Auditing for the Australian Capital Territory

The Auditor-General is head of the Auditor-General's Office. He and his Office act independently of the Government. The Office assists the Auditor-General to carry out his duties, which are set out in the *Auditor-General Act 1996*, by undertaking audits of management performance and the financial statements of public sector bodies. The aim is to improve public sector management and accountability by firstly, ensuring the Legislative Assembly and the electorate are provided with accurate and useful information about the management of public sector resources and secondly, by providing independent advice and recommendations for improving the management of public resources.

AUDITOR-GENERAL

Australian Capital Territory

PA02/02

Speaker
ACT Legislative Assembly
South Building
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1996*, I transmit to the Legislative Assembly my Report titled *Financial Audits with Years Ending to 30 June 2002.*

Yours sincerely

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December 2002

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SECTION 1

INTRODUCTION

1 INTRODUCTION

CONTENT OF THIS REPORT

Introduction

1.1 The content of this Report is based on the Australian Capital Territory's (Territory's) financial statements for the year ended 30 June 2002 and Territory agencies' financial statements for years ended between 31 December 2001 and 30 June 2002. The Report consists of five sections.

1.2 Particular attention is drawn to ***Chapter 11: Audit Qualification of the Territory's Financial Statements*** which discusses the qualified audit report issued on the Territory's financial statements and on the financial statements of the General Government Sector.

Sections of the Report

Section 2 – Financial Reporting and Audit

1.3 Section 2 consists of general comments on financial reporting and audit in the ACT Public Sector. Comments are also provided on related matters including:

- an overview of the Territory's financial reporting and audit requirements;
- a discussion of how the presentation of Departmental Statements of Financial Performance could be improved;
- analyses of agencies' performance against budgets;
- the overall results of the financial audits;
- the progress of the reviews of the *Financial Management Act 1996* and the reporting of outputs and performance by agencies being undertaken by the Department of Treasury;
- compliance with the *Financial Management Act 1996*;
- an update on the timing of the public reporting of the financial results of the Territory and its agencies; and

- an update on Management Discussion and Analysis (MD&A) reporting.

1.4 This Section also provides a listing of the Audit's recommendations to improve financial reporting and accountability.

Section 3 – Analysis and Discussion of the Territory's Financial Statements

1.5 Section 3 comments on the results of the audit of the Territory's financial statements and a discussion and analysis of the Territory's financial results. Particular attention is again drawn to the qualification of the audit report on the Territory's financial statements and the financial statements of the General Government Sector. This discussion and analysis is mostly based on the information contained in the Territory's financial statements. The information presented in this Section presents the financial results that would have been reported if the Territory's financial statements complied with the relevant Australian Accounting Standard. This Section also contains projected financial information sourced from budget paper estimates prepared by Treasury. Similar adjustments have been made to these estimates. This Section also includes comments on the Territory's spending and reporting of capital asset transactions and the capital works program.

Section 4 – Agency Audit Results to Which Attention is Specifically Drawn

1.6 Section 4 contains a discussion and analysis of the financial operations of Government agencies to which specific attention is drawn. Specific attention is drawn for various reasons, including agencies incurring losses, not managing financial operations to budget and/or non compliance with the *Financial Management Act 1996*.

Section 5 – Audit Results for Other Agencies

1.7 Section 5 contains a discussion and analysis of the financial operations of the agencies not included in Section 4. There are findings in relation to several of these agencies, however, the findings are not of the same significance as some of those made for the agencies included in Section 4.

ACKNOWLEDGMENTS

1.8 I would like to acknowledge the cooperation and assistance provided to my staff by Chief Executives and staff of the audited agencies during the conduct of the financial audits. Staff involved in financial statement preparation in the agencies must again be specifically acknowledged. Without their efforts it would have been impossible for my staff to have efficiently conducted the audits.

1.9 I would also like to acknowledge the excellent performance of Audit Office staff in completing the program of 2001-2002 audits.

RECOMMENDATIONS

1.10 The following recommendations listed below are contained in this Report. It should be noted that these recommendations are summaries of the Audit's proposals. For full understanding readers should refer to those Chapters in which the recommendations are discussed in detail. The recommendations are that:

1. Further consideration be given to presenting Statements of Financial Performance in the *'Net cost of outputs'* format for all agencies whose primary purpose is to deliver services and not to generate profits. The *'Net cost of outputs'* format should be used in the Budget Papers as well as in the audited end of year Statements of Financial Performance. (Chapter 3)

2. Amendments be made to the *Financial Management Act 1996* (the FMA) and suitable guidelines and processes be developed to ensure that the Treasurer's Advance provisions in the FMA are clear and fully complied with. (Chapter 7)

3. Changes be implemented as soon as possible to ensure that the operations of the Central Financing Unit's Departmental and Territory bank accounts comply with the FMA. (Chapter 7)

4. Treasury's review of performance measures be expedited as a high priority in order that the obvious benefits

available will be derived as soon as practicable. (Chapter 8)

5. The Treasury review of performance measures focus on the information needs of Legislative Assembly Members and of the community. (Chapter 8)

6. The compulsion be abolished for performance measures to be published under the headings of quantity, timeliness, quality and cost for each output. It should be compulsory only to publish quality and cost measures. (Chapter 8)

7. The legislated timetable for making the Territory's audited financial statements publicly available be brought forward so that the Territory's audited financial results are made publicly available on a timely basis and prior to the election in any election year. (Chapter 9)

8. The legal timetable in the Annual Reports Act for the provision of annual reports to Ministers be removed. (Chapter 9)

9. The Annual Reports Act be amended so that annual reports of all agencies[1] with 30 June year-ends are legally required to be tabled in the Legislative Assembly by 30 September each year. In the case where the Legislative Assembly may not be sitting in September then provision should be made to allow for out of session publishing of annual reports by no later than 30 September (for agencies with a year-end of 31 December the date would be 31 March). (Chapter 9)

10. Agencies include a succinct statement of their assessed performance against their budgets in their management, discussion and analysis (MD&A) reporting published in their annual reports. (Chapter 10)

[1] A yet to be published Auditor-General's Report tentatively titled *'Annual Reporting by Agencies'* contains a suggestion that an Annual Report for the Territory be prepared. The 'Whole of Territory' is not considered an 'agency' and would therefore not be subject to the recommended 30 September deadline for annual reports. If an Annual Report for the Territory were to be implemented as suggested by the Audit, then another deadline that coincides with the legislated timetable for the Territory's financial statements under the FMA would be required. This would probably be after the 30 September deadline but prior to the time of an election in any election year.

11. Agencies' MD&A reporting highlight and explain the significant positive and negative aspects of their financial performance. (Chapter 10)

12. This year's MD&A reporting be reviewed by Treasury and feedback provided to all agencies, including Territory Owned Corporations and Territory Authorities, on areas which could be improved in their MD&A reporting. (Chapter 10)

13. Agencies' MD&A reporting include a succinct discussion and analysis of agencies' assessed performance against the performance measures included in their Statement of Performance. This discussion should draw attention to performance against key measures in a manner that highlights the significant positive and negative aspects of agencies' performance. (Chapter 10)

14. MD&A reporting include a discussion and analysis of the information presented in an agency's Statement of Cash Flows including an explanation and comparison of the cash results reported in its Statement of Cash Flows to the operating results reported in its Statement of Financial Performance. (Chapter 10)

15. MD&A reporting include an analysis of the various capital asset transactions i.e. acquisitions, disposals, revaluations and depreciation. (Chapter 10)

16. MD&A reporting by Departments include a meaningful discussion of 'revisions' made to a Department's budget. (Chapter 10)

17. Capital works budgets be prepared and included in the Budget Papers for each agency and also for the Territory. (Chapter 16)

18. The capital asset movement schedule presented in the notes to agencies' annual financial statements include a comparison of the capital works budget with the actual outcomes. (Chapter 16)

19. The MD&A reporting which accompanies the end of year financial statements in agencies' annual reports should provide an analysis of the various capital asset transactions i.e. acquisitions, disposals, revaluations and depreciation. (Chapter 16)

20. The *ACTION Authority Act 2001* be amended to ensure consistency with the intended and actual operations of the Authority. (Chapter 18)

21. The Annual Reports Directions issued by the Chief Minister's Department be amended to require all agencies to include, in their annual reports, the audited financial statements of all entities over which they have a 'controlling interest'[2]. (Chapter 36)

22. As a matter of standard practice joint venture agreements include provisions which require the provision of audited financial statements of the Joint Venture and their inclusion in the annual report of the Territory agency that has the 'controlling interest' in the Joint Venture. (Chapter 36)

[2] *Section 5* of the *Auditor-General Act 1996* states that the Territory or a Territory entity has a 'controlling interest' in a Company if its interest in the Company is such that –

(a) it is able to;
  (i) control the composition of the board of directors of a Company;
  (ii) cast or control the casting of more than 50% of the maximum number of votes that might be cast at a general meeting of the Company;
  (iii) control more than 50% of the issued share capital of the Company; or

(b) where paragraph (a) does not apply, - no person holds a greater interest in the Company. Similar provisions apply in respect of controlling interests in joint ventures and trusts.

SECTION 2

FINANCIAL REPORTING AND AUDIT

FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2002

2 FINANCIAL REPORTING AND AUDIT

FINANCIAL FRAMEWORK

2.1 The accountability framework for the Territory's finances is set by the Commonwealth's *ACT Self Government Act 1988*, the ACT's *Financial Management Act 1996* and the *Auditor-General Act 1996*. These Acts establish the external financial reporting and audit arrangements for the Territory's public sector.

2.2 The reporting and audit arrangements are intended to facilitate the Government's accountability to the Assembly, and the public, for its financial management of public sector resources.

FINANCIAL AUDITING

2.3 The main purpose of auditing is to provide credibility to the information presented in the financial statements prepared by the reporting agencies. The auditor does this by providing an independent written audit opinion on whether the statements fairly present the reporting agencies' financial position and results of their operations in accordance with applicable Australian Accounting Standards and other mandatory reporting requirements.

2.4 Audits conducted by the Audit Office are performed in accordance with the *Financial Management Act 1996* (the FMA) and the Australian Auditing Standards issued by Australian Accounting Bodies.

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

2.6 It is therefore essential that users of audited statements have a clear understanding of the respective responsibilities of management of the reporting agency and the auditor. Key elements of those responsibilities are:

- The auditor is required to form an opinion on whether the financial statements prepared by management present a view that is consistent with the auditor's understanding of the reporting

agency's financial position, its operations and cash flows in accordance with the Australian Accounting Standards and other mandatory professional reporting requirements.

- The reporting agency's management, not the auditor, is responsible for maintaining adequate accounting records and preparing the financial and performance statements.
- The reporting agency's management, not the auditor, is responsible for maintaining a system of internal controls to prevent or detect errors or irregularities (including fraud).
- The financial statements of most Territory agencies include budget information. The audit provides no opinion on the accuracy or the appropriateness of the budget or whether an agency could reasonably have been expected to achieve budget. The audit also provides no opinion on the systems that are used to prepare the budget or the significant accounting policies and estimates that are used in preparing the budget.
- An audit does not examine every transaction of an agency as this would be prohibitively expensive and time consuming. Rather the audit comprises a combination of system checks and examination of a sample of transactions for all items in the financial statements that are considered material and/or high risk in nature. These are items that, if materially misstated as a result of an error or fraud, could adversely affect the decision-making process of users of financial statements.
- An audit opinion does not provide a guarantee of absolute accuracy in the financial statements; it provides users of those statements with reasonable assurance that they are free of material errors.
- An audit opinion does not express a view on the adequacy of the reporting agency's system of internal control or the efficiency and effectiveness with which management conducts its affairs, nor does it guarantee the reporting agency's future viability.
- An audit opinion does not cover information provided by management that seeks to explain the performance of the reporting agency. The auditor is only required to check that the information in any accompanying analysis is not materially inconsistent with the information reported in the audited financial statements.
- The audit is generally confined to providing an opinion on the reporting agency's financial statements. The auditor's opinion only considers whether the financial statements comply with the provisions of the legislation that apply directly to the financial

statements. The auditor is not required to form an opinion on whether the reporting agency has generally complied with legislation.

2.7 While it is not the auditor's responsibility to address many of the matters noted above, the auditor is required to report significant matters identified during the audit to the management of the reporting agency.

ANNUAL FINANCIAL REPORTING FOR THE TERRITORY

Introduction

2.8 In accordance with the FMA the Treasurer prepared the Territory's financial statements. These financial statements were then forwarded to the Auditor-General for auditing within the timeframe allowed by the FMA.

2.9 As required by the FMA these financial statements included:

- a Statement of Financial Performance;
- a Statement of Financial Position;
- a Statement of Cash Flows; and
- supporting notes which describe the accounting policies applied in the preparation of the financial statements and other explanatory material.

2.10 The statements were required to be prepared in accordance with Australian Accounting Standards, in particular, AAS 31 '*Financial Reporting by Governments*'[3].

Agencies Included in the Territory's Financial Statements

2.11 The Territory's financial statements were prepared by consolidating the audited financial results of most public sector entities.

2.12 The financial statements do not consolidate the financial results of some reporting agencies because they are not Government controlled. Territory agencies are also responsible for a number of other Boards and

[3] The audit opinion on this year's financial statements of the Territory was ***qualified*** for non compliance with AAS 31. For further information see *Chapter 11: Audit Qualification of the Territory's Financial Statements.*

Trusts, which have not been included in the consolidation as they are immaterial to the reporting of the Territory's financial results.

Independent Audit Opinion on the Territory's Statements

2.13 *Section 24* of the FMA provides that the Auditor-General shall provide an audit opinion on the Territory's financial statements within 30 days of receiving the statements from the Treasurer.

2.14 These financial statements were received from the Treasurer on 31 October 2002. A ***qualified*** audit opinion was signed on 4 November 2002 and provided to the Treasurer on that day. The ***qualified*** audit opinion was tabled in the Legislative Assembly on 14 November 2002.

2.15 A discussion and analysis of the ***qualified*** audit opinion and the Territory's audited financial results is provided in **Section 3** of this Report.

DEPARTMENT FINANCIAL REPORTING REQUIREMENTS

Budget Information

2.16 The FMA requires that Department budgets be presented to the Legislative Assembly as part of the annual Budget Papers. The budgets are prepared on an accrual basis and consist of similar statements to those required for financial reporting.

2.17 An underlying principle is that the budget statements for a year, and the financial statements, which report the actual results for that year, should be prepared using the same accounting basis. This is to facilitate accountability by ensuring that budgets and actual results can be readily compared.

2.18 Department budgets for 2001-2002 were tabled in the Legislative Assembly on 1 May 2001.

Annual Financial Statements

2.19 *Section 27* of the FMA requires that Departments prepare annual financial statements. These financial statements are required to include:

- a Statement of Financial Performance;

- a Statement of Financial Position;
- a Statement of Cash Flows;
- a Statement of Performance; and
- supporting notes, which describe the accounting policies applied in the preparation of the financial statements and other explanatory material.

2.20 The FMA requires that the statements be prepared in accordance with generally accepted accounting practice. They are also to be in a form which facilitates a comparison of the Department's financial operations with the budget for the Department.

2.21 *Section 29* of the FMA requires that the Auditor-General audit these statements.

2.22 Departments are required to prepare their financial statements in conformity with Australian Accounting Standard AAS 29 *'Financial Reporting by Government Departments'* and are also required to comply with the FMA[4]. The formats used also facilitate comparison of a Department's financial operations with its budget.

Statements of Performance

2.23 Departments are required by the FMA to prepare a Statement of Performance. The FMA requires that these statements compare the actual performance of the Department to the forecast of its performance contained in its budget papers that were previously laid before the Legislative Assembly. This statement is required to provide details of the extent to which the forecast performance was achieved.

2.24 These types of statements are not provided for in accounting standards and as a result there is limited external guidance available to assist Departments to prepare their statements.

2.25 *Section 29* of the FMA requires that the Auditor-General audit a Department's Statement of Performance.

[4] Only one ***qualified*** audit opinion was issued on Departments' financial statements. The audit opinion on this year's financial statements of the Superannuation Unit were ***qualified*** for non compliance with AAS 29. For further information see *Chapter 33: Superannuation Unit*.

Audit of Departmental Financial Statements

2.26 As required by the FMA financial statements of all Departments were audited and audit opinions issued. Further details on the results of these audits are provided in *Chapter 5: Overview of the Results of Financial Audits.*

STATUTORY AUTHORITY FINANCIAL REPORTING REQUIREMENTS

Statements of Intent ('Budget Information')

2.27 *Section 58* of the FMA requires an Authority to prepare a Statement of Intent. The Statement of Intent is required to be provided to the Treasurer each year and is required to include:

- an estimated Statement of Financial Performance for the year;
- an estimated Statement of Financial Position at the end of the year;
- an estimated Statement of Cash Flows;
- statements of the objectives of the Authority;
- statements of the nature and scope of the activities to be undertaken in the year; and
- performance criteria and other measures by which the performance of the Authority may be assessed in relation to their objectives for the year.

2.28 The Statement of Intent contains similar information to the budget information prepared by a Department.

Annual Financial Statements

2.29 *Section 59* of the FMA requires that a Territory Authority prepare annual financial statements. These financial statements are required to include:

- a Statement of Financial Performance;
- a Statement of Financial Position;
- a Statement of Cash Flows;
- a Statement of Performance of an Authority in achieving the objectives specified in its Statement of Intent; and
- supporting notes which describe the accounting policies applied and other explanatory material.

2.30 The FMA requires that financial statements be prepared in accordance with generally accepted accounting practice. These statements are also required to be in a form which facilitates a comparison of an Authority's financial operations with its Statement of Intent.

Audit of Authority Financial Statements

2.31 *Section 61* of the FMA provides for all Authorities' financial statements to be audited by the Auditor-General. As required by the FMA financial statements of all Authorities were audited and audit opinions issued.

2.32 Further details on the results of these audits are provided in *Chapter 5: Overview of the Results of Financial Audits.*

3 FORMAT OF DEPARTMENTAL STATEMENTS OF FINANCIAL PERFORMANCE

INTRODUCTION

3.1 Chapter 2 of Auditor-General's Report No. 11 '*Financial Audits with Years Ending to 30 June 2001'* (Report No. 11 of 2001) discussed the financial reporting and audit framework in the Territory as mandated by the *Financial Management Act 1996* (the FMA). The Chapter also suggested that the Statement of Financial Performance of agencies whose main focus is the production of outputs and not the generation of profits be varied to highlight the *'Net cost of outputs'* of these agencies.

3.2 Chapter 2 of Report No. 11 of 2001 included a recommendation that:

> *'As part of the 'Fit for Purpose Reporting' project currently being undertaken by Treasury, in order to improve the usefulness of agencies' reporting of financial performance, consideration be given to varying the current method used to present Departments' Statements of Financial Performance to the presentation used in this Report'. (Note: this recommendation applied to budgeted Statements of Financial Performance presented in the Budget Papers as well as to the audited end of year Statements of Financial Performance.)*

3.3 In the *'Government Submission to the Standing Committee on Public Accounts in Response to the Auditor-General's Report No 11 Financial Audits with Years Ending to 30 June 2001'*, the Government stated that it disagreed with the Audit's recommendation. This Chapter therefore provides further comments on the Government's negative response.

SIGNIFICANT FINDING

- ***The presentation of the Statements of Financial Performance of agencies whose primary objective is to deliver outputs rather than to make profits would be significantly improved by using the 'Net cost of outputs' format.***

FIT FOR PURPOSE REPORTING

Alternative Forms of Presentation

3.4 Report No. 11 of 2001 noted that for agencies whose main objectives are the production of outputs and not the generation of profits, their Statements of Financial Performance should disclose the *'Net cost of outputs'*. The Report noted that Departments' current Statements of Financial Performance should be reformatted to clearly show their *'Net cost of outputs'* because the Departments' objectives are the production of outputs and not profits.

3.5 Most ACT agencies, including Departments, presently prepare their Statements of Financial Performance using a '*commercial format*'. Under this format the Statement of Financial Performance treats the operating surplus/(deficit) as the main basis for assessing financial performance. Under the '*commercial format*', the *'Net cost of outputs'* is not disclosed. The *'commercial format'* is illustrated in Table 3.1 below.

Table 3.1 'Commercial Format' Statement of Financial Performance

	Budget 2001-02 $000	**Actual 2001-02 $000**	**Actual 2000-01 $000**
Revenue (includes Government payments for Outputs)			
Less **Expenditure**			
Operating surplus/(deficit)			

3.6 The Audit's proposed *'Net cost of outputs'* format is set out on the following page in Table 3.2.

Table 3.2 'Net Cost of Outputs' Format Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Expenditure			
Less **Revenue generated by the Department** (excludes Government Payments for Outputs)			
Net cost of outputs			
Government contributions[5] Government payments for outputs Capital injections etc			
Operating surplus/(deficit)			

3.7 The Audit's format complies with Australian Accounting Standard AAS 29 '*Financial Reporting by Government Departments*'.

3.8 In particular, it is pointed out that AAS 29 states that Government Departments are primarily service-oriented entities. In this regard the Standard expects the preparation of Departmental general purpose financial reports to be consistent with the Departments' service delivery objectives and show the cost of service delivery as well as the 'bottom line' surplus/(deficit).

3.9 Under the Audit's recommended '*Net cost of outputs'* format, there is no loss of information compared to that presently being provided under the '*commercial format*'. Expenditure, revenue, Government contributions and the operating surplus/(deficit) are still reported. The main difference is that, in addition to this information, the '*Net cost of outputs'* is also reported.

[5] '*Government contributions'* generally include contributions to the cost of the agency. These contributions include Government payments for outputs, payments for services, capital and operating injections, resources received free of charge etc. Under the *'commercial format'* the majority of these are included as Departmental revenue.

