Hill Estate	19,800	22,550
Kingston Stage 1A Joint Venture	5,000	3,000
Nicholls Lakeside Estate	2,150	1,950
Dunlop 3 – Dunlop Hills	Nil	Nil
Palmerston 4 Joint Venture	Nil	1,500
	199,450	174,409
Other Audits		
Australian National Training Authority – AVETMISS	2,100	2,000
Australian National Training Authority – Baseline Funding	2,100	2,000
Australian National Training Authority – Recurrent	2,100	2,000
Canberra Business Development Fund – December 2003	2,100	2,000
Canberra Business Development Fund – June 2004	2,100	2,000
City Edge Joint Venture	Nil	3,500
Commonwealth Funding Roads Acquittal	3,990	3,800
Commonwealth State Housing Agreement Acquittals	15,000	6,900
University of Canberra Grant Acquittal	3,000	2,845
Natural Disaster Relief Arrangements	2,720	22,230
Nicholls Primary School Joint Facilities	840	800
Nominal Insurer	2,300	2,080
Workers' Compensation Supplementation Fund	6,200	5,900
Acquittal of Networking the Nation Grant	3,182	Nil
	47,732	58,055
Total Fees	2,335,674	2,208,604

APPENDIX 1.3 - EXTERNAL SOURCES OF LABOUR AND SERVICES

2004-05 External Sources of Labour and Services⁷

Firm	Date Contract Let	Financial Audits \$ Note 1	Other Services \$ Note 2	Total \$
Deloitte Touche Tohmatsu	10 April 2003	22,900		22,900
KPMG	28 April 2003	113,096		113,096
Duesburys	1 April 1999	4,850		4,850
Fielden Hummer/Ascent	11 April 2003	18,354		18,354
PricewaterhouseCoopers	19 March 2003	366,350		366,350
Ernst & Young	30 April 2003	57,700		57,700
Cumpston Truslove	31 March 2005	4,546		4,546
Trowbridge Deloitte	15 July 2003	17,703		17,703
Turallo Consulting	22 May 2003		1,800	1,800
Hudson Global Resources	10 May 2004		6,013	6,013
Procurement Solutions	7 December 2004		3,127	3,127
WalterTurnbull	1 December 2004		4,000	4,000
Total		605,499	14,940	620,439

Note 1 – These firms assisted with the Office’s financial statement audit activities.

Note 2 – Turallo Consulting assisted with the variation of the ‘ACT Auditor-General’s Office Certified Agreement 2004-06’. Hudson Global Resources assisted the Office in the development of the Office’s corporate policies and procedures documentation. Procurement Solutions provided advice on procurement activities. WalterTurnbull undertook an audit of the Office’s compliance with taxation legislation as part of a whole of government program arranged by the Department of Treasury.

⁷ The expenses disclosed in the above table are the expenses incurred by the Office during 2004-05 as reported in Note 5 to the Office’s audited financial statements. The expenses disclosed do not represent the value of contracts, since the contracts often cover more than one financial year and the work performed does not necessarily coincide with the financial year.

APPENDIX 1.4 - CONTACT INFORMATION

The Office's contact details are set out below.

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ACT Auditor-General's Office
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PREVIOUS AUDIT REPORTS

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Report No. 4 / 2005 Courts Administration

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Report No. 5 / 2004: Leave Management
Report No. 6 / 2004: Workers' Compensation Supplementation Fund
Report No. 7 / 2004: Annual Report 2003-2004
Report No. 8 / 2004: Waiting Lists for Elective Surgery and Medical Treatment
Report No. 9 / 2004: Administration and Monitoring of Youth Service Contracts
Report No. 10 / 2004: 2003-04 Financial Audits
Report No. 1 / 2005: Management of Government Grants to the ACT Multicultural Council Inc.
Report No. 2 / 2005: Development Application and Approval Process
Review Report: Matters Relevant to the Office of the Special Advisor, Council of Australian Governments and Inter-Governmental Relations

Reports Published in 2003-2004

Report No. 9 / 2003: Annual Management Report for the Year Ended 30 June 2003
Report No. 10 / 2003: Financial Audits with Years Ending to 30 June 2003
Report No. 1 / 2004: Administration of Policing Services
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Report No. 4 / 2003: Management of Fraud and Corruption Prevention in the ACT Public Sector
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Report No. 6 / 2003: Allegations of Financial Mismanagement University of Canberra Union
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