



ACT AUDITOR-GENERAL'S OFFICE

MEDIA RELEASE

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2005-06 Financial Audits

The Auditor-General, Mrs Tu Pham, has presented the Report No 8 of 2006 titled '**2005-06 Financial Audits**' to the Speaker for tabling today in the Legislative Assembly. The report presents a summary of the outcomes of the audit of the 2005-06 Territory and agency financial reports.

HIGHLIGHTS

Results of Financial Audits

- An **unqualified** audit report was issued on 73 of the 77 audits of financial reports undertaken in 2005-06. An **unqualified** report is issued when the Audit Office is satisfied that a financial report presents a true and fair view of the financial position and performance of an agency in accordance with Australian Accounting Standards as required by the Financial Management Act.
- Of the 38 reports of factual findings issued on agencies' statements of performance (measures), 31 (82%) were **unqualified**. The number of performance measures referred to in the **qualified** reports continued to represent a small percentage (less than 1%) of the performance measures examined.

The Territory's Finances

- The Territory's 2005-06 operating surplus of \$80 million was a better result than the anticipated deficit of \$112 million and the 2004-05 deficit of \$55 million.
- This improved financial result was due to the growth in the Territory's major income sources (up by \$278 million or 9.8%) significantly exceeding the increase in expenses (up by \$143 million or 5.0%).
- The Territory's present reliance on income from land sales to meet recurrent expenditure and achieve 'balanced' budgets is not sustainable in the long-term. The Territory will eventually need to replace this source of income to meet its growing expenses and/or reduce expenditure on recurrent and capital items.
- The Territory's short-term financial position at 30 June 2006 remained strong and continued the trend of improvement experienced in recent years.
- As reported in recent years, a major challenge for the Territory in the long-term is to address its rising superannuation liability. Corresponding increases in investments will be needed to keep pace with the forecast significant growth in this liability.

- Net cash flows after funding operating and capital activities returned to a cash surplus position of \$75 million in 2005-06 compared to a \$116 million deficit in 2004-05. The improved result was mostly due to higher operating cash inflows, but remains well below the cash surpluses generated prior to 2004-05.
- The capital works underspend in 2005-06 of \$26 million (12%) was consistent with the 2004-05 underspend, and was much lower than the levels of underspending occurring prior to 2004-05.

Audit Issues

- The Audit Office was concerned about the poor quality of the 2005-06 financial reports prepared by many agencies, particularly the smaller agencies that did not effectively address changes to accounting standards and disclosure requirements and accounting for non-routine or unusual transactions. Several agencies tended to rely excessively on the financial audit process to assist in meeting these requirements.
- The reporting timetable issued by Treasury included the date by which certified financial reports were required to be provided to the Audit Office. The overall level of compliance in 2005-06 remained poor and placed agencies at risk of not meeting their reporting obligations within the statutory reporting timeframes.
- Most departments and authorities were found to have managed their operations to within their budgets.
- As part of a financial audit, the Audit Office often assessed whether IT controls provided assurance that IT systems, applications and data were adequately protected, operate as intended and produced reliable and accurate financial reports. Areas most often identified as being in need of improvement were agencies' back-up and disaster recovery procedures, authorisation of changes to systems and programs and the restriction of access to systems, programs and information.
- Most agencies use a whole of Government system to maintain employee benefit records, including salaries and the associated employee benefit liabilities (annual and long service leave) for management and reporting purposes. A new system, CHRIS21, replaced PERSPECT on 1 July 2005. Leave records on CHRIS21 were not being progressively updated for a significant part of 2005-06. By the time the annual leave module in CHRIS21 became available, there was a considerable backlog of leave transactions to be processed. Many errors were found in the recording of leave and significant problems were noted with the maintenance of accurate and reliable records. The long service leave module of CHRIS21 was not operational.

Commentary on Government Agencies

- In this Report, commentary on several agencies discussed their financial results compared to budget and the prior year, explained the basis for any **qualified** audit report and highlighted other significant matters identified during the financial audit.

FURTHER INFORMATION

For further information, please contact Mr Bernie Sheville, Director, Financial Audits, on 6207 0833. Copies of the report are available at the ACT Auditor-General's Office (Level 4, 11 Moore Street, Canberra City ACT 2601) and from its website, www.audit.act.gov.au.