Commercial Format – and the Purchaser Provider Model

3.10 The current *'commercial format'* used by Departments was based on the 'purchaser provider' model introduced as part of the financial reforms implemented in the Territory in 1996. The concepts of 'purchaser provider' have recently been discontinued for Departments.

3.11 The theory of the model was that Ministers 'purchased' goods and services (i.e. outputs) from Departments at the price that Ministers were prepared to pay. The price would then be paid to Departments in the form of 'payments for outputs' through the budget process. The price and the outputs purchased were contained in purchase agreements between the 'purchasing' Minister (as the 'purchaser') and Department (as the 'provider')[6].

3.12 Under this 'purchaser provider' model, Departments could theoretically generate a 'commercial like' profit from the provision of outputs. For instance, Departments could provide more outputs, generate revenue from other non-Government sources or could reduce costs to make 'profits'. In this context, the operating surplus/(deficit) may have represented a measure of agencies' financial performance and 'profitability'.

3.13 In practice however, the 'purchaser provider' model was never implemented for Departments. 'Efficient prices' for most outputs of Departments were not established. The costs paid for Departments' services have been mostly based on the Departments' net costs of operation[7]. As a result, the reported operating surplus/(deficit) of these Departments only represents the difference between the net costs of the Departments and the funding provided by Government to meet those costs. As such, it is clearly of much less significance than it would be for commercial operations which are expected to make real profits[8]. Indeed under the current *'commercial format'*, Departments' operating surpluses and deficits can be made to look 'profitable' or 'unprofitable' simply by a change in the amount of Government funding provided to that Department.

[6] Under the model, Departments could also 'purchase services' from other Departments and Authorities etc.

[7] For example funding changes are often made on the basis of the changing costs of Departments.

[8] It is important to note that the operating surplus/(deficit) is still an important measure as in the long term, all agencies including Departments must at least break-even to continue to operate.

3.14 As commented in Report No. 11 of 2001, the Audit therefore considers the *'Net costs of outputs'* to be a much more meaningful measure than operating surpluses and deficits in assessing Departments' overall financial performance.

3.15 It is important to note that the operating surplus/(deficit) is still an important measure as in the long term, all agencies including Departments must at least break-even to be able to continue to operate.

Evaluation of the Government's Response to the Audit's Recommendation

3.16 As previously stated, in Report No. 11 of 2001 the Audit recommended that:

> *'As part of the 'Fit for Purpose Reporting' project currently being undertaken by Treasury, in order to improve the usefulness of agencies' reporting of financial performance, consideration be given to varying the current method used to present Departments' Statements of Financial Performance to the presentation used in this report'.*

3.17 The Government disagreed with the recommendation stating that:

> *'Australian Accounting Standards allow multiple formats for the reporting of financial performance by government entities. The format used by the ACT is in accordance with the most recent Australian Accounting Standard concerning the reporting of financial performance and is a format used by Governments in some other Australian jurisdictions.*
>
> *The recommended format is not preferred by the Government as focus on the 'net cost of outputs' is not considered an improved measure over the present method of comparing the overall result, total revenue and expenditure with budgeted results.*
>
> *There is also considered benefit in maintaining a consistent reporting format between the reporting for agencies and the consolidated financial reporting, as currently occurs.'*

3.18 Each part of this Government response is considered below.

3.19 The first part of the Government's response correctly notes that the format of the Statement of Financial Performance currently used in the Territory complies with the Australian Accounting Standards and that these Standards permit a number of different formats. While this statement is true, it is not relevant to the Audit's recommendation. The Audit is recommending a more useful format for presenting the Statement of Financial Performance. The Audit's recommendation was not made to rectify non-compliance with the requirements of the Australian Accounting Standards.

3.20 The second part of the Government's response states that *'a focus on the 'net cost of outputs' is not considered an improved measure over the present method of comparing the overall result, total revenue and expenditure with budgeted results'*.

3.21 The Government's response indicates that the format recommended by the Audit has not been understood. The response is also potentially misleading as it infers that it would not be possible, under the format recommended by the Audit, to compare the overall result, total revenue and expenditure with budgets.

3.22 The *'Net cost of outputs'* format suggested by the Audit is illustrated by Table 3.2. The table shows that the *overall result, total revenue* and *total expenditure* would still be reported and can continue to be compared to budgets. The difference is that the *'Net cost of outputs'* is reported in addition to, and not instead of, the information currently being presented. Contrary to the Government's response, the Audit's suggested format clearly allows comparison of overall results, total revenue and total expenditure with budgets.

3.23 The final part of the Government's response indicates that there is some benefit in '*maintaining a consistent reporting format between the reporting for agencies and the consolidated financial reporting, as currently occurs.'* The response seems to conflict with the concept of *'fit for purpose'* reporting. Under *'fit for purpose'* reporting the objective should be to present financial and other performance information in the most informative way. This is best achieved by presenting the information for each type of agency in a way that best reflects the financial operations and performance of the agency.

Recommendation

3.24 As a result of the preceding discussion including a careful consideration of the Government's response, the Audit again recommends that:

Recommendation No. 1

- further consideration be given to presenting Statements of Financial Performance in the *'Net cost of outputs'* format for all agencies whose primary purpose is to deliver services and not to generate profits. The *'Net cost of outputs'* format should be used in the Budget Papers as well as in the audited end of year Statements of Financial Performance.

4 ANALYSES OF AGENCIES' PERFORMANCE AGAINST BUDGETS

INTRODUCTION

4.1 This Chapter provides an analysis of agencies' performance against budget and comments on the overall level of expenditure on capital works compared to budget.

4.2 The findings in this Chapter on agencies' performance against budget are based on the Audit's analysis of agencies' financial results presented in Section 4 and Section 5 of this Report. Comments on the overall expenditure on capital works against budget are based on the Audit's analysis in *Chapter 16: Reporting on Capital Assets and the Capital Works Program*.

4.3 It is important to note that in forming the conclusions in this Chapter the Audit is not commenting on the accuracy or the appropriateness of the budget or whether an agency could reasonably have been expected to achieve budget.

SIGNIFICANT FINDINGS

- ***Most agencies managed their financial operations to budget.***
- ***There was significant under expenditure of the capital works budget. Budgets were underspent mainly due to delays in projects.***

AGENCIES' BUDGETARY PERFORMANCE

4.4 As in previous years, the opportunity was taken as part of the financial statement audit process to compare, analyse and provide some comments on the financial results of agencies including commentary on their financial performance against budget. The Audit's analysis of the financially significant agencies' financial results against budget is contained in Section 4 and Section 5 of this Report.

4.5 The overall Audit conclusion is that most agencies' financial operations were managed to budget.

4.6 Attention is drawn to the following agencies' financial performance against budget. Details are provided in the chapters on these individual agencies in Section 4 of this Report.

Community Care

4.7 Community Care was unable to manage its finances to budget due mainly to the outcome of pay negotiations being higher than expected at the time the budget was prepared. A detailed explanation is contained in *Chapter 22: Community Care*.

Health and Community Care Department

4.8 The Health and Community Care Department did not manage its operations to budget mainly due to higher than expected cost of health services purchased from The Canberra Hospital and the Calvary Hospital. A detailed explanation is contained in *Chapter 26: Health and Community Care Department*.

Insurance Authority

4.9 The Authority did not manage its operations to budget due to a higher level of claims provisioning than originally anticipated. A detailed explanation is contained in the *Chapter 28: Insurance Authority*.

Justice and Community Safety

4.10 The Department was unable to manage its financial operations to budget due to circumstances outside the Department's control. A detailed explanation is contained in *Chapter 30: Justice and Community Safety Department*.

Kingston Foreshore Development Authority

4.11 The Authority was unable to manage its operations to budget due to the later than anticipated development approval of the Kingston Stage 1A Joint Venture. A detailed explanation is contained in *Chapter 31: Kingston Foreshore Development Authority*.

Superannuation Unit

4.12 The Superannuation Unit did not manage its operations to budget due to large unexpected investment losses and the significantly higher than expected superannuation expenses. A detailed explanation is contained in *Chapter 33*: *Superannuation Unit*.

The Canberra Hospital

4.13 The Canberra Hospital exceeded its 'revised internal budget' and therefore did not manage its operations to budget. A detailed explanation is contained in *Chapter 34: The Canberra Hospital*.

CAPITAL ASSET AND CAPITAL WORKS PROGRAM EXPENDITURE

4.14 Details of proposed capital works expenditure are included each year in the Budget Papers. Agencies are usually provided with capital injection appropriations to fund the expenditure.

4.15 In the 2001-2002 audits, the level of capital expenditure budgeted was compared with actual expenditure. Where there were significant variations, reasons were sought from the relevant agency.

4.16 The overall results of these comparisons are provided in *Chapter 16*: *Reporting on Capital Assets and the Capital Works Program*.

Conclusion

4.17 As has been commented in audit reports of recent years, there was significant under expenditure of the capital works budget. Budgets were underspent mainly due to delays in projects.

5 OVERVIEW OF THE RESULTS OF FINANCIAL AUDITS

INTRODUCTION

5.1 The accountability framework for the Territory's finances is outlined in *Chapter 2: Financial Reporting and Audit.* This Chapter provides an overview of the results of the financial audits of all agencies for the financial years ending 31 December 2001 and 30 June 2002.

5.2 This Chapter also provides a summary of the results of the financial audits as reported in the audit opinions relating to each financial audit.

5.3 A more detailed commentary on the individual financial audits is provided in later Chapters of this Report. Section 3 provides a discussion and analysis of the Territory's financial statements. Section 4 contains a discussion and analysis of the financial results of Government agencies to which specific attention is drawn. Section 5 contains a discussion and analyses of the financial results of the agencies not included in Section 4.

TYPES OF AUDIT OPINIONS

5.4 Under the Australian Auditing Standards there are a range of audit opinions that may be issued. The types of audit opinions are varied. Audit opinions may be 'qualified' or 'unqualified'.

5.5 An **'unqualified opinion'** is issued on financial statements when the auditor is satisfied, in all material respects, that the audited entity's financial statements are presented in accordance with the relevant accounting standards and other mandatory reporting requirements.

5.6 Types of '**qualified'** opinions are:

- An **'except for audit opinion'**. This audit opinion is usually issued on an entity's financial statements as a result of a disagreement with the reporting entity's management on significant matter(s) relating to the financial statements. In practice most areas of potential disagreement between the auditor and the reporting entity's management are able to be resolved. However, there will be the occasional difference of opinion in

relation to significant matters in an entity's financial statements that are unable to be resolved. In such cases the auditor is required to express an 'except for audit opinion' indicating that the statements 'are in accordance with the relevant accounting standards and other mandatory reporting requirements except for' the following matter(s) etc.

- An **'except for'** audit opinion is also issued where the reporting entity is required to comply with conflicting accounting requirements or where the scope of the audit has been limited in some way. This opinion is only used where the nature of the disagreement with management, conflicting accounting requirements or limitation on the scope is significant but not so fundamental or pervasive that an **'adverse'** or **'inability to form an opinion'** audit report should be issued.
- An **'adverse opinion'.** An 'adverse opinion' is issued on an entity's financial statements where the effect of a disagreement with management or conflicting accounting requirements is so fundamental or pervasive that the financial statements are misleading or of little use. This type of opinion is rarely issued.
- An '**inability to form an opinion'.** This type of opinion is issued on an entity's financial statements where the limitation on the scope of the audit is such that the auditor is unable to form an opinion. This type of opinion is rarely issued. It means that the evidence necessary to support the audit opinion and the potential effect of any amendments to the statements are so fundamental or pervasive that the auditor could not form an opinion.

5.7 The auditor is also able to draw attention to matters in an '**emphasis of matter'** section to the audit report. The auditor can use this section to draw attention to or emphasise matters that are relevant to users of the audit report where the matters have been properly disclosed in an entity's financial statements. An 'emphasis of matter' is not a qualification of the audit report on the financial statements.

RESULTS OF FINANCIAL AUDITS

5.8 At the time of this Report, the Audit had issued 75 audit opinions on financial statements for the financial years ending 31 December 2001 and 30 June 2002.

5.9 The following table provides a summary of the audit opinions issued.

Table 5.1 Summary of Audit Opinions

Annual Report Classification	Unqualified Audit Opinions	Unqualified Audit Opinions with an 'emphasis of matter'	'Except for' Qualified Audit Opinions	Total Audit Opinions
Territory's Financial Statements			1	1
Departments	12	2	1	15
Statutory Authorities	20	6		26
Territory Owned Corporations and Other Companies	9		1	10
Joint Ventures and Partnerships	12			12
Other	11			11
Total	**64**	**8**	**3**	**75**

5.10 The table shows that 72 of the 75 audit opinions issued were 'unqualified'. Eight of the unqualified audit opinions contained an emphasis of matter paragraph.

5.11 Three 'except for' qualified audit opinions were issued. Two of the three 'except for' qualified audit opinions related to the same issue being non-compliance with the relevant Australian Accounting Standard in accounting for superannuation liability and associated expense. There were no instances where an 'adverse' audit opinion was issued or where the Audit was 'unable to form an opinion'.

Audit Comments

5.12 The table shows that, for the vast majority of auditees, the Audit was satisfied, in all material respects, that the financial statements were prepared in accordance with the relevant accounting standards and other mandatory reporting requirements.

QUALIFIED 'EXCEPT FOR' OPINION

5.13 Qualified 'except for' audit opinions were issued on the following financial statements:

Territory's Financial Statements

5.14 The audit opinion on the Territory's financial statements was ***qualified*** with an 'except for' audit opinion because the accounting policy used in relation to the Territory's superannuation liability and associated expense did not comply with the relevant Australian Accounting Standard.

5.15 A detailed explanation of the basis for the qualified audit report and the financial effects of the departure from the relevant Australian Accounting Standard is contained in *Chapter 11: Audit Qualification of the Territory's Financial Statements*.

Superannuation Unit

5.16 The audit opinion on the Superannuation Unit's financial statements was ***qualified*** with an 'except for' audit opinion because the accounting policy used in relation to the Superannuation Unit's superannuation liability and associated expense did not comply with the relevant Australian Accounting Standard. As this accounting policy was also used in the preparation of the Territory's financial statements and the financial effects of the departure was also significant to the Territory's financial statements, the audit opinion on the Territory's financial statements was also qualified on the same basis.

5.17 A detailed explanation of the basis for the Audit Qualification and the financial effects of the departure from the relevant Australian Accounting Standard is contained in *Chapter 33: Superannuation Unit*.

ACTEW Corporation

5.18 The audit opinion on the ACTEW Corporation Limited's (ACTEW's) financial statements was ***qualified*** with an 'except for' audit opinion because the accounting policy used to account for ACTEW's investment in TransACT Communication Pty Limited did not comply with the Australian Accounting Standard AASB 1016: '*Accounting for Investments in Associates'*. Detailed explanations of the basis for the qualification of the audit report and the financial effects of the departure from this Australian Accounting Standard are contained in *Chapter 17: ACTEW Corporation Limited*.

5.19 The audit opinion on ACTEW's financial statements was also ***qualified*** in relation to additional disclosures made by the ACTEW Board in relation to the UIG 11[9] requirement to record contributed assets as income. A detailed explanation of this qualification is contained in *Chapter 17: ACTEW Corporation Limited*.

'EMPHASIS OF MATTER' INCLUDED IN AUDIT OPINIONS

5.20 There were eight audit opinions that included an emphasis of matter section. The emphasis of matter sections referred to disclosures made in the financial statements of these agencies.

Emphasis of Matter Sections on Agencies' Statement of Performance

5.21 Six audit opinions included an emphasis of matter section relating to the reporting agency's Statement of Performance. The emphasis of matter sections indicated that an audit opinion could not be formed on certain performance measures included in an agency's Statement of Performance as the measures were not supported by reliable systems or processes and/or had not been measured by the agency.

5.22 The six agencies that received an emphasis of matter (and the number of performance measures referred to in the audit opinions) were the Department of Treasury (one), Department of Urban Services (14), The Canberra Hospital (four), Canberra Public Cemeteries Trust (three), Insurance Authority (one) and the Canberra Institute of Technology (one).

Emphasis of Matter Sections on Other Matters

5.23 An emphasis of matter section was included in the unqualified audit opinion on the financial statements for the ACTION Authority (the Authority) in relation to two matters.

5.24 The first matter reported in the emphasis of matter section refers to the Authority's failure to provide a Statement of Intent to the Treasurer as required by *Section 58(1)* of the *Financial Management Act 1996* and the inability of the Authority to therefore comply with the requirement of *Section 59(2)* to prepare financial statements which facilitated a

[9] UIG 11 *'Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets'*.

comparison between the Authority's financial operations and the estimates of its operations contained in its Statement of Intent.

5.25 The audit report also refers to an inconsistency between the legislated 'profit seeking' financial objective of the Authority[10] and the substance of its operations, which are essentially 'not-for-profit'.

5.26 Further details of these matters are provided in the *Chapter 18: ACTION (ACT Internal Omnibus Network) Authority.*

5.27 An emphasis of matter section was included in the unqualified audit opinion on the financial statements for the Australian International Hotel School (AIHS). The audit opinion reported that there was an inherent uncertainty as to whether AIHS would be able to continue as a going concern and whether it would realise its assets and extinguish its liabilities at the amounts stated in AIHS's financial statements.

5.28 Further details on this matter are provided in *Chapter 19: Australian International Hotel School.*

[10] The legislated functions of the Authority are contained in *Section 5* of the *ACTION Authority Act 2001*.

6 TREASURY REVIEW OF THE FINANCIAL MANAGEMENT ACT 1996

INTRODUCTION

6.1 The *Financial Management Act 1996* (the FMA) addresses the financial management and associated accountability requirements of the Territory and its agencies[11]. The FMA came into effect on 1 July 1996.

6.2 The FMA covers a wide range of financial management issues such as:

- the legal requirements for the funding of public services and its agencies which use public money;
- the reporting of the use of public money in financial reports of the Territory and its agencies;
- the financial audit of agencies that report on their use of public money; and
- the responsibility for the financial management and control of the agencies that provide public services.

6.3 Past Auditor General's reports on financial audits[12] commented that it had been accepted by the Government that the FMA was in need of review. Auditor-General's Report No. 1 of 2001 titled '*Financial Audits with Years Ending to 30 June 2000'* (Report No. 1 of 2001) recommended that a review of the FMA be completed as a matter of priority. In its response to Report No. 1 of 2001 the Department of Treasury (Treasury) advised that a 'fundamental' review of the FMA would be undertaken.

6.4 This Chapter reports on the Treasury's review of the FMA now that Treasury has advised that the review is substantially completed.

[11] The FMA applies to the Territory, its Departments and Authorities.

[12] Chapter 4 of Auditor General's Report No. 11 of 2001 titled '*Financial Audits with Years Ending to 30 June 2001'* and Chapter 4 of Auditor General's Report No. 1 of 2001 titled '*Financial Audits with Years Ending to 30 June 2000'*.

SIGNIFICANT FINDINGS

- ***A range of useful improvements have been made to the FMA as a result of the Treasury's review of the FMA.***

- ***The 'fundamental' review of the FMA, as committed to by Treasury in its response to Report No. 1 of 2001, has not been undertaken. The Audit's view is that it is unlikely that several significant issues will be effectively dealt with unless a fundamental review is performed.***

- ***Treasury's review of the FMA has not addressed a range of significant issues, which would need to be addressed, before a reasonable conclusion could be drawn that Treasury's review of the FMA has been fully effective.***

- ***The Audit considers that ongoing problems with the FMA legislation will continue to be identified in the future.***

ACTION IN THE PREVIOUS YEAR

6.5 Auditor General's Report No. 1 of 2001 titled '*Financial Audits with Years Ending to 30 June 2000'* published in March 2001 reported that the need for a review of the FMA had been recognised for at least 18 months and that the Government agreed a review was necessary and had announced that it was being conducted. Report No. 1 of 2001 commented that the review was largely incomplete in March 2001.

6.6 Report No. 1 of 2001 identified some significant issues that needed to be addressed in the FMA review. The issues identified were:

- The Act does not contain a section or part that clearly sets out the roles and accountabilities of Ministers and Chief Executives for Departmental financial operations;
- Territory Authority Boards are not responsible for Authorities' financial management or reporting;
- The implementation of the concept of net cash appropriations in an accrual based environment needs to be re-examined;
- The definition of capital injection needs to be clarified; and
- The definition of what the Territory can invest in needs to be clarified.

6.7 These issues were not a comprehensive listing of all of the issues that existed. The nature and significance of the issues identified however indicated that a fundamental review of the FMA would be needed.

6.8 The *Financial Management Bill 2001 (No. 3)* was tabled in the Legislative Assembly in August 2001. The amendments to the FMA[13] contained in the Bill were intended to correct, clarify and/or simplify various cash management, investment, borrowing and banking arrangements and reporting requirements. The Bill was passed without amendment during the last week of the August 2001 sittings.

6.9 The Bill was only intended to address some of the more obvious and straightforward areas where the FMA could be improved. The Bill did not address the significant issues identified in Report No. 1 of 2001.

6.10 Auditor-General's Report No. 11 of 2001 titled '*Financial Audits with Years Ending to 30 June 2001'* (Report No. 11 of 2001) published in December 2001 stated that Treasury had placed the FMA review on a more 'solid footing'.

6.11 Treasury's response to Report No. 11 of 2001 included the following comments:

> *'Apart from completing Stage 1 of the review of the FMA, substantial progress has been made with addressing the technical issues for Stage 2, the final stage of the review. At the present stage of the review Treasury's position is that we have concluded that the FMA and Territory's present financial framework is fundamentally sound. While there may be some important changes in other areas of financial management and reporting, it is presently considered that most of these changes can be accommodated with minimal change to the FMA.'*

6.12 Treasury's response to Report No. 11 of 2001 indicated that the second stage of the review would be the final stage of the review. Treasury had also concluded that the financial management framework was 'fundamentally sound' and that that most of the changes required could be accommodated with minimal change to the FMA.

[13] *Financial Management Bill 2001 (No. 3)* – Explanatory Memorandum.

ACTION IN YEAR UNDER REVIEW

6.13 As part of a consultative process with departments, Treasury issued a number of draft discussion papers on FMA issues in 2001-2002. Following completion of this process the *Financial Management Amendment Bill 2002* was prepared and tabled in the Legislative Assembly. The Legislative Assembly passed the Bill in the last week of the September 2002 sittings.

6.14 The amendments contained in the Bill covered a fairly wide range of matters. Some of the more significant amendments were that:

- Chief Executive responsibilities for the financial results that they were expected to achieve would be specified and therefore clarified;
- variations could be legally made to performance criteria previously reported by Department's in the Budget Papers;
- the timetable for provision of the Territory's annual financial statements to the Auditor-General was brought forward by one month thereby ensuring that audited Territory financial statements would be available by no later than 31 October instead of 30 November each year; and
- the Legislative Assembly is required to be notified of amendments to conditions attached to repayable capital injections.

6.15 Some of the amendments contained in the Bill were a compromise to the Audit's position and could therefore, in the Audit's opinion, have been improved upon. The Audit agreed with the amendments as they improved the FMA.

Audit Comments

6.16 The Audit notes that a range of useful improvements have been made to the FMA as result of Treasury's review.

6.17 However, at the time of this Report, significant issues identified in Report No 1. of 2001 have not been addressed. Furthermore, a range of other FMA related matters identified in Report No. 11 of 2001 such as the review of outputs and performance measures[14], financial statement

[14] Chapter 6 of Report No. 11 of 2001 on *'Reported Outputs and Performance Measures'*.

timing[15], procedures used by the Central Financing Unit in relation to its Departmental and Territory bank accounts[16], clarification of provisions relating to the Treasurer's Advance[17] have not been addressed at the time of this Report. The Audit considers that these issues need to be addressed before a reasonable conclusion could be drawn that the FMA review has been fully effective.

DEPARTMENTAL COMMENTS

6.18 The Acting Chief Executive of Treasury provided a response to this Chapter.

6.19 Treasury's response included the following:

> *It is pleasing to note the recognition that a range of useful improvements have been made to the Financial Management Act 1996 (FMA) as a result of Treasury's review. Numerous beneficial amendments have been made to the FMA, with the support of the Legislative Assembly, which have strengthened and improved the financial management of the Territory. These amendments represent positive reform of the legislation, representing improvements to the financial management framework, and some have arisen from suggestions from both departments and the Auditor-General's office.*

Audit Comments

6.20 The Treasury response is correct in stating that a range of useful improvements were made to the FMA as a result of Treasury's review of the FMA. However, the Audit remains of the view that Treasury's review has not addressed a range of issues which should have been addressed.

[15] Chapter 7 of Report No. 11 of 2001 on *'Financial Statement Timing'*.
[16] Chapter 5 of Report No. 11 of 2001 on *'Compliance with the Financial Management Act 1996'* and Chapter 7 of this Report on *'Compliance with the Financial Management Act 1996*'.
[17] Chapter 5 of Report No. 11 of 2001 on *'Compliance with the Financial Management Act 1996'* and Chapter 7 of this Report on *'Compliance with the Financial Management Act 1996*'.

Other Treasury Comments

6.21 During finalisation of this Chapter, Treasury were asked for their most recent documentation of the Territory's conceptual model for financial administration. Treasury's response included the following:

> *'In 1996 the Territory implemented a new model for financial administration. This model is outlined in the enclosed documentation.*
>
> *With one recent exception, this model has remained fundamentally unchanged. The recent change was the decision taken in 2002 to move from 'purchaser/provider' arrangements in some circumstances to that of 'funder/provider' arrangements.'*

Audit Comments

6.22 The Treasury comments illustrate that little change has occurred to the Territory's conceptual model for financial management since 1996. The model was mostly developed in 1995 which is seven years ago. The Audit's strong view is that a critical examination of the effectiveness and efficiency of the conceptual model is well overdue.

CONCLUSION

6.23 The Audit has concluded that the fundamental review of the FMA that Treasury indicated would be performed in its response to Report No. 1 of 2001 has not occurred and, based on recent Treasury advice, will not occur in the foreseeable future. It is the Audit's view that significant problems with the FMA will continue to be identified. A current example of this is the questionable use of the Treasurer's Advance described in *Chapter 7: Compliance with the Financial Management Act 1996* of this Report.

7 COMPLIANCE WITH THE FINANCIAL MANAGEMENT ACT 1996

INTRODUCTION

7.1 As noted in *Chapter 2: Financial Reporting and Audit*, a financial statement audit is generally confined to providing an opinion on the reporting agency's financial statements. The auditor's opinion only considers whether the financial statements comply with the provisions of the legislation that apply directly to the financial statements. The auditor is not required to form an opinion on whether the reporting agency has generally complied with legislation.

7.2 However, in meeting the legal responsibility to provide an audit opinion on the financial statements, the Audit may identify areas where actual or potential breaches of legislation have occurred. Once identified, these actual or potential breaches would be reported to the appropriate level of management in the relevant agencies.

7.3 This Chapter outlines the actual and possible breaches of the *Financial Management Act 1996* (the FMA) noted during the completion of the 2001-2002 financial audits.

SIGNIFICANT FINDINGS

- ***Housing received $10m from the Treasurer's Advance in June 2002. The Audit view is that this was a misuse of the Treasurer's Advance and its legality could also be questioned.***
- ***The Central Financing Unit possibly did not comply with the FMA in relation to the use of its Departmental banking account to process some Territorial transactions. This potential breach was also reported last year.***

QUESTIONABLE USE OF TREASURER'S ADVANCE

Relevant Transaction

7.4 On 25 June 2002 Housing received $10m from the Treasurer's Advance to fund expenditure in relation to fire safety issues in Housing's

multi unit complexes and to meet the current standards under the building code of Australia. The withdrawal from the Treasurer's Advance was authorised by the Treasurer on 14 June 2002 and $10m was deposited in Housing's bank account shortly after authorisation. It was known at the time of the Treasurer's authorisation that Housing would not spend any of the $10m in the 2001-2002 year.

7.5 At 30 June 2002 no contracts had been entered into, no orders had been placed, and no money had been paid for the purposes for which the withdrawal from the Treasurer's Advance was authorised. The $10m remained in Housing's bank account. At 31 October 2002 less than $220,000 had been paid for the authorised purpose.

Relevant Legislation

7.6 *Section 6* of the FMA states that:

> *'no payment of public money shall be made other than in accordance with an appropriation'.*

7.7 This section imposes a legal requirement that an appropriation must exist before public money can be spent. However, the FMA recognises that, from time to time, unforseen urgent payments in excess of amounts appropriated, or for which there are no appropriations, will be necessary. The FMA includes a process to allow such payments to be made. *Section 18* of the FMA provides the process.

7.8 *Section 18(1)* of the FMA, in part, states:

> *'Expenditure that is-*
>
> *a) in excess of the amount specifically appropriated for expenditure of that kind; or*
>
> *b) not provided for by any appropriation:*
>
> *may be authorised by the Treasurer by instrument…'*

Audit Comments

7.9 The Audit's understanding of the Treasurer's Advance is that it exists to enable unappropriated, unforseen and unavoidable payments to be made if and when they need to be made. It is intended to enable payments, which urgently need to be made in a year, to be legally made in that year. The intention is not to enable amounts to be put aside in one year to meet payments that do not need to be made until sometime in the following year. Clearly payments that do not need to be made until the

following year can be, and should be, appropriated in the following year's Appropriation Act.

7.10 The Audit view, based on the Audit's understanding of the purpose of the Treasurer's Advance, is that the transfer in June 2002 of $10m from the Treasurer's Advance to Housing's bank account was a misuse of the Treasurer's Advance. The legality of this use of the Treasurer's Advance could also be questioned.

Departmental Advice

7.11 The Chief Executive of the Chief Minister's Department has provided the following comments in relation to this issue.

> *'As noted at paragraph 7.5, the purpose of the Advance was to provide immediate funding in response to advice from ACT Housing that there was an urgent need to address fire safety issues in multi unit complexes. This advice arose from a fire safety audit conducted during 2001-2002. The matter therefore was both unforeseen and urgent.*
>
> *I agree that there is a need for clearer guidelines on what matters should or should not be addressed by way of Treasurer's Advance. The need to establish clear guidelines and processes to ensure compliance with Section 18(1) of the Financial Management Act 1996 is agreed and action to establish such guidelines will be undertaken by Treasury within three months.*
>
> *The central issue of the appropriateness of this use of the Treasurer's Advance for this purpose turns on the understanding and application of Section 18(1)(c) of the FMA.*
>
> *I consider that this section is simply intended to explain that the purpose of the Treasurer's Advance is to provide limited funding to respond to unforseen requirements arising after the tabling of the annual budget. However, I accept that the meaning of this section is unclear and requires amendment. An amendment of this section will be addressed during the current financial year. You will be consulted as part of this process.*
>
> *The lack of clarity in the meaning of Section 18(1)(c) would appear to be consequence of appropriations being a cash funding mechanism, although the accounting is performed on an accrual*

basis. Although both are considered to be appropriate mechanisms, the potential can exist for conflict between funding and accounting processes. This has been recognised by other jurisdictions, with the Commonwealth recently announcing an intention to revise its appropriation process back closer to a cash rather than an accrual basis.'

Audit Further Comment

7.12 The Audit agrees with the Chief Executive's recognition that there is a lack of clarity in the meaning of *Section 18* of the FMA. In this regard the Chief Executive has provided an undertaking to seek amendments to the FMA and to promptly develop guidelines and processes to ensure that *Section 18* is fully understood and complied with. The Audit strongly supports these actions.

Recommendation

7.13 It is recommended that:

Recommendation No. 2

- amendments be made to the FMA and suitable guidelines and processes be developed to ensure that the Treasurer's Advance provisions in the FMA are clear and fully complied with.

TERRITORY BANKING ACCOUNT

Introduction

7.14 The Central Financing Unit (CFU) is responsible for the funds management activities of the Government. The CFU also administers the central finances of Government through its Territorial account operations.

7.15 The CFU maintains two separate bank accounts, the Territorial account and the Departmental account. The Territorial banking account is used to pay appropriations to Government agencies. The Departmental account is used to facilitate the investment and borrowing functions, for interest receipts from investments and to meet the operating expenses of the CFU.

7.16 Both bank accounts have been used to process transactions in relation to the Territory and the Department. Last year it was noted that the use of the Departmental bank account by the CFU to process some of the Territory transactions may contravene the provisions of the FMA. This problem has reoccurred this year.

Last Year's Reporting

7.17 Following the identification of a possible breach of the FMA Treasury obtained a legal opinion from the Government Solicitor (Solicitor) on this matter. The Solicitor advised that '*in relation to some of these issues more than one interpretation is possible*'. The Solicitor also recommended that '*these issues be considered as part of an overall review of the FMA*'.[18]

7.18 Last year's financial statements of the CFU and the Territory disclosed possible breaches of *Section 38* and *Section 45* of the FMA by the CFU.

7.19 In its response to Report No. 11 of 2001, Treasury advised that:

> '*a comprehensive review for operation and reporting of the Territory banking account has been undertaken with changes being made to clarify reporting and operational processes.*'[19]

This Year's Reporting

7.20 The proposed review of the procedures used by the CFU in relation to its Departmental and Territory bank accounts was not completed during 2001-2002. As there was no change to the operations of the Territory banking account, the same potential breaches of *Section 38* and *Section 45* of the FMA have occurred during 2001-2002.

7.21 The following note disclosure in relation to possible breach of the FMA by the CFU was made in the financial statements of the CFU and the Territory.

[18] Chapter 5 of the Auditor-General's Report No. 11 of 2001 titled '*Financial Audits with Years Ending to 30 June 2001*'.
[19] Auditor-General's Report No. 11 of 2001 titled '*Financial Audits with Years Ending to 30 June 2001*', Chapter 5, p. 33.

'Section 33 of the FMA requires the Treasurer to open and maintain a banking account for the purposes of the Territory. The CFU uses two banking accounts to record investments and borrowings, being a departmental and territorial banking account. Use of a departmental banking account by departments is permitted under Section 34 of the FMA. The FMA is ambiguous regarding use of a departmental account by CFU to process some Territory transactions, eg interest from investments, could potentially breach Sections 38 and 45 of the FMA, which require that interest from investment of public money or the proceeds of loans be paid into the territorial banking account. This situation is being addressed in 2002-2003 through administrative change to operation of CFU for the Territory banking account.'

Audit Comments

7.22 The disclosures made in the in the financial statements of the CFU and the Territory state that corrective action will occur in 2002-2003. Consequently the possible breaches of *Section 38* and *Section 45* of the FMA will again need to be reported in the 2002-2003 financial statements of the CFU and the Territory.

Recommendation

7.23 It is recommended that:

Recommendation No. 3

- changes be implemented as soon as possible to ensure that the operations of the Central Financing Unit's Departmental and Territory bank accounts comply with the FMA.

8 REPORTED OUTPUTS AND PERFORMANCE MEASURES

INTRODUCTION

8.1 This Chapter discusses progress made against recommendations made last year and the previous year that the number of outputs and performance measures reported in Departmental financial statements should be critically reviewed.

BACKGROUND

8.2 Under the *Financial Management Act 1996* (the FMA), Departments are required to include a Statement of Performance as one of their financial statements. These statements are published in Departments' annual management reports. These statements are intended to present each Department's performance in relation to the specific outputs produced by the Department. For each output, performance measures must be presented for quantity, quality, timeliness and cost.

8.3 Considerable resources and costs are involved in identifying, estimating, recording, reporting and auditing the outputs and related performance measures.

8.4 The following provides useful summary background information on the development of performance measures since they were introduced in 1996. The information is drawn from a *'Guidance Paper on the Review of Outputs and Performance Measures'* released by the Department of Treasury (Treasury) in April 2002.

> *'During the implementation of financial management reforms in 1996, approximately 2,600 performance measures were identified through a 'bottom up' approach across all the Departments.*
>
> *This number was substantially reduced following guidance and review in 1998. At present, (i.e. 2001-2002), the number of performance measures in the Departments' Purchase Agreements is approximately 1,500.*

Until now, the conceptual framework for defining a set of performance measures is their relevance to several stakeholders, which include:

- *the community;*
- *Legislative Assembly;*
- *the Minister;*
- *Treasury, to enable payment for outputs (contract management);*
- *Department's management; and*
- *staff, to integrate the Department's performance with the individuals' performance, and to enable direct links between performance management plans and Departmental outputs.*

It was considered that, in principle, a single set of measures defined in this manner would integrate Government performance with the Department's and individual performance. In addition, it would reduce transaction costs by obviating the need to maintain and report on multiple sets of performance measures.'

SIGNIFICANT FINDINGS

- ***Whilst considerable research and other work has been undertaken within Treasury on the relevance and appropriateness of reported outputs and measures, further work remains to be done.***

- ***Since the legislated requirement for performance measures to be developed and published was introduced in 1996-1997 an incremental approach to improving performance measure reporting has been adopted. This incremental approach has not produced significant improvements.***

RELEVANCE AND APPROPRIATENESS OF REPORTED OUTPUTS AND MEASURES

8.5 In Auditor-General's Report No. 1 of 2001 *'Financial Audits with Years Ending to 30 June 2000'* (Report No. 1 of 2001), concerns were expressed about the number of outputs and measures included in the budget papers and in Departments' Statements of Performance. The Report suggested that many outputs being reported are actually overheads and not outputs. Report No. 1 of 2001 included a recommendation that a

systematic effort be undertaken as soon as possible to determine which outputs and performance measures should be reported.

8.6 Report No. 11 of 2001 '*Financial Audits with Years Ending to 30 June 2001'* (Report No. 11 of 2001) included the finding that no significant progress had been made to address the Report No. 1 of 2001 recommendation that a systematic effort be made to determine which outputs and performance measures should be reported.

Departmental Advice

8.7 In response to Report No. 11 of 2001 the Chief Executive of Treasury advised:

> *'Treasury agrees with the Auditor-General's finding that no significant progress has been made on the review of output and performance measures in the sense that neither the budget documentation nor purchase agreements have yet undergone any fundamental change. Nonetheless, as previously advised, substantial consideration of the complex issues surrounding the current framework has been undertaken within Treasury.*
>
> *It should be noted that the current framework was developed over many months by a well resourced and dedicated Financial Management Reform Unit. It is not possible to dedicate anywhere near the same level of resources to the task of review as was provided for the initial development and implementation. As any significant change in the level of reporting to the Assembly and community will be complex and may be perceived as a reduction in accountability, it will not be a simple matter to dismantle the current framework. In this context, a number of aspects of the review will also be informed and determined by the Government of the day.'*

8.8 Recently (14 October 2002) Treasury advised of its progress in reviewing outputs and performance measures. The advice included:

> *'This work has concentrated so far on:*
>
> - *a comparative Analysis of Output and Performance Frameworks of the ACT against other jurisdictions;*
> - *a review of the Purchaser-Provider arrangement between departments and Ministers;*

- *analysis of the existing Outputs and Performance Measures of the Government agencies (for stock measures etc);*
- *a look at audit of performance information across jurisdictions;*
- *a review of policy advice in the Outputs Framework;*
- *a review of Fee for Service considerations; and*
- *an analysis of agencies' performance information compared to the jurisdictions.*

Much of this work was done in time to help inform the 2002-2003 Budget progress. For example:

- *the Government (Cabinet) accepted the abolition of the Purchaser-Provider arrangement between departments and Ministers;*
- *much of the inter jurisdictional comparative work done by Treasury was provided to agencies as part of the Budget to assist them in considering other performance measures;*
- *policy advice to Minister's was abolished as an output, although this has met with some concern from the Assembly;*
- *the number of performance measures has been reduced (from 985 in the 2001-2002 Budget to 786 in the 2002-2003 Budget), and with this some of the 'stock' measures moved to Ownership Agreements.*

As you know, an area where the ACT is out of line with most other jurisdictions is the requirement to audit performance information. This is an area where we would like to consider options further throughout 2002-2003.

Treasury will be considering reviewing performance measures on an agency by agency basis for the 2003-2004 Budget. It may be, however, that there is not time to consider all agencies. This review will be aimed at considering the value each performance measure brings with regard to accountability, transparency and usefulness for the Assembly and the community. It is expected that there will be a further reduction of measures as part of this process, and an improvement in the general quality and usefulness of performance measures.'

8.9 As described in the Treasury advice, considerable research and other work has been undertaken within Treasury on this issue however, as also indicated, considerable further work remains to be done.

Estimates Committee Recommendation

8.10 In its August 2002 *'Report on the Appropriation Bill 2002-2003'* the Legislative Assembly's Select Committee on Estimates 2002-2003, recommended as follows.

> *'The Committee recommends that the Government undertake a review of performance measures across the budget so that measures:*
>
> - *are meaningful;*
> - *allow for comparison over time;*
> - *are consistent with measures in ownership agreements and annual reports; and*
> - *take into account the need for triple bottom line reporting.'*

8.11 The Estimates Committee recommendation is consistent with recommendations made in previous Auditor-General Reports.

8.12 The Government responded to the Estimates Committee recommendation as follows:

> *'Department's outputs will again be reviewed in the formulation of the 2003-2004 Budget. It should be noted that changes to outputs and performance measures is more likely to be incremental over time as opposed to any significant or wide-ranging change. The need for changes needs to be balanced against the desire to have information in budgets that is comparable from year to year – something which is difficult if broad change occurs in one year.*
>
> *A number of 'core' measures will be identified for each Department that will allow for a more longitudinal analysis of performance.'*

Audit Comments

8.13 Since the legislated requirement for performance measures to be developed and published was introduced in 1996-1997 an 'incremental' approach to improving performance measure reporting has been adopted. This incremental approach has not produced significant improvements. Continuing the incremental approach is likely to produce similar results.

8.14 The Audit fully agrees with the second paragraph of the Government response. The Audit, however, strongly recommends that this should be done expeditiously rather than incrementally.

Recommendation

8.15 It is recommended that:

Recommendation No. 4

- Treasury's review of performance measures be expedited as a high priority in order that the obvious benefits available will be derived as soon as practicable.

Shift in Emphasis

8.16 An April 2002 *'Guidance Paper on the Review of Outputs and Performance Measures'* prepared by Treasury contained the following statement.

> *'Consistent with defining the outputs as those delivered by the Government to the community, performance measures to be included in the Budget Papers should primarily be relevant to the community and the Legislative Assembly.'*

8.17 The statement represents a very significant decision on the performance measures to be publicly reported in the future. The decision recognises the difficult, cumbersome and onerous nature of attempting to collate and publish each year a set of measures which will satisfy the information needs of Cabinet, Ministers and Departmental managements as well as Legislative Assembly Members and the community. The Audit agrees with the decision that published performance measures should primarily be for the information needs of Legislative Assembly Members and the broader community.

8.18 The decision is consistent with the view that published Departmental Statements of Performance should be general purpose financial reports as defined by the Australian Accounting Standards. The Standards define a 'general purpose financial report' as:

> '***general purpose financial report*** *means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.'*

8.19 Through the authority of their positions, stakeholders such as the Cabinet, Ministers, Treasury and Departmental managements are able to command the preparation of reports which will provide them with the type and quality of information they need on Departmental performance. These stakeholders therefore do not need to rely on public reports. On this basis only the information needs of two categories of stakeholder need to be met by the published 'general purpose financial reports' commonly known as Statements of Performance i.e. Legislative Assembly Members and the broader community.

8.20 Meeting only the information needs of Legislative Assembly Members and the community should result in a reduction in the detailed performance measures published. It is also likely to result in the publication of a set of measures which will be more useful for assessing the quality and effectiveness of the services provided by Departments to the community. Those that are presently being published, but will not be published in the future, are likely to be measures useful to management for monitoring and controlling Departments' internal operations but not significant to Assembly Members or the community.

8.21 For the years 1999 and 2000 the Government published 'State of Territory' reports. These reports included a wide variety of performance measures which arguably provided much better indications of Government performance than the measures currently being published in Departments' Statements of Performance. The measures in the State of the Territory reports could be used as a guide to the type of measures which could be developed for use in Departmental Statements of Performance. Consultation with Legislative Assembly Members and community representatives should be a major part of the performance measures review process.

Recommendation

8.22 It is recommended that:

Recommendation No. 5

- the Treasury review of performance measures focus on the information needs of Legislative Assembly Members and of the community.

Departmental Advice

8.23 The Acting Chief Executive of Treasury provided the following comment in relation to this matter.

> *'Treasury agrees that the review of performance measures should focus on the information needs of the Legislative Assembly Members and of the community. It should, however, be noted that the Assembly is critical of reductions in information unless it can be clearly demonstrated that there is an obvious overall increase in the level of usefulness.'*

Need for Measures of Quantity, Quality, Timeliness and Cost

8.24 As mentioned earlier in this Chapter under the heading 'Background', the current practice is that measures must be published for each output under the headings quantity, quality, timeliness and cost. The compulsion to have measures under each of these headings is a significant contributor to the high quantity of measures being published. Many of the measures serve little purpose other than to ensure compliance with the 'rule' that there must be a measure or measures under each of the headings. As part of the shift in emphasis to publishing measures relevant to Legislative Assembly Members and to the community the opportunity should be taken to refine the quality, timeliness, quantity and cost measures rule. Two headings only should be required and these would be quality (or effectiveness) and cost (or efficiency). Quantity and timeliness measures would be published under the quality (or effectiveness) heading when, and only when, they are relevant to assessing the quality or effectiveness of a Department's performance.

Recommendation

8.25 It is recommended that:

Recommendation No. 6

- the compulsion be abolished for performance measures to be published under the headings of quantity, timeliness, quality and cost for each output. It should be compulsory only to publish quality and cost measures.

Departmental Advice

8.26 The Acting Chief Executive of Treasury provided the following comment in relation to this matter.

> *'Treasury agrees conceptually that quality measures could be framed in such a way to encapsulate quantity and timeliness (i.e. demonstrate that a good/service is being provided to the required level/quantity and in the required timeframe). However, simple, measurable and meaningful quality indicators that capture this concept are much more difficult to formulate. Obviously this will be an issue for the Government to determine.'*

9 FINANCIAL STATEMENT AND ANNUAL REPORT TIMING

INTRODUCTION

9.1 Chapter 7 of Auditor-General's Report No. 11 '*Financial Audits with Years Ending to 30 June 2001'* (Report No. 11 of 2001) discussed the timing of the Territory's financial statements, changes made to the *Financial Management Act 1996* (the FMA) to facilitate the timely provision of publicly available audited financial results of the Territory and conflicts in the timetable between the FMA and the *Annual Reports (Government Agencies) Act 1995*.

9.2 Three recommendations were made in Chapter 7 of Report No. 11 of 2001. It was recommended that:

- *'the legislative timetable should be permanently brought forward from 30 November to early to mid October';*
- *'the FMA's '30 day requirement' relating to the completion of financial statement audits be permanently removed from the FMA'; and*
- *'the timetable for the provision of agencies' annual reports be reviewed. If necessary, the Annual Reports Act or the FMA should be amended so that the timing of the preparation of the annual reports is linked to the financial statements preparation and audit timetable.'*

9.3 This Chapter discusses progress made against these recommendations. This Chapter also contains recommendations regarding future financial statement and audit timetables.

SIGNIFICANT FINDINGS

- ***The timetable by which the audited financial statements of the Territory are legally required to be provided to the Treasurer has been brought forward by one month from 30 November to 31 October.***

- ***There remains no legal requirement for the audited financial statements of the Territory to be publicly available[20] prior to the October election in election years.***

- ***The legal timetable for the tabling of annual reports in the Annual Reports Act does not ensure that annual reports of Territory agencies are tabled on a timely basis in the Legislative Assembly.***

TIMING OF FINANCIAL STATEMENTS

9.4 The quality of a Government's economic management is a regular issue for which the electorate holds a Government accountable. One significant factor in assessing the quality of Government's economic management is whether or not it has achieved its overall budget targets. The Territory's financial statements are audited and therefore provide important information on the Government's actual financial performance against budget in a reliable and credible form.

9.5 For information to be relevant it needs to be available in a reasonably timely fashion. This applies to audited financial statements as well as other information.

9.6 In previous years and in the current year[21], unaudited financial statements of the Territory were required by *Section 24 (1)* of the FMA to be forwarded to the Auditor-General by no later than 31 October. Under *Section 24(2)* of the FMA, the Auditor-General has 30 days in which to provide an audit opinion on the statements to the Treasurer. Under *Section 25* of the FMA, the Treasurer then has three sitting days to present these statements to the Legislative Assembly. The effect of these requirements is that audited statements have not been legally required to be completed or made publicly available on a timely basis. Under a typical sitting pattern of the Legislative Assembly the audited statements would not be made publicly available by tabling at the Assembly until more than five months after the end of the financial year in the December sittings of the Assembly.

[20] The date by which financial statements are made 'publicly available' is the date the audited statements are presented to the members of the Legislative Assembly. This may be the date the audited statements are tabled or the date these statements are provided 'out of session' to members of the Legislative Assembly.

[21] The amendments bringing the timetable for the provision of the Territory's financial statements to the Auditor-General forward by one month from 30 November to 31 October were passed by the Legislative Assembly on 26 September 2002 but were signed into law at the time of the audit of the Territory's financial statements for the year ended 30 June 2002.

9.7 As noted in Report No. 11 the timetable in the FMA means that the audited Territory's financial statements need not be available to the electorate prior to the election in election years. In Report No. 11 of 2001 the Audit therefore recommended that:

> *'The legislative timetable should be permanently brought forward from 30 November to early to mid October'.*

9.8 The Government agreed with this recommendation[22].

9.9 However, notwithstanding the agreement by the Government, the recent amendments to the FMA did not fully implement the Audit recommendation. *Section 24(1)* of the FMA was amended to state:

> *'The Treasurer must give the auditor-general a copy of the annual financial statements of the Territory for a financial year within 3 months after the end of the year.'*

9.10 The effect of this amendment is to require the Treasurer to provide the Territory's financial statements to the Auditor-General by 30 September. Under *Section 24(2)* of the FMA the Auditor-General then has 30 days to provide an audit opinion to the Treasurer.

9.11 The amendment means that audited financial statements are not legally required to be provided to the Treasurer until 31 October each year.

9.12 The legal requirements under *Section 25* for the Treasurer to present the Territory's audited financial statements to the Legislative Assembly within three sitting days remain unchanged and there are no provisions for providing these statements to the Legislative Assembly 'out of session'. The date that these statements are made publicly available by tabling in the Legislative Assembly is therefore dependent on the sitting pattern of the Legislative Assembly in any year.

9.13 Based on the 2002 sitting pattern the audited financial statements of the Territory would not be legally required to be publicly available until 12 November 2002.

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[22] *'Government Submission to the Standing Committee on Public Accounts in Response to the Auditor-General's Report No. 11 of 2001 'Financial Audits with Years Ending to 30 June 2001'.*

9.14 While acknowledging that the amendment significantly improves the FMA by legally requiring the audited financial results of the Territory to be completed earlier by one month, the amendment does not legally require audited financial statements of the Territory be 'publicly available' before the election in any election year. The election date is currently legislated as the third Saturday in October each third year.

Recommendation

9.15 It is recommended that:

Recommendation No. 7

- the legislated timetable for making the Territory's audited financial statements publicly available be brought forward so that the Territory's audited financial results are made publicly available on a timely basis and prior to the election in any election year.

9.16 To implement this recommendation the FMA will need to be amended. *Section 25* of the FMA will probably need to be amended to cater for the 'out of session' provision of the statements to the Legislative Assembly and the requirements of *Section 24* which set timeframes for the provision of the financial statements to the Auditor-General will also need to be revisited.

AMENDMENTS TO THE FINANCIAL MANAGEMENT ACT

9.17 Recommendation No. 11 in Report No. 11 of 2001 was that:

> *'the FMA's 30 day requirement relating to the completion of financial statement audits be permanently removed from the FMA'.*

9.18 The Government agreed with the Audit recommendation regarding the removal of the '30 day requirement' and amendments to *Section 29*[23] and *Section 61*[24] of the FMA were passed on 26 September 2002. The FMA now contains the following requirement:

[23] *Section 29* applies to Departments.
[24] *Section 61* applies to Authorities.

> *'The Auditor-General must give the responsible chief executive an audit opinion about the financial statements as soon as practicable after the Auditor-General receives them'.*

9.19 As this effectively removes the '30 day requirement' this Audit recommendation has been implemented.

CONFLICTING TIMETABLE

9.20 Recommendation No. 12 in Report No. 11 of 2001 was that:

> *'the timetable for the provision of agencies' annual reports be reviewed. If necessary, the Annual Reports Act, or the FMA, should be amended so that the timing of the preparation of annual reports is linked to the financial statements preparation and audit timetable'.*

9.21 The Government disagreed with the Audit recommendation stating that it did not believe there was any inherent conflict between the timing of annual reports and financial statements[25].

9.22 The *Annual Reports (Government Agencies) Act 1995* (the Annual Reports Act) contains a requirement that annual reports be presented to the responsible Minister within ten weeks of 30 June each year (effectively the second week of September). The Annual Reports Directions, which are issued by the Chief Minister under the Annual Reports Act, requires annual reports of agencies to contain financial and performance statements.

9.23 To meet this deadline, annual reports are sometimes presented to Ministers with unaudited financial statements. Audited final financial statements are then included in the annual report at a later date and prior to the annual report being tabled in the Legislative Assembly.

9.24 The Annual Reports Act also requires the responsible Minister to table a copy of each annual report within six sitting days after they receive the report. For annual reports with a June 2002 financial year-end, these annual reports could have been legally tabled in the Legislative Assembly in November 2002 because there were no sittings in

[25] *'Government Submission to the Standing Committee on Public Accounts in Response to the Auditor-General's Report No. 11 of 2001 'Financial Audits with Years Ending to 30 June 2001'.*

October 2002. If annual reports are not tabled until November then this would obviously defeat the purpose of timely reporting of financial and performance information to the electorate.

9.25 It is recognised that tabling of the 2001-2002 financial statements occurred earlier than November. This happened because Cabinet directed that all annual reports with a June 2002 financial year-end were to be tabled in the sitting period 24-26 September 2002. The reports were not available as the result of any legislated requirement that ensured that the annual reports were tabled in the Legislative Assembly on a timely basis. Early availability was the result of a Cabinet initiative which future Cabinets may not necessarily repeat.

9.26 The Audit is therefore of the view that the present legal timetable for the provision of agencies' annual reports to Ministers within ten weeks of years end be removed and replaced with a requirement that all annual reports be tabled in the Legislative Assembly by no later than three months after year end.

9.27 This recommendation, if implemented, will legally require the timely tabling of annual reports in the Legislative Assembly. It would also remove the legal timetable for annual reports to be provided to Ministers. This requirement is unnecessary as Ministers can already direct agencies to provide them with Annual Reports (or in fact any other information the Minister wishes) by any date the Minister selects. It is therefore unnecessary to have a legal timetable for the provision of annual reports to Ministers.

Recommendations

9.28 It is recommended that:

Recommendation No. 8

- the legal timetable in the Annual Reports Act for the provision of Annual Reports to Ministers be removed.

Recommendation No. 9

- the Annual Reports Act be amended so that annual reports of all agencies with 30 June year-ends are legally required to be tabled in the Legislative Assembly by 30 September each year. In the case where the Legislative Assembly may not be sitting in September then provision should be made to allow for out of session publishing of annual reports by 30 September (for agencies with a year-end of 31 December the date would be 31 March).

9.29 It should be noted that similar recommendations will be made in an Auditor-General's Report yet to be published tentatively titled '*Annual Reporting by Agencies'*.

Departmental Comments

9.30 This Chapter includes matters that are relevant to the FMA and the Annual Reports Act. As Treasury is responsible for the FMA and Chief Minister's Department is responsible for the Annual Reports Act, comments on the contents of this Chapter were sought from both Departments. Their comments and the Audit's response to those comments are provided below.

Treasury's Advice

9.31 The Acting Chief Executive of the Department of Treasury has provided the following comments on the contents of this Chapter.

> *This issue is for the Government to determine. However, Treasury notes that the FMA has already been amended to significantly bring forward the preparation and presentation of the Territory's audited financial results.'*

Further Audit Comments

9.32 The Audit agrees with the Treasury comment that the timetable for the Territory's audited financial statements has been brought forward. This is a positive change.

9.33 Treasury's response also includes the comment that *'this issue is for the Government to determine'*. As mentioned earlier in this Chapter,

the Government, has previously indicated 'agreement' to the Audit recommendation contained in Report No. 11 of 2001[26] that:

> *'The legislative timetable should be permanently brought forward from 30 November to early to mid October'.*

9.34 However, although the Government agreed to this recommendation, the legislative amendment bringing the legislative timetable forward by one month did not bring the legislative timetable forward to early to mid October (i.e. prior to the election) as recommended in Report No. 11 of 2001. The FMA will therefore need to be amended as recommended by the Audit in this Report for the legislation to reflect the Government's agreement.

Chief Minister's Department's Advice

9.35 The Chief Executive of the Chief Minister's Department has provided the following comments on the contents of this Chapter.

> *'The recommendations concerning amendments to the Annual Report (Government Agencies) Act 1995 need to be considered in the context of the forthcoming audit on the Act and the Annual Reports Directions. The ACT already operates on a tight schedule to prepare reports within a ten week timetable. The current reporting requirements are considered to be satisfactory and provide the necessary flexibility to ensure that annual reports are available in a timely manner to meet pre election needs.*
>
> *However, decisions about the timing of reports will need to be considered alongside Audit's recommendations relating to the form and contents of reports. Extensions to the completion of agency financial audits will necessarily impact on the timetable for the preparation of the Territory's financial statements.*

Further Audit Comments

9.36 The first paragraph of the Chief Minister's Department's response that the ACT operates on a '10 week timetable' is not relevant to the issue of timely *public* reporting to the Legislative Assembly. The 10 week timetable applies to reports being provided to Ministers and not to the Legislative Assembly.

[26] Government Submission to the Standing Committee on Public Accounts in response to the Auditor-General's Report No. 11 of 2001 *'Financial Audits with Years Ending to 30 June 2001'.*

9.37 The presentation of annual reports to the Legislative Assembly, including audited financial statements currently depends on the sitting patterns of the Assembly. As mentioned earlier in this Chapter, annual reports with a June 2002 financial year end could have been legally tabled in the Legislative Assembly in November 2002 because there were no sittings in October 2002. If annual reports can legally be published in November then this obviously defeats the purpose of timely reporting of financial and performance information to the electorate[27].

9.38 The Department's response also states that:

> *'current reporting requirements are considered to be satisfactory and provide the necessary flexibility to ensure that annual reports are available in a timely manner to meet pre election needs.'*

9.39 In fact, as indicated in this Report, the statement that current reporting requirements are satisfactory and meet pre election needs is incorrect. The current requirements allow the public reporting of annual reports to legally occur more than five months after the end of the financial year and after the election in any election year. There is no legislated requirement to ensure that annual reports are available in a timely manner to meet election needs. The current flexibility allows the government of the day to decide whether or not annual reports will be available prior to elections.

9.40 The Audit view is that the legislation should ensure that public reporting of information contained in annual reports occurs on a timely basis every year and prior to the election in any election year.

[27] There also seems to be little purpose to having a tight '10 week timetable' for reporting to the Minister if the Minister can then hold the annual reports for two months before the annual reports are eventually provided to the Legislative Assembly.

10 MANAGEMENT DISCUSSION AND ANALYSIS REPORTING

INTRODUCTION

10.1 The objective of preparing and publishing financial statements for the Territory and its agencies is to meet common information requirements of users. In Auditor-General's Report No. 1 of 2001 titled '*Financial Audits with Years Ending to 30 June 2000'* (Report No. 1 of 2001) it was noted that it was doubtful that this objective of meeting the information requirements of users was being met. Report No. 1 of 2001 stated that there was:

> *'considerable doubt that the statements as now published do meet users' information requirements'* and that *'the statements contain a great deal of detail, however no analyses or interpretation of the detailed content is provided.'*

10.2 The Audit therefore recommended that the benefits of Management Discussion and Analysis (MD&A) reporting be examined to provide users with an accompanying analysis and interpretation of the financial and performance results of the Territory and its agencies. MD&A reporting in agencies' annual reports was first required in 2000-2001[28].

10.3 MD&A reporting is unaudited supplementary information provided by the management of the agency. The MD&A is included in agencies' annual report and accompanies the financial statements and the statement of performance. The MD&A includes discussion and analyses of an agency's performance and also identifies the major opportunities and risks encountered by agencies, which impacted on their financial results and financial condition. A primary objective of providing such information is to assist users to understand the financial and performance results of agencies.

10.4 Auditor-General Report No. 11 of 2001 titled '*Financial Audits with Years Ending to 30 June 2001'* (Report No. 11 of 2001) noted that:

[28] Finance Memorandum 2001/13 issued by the Department of Treasury (Treasury).

'nearly all agencies included some level of MD&A reporting in their annual reports' and that the 'inclusion of such reporting represented a significant improvement over previous years however the quality and consistency of the MD&A reporting can be improved.'

10.5 Subsequently, Treasury issued further guidance on MD&A reporting[29]. This guidance applied from the 2001-2002 financial year.

10.6 This Chapter provides an overview of the progress made in relation to MD&A reporting by agencies since last year.

SIGNIFICANT FINDINGS

- ***Nearly all agencies included MD&A reporting in their annual reports.***
- ***Information contained in the MD&A reporting by agencies was 'materially consistent' with the agencies' audited financial statements.***
- ***Overall, there was a significant improvement in the format, content and consistency of this year's MD&A reporting by agencies.***
- ***Scope exists to significantly improve MD&A reporting by agencies. MD&A reports do not provide a clear, succinct assessment of agencies' overall performance against financial budgets or performance measures. There is also limited or no reporting of agencies' cash flows, capital works and revisions made by Departments to their budgets.***

MANAGEMENT DISCUSSION AND ANALYSIS REPORTING REQUIREMENTS

10.7 Following Treasury's review of MD&A reporting included in the 2000-2001 annual reports of agencies, Treasury issued a Finance Memorandum[30] (the Memorandum) advising agencies of a number of areas where improvements to MD&A reporting could be made. This

[29] Finance Memorandum 2002/15 issued by Treasury.
[30] Finance Memorandum 2002/15 issued by Treasury.

Memorandum also included an example 'model' MD&A to improve the content and format for the MD&A reporting.

10.8 The Memorandum provided guidance on the information that should, where applicable, be included in an agency's MD&A. For example, an MD&A would typically include a discussion of the following matters in relation to that agency:

- Objectives and strategies;
- Financial performance. For example, significant variations in operating results, revenue, and expenditure reported in the Statement of Financial Performance compared to prior year and budget would be highlighted and discussed;
- Financial position. For example, short and long-term liquidity would be highlighted and discussed;
- Potential risks with financial implications and the strategy to manage the identified risks; and
- Other matters such as discussion of the audit opinion, if the opinion was qualified or contained matters of emphasis, and of actions being taken or proposed to address these matters.

COMPLIANCE WITH THE MANAGEMENT DISCUSSION AND ANALYSIS REPORTING REQUIREMENTS

10.9 As the MD&A information does not form part of the annual financial statements it is not audited. However, Auditing Standards[31] require the Audit to review the information contained in the MD&A for material consistency with information contained in the audited financial statements. The Audit is required to provide details of any 'material inconsistency' in the audit report on the financial statements.

10.10 MD&A reporting by agencies was reviewed by the Audit. MD&A reporting was found to be 'materially consistent' with agencies' financial statements and the Audit's understanding of the operations of agencies.

[31] Australian Auditing Standard *AUS212 Other Information in Documents Containing Audited Financial Statements.*

10.11 The Audit also found that nearly all agencies generally complied with the Memorandum by including MD&A reporting in their annual reports.

MANAGEMENT DISCUSSION AND ANALYSIS REPORTING REQUIREMENTS

10.12 Much of the improvement in agencies' MD&A reporting was a result of the guidance provided by Treasury in its Memorandum. The guidance provided was often evident in the MD&A reporting of many agencies and this significantly improved the format, content and consistency of this year's MD&A reporting.

Departmental Response

10.13 The Acting Chief Executive provided the following comment in relation to this Audit finding:

> *'It is pleasing to note the Auditor-General's recognition of the Treasury role in the provision of guidance to agencies regarding MD&A reporting, and that this guidance assisted agencies with significant improvement in the quality of this reporting.'*

AREAS FOR IMPROVEMENT IN MANAGEMENT DISCUSSION AND ANALYSIS REPORTING

10.14 However, the Audit considers that the guidance provided to agencies and the MD&A reporting of agencies could be improved in the following areas.

Financial Performance against Budget

10.15 There is presently no requirement for agencies to highlight whether their financial operations were managed to budget. The guidance provided in the Memorandum provides an illustrative 'high-level' factual discussion of the reasons for variations to budget, however, there is no succinct statement of an agency's own assessment of its overall

performance against budget. MD&A reporting by agencies did not include this type of statement in their MD&A reporting[32].

10.16 In addition, instances were noted where agencies' explanations tended to be narrative restatements of the reported financial results to budget and the prior year and consequently did not provide much information that explained the results or highlighted positive or negative aspects of financial performance. Instances were also noted where information reported was so general as to be of little use and/or where significant variances from budget and/or prior year results were not provided. Where this occurs there is a risk that MD&A reporting will not be useful to users and the objectives of MD&A reporting will not be met.

Recommendations

10.17 It is recommended that:

Recommendation No. 10

- agencies include a succinct statement of their assessed performance against their budget in their MD&A reporting;

Recommendation No. 11

- agencies' MD&A reporting highlight and explain the significant positive and negative aspects of their financial performance; and

Recommendation No. 12

- this year's MD&A reporting be reviewed by Treasury and feedback provided to all agencies, including Territory Owned Corporations and Territory Authorities, on areas which could be improved in their MD&A reporting.

Statement of Performance Information

10.18 The Statement of Performance forms part of agencies' annual financial statements. There is no requirement for agencies to provide an overall discussion of an agency's overall performance against the performance measures reported in its Statement of Performance.

[32] *Chapter 4: 'Analyses of Agencies' Performance Against Budget'* identified agencies that received further comments on their financial performance against budget. Chapters relating to these agencies are included in Section 4 of this Report.

10.19 The Audit recognises that explanations for significant variations to individual performance measures are already provided in agency's Statement of Performance.

10.20 However one of the purposes of MD&A reporting is to provide analyses and interpretation of the detailed content of statements[33]. Presently, the Statements of Performance of agencies regularly report on hundreds of performance measures. Obviously, some performance measures and their results are more important than others.

10.21 The Audit found that agencies' MD&A's do not include a discussion of the agencies' overall performance against the performance measures included in their Statement of Performance. MD&A reporting therefore is not drawing attention to performance against key measures in a manner that highlights the significant positive and negative aspects of agencies' performances.

Recommendation

10.22 It is recommended that:

Recommendation No. 13

- agencies' MD&A reporting include a succinct discussion and analysis of agencies' assessed performance against the performance measures included in their Statements of Performance. This discussion should draw attention to performance against key measures in a manner that highlights the significant positive and negative aspects of agencies' performance.

Cash Flows

10.23 Agencies are required to include a Statement of Cash Flows in their annual financial statements and Budget Papers. The reporting of cash flow information is essential in providing a complete view of agencies' financial results.

[33] Report No. 1. of 2001 stated that *'the statements contain a great deal of detail, however no analyses or interpretation of the detailed content is provided.'*

10.24 There is presently no requirement for agencies to provide analyses and explanations on their cash flows against budget or the prior year in their MD&A reporting.

Recommendation

10.25 It is therefore recommended that:

Recommendation No. 14

- Management Discussion and Analysis reporting include a discussion and analysis of the information presented in an agency's Statement of Cash Flows.

Capital Works

10.26 A significant amount of capital works expenditure is incurred by some agencies[34]. Therefore analyses and discussion of capital works expenditure is essential to provide a complete view of the financial results and performance of these agencies.

10.27 One of the recommendations made in Report No. 11 of 2001 was that:

> *'the Management Discussion and Analysis which accompanies the end of year financial statements in agencies' annual reports should provide an analysis of the various capital asset transactions i.e. acquisitions, disposals, revaluations and depreciation.'*

10.28 There is presently no requirement for agencies to provide any analysis and explanations on their capital works program expenditure in their MD&A reporting.

10.29 It is again recommended that:

[34] A total of $169m capital works expenditure was budgeted for 2001-2002. Details of the analysis of the Territory's and major agencies' capital works program expenditure are provided in *Chapter 16: Reporting on Capital Assets and the Capital Works Program.*

Recommendation

Recommendation No. 15

- Management Discussion and Analysis reporting include an analysis of the various capital asset transactions i.e. acquisitions, disposals, revaluations and depreciation.

'Revised' Budgets

10.30 Under the *Financial Management Act 1996* (FMA) a Department's 'budget' is the budget tabled in the Legislative Assembly immediately after the presentation of the Bill for the first Appropriation Act for a year. Where a Department's cash appropriation is subsequently revised, the Department revises its 'internal' budgets accordingly. As the FMA does not cater for 'revised budgets' the Department's budget for accountability purposes is the budget tabled in the Assembly and not the Department's 'internally revised budget'.

10.31 Where a Department's published budget was 'revised internally' following changes to its cash appropriation, this year's MD&A reporting only focussed on comparing the Department's results against the 'internally revised budget' and not the tabled budget. As a result significant revisions to the Department's tabled budget were not explained[35].

Recommendation

10.32 It is recommended that:

Recommendation No. 16

- Management Discussion and Analysis reporting by Departments include a meaningful discussion of 'revisions' made to a Department's budget.

[35] Reconciliation tables, which reconciled a Department's budget to its revised internal budget, were included at the end of Department's MD&A reports, however, the information did not explain the revisions to Department's budget in a meaningful way.

FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2002

SECTION 3

ANALYSIS AND DISCUSSION OF THE TERRITORY'S FINANCIAL STATEMENTS

FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2002

11 AUDIT QUALIFICATION OF THE TERRITORY'S FINANCIAL STATEMENTS

INTRODUCTION

11.1 This Chapter comments on the results of the audit of the Territory's financial statements.

SIGNIFICANT FINDINGS

- ***The Territory's financial statements and the financial statements of the General Government Sector were qualified with an 'except for' audit opinion due to the incorrect recognition of an 'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements' as a liability and for the inaccurate recording of the superannuation expense.***

Territory's Financial Statements

- ***Had the Territory's financial statements correctly reported the superannuation expense, an operating surplus of only $12m would have been reported instead of an operating surplus of $75m. The prior year operating surplus would have been $35m instead of the reported surplus of $100m.***

- ***Due to the incorrect recognition of an 'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements' as a liability, total liabilities reported in the Territory's Statement of Financial Position were overstated by $146m and net assets understated by the same amount. Prior year's total liabilities were overstated by $209m and net assets understated by the same amount.***

General Government Sector's Financial Statements

- ***Had the financial statements of the General Government Sector correctly reported the superannuation expense, an operating deficit of $34m would have been reported instead of an operating surplus of $29m. The prior year operating surplus would have been $1m instead of the reported surplus of $66m.***

- ***Due to the incorrect recognition of an 'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements' as a liability, total liabilities reported in the Statement of Financial Position of the General Government Sector were overstated by $146m and net assets understated by the same amount. Prior year's total liabilities were overstated by $209m and net assets understated by the same amount.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

11.2 A ***qualified*** audit opinion on the Territory's financial statements was provided to the Acting Treasurer (Mr Jon Stanhope) on 4 November 2002. The audit opinion and the financial statements were tabled in the Legislative Assembly on 14 November 2002.

MATTERS ARISING FROM THE AUDIT

11.3 The accounting policy used to measure the superannuation liability and associated expenses in the financial statements of the Territory and the General Government Sector was based on the accounting policy used by the Superannuation Unit. The audit opinion on the Superannuation Unit's financial statements was qualified with an 'except for' audit opinion because the accounting policy used to measure the Superannuation Unit's superannuation liability and associated expense did not comply with the relevant Australian Accounting Standard. A detailed explanation of the basis for the audit qualification and the financial effects of the departure from the relevant Australian Accounting Standard is contained in *Chapter 33: Superannuation Unit*.

11.4 As the financial effects of the departure from the relevant Australian Accounting Standard were also significant to the financial statements of the Territory and the General Government Sector, the audit qualification of the Superannuation Unit's financial statements flowed through to the audit opinion on the financial statements of the Territory and the General Government Sector.

11.5 The audit report on the financial statements of the Territory and the General Government Sector was therefore qualified.

REASONS FOR THE AUDIT QUALIFICATION

11.6 Australian Accounting Standard AAS 31 '*Financial Reporting by Governments'* requires that a liability of a Government must be recognised in the Statement of Financial Position when and only when:

- it is probable that the future sacrifice of economic benefits will be required; and
- the amount of the liability can be measured reliably.

11.7 The Territory adopted an accounting policy in the year ended 30 June 1999 whereby an actuary's annual revaluations of the superannuation liability were accumulated in an account titled '*Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements*'. The account is recorded as a liability in the Territory's Statement of Financial Position. The policy was adopted in order to reduce year by year volatility in the Territory's annual reported operating results.

11.8 The Australian Accounting Standard definition of a 'liability' requires it to be probable that future sacrifices of economic benefits will be required before a liability can be recognised in the Statement of Financial Position. The account titled *'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* does not meet the definition of a 'liability' as future sacrifices of economic benefits will not be required to meet the amount recorded in this account. As this account does not meet the definition of a 'liability' under the relevant Australian Accounting Standard it should not be recognised as a 'liability' in the Territory's Statement of Financial Position.

Departmental Advice

11.9 The Acting Chief Executive of Treasury has provided the following comments in relation to the audit qualification of the financial statements of the Territory and the General Government Sector.

> *'The Report advises that the accounting treatment adopted by the Territory for recognition of the superannuation liability was not in accordance with the requirements of Australian Accounting Standard AAS 31 'Financial Reporting by Governments'. This incorrectly implies that AAS 31 has specific requirements in regard to the recognition of superannuation liabilities.*

Australian Accounting Standards, including AAS 31, do not presently address the issue of recognition of superannuation liabilities. The treatment used by the Superannuation Unit is based on a hybrid of an International Accounting Standard and is consistent with the practice adopted and accepted by the Auditor-General in previous years.

Advice was provided to the Superannuation Unit by a leading accounting firm regarding the validity of the adopted accounting treatment. The advice received was that the Superannuation Unit is complying with Australian Accounting Standards in relation to the measurement of the superannuation liability and that various treatments will exist in regard to the reporting of superannuation liabilities until a Standard is introduced which specifically addresses this issue.

However, Treasury notes the recent developments by the Australian Accounting Standards Board regarding convergence with developments in International Accounting Standards on the reporting of superannuation liabilities, and considers that it would be appropriate for this issue to be addressed as part of the 2002-2003 financial statements.'

Further Audit Comments

11.10 The Audit carefully considered the response provided by Treasury and reviewed the advice of the 'leading accounting firm' referred to by Treasury.

11.11 Treasury's view and that of the accounting firm is based on an incorrect view that AAS 31 does not address 'superannuation' liabilities and that therefore AAS 31's requirements do not apply to 'superannuation' liabilities.

11.12 Treasury's response and the advice provided by the 'leading accounting firm' do not explain their view that AAS 31's requirements do not apply to 'superannuation' liabilities. Consequently, the basis for the Treasury view that the amount recorded in the account - *'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* is a 'liability' and why it complies with Australian Accounting Standards has not been explained by Treasury or the accounting firm.

11.13 AAS 31 states that *'a liability must be recognised in the statement of financial position when and only when it is probable that future sacrifice of economic benefits will be required.'*[36] This AAS 31 requirement does not exclude any type of 'liability'. This requirement therefore applies to all liabilities whether they be trade creditors, loan obligations or employee leave entitlement provisions including superannuation.

11.14 On the basis of the Audit's evaluation of the Australian Accounting Standards, the Audit cannot agree with the conclusions reached by Treasury and the accounting firm.

SUPERANNUATION EXPENSES

Effects of Incorrect Reporting

11.15 As a result of the departure from the Australian Accounting Standard, superannuation expenses have been incorrectly reported in the Territory's Statement of Financial Performance and the Statement of Financial Performance of the General Government Sector since the above mentioned accounting policy was introduced for the financial year ended 30 June 1999. The financial effects of this departure are explained in the following comments.

Territory's Operating Results

11.16 For the year ended 30 June 2002 superannuation expenses were reported in the Territory's Statement of Financial Performance as $201m. The correct amount was $264m. As a result the reported 'Operating Surplus from Ordinary Activities' for the year of $75m was incorrect and should be reduced by $63m to $12m.

11.17 For the year ended 30 June 2001 superannuation expenses were reported in the Territory's Statement of Financial Performance as $153m. The correct amount was $218m. As a result the reported 'Operating Surplus from Ordinary Activities' for the year of $100m is incorrect and should be reduced by $65m to $35m.

11.18 The accounting policy, which resulted in the departure from Australian Accounting Standards, was adopted in the year ended

[36] Paragraph 12.1 of AAS 31 '*Financial Reporting by Governments*'.

30 June 1999. If the departure from Australian Accounting Standards had not occurred, the reported financial results since the adoption of the accounting policy would have differed from the reported results as shown in the following table.

Table 11.1 Territory's Statement of Financial Performance Operating Surpluses/(Deficit)

Financial Year Ending	Incorrectly Reported Amount of the Operating Surpluses/(Deficit) Reported by the Territory	Amount of the (Over)/Understatement of the Territory's Operating Surpluses/(Deficit)	Correct Amount of the Territory's Operating Surpluses/(Deficit)
	$m	$m	$m
30 June 2002	75	(63)	12
30 June 2001	100	(65)	35
30 June 2000	78	183	261
30 June 1999	(175)	92	(83)

General Government Sector Operating Results

11.19 For the year ended 30 June 2002 superannuation expenses were reported in the Statement of Financial Performance of the General Government Sector as $199m. The correct amount was $262m. As a result the reported 'Operating Surplus from Ordinary Activities' for the year of $29m is incorrect and should be reduced by $63m to an 'Operating Deficit from Ordinary Activities' of $34m.

11.20 For the year ended 30 June 2001 superannuation expenses were reported in the Statement of Financial Performance of the General Government Sector as $151m. The correct amount was $216m. As a result the reported 'Operating Surplus from Ordinary Activities' for the year of $66m is incorrect and should be reduced by $65m to $1m.

11.21 The accounting policy, which resulted in the departure from Australian Accounting Standards, was adopted in the year ended 30 June 1999. If the departure from the Australian Accounting Standard had not occurred, the reported financial operating results since the adoption of the accounting policy would have differed from the reported operating results as shown in the table on the following page.

Table 11.2 Statement of Financial Performance of the General Government Sector Operating Surpluses/(Deficits)

Financial Year Ending	Incorrectly Reported Operating Surpluses/ (Deficit)	Amount of the (Over)/ Understatement of the Operating Surpluses /(Deficit)	Correct Amount of the Operating Surpluses /(Deficits)
	$m	$m	$m
30 June 2002	29	(63)	(34)
30 June 2001	66	(65)	1
30 June 2000	81	183	264
30 June 1999	(162)	92	(70)

UNREALISED GAIN FROM ACTUARIAL REVIEWS

Territory's Financial Position

11.22 The Territory has reported the balance of the account '*Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements*' as a liability of $146m in its Statement of Financial Position at 30 June 2002. At 30 June 2001 it was reported as $209m.

11.23 The effects of the departure from the Australian Accounting Standard (i.e. recognising the '*Unrealised gain from Actuarial Review of Employee Superannuation Entitlements'* as a liability) are shown in the table on the following page. In the Territory's Statement of Financial Position at 30 June 2002 'Total Liabilities' are overstated by $146m and 'Net Assets' understated by the same amount. In the Territory's Statement of Financial Position at 30 June 2001 'Total Liabilities' are overstated by $209m and 'Net Assets' understated by the same amount.

Table 11.3 Territory's Statement of Financial Position Net Assets and Equity			
Financial Year Ending	**Incorrect Amount Reported by the Territory**	**Amount of Understatement of the Net assets and Equity**	**Correct Amount of the Net assets and Equity**
	$m	**$m**	**$m**
30 June 2002	7,810	146	7,956
30 June 2001	7,325	209	7,534
30 June 2000	7,040	275	7,315
30 June 1999	6,844	92	6,936

General Government Sector Financial Position

11.24 In the Statement of Financial Position of the General Government Sector at 30 June 2002 the reported balance of the account '*Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* is $146m, whilst at 30 June 2001 it was reported as $209m.

11.25 In the Statement of Financial Position of the General Government Sector at 30 June 2002 'Total Liabilities' are overstated by $146m and 'Net Assets' understated by the same amount. In the Statement of Financial Position of the General Government Sector at 30 June 2001 'Total Liabilities' are overstated by $209m and 'Net Assets' understated by the same amount.

11.26 The effects of the departure from the Australian Accounting Standards are shown in the following table.

Table 11.4 Statement of Financial Position of the General Government Sector Net Assets and Equity			
Financial Year Ending	**Incorrectly Reported Amount of the Net Assets and Equity**	**Amount of Understatement of the Net Assets and Equity**	**Correct Amount of the Net Assets and Equity**
	$m	**$m**	**$m**
30 June 2002	5,002	146	5,148
30 June 2001	4,922	209	5,131
30 June 2000	4,726	275	5,001
30 June 1999	4,409	92	4,501

FINANCIAL ANALYSES IN THIS REPORT

11.27 Detailed analyses and discussion of the Territory's financial performance and financial position for the year are provided in subsequent Chapters. Readers should note that the Territory's reported financial results as reported in the Territory's financial statements have been revised to present the results that would have been reported had the departure (as described in this Chapter) from the relevant Australian Accounting Standard not occurred.

12 TERRITORY'S OPERATING RESULT

INTRODUCTION

12.1 This Chapter comments on this year's operating results of the Territory.

12.2 Readers should note that the audit report on the Territory's Financial Statements was qualified as a result of non-compliance with the relevant Australian Accounting Standard. *Chapter 11: Audit Qualification of the Territory's Financial Statements* provides further details of the basis for this qualification. To take the audit qualification into account the information presented in this Chapter presents the financial results that would have been reported if the Territory's financial statements had complied with the relevant Australian Accounting Standard. This Chapter also contains projected financial information. Similar adjustments have been made to the projected financial information reported in the 2002-2003 Budget Papers.

SIGNIFICANT FINDINGS

- ***The Territory recorded an essentially 'break-even' operating result of $12m.***
- ***The operating surplus of $12m did not vary significantly from the budgeted operating surplus of $6m and was less than the prior year operating surplus of $35m.***
- ***The Territory expects to achieve essentially 'break-even' operating results over the next few years.***
- ***These expected 'break-even' operating results generate little capacity for capital expenditure and provide no real protection from negative fluctuations in revenue or expenditure or unforseen adverse financial consequences of future events that may occur from time to time.***

TERRITORY'S OPERATING RESULT

12.3 The operating result highlights the extent to which the costs of service delivery by the Government are covered by the revenue raised in

the year. When assessed over a number of years the operating result is an important indicator of the financial sustainability of the Government's strategies and policies.

12.4 The following table summarises the Territory's operating results from 1998-1999 to 2001-2002.

Table 12.1 Territory's Operating Surplus/(Deficit)

	Budget[37] 2001-02 $m	Actual 2001-02 $m	Actual 2000-01 $m	Actual 1999-00 $m	Actual 1998-99 $m
Revenue[38]	2,129	2,354	2,294	2,208	1,894
Expenditure[39]	2,123	2,342	2,259	1,947	1,977
Operating surplus/(deficit)	**6**	**12**	**35**	**261**	**(83)**

12.5 This year's operating surplus of $12m did not vary significantly from the budgeted surplus of $6m and was less than last year's operating surplus of $35m. These operating results are so small that they only indicate that the Territory's budgeted break-even operating result was achieved and was not significantly different to last year's result.

12.6 The overall trend in recent years is that the Territory's revenue and expenditure continue to increase at similar rates. *Chapter 15: Territory's Revenue and Expenditure* provides a detailed analysis of the movements in Territory revenue and expenditure.

PROJECTED FUTURE OPERATING RESULTS

12.7 The table on the following page sets out projected operating results for 2002-2003 to 2005-2006.

[37] For the purpose of this analysis, the budgeted revenue ($2,171m), expenses ($2,143m) and operating surplus of $28m as reported in 2001-2002 Budget Paper No. 3 (p.54) have been amended to exclude the effects of amortisation on the actuarial gain on superannuation liability. Budgeted gains on superannuation investments have also been excluded from *Revenue* and offset against *Expenses*. The budget projections for the effects of amortisation on the actuarial gain on superannuation liability and gain on superannuation investments were provided by Finance and Investment Group, Treasury.
[38] See *Chapter 15: Territory's Revenue and Expenditure* for details of Territory 'Revenue'.
[39] See *Chapter 15: Territory's Revenue and Expenditure* for details of Territory 'Expenses'.

Table 12.2 Projected Operating Results[40]

	Actual 2001-02 $m	Projected 2002-03 $m	Projected 2003-04 $m	Projected 2004-05 $m	Projected 2005-06 $m
Revenue	2,354	2,300	2,323	2,416	2,491
Expenditure	2,342	2,290	2,341	2,400	2,465
Operating surplus/(deficit)	**12**	**10**	**(18)**	**16**	**26**

12.8 The small expected operating results are so small that they should be considered to be 'break-even' budgets rather than budgets that are in surplus or deficit. The above table shows that the Territory is expecting to have essentially 'break-even' operating results over the next few years.

12.9 These expected 'break-even' operating results will generate little capacity for capital expenditure and provide no real protection from negative fluctuations in revenue or expenditure or unforseen adverse financial consequences of future events that may occur from time to time.

[40] Figures are sourced from the 2002-2003 Budget Papers No.3, page 125. For the purpose of this analysis, budgeted gains on superannuation investments have been excluded from *Revenue* and offset against *Expenditure*. The budgets for the gain on superannuation investments were provided by Treasury.
The projected *Expenditure* and the *Operating surplus/(deficit)* have also been adjusted to remove the effects of amortisation on the actuarial gain on superannuation liability. The budget projections for the effects of amortisation on the actuarial gain on superannuation liability were provided by Finance and Investment Group, Treasury.

13 TERRITORY'S FINANCIAL POSITION

INTRODUCTION

13.1 This Chapter comments on the Territory's financial position.

13.2 Readers should note that the Audit Report on the Territory's Financial Statements was qualified as a result of non-compliance with the relevant Australian Accounting Standard. *Chapter 11: Audit Qualification of the Territory's Financial Statements* provides further details of the basis for this qualification. To take this qualification into account the information presented in this Chapter presents the financial results that would have been reported if the Territory's Financial Statements had complied with the relevant Australian Accounting Standard. This Chapter also contains projected financial information. Similar adjustments have also been made to the projected financial information reported in the 2002-2003 Budget Papers.

SIGNIFICANT FINDINGS

Net Asset Position

- ***The net asset position has increased by $421m (5.6%) from $7,534m in 2001 to $7,955m in 2002. The increase was mostly due to an increase in Non financial assets (and in particular property plant and equipment).***

- ***Financial assets increased by $144m. This increase mainly came from cash surpluses from the Territory's operations and after meeting the requirements of the Territory's capital works program. These cash surpluses exceeded the significant losses from superannuation investments.***

- ***Liabilities increased by $180m (10.4%) from $1,738m in 2001 to $1,918m in 2002. Most of this increase is due to significant increases in the Territory's unfunded superannuation liabilities.***

- ***The Territory's net asset position has been growing steadily at a small rate since 1999.***

Unfunded Financial Liabilities

- ***The Territory continues to have insufficient financial assets to meet its financial liabilities (i.e. it has unfunded financial liabilities).***

- ***Total unfunded financial liabilities increased by $36m (4.5%) from $801m in 2001 to $837m in 2002.***

- ***This year's increase in unfunded financial liabilities is due to the unfunded superannuation liabilities increasing significantly.***

- ***The amount of financial assets available to meet each dollar of superannuation liabilities has increased from $0.33 in 1999 to $0.56 in 2002.***

- ***Unfunded superannuation liabilities make up approximately 61% of the Territory's total unfunded financial liabilities.***

Unfunded Superannuation Liabilities

- ***The Territory continues to have insufficient investments set aside to meet its superannuation liabilities (i.e. the Territory has superannuation liabilities which are unfunded).***

- ***Unfunded superannuation liabilities increased significantly by $189m (59.4%) from $318m in 2001 to $507m in 2002.***

- ***This year's increase in unfunded superannuation liabilities has mainly resulted from the amount of superannuation investments increasing at a slower rate than the rate at which superannuation liabilities are rising.***

Short Term Financial Position

- ***The Territory has a reasonably healthy short time financial position. At 30 June 2002 there were $3.62 in current assets to meet each dollar of current liability.***

- ***The ratio of current assets to current liabilities has increased from $3.34 in 2001 to $3.62 in 2002. This upward trend is projected to continue over the next few years with the ratio increasing to $4.32 by 2005.***

Long Term Financial Position

- ***At 30 June 2002 the Territory had unfunded liabilities of $837m; there was only $0.56 in current assets to meet each dollar of current liability.***

- ***The amount of financial assets available to meet each dollar of liabilities has increased from $0.33 in 1999 to $0.56 in 2002. This trend of improvement is not expected to continue over the next few years. The amount of financial assets available to meet each dollar of total liabilities is expected to decrease from $0.56 in 2002 to $0.44 in 2005.***

- ***The Territory will need to accumulate significant financial assets if it is to keep pace with the substantial increases in superannuation liabilities expected over the next few years.***

STATEMENT OF FINANCIAL POSITION

13.3 The Statement of Financial Position is an important indicator of the Territory's financial strength and, when comparative balances are presented, of changes in its overall financial position.

13.4 The table on the following page summarises the Territory's Statement of Financial Position from 1999 to 2002.

Table 13.1 Territory's Statement of Financial Position

	Actual 2002 $m	Variation* %	Actual 2001 $m	Variation* %	Actual 2000 $m	Variation* %	Actual 1999 $m
Assets							
Financial assets[41]	1,081[42]	15.4	937	14.7	817	27.7	640
Non financial assets[43]	8,792	5.5	8,335	1.0	8,252	(0.1)	8,259
	9,873	**6.5**	**9,272**	**2.2**	**9,069**	**1.9**	**8,899**
Liabilities							
Borrowings, payables and finance leases	1,127	(2.1)	1,151	1.0	1,140	27.8	892
Unfunded superannuation[44]	507	59.4	318	(8.9)	349	(55.9)	792
Employee entitlements	235	2.6	229	0.9	227	(0.9)	229
Other	49	22.5	40	5.3	38	(24.0)	50
	1,918	**10.4**	**1,738**	**(0.9)**	**1,754**	**(10.6)**	**1,963**
Net assets	**7,955**	**5.6**	**7,534**	**3.0**	**7,315**	**5.5**	**6,936**

* Represents the percentage variation from the previous year.

Assets

13.5 Assets of $9,873m are comprised of *Non financial assets* of $8,792m (89.1%) and *Financial assets* $1,081m (10.9%). Most of the Territory's assets are of a non financial nature. While some *Non financial assets* may be able to be sold to meet the Territory's liabilities, most are generally required to provide services and therefore cannot in the normal course of events be converted to cash in order to meet liabilities as they fall due.

[41] *Financial assets* are generally assets of the type that can be readily converted to cash. The Territory's financial assets are comprised of cash, receivables and investments (excluding certain investments in joint ventures and other entities because these investments cannot be readily converted into cash). For the purpose of this analysis, superannuation investments have been excluded from *Financial assets* and included in the calculation of *Unfunded superannuation liabilities*.

[42] *Financial assets* of $1,081m are represented by the $2,439m in financial assets recorded on page 52 of this year's Territory's Financial Statements less the Territory's investments in joint ventures of $355m, TransACT Communications Pty Limited of $43m and superannuation investments of $960m.

[43] *Non financial assets* are generally assets of the type that are not readily converted to cash. They are mostly comprised of *Physical Assets* such as property, plant and equipment (including capital works) and investments in joint ventures and other entities because these investments cannot be readily converted into cash.

[44] *Unfunded superannuation* is the amount by which *Superannuation liabilities* exceed *Superannuation investments*. *Table 13.4: Unfunded Superannuation Liabilities* presents the calculation of unfunded superannuation liabilities.

13.6 This year, the Territory's assets increased by $601m (6.5%) from $9,272m in 2001 to $9,873m in 2002. Most of this $601m increase was due to an increase in *Non financial assets* of $457m. The balance of the increase was due to a $144m increase in *Financial assets*. The increases in *Financial assets* and *Non financial* assets are explained in the following paragraphs.

Financial Assets

13.7 *Financial assets* increased by $144m (15.4%) from last year. This increase was mainly a result of the cash surpluses from operations of $259m[45] after meeting the cash requirements of the capital works program partially offset by significant losses in superannuation investments of $83m.

Non Financial Assets

13.8 *Non financial assets* are generally assets of the type that are not readily convertible to cash (i.e. they cannot be sold).

13.9 *Non financial assets* are mostly comprised of 'physical assets' such as property, plant and equipment (including capital works) and investments in joint ventures and other entities that cannot be readily converted into cash. Physical assets are used to deliver services to the community (e.g. roads, land, buildings including schools and hospitals, plant and equipment and other infrastructure).

13.10 The increase of $457m in *Non financial assets* was mostly due to upward revaluations of property plant and equipment ($415m[46]), purchases of property plant and equipment ($243m) partially offset by depreciation ($175m)[47].

Liabilities

13.11 Liabilities increased by $180m (10.4%) from $1,738m in 2001 to $1,918m in 2002. This year's increase of $180m was due to a significant increase of $189m (59.4%) in *Unfunded superannuation* liabilities from last year partially offset by a small decline in other liabilities.

[45] *Chapter 14: Territory's Cash Flows* shows that the net cash increase after meeting cash requirements from its operations and the capital works program was $259m.
[46] Most increases in valuations related to land and buildings.
[47] Page 30 of the Territory's financial statements.

Unfunded Superannuation Liabilities

13.12 The Territory's *Unfunded superannuation* liabilities consist of the total *Superannuation liabilities* less the *Superannuation investments* set aside to meet the liability[48].

13.13 *Unfunded superannuation* liabilities increased significantly by $189m (59.4%) from $318m in 2001 to $507m in 2002. For a further discussion of this increase refer to *Table 13.4: Unfunded Superannuation Liabilities* and *Chapter 33: Superannuation Unit.*

Borrowings, Payables and Finance Leases

13.14 *Borrowings, payables and finance leases* decreased by $24m (2.1%) from last year's amount of $1,151m to $1,127m this year.

Employee Entitlements

13.15 *Employee entitlements* are mostly represented by the value of long service and annual leave owing to employees. This liability has increased by $6m (2.6%) from last year.

13.16 There has been no significant fluctuation in *Employee entitlements* that have averaged around $230m over the period from 1999 to 2002.

TERRITORY'S UNFUNDED LIABILITIES

13.17 *Financial assets* are cash or assets of a type that can be readily converted to cash. The Territory's *Financial assets* are mostly comprised of cash, investments and receivables[49]. The Territory's financial assets are the primary means by which the Territory's *Financial liabilities* will be met as they fall due.

[48] *Table 13.4: Unfunded Superannuation Liabilities* presents the calculation of unfunded superannuation liabilities.

[49] *Financial assets* are generally assets of the type that can be readily converted to cash. The Territory's financial assets are comprised of cash, receivables and investments (excluding investments in joint ventures and other entities because these investments cannot be readily converted into cash). For the purpose of this analysis, superannuation investments have also been excluded from *Financial assets* and included in the calculation of *Unfunded superannuation liabilities*.

13.18 *Financial liabilities*[50] (including *Unfunded superannuation liabilities*) existing at the close of the financial year arise from various past transactions and actions including requirements to repay past borrowings, to pay creditors for services provided prior to year end but not paid for at year end, and to meet employee entitlements arising as a result of work performed prior to year end but which do not need to be paid for in cash until sometime in the future (e.g. superannuation and long service leave).

13.19 All of the Territory's liabilities will have to be met in cash at some time in the future and therefore have been categorised as *Financial liabilities*. Some liabilities will need to be met in cash in the immediate future while most will be payable over a much longer term.

13.20 Where *Financial assets* exceed *Financial liabilities* the liabilities are considered to be 'funded'. The Territory however has *Unfunded liabilities* since *Financial assets* available to meet liabilities are less than the liabilities (i.e. a shortfall exists between *Financial assets* and *Financial liabilities*).

13.21 The table on the following page shows the extent of this shortfall between the Territory's *Financial assets* and *Financial liabilities* at the end of each of the last four financial years.

[50] The amount of *Financial liabilities* differs from the financial liabilities reported on page 52 of this year's Territory's Financial Statements because all liabilities are inevitably required to be met in cash at some time in the future, either in the short term or long term. For the purpose of this analysis all liabilities have therefore been categorised as *Financial liabilities* to better reflect the substance of the Territory's financial position.

Table 13.2 Unfunded Financial Liabilities (including Superannuation Liabilities)

	Actual 2002 $m	Variation* %	Actual 2001 $m	Variation* %	Actual 2000 $m	Variation* %	Actual 1999 $m
Financial assets[51]	1,081	15.4	937	14.7	817	27.7	640
Unfunded superannuation liabilities[52]	(507)	59.4	(318)	(8.9)	(349)	(55.9)	(792)
Other liabilities	(1,411)	(0.6)	(1,420)	1.1	(1,405)	20.0	(1,171)
Financial liabilities	(1,918)	10.4	(1,738)	(1.0)	(1,754)	(10.7)	(1,963)
Unfunded financial Liabilities	**837**	**4.5**	**801**	**(14.5)**	**937**	**(29.2)**	**1,323**
Ratio of financial assets to financial liabilities	**$0.56 to 1**		**$0.54 to 1**		**$0.47 to 1**		**$0.33 to 1**

* Represents the percentage variation from the previous year.

13.22 Table 13.2 shows that Territory's unfunded liabilities have increased by $36m (4.5%) from $801m in 2001 to $837m in 2002. Most of the increase is attributable to a significant increase of $189m in *Unfunded superannuation liabilities* partially offset by a $144m increase in *Financial assets*[53].

13.23 Table 13.2 shows the ratio of *Financial assets* to *Financial liabilities*. The table shows that the Territory had $0.56 in *Financial assets* to meet every dollar of *Financial liabilities* as at 30 June 2002. This represents a slight improvement to the position as at 30 June 2001.

13.24 Table 13.2 also shows that the Territory has insufficient *Financial assets* to meet its *Financial liabilities*. This has been the position in recent years.

[51] *Financial assets* are generally assets of the type that can be readily converted to cash. The Territory's financial assets comprise of cash, receivables and investments (excluding investments accounted for using the equity method). For the purpose of this analysis, superannuation investments have also been excluded from financial assets. Superannuation assets have been offset against superannuation liabilities to calculate the *Unfunded superannuation liabilities.*

[52] *Table 13.4: Unfunded superannuation liabilities* presents the calculation of *Unfunded superannuation liabilities.*

[53] For a further discussion of the increase in *Unfunded superannuation liabilities* refer to *Table 13.4*: *Unfunded Superannuation Liabilities* and *Chapter 33: Superannuation Unit*. As mentioned previously the increase in *Financial assets* was as mainly a result of the Territory's cash surpluses from its operations of $259m after meeting the cash requirements of the capital works program offset by significant losses in superannuation investments of $83m.

SUPERANNUATION ASSETS AND LIABILITIES

Superannuation Liabilities

13.25 The importance of *Superannuation liabilities* is clear. These liabilities represented $1,467m[54] (51%) of the Territory's total liabilities of $2,878m[55] in 2002 and are the largest of the liabilities.

13.26 As shown in the analysis of the Territory's long term financial position reviewed later in this Chapter, *Superannuation liabilities* are expected to rise rapidly by $519m to $1,986m[56] in 2005 and will represent around 59.8%[57] of the Territory's total liabilities by that time.

Superannuation Costs

13.27 Under the superannuation arrangements with the Commonwealth Government, the Territory is responsible for meeting its share of the superannuation payments to former staff members who are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). Where staff were employed by the Commonwealth Government (prior to self-government, for example) the Commonwealth Government meets the cost arising from that employment. The Territory only pays for superannuation arising from ACT Public Service from 1 July 1989.

13.28 The cash amounts which the Territory will have to pay in future years to meet superannuation payments to past employees have been estimated by the Government's superannuation consultants, Towers Perrin. The estimated annual payments (in nominal terms and 'real terms'[58]) are shown in the table on the following page.

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[54] *Superannuation liabilities* are presented in *Table 13.9: Funding of Superannuation Liabilities (Projections).*

[55] Total liabilities of $2,878m differs from total liabilities amount of $3,024m reported in this year's Territory's financial statements due to *'Unrealised Gain from Actuarial Review* of *Employee Superannuation Entitlements'* of $146m being excluded from total liabilities because it is not a liability.

[56] Refer to *Table 13.9: Funding of Superannuation Liabilities (Projections).*

[57] *'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* has been excluded from total liabilities as it is not a liability.

[58] 'Real terms' is the restatement of the nominal amount in 'today's dollars'. For example, in the year 2032 it is expected that the Territory will have to pay $573.8m. In today's dollars the $573.8m equates to a payment of $205.4m.

Table 13.3 Superannuation Cash Payment Schedule

Year Ending 30 June	Nominal[59] $m	Real Terms[60] $m
2002	26.2	25.5
2008	57.4	46.9
2014	131.2	87.2
2020	241.9	130.8
2026	385.2	169.5
2032	573.8	205.4
2038	801.6	233.4

13.29 Table 13.3 illustrates that, in real terms, superannuation cash payments will continue to rise steadily in the foreseeable future.

13.30 This escalation is the result of the combination of the short period of ACT responsibility for employees' superannuation and the aging profile of ACT employees. The primary factor in the initial years is that the ACT liability related only to CSS/PSS members employed with the ACT Public Service from 1 July 1989. The Commonwealth is liable prior to that date. This means that the ACT share of the superannuation payments to its long-serving retirees is at present quite low. This share will increase as service with the ACT Public Service becomes a larger proportion of the total service.

13.31 The second factor is the aging profile of ACT employees. In the early years of the 21st century many of these employees will be reaching retirement age when it will become necessary for the Territory to meet its obligations for their superannuation entitlements in cash. For many members, benefits will be taken as indexed pensions which will continue over the lives of the members and their surviving spouses. The *State of the Service Report 2001-2002*[61] indicates that the Territory has an aging workforce. These liabilities will therefore have to be met in the not too distant future.

[59] Towers Perrin's *'Accrued Liabilities and Emerging Cost Payment Schedule based on Membership Data as at 30 June 2000'* report dated 29 March 2001.

[60] The figures for Superannuation cash payments included in the table were provided by the Finance and Investment Group, Department of Treasury.

[61] Page 19 of the *ACT State of the Service Report 2001-2002*. The purpose of this report is to provide a comprehensive picture of the ACT Public Service in 2001-2002 in terms of basic workforce statistical data and of the broader developments and issues that are likely to impact upon the Service.

Superannuation liability

13.32 The amount of *Superannuation liabilities* is the net present value of the estimated future payments to members of the schemes. This liability includes estimated future payments to *past* and *current* employees. The liability was estimated by the Government's consultants who take into account wage and salary growth, member life expectancy, investment returns and inflation.

13.33 As at 30 June 2002, the overall liabilities were estimated to be $1,467m[62] for payments to be made to members. Given the nature of the estimate, the amount should be regarded as an approximation. It can vary, depending on the factors used in its calculation.

Unfunded Superannuation Liabilities

13.34 The Territory has been setting aside investment funds to meet the superannuation liabilities as payments fall due. From 1 July 2000 these funds were quarantined to be used for superannuation purposes by the *Territory Superannuation Provision Protection Act 2000*[63]. At 30 June 2002 these investments totalled $960m.[64]

13.35 The Territory's *Unfunded superannuation liability* is the total *Superannuation liabilities* less *Superannuation investments* set aside to meet the liability. The unfunded liabilities for superannuation over the past four years have been as summarised in the table on the following page.

[62] Page 3 of the Territory's financial statements show the amount of $1,467m is comprised of current and non current *Employee superannuation entitlements* of $38m and $1,429m.

[63] The intention of the *Territory Superannuation Provision Protection Act 2000* is to ensure that funds provided for superannuation are paid into a superannuation banking account. Once in that account the funds may only be used for superannuation purposes. Investment earnings will also be retained and may only be used for superannuation purposes. The *Territory Superannuation Provision Protection Act 2000* required that all moneys standing to the credit of the Superannuation Unit at 30 June 2000 be paid into a new superannuation banking account.

[64] As recorded in the Superannuation Unit's audited financial statements.

Table 13.4 Unfunded Superannuation Liabilities[65]

	Actual 2002 $m	Variation* %	Actual 2001 $m	Variation* %	Actual 2000 $m	Variation* %	Actual 1999 $m
Superannuation investments	960	1.5	946	27.2	744	107.2	359
Superannuation liabilities[66]	(1,467)	16.1	(1,264)	15.7	(1,093)	(5.0)	(1,151)
Unfunded superannuation liabilities	**507**	**59.4**	**318**	**(8.9)**	**349**	**(55.9)**	**792**
Ratio of superannuation investments to superannuation liabilities	**$0.65 to 1**		**$0.75 to 1**		**$0.68 to 1**		**$0.31 to 1**

* Represents the percentage variation from the previous year.

13.36 Table 13.4 shows that *Unfunded superannuation* liabilities have increased significantly by $189m from last year because *Superannuation liabilities* increased significantly by $203m (16%) yet the amount of investments set aside to meet these liabilities only increased by $14m. A major factor contributing to the small increase in investments was that additional amounts invested in *Superannuation investments* were mostly offset by substantial losses of $83m in the net market value of *Superannuation investments* over the past year.

13.37 The ratio of *Superannuation investments* held to *Superannuation liabilities* shows that the amount of investments set aside to meet *Superannuation liabilities* has deteriorated significantly since last year. At 30 June 2002, the Territory had $0.65 in investments set aside to meet every dollar of superannuation liability compared to the $0.75 in investments set aside at 30 June 2001.

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

[65] The amounts used for *Superannuation investments* and *Superannuation liabilities* were obtained from the ACT Superannuation Unit's audited financial statements. As mentioned previously the *Superannuation liabilities* exclude amounts reported in the Superannuation Unit's statements as *'Unrealised Gain from Actuarial Review* of *Employee Superannuation Entitlements'* on the basis that it is not a liability.

[66] *Superannuation liabilities* exclude amounts reported in the Superannuation Unit's statements as *'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* on the basis that it is not a liability.

SHORT TERM FINANCIAL POSITION

13.39 The 'short term' generally refers to the next 12 month period. By comparing the amount of assets available to meet liabilities that are expected to be paid over the next 12 months the Territory's 'short term' financial position can be assessed.

Past Trends in the Short Term Financial Position

13.40 The following table compares the assets available to meet short term liabilities.

Table 13.5 Short Term Financial Position

	Actual 2002 $m	Variation* %	Actual 2001 $m	Variation* %	Actual 2000 $m	Variation* %	Actual 1999 $m
Current assets							
Financial assets[67]	1,081	15.4	937	14.7	817	27.7	640
Funded superannuation assets[68]	922	0.8	915	27.6	717	110.9	340
	2,003	**8.2**	**1,852**	**20.7**	**1,534**	**56.5**	**980**
Current liabilities							
Other current liabilities[69]	553	(0.2)	554	7.2	517	17.0	442
Net current assets	**1,450**	**11.7**	**1,298**	**27.6**	**1,017**	**89**	**538**
Current assets to current liabilities	**$3.62 to 1**		**$3.34 to 1**		**$2.97 to 1**		**$2.22 to 1**

* Represents the percentage variation from the previous year.

13.41 Table 13.5 shows that the Territory has sufficient current assets to meet its current liabilities. At 30 June 2002 the Territory's current assets exceeded these liabilities by $152m. There were $3.62 in current assets available to meet each dollar of current liabilities compared to $3.34 in current assets available to meet each dollar of current liability at 30 June 2001.

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[67] *Financial assets* are generally assets of the type that can be readily converted to cash. The Territory's financial assets are comprised of cash, receivables and investments (excluding investments in joint ventures and other entities because these investments cannot be readily converted into cash). For the purpose of this analysis, superannuation investments have also been excluded from *Financial assets* and included in the calculation of *Unfunded superannuation liabilities*.

[68] *Funded superannuation assets* is the amount by which the investments set aside to meet the superannuation liabilities exceed the current superannuation liabilities. For the purpose of this analysis amounts classified as non current superannuation investments for reporting purposes in the Superannuation Unit's statements have been classified as current on the basis that they could be realised to meet current superannuation liabilities if required.

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

13.42 The major reason for this improvement is the increase in *Financial assets* which increased by $144m mostly as a result of the cash surpluses from operations after meeting the cash requirements of the capital works program. These cash surpluses were greater than the significant losses in superannuation investments of $83m.

13.43 Table 13.5 shows that the Territory's ability to meet its current liabilities has continued to improve over the past year and that this year's improvement represents a continuation of a steady trend of improvement since 1999.

13.44 It should be noted that the current assets are the only assets generally available to meet the short and long term liabilities of the Territory. While there are sufficient current assets to meet the short term liabilities the reality is that many of these assets are needed to meet the rapidly increasing longer term liabilities of the Territory (in particular the superannuation liability).

Expected Trends in the Short Term Financial Position

13.45 The table on the following page compares the assets available to meet current liabilities over the next few years.

Table 13.6 Short Term Financial Position (Projections)

	Actual 2002 $m	Variation* %	Budget 2003 $m	Variation* %	Budget 2004 $m	Variation* %	Budget 2005 $m
Current assets							
Financial assets	1,081	(19.8)	867	(12.8)	756	7.8	815
Funded superannuation assets	922	20.2	1,108	15.7	1,282	11.4	1,428
Total current assets	**2,003**	**(1.4)**	**1,975**	**3.2**	**2,038**	**10.1**	**2,243**
Current liabilities							
Other current liabilities[70]	(553)	(4.5)	(528)	(5.3)	(500)	3.8	(519)
Total current liabilities	**(553)**	**(4.5)**	**(528)**	**(5.3)**	**(500)**	**3.8**	**(519)**
Net current assets/(liabilities)	**1,450**	**(0.2)**	**1,447**	**6.3**	**1,538**	**12.1**	**1,724**
Current assets to current liabilities	**$3.62 to 1**		**$3.74 to 1**		**$4.08 to 1**		**$4.32 to 1**

* Represents the percentage variation from the previous year.

13.46 Table 13.6 shows that it is expected that the Territory's ability to meet its current liabilities will continue to improve over the next few years. The position at 30 June 2002 where there was $3.62 in current assets available to meet each dollar of current liabilities is expected to improve to a situation where it is expected there will be $4.32 in current assets to meet each dollar of current liabilities by 30 June 2005.

LONG TERM FINANCIAL POSITION

13.47 'Long term' generally includes the period beyond the next 12 months. The Territory's 'long term' financial position can be assessed by comparing the level of financial assets available to meet its liabilities.

Past Trends in the Long Term Financial Position

13.48 For the purposes of this analysis the assets that are generally considered to be available to meet long term liabilities exclude *'Non financial assets'*. While a few of these assets might be realisable to meet

[70] These figures are calculated by subtracting Current Employee Superannuation Entitlements and *'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* from Total Current Liabilities as reported in the Territory's financial statements in the respective years.
(Total current liabilities: Actual 2002 figures from this year's Territory's financial statements. Budget Figures: 2002-2003 Budget Papers No. 3, page 126. Total current superannuation entitlements and actuary gains are sourced from the 2002-2003 Budget Papers No. 4, page 132. The Superannuation Unit has provided the details of the *'Unrealised Gain from Actuarial Review of Employee Superannuation Entitlements'* the budget for employee entitlements so that this account, which is not a liability could be excluded from the projected figures).

liabilities over the long term most are not available to do so. In a real sense many of the Territory's assets are not available to be realised (i.e sold) in order to meet long term debt (e.g. infrastructure assets essential to the provision of government services to the community cannot be sold). As these *Non financial assets* are generally not available to meet long term debt, the Territory's *Financial assets* are the primary means from which it must meet its short and long term financial obligations.

13.49 All of the Territory's liabilities will have to be met in cash at some time in the future and therefore have been categorised as *Financial liabilities* by the Audit. Some liabilities will need to be met in cash in the immediate future while most will be payable over a much longer term.

Table 13.7 Long Term Financial Position - (Unfunded) Financial Liabilities (including Superannuation Liabilities)

	Actual 2002 $m	Variation* %	Actual 2001 $m	Variation* %	Actual 2000 $m	Variation* %	Actual 1999 $m
Financial assets	1,081	15.4	937	14.7	817	27.7	640
Unfunded superannuation liabilities	(507)	59.4	(318)	(8.9)	(349)	(55.9)	(792)
Other liabilities	(1,411)	(0.6)	(1,420)	1.1	(1,405)	20.0	(1,171)
Financial liabilities	(1,918)	10.4	(1,738)	(1.0)	(1,754)	(10.7)	(1,963)
Unfunded financial Liabilities	**837**	**4.5**	**801**	**(14.5)**	**937**	**(29.2)**	**1,323**
Ratio of financial assets to financial liabilities	**$0.56 to 1**		**$0.54 to 1**		**$0.47 to 1**		**$0.33 to 1**

* Represents the percentage variation from the previous year.

13.50 The table shows that the Territory has less *Financial assets* than liabilities. At 30 June 2002 it had $0.56 in *Financial assets* available to meet each dollar of liabilities. These results have been previously discussed at the beginning of this Chapter.

13.51 The table also shows that the Territory's ability to meet its liabilities has improved significantly from having $0.33 in assets available to meet each dollar of liabilities at 30 June 1999 to having $0.56 in assets available to meet each dollar of liabilities at 30 June 2002.

Expected Trends in the Long Term Financial Position

13.52 The following table compares the assets estimated to be available to meet the Territory's liabilities over the next few years.

Table 13.8 Assets Available to Meet Territory's Liabilities (Projections)

	Actual 2002 $m	Variance* %	Budget 2003 $m	Variance* %	Budget 2004 $m	Variance* %	Budget 2005 $m
Assets							
Financial assets	1,081	(19.8)	867	(12.8)	756	7.8	815
Liabilities							
Unfunded superannuation[71]	(507)	(5.7)	(478)	0.0	(478)	7.9	(516)
Other liabilities	(1,411)	(2.8)	(1,371)	(3.3)	(1,326)	0.9	(1,338)
	(1,918)	**(3.6)**	**(1,849)**	**(2.4)**	**(1,804)**	**2.8**	**(1,854)**
Unfunded liabilities	**(837)**	**17.3**	**(982)**	**6.7**	**(1,048)**	**(0.9)**	**(1,039)**
Assets to liabilities	**$0.56 to 1**		**$0.47 to 1**		**$0.42 to 1**		**$0.44 to 1**

* Represents the percentage variation from the previous year.

13.53 The preceding discussion of past trends in the Territory's Financial Position showed that, while the Territory was in an unfunded liability position over recent years, the Territory has significantly improved its ability to meet its liabilities. The above table, however, shows that this positive trend is not expected to continue over the next few years. In contrast to the improvement experienced in the Territory's long term financial position in recent years, the above table shows that the Territory's long term financial position is expected to deteriorate significantly over the next few years. Unfunded liabilities are expected to increase by $145m (17.3%) over the next 12 months and increase by $201m (24%) over the next few years.

13.54 The Territory had $0.56 available to meet each dollar of liability at 30 June 2002 and this is expected to fall to $0.47 to each dollar of liabilities over the next 12 months after which it will be relatively stable at around $0.43 to each dollar of liabilities.

13.55 The above table shows that the major reason for the decline over the next few years is due to the substantial fall in *Financial assets* of $214m (19.8%) over the next 12 months and a $266m (24.6%) fall in these assets over the next few years.

[71] *Table 13.9: Funding of Superannuation Liabilities (Projections)* presents the calculation of *Unfunded superannuation* liabilities .

13.56 The major decline in *Financial assets* is mostly due to these assets being transferred to investments set aside to meet the rapidly rising superannuation liabilities. Table 13.9 shows that significant increases in superannuation investments are expected and are in fact needed to keep pace with the expected significant increases in liabilities. It is important to note that the main source for accumulating financial assets is through the generation of cash surpluses.

Table 13.9 Funding of Superannuation Liabilities (Projections)

	Actual 2002 $m	Variation* %	Budget 2003 $m	Variation* %	Budget 2004 $m	Variation* %	Budget 2005 $m
Superannuation investments	960	19.7	1,149	14.8	1,319	11.4	1,470
Superannuation liabilities	(1,467)	10.9	(1,627)	10.4	(1,797)	10.5	(1,986)
Unfunded superannuation liabilities	**507**	**5.7**	**478**	**0.0**	**478**	**7.9**	**516**
Ratio of superannuation investments to superannuation liabilities	**$0.65 to 1**		**$0.71 to 1**		**$0.73 to 1**		**$0.74 to 1**

* Represents the percentage variation from the previous year.

13.57 The above table indicates that *Unfunded superannuation liabilities* are expected to fluctuate from $478m to $516m over the next few years.

13.58 The ratio of *Superannuation investments* held to *Superannuation liabilities* shows that there is $0.65 in investments set aside to meet every dollar of superannuation liabilities. This is expected to increase to $0.74 in 2005. Whether these projections occur is significantly dependent on the Territory generating sufficient cash surpluses and the extent to which cash surplus are set aside to meet the investments and the performance of these investments.

14 TERRITORY'S CASH FLOWS

INTRODUCTION

14.1 This Chapter comments on Territory's cash flows in 2001-2002. This Chapter focuses on the Territory's net cash flows from operating activities and the net cash flows after funding the capital works program.

14.2 The Chapter also explains the difference between the Territory's *'net cash flows from operating activities'* and the Territory's *'operating surplus'* and compares these two key financial results.

14.3 The Chapter also highlights the importance of the Territory maintaining healthy cash surpluses after funding its capital work program.

STATEMENT OF CASH FLOWS

14.4 The Statement of Cash Flows summarises the inflows and outflows of cash by their source or purpose. It provides information on how the Territory obtains cash and the uses to which it puts the cash received.

14.5 The Statement of Cash Flows provides an important link between the Statement of Financial Performance and the assets and liabilities recognised in the Statement of Financial Position.

SIGNIFICANT FINDINGS

- ***The Territory's net cash inflow from operating activities was $416m; that is $56m more than last year's amount of $360m.***
- ***The increase in net cash inflow from operating activities was due to operating receipts rising by $148m compared to a $92m rise in operating payments.***
- ***Significant future cash surpluses are needed to meet the Territory's substantial unfunded financial liabilities[72]. These***

[72] *'Unfunded financial liabilities'* is the amount by which the financial liabilities of the Territory exceed its financial assets.

unfunded financial liabilities increased by $35m from $802m in 2001 to $837m in 2002[73] and are projected to climb by $202m (24.1%) to $1,039m by 2005[74].

TERRITORY'S CASH FLOWS

14.6 The following table summarises the Territory's cash flows between 1998-1999 and 2001-2002.

Table 14.1 Territory's Cash Flows from Operating and Capital Activities

	Actual 2001-02 $m	Actual 2000-01 $m	Actual 1999-00 $m	Actual 1998-99 $m
Cash flows from operating activities				
Receipts	2,371	2,223	2,155	1,893
Payments	(1,955)	(1,863)	(1,773)	(1,702)
Net inflows	**416**	**360**	**382**	**191**
Cash flows from capital activities				
Payments for property, plant, equipment and capital works	(202)	(196)	(241)	(175)
Sale of property, plant and equipment	45	47	65	47
Net outflows	**(157)**	**(149)**	**(176)**	**(128)**
Total net inflows after funding the capital works program	**259**	**211**	**206**	**63**

CASH FLOWS FROM OPERATING ACTIVITIES

14.7 Cash flows from operating activities are generally those receipts and payments that relate to the operations of Government agencies in providing goods and services. *Operating receipts* include cash received from taxes, fees and fines, any receipts generated from providing goods and services and grants received from the Commonwealth. *Operating payments* include a wide range of payments. Examples include payments

[73] See *Table 13.2: Unfunded Financial Liabilities* in *Chapter 13: Territory's Financial Position* for the calculation of the Territory's *Unfunded Financial Liabilities.* It should be noted that the Audit's calculation of the *Unfunded Financial Liabilities* presents the results that would have been reported had the Territory had complied with the relevant Australian Accounting Standard.

[74] See *Table 13.8: 'Assets Available to Meet the Territory's Liabilities'* in *Chapter 13: Territory's Financial Position* for the calculation of the Territory's projected *Unfunded Financial Liabilities.* It should be noted that the Audit's calculation of the projected unfunded financial liabilities presents the results that would have been reported if the Territory had complied with the relevant Australian Accounting Standard.

to employees and contractors and other costs of operating Government agencies.

14.8 Operating receipts rose significantly from $2,223m in 2000-2001 to $2,371m in 2001-2002. Cash payments for operating activities also rose significantly from $1,863m in 2000-2001 to $1,955m in 2001-2002.

14.9 Further information on the composition of operating receipts and payments is provided in *Chapter 15: Territory's Revenue and Expenditure*.

Reconciliation of the Net Cash Flows from Operating Activities with the Operating Surplus

14.10 This year's net cash inflow from operating activities of $416m was significantly higher than the almost break-even operating surplus of $12m[75].

14.11 The Territory has a significantly different result for its cash flows from operating activities compared to its operating surplus because significant 'revenue' and 'expense' items are recognised in the operating surplus but are not included in the net cash flows from operating activities.

14.12 Significant 'revenue' and 'expense' items are not included in the cash flow statement in the current year because they are not cash flows for the current year. While these items are not cash flows for the current year it is most important to understand that they represent cash flows that will eventually be required to meet the expense items in the future, and the cash relating to the revenue items will eventually be received. As the operating surplus takes into account these items in the year in which they are generated it is the better reflection of the financial sustainability of the Government's strategies and policies.

14.13 The 'expense' items that are excluded from the net cash inflows from operations because they are not cash outflows of the current year were mainly losses on superannuation investments ($84m), depreciation and amortisation ($180m) and significant increases in employee liabilities

[75] For the purpose of this analysis, the Audit has used the operating surplus that would have been reported by the Territory had the Territory's financial statements complied with the relevant Australian Accounting Standard.

($210m[76], nearly all of which is related to superannuation). These 'expense' items were partially offset by 'revenue' items that were not cash inflows of the current year such as revenue from Joint Ventures ($45m) and increases in receivables ($30m).

CASH FLOWS FROM CAPITAL ACTIVITIES

14.14 The Territory's main capital activity involves the purchase of property, plant and equipment (including capital works).

14.15 At $202m, cash paid for property, plant and equipment (including capital works) was at roughly the same level as last year's amount of $196m.

14.16 Further information on capital works expenditure is provided in *Chapter 16: Reporting on Capital Assets and the Capital Works Program*.

CASH FLOWS FROM OPERATIONS AFTER FUNDING THE CAPITAL WORKS PROGRAM

14.17 *Table 14.1: Territory's Cash Flows from Operating and Capital Activities* shows that the Territory had $259m (last year $211m) of this year's cash funds left over after funding its capital works requirements.

14.18 It should be noted that the $259m is not all available to fund expansion of services to the community. Cash surpluses are required in order to meet unpaid liabilities arising from transactions in the current year or past years as they fall due in the future. These liabilities relate to the significant 'expense' items referred to earlier in this Chapter, the repayment of past borrowings and payments for leave and superannuation obligations to employees etc.

14.19 The liabilities will eventually need to be met in cash. The Territory's cash surpluses therefore need to accumulate to meet the Territory's substantial unfunded financial liabilities[77]. These liabilities

[76] This is calculated as the $147m increase in Employee entitlements reported in Note 32 to the Territory's financial statements plus the understatement of $63m in the Employee superannuation entitlements disclosed in the Audit Report on the Territory's financial statements.

[77] '*Unfunded financial liabilities*' is the amount by which the financial assets of the Territory are exceeded by its financial liabilities.

increased by $35m from $802m to $837m at 30 June 2002[78]. The unfunded financial liabilities are projected to climb by $202m (24.1%) to $1,039m by 30 June 2005[79].

[78] See *Table 13.2* in *Chapter 13: Territory's Financial Position* for the calculation of the Territory's *Unfunded Financial Liabilities*. It should be noted that the Audit's calculation of the unfunded financial liabilities presents the results that would have been reported had the Territory complied with the relevant Australian Accounting Standard.

[79] See *Table 13.8: 'Assets Available to Meet the Territory's Liabilities'* in *Chapter 13: Territory's Financial Position* for the calculation of the Territory's projected *Unfunded Financial Liabilities.* It should be noted that the Audit's calculation of the projected unfunded financial liabilities presents the results that would have been reported if the Territory had complied with the relevant Australian Accounting Standard in accounting for its budgeted superannuation liabilities.

15 TERRITORY'S REVENUE AND EXPENDITURE

INTRODUCTION

15.1 This Chapter comments on Territory's revenue and expenditure in 2001-2002.

15.2 Readers should note that the audit report on the Territory's financial statements was qualified as a result of non-compliance with the relevant Australian Accounting Standard. *Chapter 11: Audit Qualification of the Territory's Financial Statements* provides further details of the basis for this qualification. To take the audit qualification into account, the information presented in this Chapter presents the financial results that would have been reported, if the Territory's Financial Statements had complied with the relevant Australian Accounting Standard.

SIGNIFICANT FINDINGS

Revenue

- ***Territory revenue increased by $60m (2.6%) from $2,294m in 2000-2001 to $2,354m in 2001-2002. This year's increase is a continuation of the trend of increasing revenue noted in recent years.***

- ***If the effect of last year's $40m in 'one-off' revenue from the first time recognition of the net assets of the Workers' Compensation Supplementation Fund and Gain on disposal of electricity assets to the ActewAGL Joint Venture is removed then Territory revenue has increased by $100m (4.4%).***

Expenses

- ***Expenses increased by $83m (3.7%) from $2,259m in 2000-2001 to $2,342m in 2001-2002.***

- ***If the effect of the HIH claims payable from 2000-2001 is removed, then the underlying increase in the Territory's***

expenditure is $147m (6.5%). This is a continuation of the upward trend in expenditure since 1999-2000.

REVENUE

15.3 Territory revenue is summarised in the following table.

Table 15.1 Summary of Territory Revenue

	Actual 2001-02 $m	Variance* %	Actual 2000-01 $m	Variance* %	Actual 1999-00 $m	Variance* %	Actual 1998-99 $m
Commonwealth grants	996	15.5	862	26.8	680	14.7	593
Territory taxes	519	(7.7)	562	(12.5)	642	18.5	542
Sale of goods and services	388	(16.7)	466	(18.7)	573	7.7	532
Regulatory fees and fines	112	(3.4)	116	8.4	107	5.9	101
Sales/rentals of land stocks	125	86.6	67	(24.7)	89	196.7	30
Interest	69	(2.8)	71	42.0	50	22.0	41
Share of profit from ActewAGL joint venture	41	57.7	26		-		-
Share of profit from land joint ventures	3	(57.1)	7	(53.3)	15	114.3	7
Donations	17		17	13.3	15	7.1	14
Dividends	15	(6.3)	16	100.0	8	100.0	4
First time recognition of the net assets of the Workers' Compensation Supplementation Fund	-		10		-		-
Gain on disposal of electricity assets to the ActewAGL Joint Venture	-		30		-		-
Other	69	56.8	44	51.7	29	(3.3)	30
Territory revenue[80]	**2,354**	**2.6**	**2,294**	**3.9**	**2,208**	**16.6**	**1,894**

*Represents the percentage variation from the previous year.

15.4 Territory revenue increased by $60m from $2,294m in 2000-2001 to $2,354m in 2001-2002.

[80] 'Territory revenue' does not equal the amounts reported in the Territory's financial statements because for the purposes of this analysis the realised and unrealised gains on superannuation investments have been offset with superannuation expenses and only the share of profit rather than gross revenue is presented in relation to the land joint ventures.

15.5 This year's $60m increase was mainly due to an increase in *Commonwealth grants* - $134m, *Sales/rentals of land stocks* - $58m and *Other* revenue - $25m offset by decreases in *Sale of goods and services* - $78m, *Territory taxes* - $43m. Also last year's *Territory revenue* included 'one-off' revenue of $40m from the *First time recognition of the net assets of the Workers' Compensation Supplementation Fund* - $10m and *Gain on disposal of electricity assets to the ActewAGL Joint Venture* - $30m.

15.6 Territory revenue has increased by $460m from $1,894m in 1998-1999 to $2,354m in 2001-2002. This represents a 24.3% increase in three years or an average annual increase of 8.1%. This year's increase represents a continuation of the upward trend in Territory revenue experienced in recent years.

15.7 Comments on the main sources of revenue are provided below and on the following pages.

Table 15.2 Commonwealth Grants

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
GST revenue grant	544	15.0	473		-		-
Balancing budget assistance grant	63	40.0	45		-		-
General purpose grants[81]	26	23.8	21	(94.2)	362	17.9	307
Sub Total	**633**	**17.4**	**539**	**48.9**	**362**	**17.9**	**307**
Specific purpose grant	331	12.2	295	0.7	293	10.2	266
Other grants	32	14.3	28	12.0	25	25	20
Commonwealth grants	**996**	**15.5**	**862**	**26.8**	**680**	**14.7**	**593**

15.8 *Commonwealth grants* increased by $134m since last year. This year's increase represents a continuation of a trend of increasing revenue from this source in recent years. *Commonwealth grants* have increased significantly by $403m (68%) since 1998-1999.

15.9 The $134m increase in *Commonwealth grants* was mainly due to increases in the following grants:

[81] *General purpose grant* includes payments to the Territory for Transitional Allowances, Special Fiscal Needs and National Competition Payments.

- *GST revenue grant* increased by $71m due to higher per capita relativity[82] used by Commonwealth to calculate the amounts paid to the Territory;
- *Specific purpose grants* increased by $36m due to an increase in funding for the national highway project ($16m), education projects ($8m) and funding relating to The Canberra Hospital ($7m); and
- *Balancing budget assistance grant* increased by $18m from last year. The grant was made to the Territory as part of the introduction of the Goods and Services Tax (GST). Under the arrangements relating to the commencement of the GST, the Commonwealth guaranteed that the Territory 'will not be worse off' from the introduction of the GST which required the Territory to abolish some taxes.

Territory Taxes

15.10 The following table sets out the composition of Territory taxes.

Table 15.3 Summary of Territory Taxes

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Stamp duty[83]	176	(3.3)	182		182	59.6	114
Payroll tax[84]	149	(2.0)	152	10.9	137	15.1	119
General rates	101	3.1	98	6.5	92	2.2	90
Gambling taxes	42	(2.3)	43	(17.3)	52	8.3	48
Land tax	31	6.9	29		29	(3.3)	30
Financial institutions duty	1	(96.2)	26	4.0	25	38.9	18
Other taxes	5	(66.7)	15	25.0	12	(7.7)	13
Bank debit tax	14		14		14	(12.5)	16
Liquor and franchise fees	-		3	(97.0)	99	5.3	94
Territory taxes and fees	**519**	**(7.7)**	**562**	**(12.5)**	**642**	**18.5**	**542**

[82] *Per capita relativity* is calculated by comparing the Territory's population with other States and Territories. It refers to the average level of services provided by the Territory to the residents.
[83] The amount reported for *Stamp duty* ($150m) for 2000-2001 at Note 5 of the Territory's Financial Statements has been adjusted to include stamp duty 'waivers' ($32m).
[84] The amount reported for *Payroll tax* ($144m) for 2001-2002 at Note 5 of the Territory's Financial Statements has been adjusted to include Payroll tax 'waivers' ($5m).

15.11 This year, Territory taxes fell by $43m (7.7%) mainly due to a decrease in the *Financial institutions duty* - $25m and *Other taxes* - $10m.

15.12 The decrease in *Financial institutions duty* was due to the abolition of the financial institutions duty from 1 July 2001 following introduction of the GST.

15.13 The *Other taxes* were less than prior year due to Government's decision to abolish the general insurance levy from 1 July 2001.

15.14 Relatively minor increases and decreases were noted in other taxes.

Sale of Goods and Services

15.15 The composition of *Sales of goods and services* is set out in the following table.

Table 15.4 Summary of Sales of Goods and Services

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Water, sewerage, electricity and other services	102	(45.5)	187	(41.0)	317	12.8	281
Hospital and other health services	89	7.2	83	38.3	60	5.3	57
Housing rentals	55	7.8	51	6.3	48	4.3	46
Other	51	2.0	50	16.3	43	4.9	41
Vocational, tertiary education and training	27	(6.9)	29	16.0	25	(7.4)	27
Totalisator sales	23		23	21.1	19	(5.0)	20
Bus services	14	17.6	17		17		17
Parking fees	11	10.0	10	(9.1)	11		11
Fire and ambulance services	7	(22.2)	9	12.5	8		8
Forestry log sales	9	28.6	7	(30.0)	10	11.1	9
Milk sales	-		-		15		15
Sale of goods and services	**388**	**(16.7)**	**466**	**(18.7)**	**573**	**7.7**	**532**

15.16 *Sales of goods and services* decreased by $78m (16.7%) from $466m in 2000-2001 to $388m in 2001-2002.

15.17 Most of this fall was due to a decrease in revenue from *Water, sewerage, electricity and other services* - $85m offset by increases in revenue from *Hospital and other health services* - $6m.

15.18 The fall in revenue from *Water, sewerage, electricity and other services* was mainly due to an $80m fall in ACTEW's electricity revenue following last year's transfer of the electricity retail and distribution operations to the ActewAGL Joint Venture on 3 October 2000. For the first three months of 2000-2001, electricity retail and distribution operations generated $80m.

15.19 *Hospital and other health services* revenue increased by $6m because of increases in 'cross border health receipts' and other fees.

15.20 Relatively minor increases and decreases were noted in other types of goods and services revenue.

Regulatory Fees and Fines

15.21 The following table sets out the composition of *Regulatory fees and fines*.

Table 15.5 Summary of Regulatory Fees and Fines

	2001-02 Actual $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Motor vehicle registrations	49	(9.3)	54	3.8	52	(1.9)	53
Other fines and regulatory fees	34	6.3	32	(8.6)	35	29.6	27
Traffic infringements	11	(8.3)	12	100.0	6	20.0	5
Parking fines	9		9	80.0	5	(28.6)	7
Drivers' licenses	6	20.0	5		5		5
Change of use charge	3	(25.0)	4		4		4
Fines and regulatory fees	**112**	**(3.4)**	**116**	**8.4**	**107**	**5.9**	**101**

15.22 Overall *Regulatory fees and fines* were at similar levels to last year. The small decrease in *Regulatory fees and fines* was mainly due to a decrease in motor vehicle registration fees.

Table 15.6 Sales/Rentals of Land Stocks	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-01 $m	Variance %	Actual 1998-99 $m
Sales/rentals of land stocks	125	86.6	67	(24.7)	89	196.7	30

15.23 Revenue from *Sales/rentals of land stocks* rose by $58m from $67m in 2000-2001 to $125m in 2001-2002. The increase was mainly due to an increase in land sales by Land and Property[85] and the Gungahlin Development Authority[86].

Table 15.7 Interest	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Interest	69	(2.8)	71	42.0	50	22.0	41

15.24 *Interest* revenue did not change significantly from last year.

Table 15.8 Share of Profit from ActewAGL Joint Venture	2001-02 Actual $m	Variance %	2000-01 Actual $m	Variance %	1999-00 Actual $m	Variance %	1998-99 Actual $m
Share of revenue	244	46.1	167		-		-
Share of expense	203	44.0	141		-		-
Share of profit	**41**	**57.7**	**26**		**-**		**-**

15.25 The Territory's *Share of profit from ActewAGL Joint Venture* increased by $15m this year following an improvement in the financial performance of the joint venture and the operation of the ActewAGL Joint Venture for the full year (in 2001-2002) compared to only 9 months (in 2000-2001)[87].

[85] See *Chapter 64: Land and Property* for further details.
[86] See *Chapter 60: Gungahlin Development Authority* for further details.
[87] See *Chapter 38: ActewAGL Joint Venture* and *Chapter 17: ACTEW Corporation Limited (including reference to TransACT Communications Pty Limited)* for further details of the ActewAGL Joint Venture.

Table 15.9	Share of Profit from Land Joint Ventures						
	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Share of revenue	18	(40.0)	30	(25.0)	40	90.5	21
Share of expense	15	(34.8)	23	(8.0)	25	78.6	14
Share of profit	**3**	**(57.1)**	**7**	**(53.3)**	**15**	**114.3**	**7**

15.26 *Share of profit from the land joint ventures* fell by $4m since last year. This year's fall represents a continuation of a trend of decreases in *Share of profit from the Land Joint Ventures* since 1999-2000 which is primarily due the wind down of the land joint ventures[88].

Table 15.10	Other						
	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Other	68	54.5	44	51.7	29	(3.3)	30

15.27 This year, *Other* revenue increased by $24m from last year mainly due to asset revaluation increments.

EXPENDITURE

15.28 Territory expenditure is summarised in the table on the following page.

[88] See *Chapter 64: Land and Property* for further details of the land joint ventures.

Table 15.11 Summary of Territory Expenses

	Actual 2001-02 $m	Variance* %	Actual 2000-01 $m	Variance* %	Actual 1999-00 $m	Variance* %	Actual 1998-99 $m
Wages, salaries and other employee costs	742	4.1	713	(4.3)	745	(0.3)	747
Net superannuation expense/(revenue)[89]	347	62.1	214	389.2	(74)	(193.7)	79
	1,089	**17.5**	**927**	**38.2**	**671**	**(18.8)**	**826**
Operating expenses[90]	613	4.2	640	8.7	589	13.9	517
Grants and purchased services	321	14.6	280	26.7	221	8.9	203
Depreciation	180	(4.3)	188	(5.1)	198	(2.5)	203
Cost of goods sold	82	(6.8)	88	(57.7)	208	21.6	171
Borrowing costs	57	(20.8)	72	20.0	60	5.3	57
HIH claims payable following the HIH collapse	-		64		-		-
Territory expenses[91]	**2,342**	**3.7**	**2,259**	**16.0**	**1,947**	**(1.5)**	**1,977**

* Represents the percentage variation from the previous year

15.29 Total expenditure increased by $83m (3.7%) from $2,259m in 2000-2001 to $2,342m in 2001–2002. This increase represents a continuation of the upward trend in Territory expenditure in recent years.

15.30 If the effect of last year's 'one-off' HIH claims payable is removed, then the underlying increase in Territory's expenditure is $147m (6.5%). This increase was due to increases in *Wages, salaries and other employee costs* and *Net superannuation expense/(revenue)* $162m, *Grants and purchased services* - $41m, partially offset by decreases in *Operating expenses* - $27m, *Borrowing costs* - $15m and *Depreciation* - $8m.

[89] See *Table 15.12: Employee Expenses* for the calculation of *Net superannuation expense/(revenue)*.

[90] The realised and unrealised losses/(gains) on superannuation investments for this year ($83m) and last year (-$4m) as stated at Note 9 and Note 15 of the Territory's financial statements have been excluded from the other expenses and included with the *Net superannuation expense/(revenue)*. See *Table 15.12: Employee Expenses*.

[91] Expenses from joint ventures as reported in the Territory's financial statements have been excluded from expenses and have been offset with revenue from joint ventures to calculate the *Share of Profit from Land Joint Ventures*. See *Table 15.9: Share of Profit from Land Joint Ventures* for this calculation.

Table 15.12 Employee Expenses

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Wages, salaries and other employee costs	**742**	**4.1**	**713**	**(4.3)**	**745**	**(0.3)**	**747**
Net superannuation expense/(revenue)							
Superannuation expense/(revenue)[92]	264	21.1	218	1,138.1	(21)	(123.6)	89
Realised losses/(gains) on superannuation investments	24	(214.3)	(21)	(19.2)	(26)	225	(8)
Unrealised losses/(gains) on superannuation investments	59	(247.1)	17	(163)	(27)	1,250	(2)
Net losses/(gains) on superannuation investments	83	(2,175)	(4)	(92.5)	(53)	430	(10)
Net superannuation expense/(revenue)	**347**	**62.1**	**214**	**389.2**	**(74)**	**(193.7)**	**79**
Employee expenses and net superannuation expense/(revenue)[93]	**1,089**	**17.5**	**927**	**38.2**	**671**	**(18.8)**	**826**

15.31 *Employee expenses and Net Superannuation expense/(revenue)* rose by $162m (17.5%) due an increase in *Net superannuation expense/(revenue)* - $133m and *Wages, salaries and other employee costs* - $29m.

15.32 *Net superannuation expense* is the superannuation expense reduced by the gains on investments set aside to meet the superannuation expense.

[92] The *Superannuation expense/(revenue)* amount differs from the amount reported in the Territory's financial statements as the amount of the reported superannuation expense has been adjusted for the effects of the departure from the Australian Accounting Standard. These amounts are consistent with those reported in the audit report on the Territory's financial statements.

[93] *'Net superannuation expense/(revenue)'* is the superannuation expense and the gains and losses on superannuation expenses set aside to meet the superannuation liabilities.

15.33 The substantial increase of $133m in the *Net superannuation expense* was mainly due to this year's $83m loss on superannuation investments compared to a gain of $4m last year and an increase in *Superannuation expense* by $46m from the previous year due mainly to the increases in the superannuation liability[94].

15.34 The higher *Wages, salaries and other employee costs* was due to greater use of employees compared to contractors. The increase was also due to increases in employee salaries mainly relating to the nurses' new enterprise bargaining agreement which awarded a 10% increase from 20 December 2001.

Table 15.13 Operating Expenses

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Operating expenses[95]	613	4.2	640	8.7	589	15.7	509

15.35 *Operating expenses* encompasses a wide range of expenses including contractor costs, office administration, loss on disposal of fixed assets and school managed costs.

15.36 These expenses fell by $27m (4.2%) from $640m in 2000-2001 to $613m in 2001-2002. The fall was mainly due to the previously mentioned greater use of employees compared to contractors.

Table 15.14 Grants and Purchased Services

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Grants and purchased services	321	14.6	280	26.7	221	8.9	203

15.37 *Grants and purchased services* have increased significantly with an increase of $41m (14.6%) from $280m in 2000-2001 to $321m in 2001-2002.

[94] For further information on these losses/(gains) see *Chapter 33: Superannuation Unit.*

[95] The realised and unrealised loss on superannuation investments for this year ($83m) and last year (-$4m) as stated at Note 9 and Note 15 of the Territory's financial statements have been excluded from the *Operating expenses* and included with the *Net superannuation expense/(revenue).*

15.38 The factors contributing to this year's increase over the prior year were grants to non-Government schools[96] - $12m, payments to non-Government health related organisations[97] - $12m, purchase of health services from the Calvary Hospital[98]- $10m and First Home Owners Grant - $7m.

Table 15.15 Depreciation

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Depreciation	180	(4.3)	188	(5.1)	198	(2.5)	203

15.39 *Depreciation* fell by $8m (4.3%) from $188m in 2000-2001 to $180m in 2001-2002 following the transfer of electricity assets to the ActewAGL Joint Venture on 3 October 2000.

Table 15.16 Cost of Goods Sold

	Actual 2001-02 $m	Variance %	Actual 2000-01 $m	Variance %	Actual 1999-00 $m	Variance %	Actual 1998-99 $m
Cost of goods sold	82	(6.8)	88	(57.5)	207	21.1	171

15.40 *Cost of goods sold* mainly includes costs associated with the development of land through the Kingston Foreshore Development Authority's land development joint venture[99] and asset management and health services provided by Totalcare[100].

[96] See *Chapter 56: Education, Youth and Family Services Department* for further details on this grant.
[97] See *Chapter 26: Health and Community Care Department* for further details on this grant.
[98] See *Chapter 26: Health and Community Care Department* for further details on this grant.
[99] See *Chapter 31: Kingston Foreshore Development Authority* for further details on the land joint ventures.
[100] See *Chapter 35: Totalcare Industries Limited* for further details of asset management and health services.

16 REPORTING ON CAPITAL ASSETS AND THE CAPITAL WORKS PROGRAM

INTRODUCTION

16.1 This Chapter comments on the Territory's expenditure on its capital works program. This Chapter indicates whether the budgeted expenditure on capital works as stated in the Budget Papers was actually spent in the year it was budgeted. This Chapter does not comment on how well the projects were managed.

16.2 This Chapter also comments on the adequacy of the reporting of 'capital assets' (i.e. property, plant and equipment and capital works) in the Budget Papers and the Territory's and agencies' financial statements irrespective of whether the expenditure has been funded from the capital works funding or other means.

16.3 Finally this Chapter provides comments on the progress made in relation to the Audit's previous recommendations contained in Auditor-General's Report No. 11 of 2001 *Financial Audits with Years Ending to 30 June 2001* (Report No. 11 of 2001).

SIGNIFICANT FINDINGS

- ***There was significant under expenditure of the capital works budget. This year's under expenditure on capital works was $58m (34%).***
- ***This year's under expenditure of the capital works budget represents a continuation of the trend of significant under expenditure in recent years.***
- ***Budgets were underspent mainly due to delays in projects.***
- ***While the Government had agreed to implement the Audit recommendations contained in Report No. 11 of 2001, no significant progress has been made to address these recommendations.***

CAPITAL WORKS BUDGET

16.4 The Territory's capital works budget involves around $140m[101] in cash funding each year. This budget provides funding for most of the Territory's capital works including schools, construction, road, bridge and other infrastructure and minor new works. The capital works program also includes major upgrades to Territory owned buildings and other facilities.

16.5 The table on the following page summarises cash budgets and expenditure of agencies and the extent to which agencies spent their capital works budgets.

[101] This is based on the average of the capital works expenditure in 2000, 2001 and 2002. This year's capital works expenditure was $111m ($89m in 2001 and $95m in 2000) plus funding for Housing's capital works funded by the sale of rental properties of $35m ($48m in 2001 and $47m in 2000) giving a total of $146m this year ($137m in 2001 and $142m in 2000).

Table 16.1 Territory's Capital Works Program Statement of Cash Budgets and Expenditure

Agency	Original Budget[102]	Revised Budget[103]	Expenditure met from Capital Works Budget	Over /(Under) Spend
	$000	$000	$000	$000
Department of Urban Services	86,074	90,769	64,917	(25,852)
Department of Education, Youth and Family Services	21,585	22,396	18,224	(4,172)
The Canberra Hospital	10,881	14,261	11,118	(3,143)
Calvary Hospital	10,355	11,296	8,320	(2,976)
Department of Justice and Community Safety	4,925	10,976	2,500	(8,476)
Community Care	2,821	3,031	1,561	(1,470)
Housing[104]	-	10,000	-	(10,000)
Other	3,666	6,474	4,324	(2,150)
	140,307	**169,203**	**110,964**	**(58,239)**

16.6 Table 16.1 shows that overall, agencies significantly underspent their capital works program budgets. This year the under expenditure against agencies' revised budgets was $58m (34%).

REASONS FOR UNDER EXPENDITURE

16.7 The under expenditure of this year's capital works budget is mainly due to under expenditure by the *Department of Urban Services* - $26m, *Housing* - $10m, *Department of Justice and Community Safety* - $8m and the *Department of Education, Youth and Family Services* - $4m.

16.8 The reasons for under expenditure by these agencies are outlined on the following page.

[102] The 'Original Budget' for the capital works program for the agencies differs from the amount reported for the agencies in the '2001-2002 Budget Paper No.4' as the 'Original Budget' has been adjusted for the capital works program transferred to other agencies as a result of Administrative Arrangement Order.

[103] The 'Revised Budget' includes amounts sought in addition to the 'Original Budget' to fund the capital works program variations during the year and unspent funds from prior year. Treasury Memorandum 2002/24 provides guidance on program variations. Program variations of up to 3% of the total program can be made by the Chief Executive. Program variations of more than 3% up to 10% are made with agreement with Treasury. Treasurer's approval is required for variations to the total project cost of greater than 10%.

[104] Housing's capital works program was predominantly funded from the sale of rental properties older than 40 years and therefore has been excluded from Table 16.1. An internal budget of $36m was set. Total cash expenditure at $35.2m was $0.8m less than budget.

Department of Urban Services

16.9 The under expenditure of $25m was mainly due to delays in the commencement of the capital works projects relating to the Belconnen pool, Commonwealth Avenue pavement rehabilitation stages, Link redevelopment project, Monaro Highway over dairy flat project, Anthony Rolfe Avenue extension and Lawson infrastructure.

Housing

16.10 In June 2002, Housing received $10m from the Treasurer's Advance[105] to fund expenditures in relation to fire safety issues and to meet the current standards under the building code. None of this funding was used by 30 June 2002. This expenditure is expected to be incurred in 2002-2003 and succeeding years.

Department of Justice and Community Safety

16.11 The $8m under expenditure was mainly due to a cancellation of the Woden joint emergency services centre project which was substituted by the Woden police station project. This expenditure will be incurred in 2002-2003 and future financial years.

Department of Education, Youth and Family Services

16.12 The under expenditure of $4m is mainly due to delays in commencement of the O'Connell centre relocation project, the Griffin Centre replacement project and the Amaroo kindergarten to year 10 project.

Audit Comments

16.13 The reasons provided by the agencies for the under expenditure against the capital works budget indicate that the under expenditure was mainly a result of the delays in projects.

16.14 While there may be good reasons for some areas of under expenditure against budget in the capital works program, the level of under expenditure continues to raise questions about the processes for

[105] For a further discussion of the Treasurer's Advance and this transaction refer to *Chapter 7*: *Compliance with the Financial Management Act 1996*.

budgeting, monitoring and controlling capital works expenditure in the agencies.

RECENT TRENDS

16.15 The following table highlights the trend of capital works under expenditure over recent years.

Table 16.2 Territory's Capital Works Program Expenditure

	Actual 2002 $m	Actual 2001 $m	Actual 2000 $m	Actual 1999 $m
Revised budget	169	107	95	118
Expenditure met from the capital works budget	111	89	74	83
Under expenditure	**58**	**18**	**21**	**35**
Percentage under expenditure	**34%**	**17%**	**22%**	**30%**

16.16 Table 16.2 shows that this year's under expenditure of the capital works budget of $58m (34%) represents a continuation of the trend of significant under expenditure in recent years.

REPORTING OF CAPITAL ASSET TRANSACTIONS

16.17 The Territory's annual Budget Papers contain comprehensive agency operating budgets. The operating budgets contain a great deal of information on the agencies' anticipated operating revenues and expenses. However, in contrast to the comprehensive budgets on operating revenues and expenses, information on budgeted capital transactions is limited.

16.18 A similar situation exists for the Territory's and agencies' end of year financial reporting. There is comprehensive reporting of operating transactions but comparatively limited reporting of capital transactions.

16.19 Notes to agencies' end of year financial statements include a movement schedule for capital assets. This movement schedule explains the movements in the reported value of the capital assets at the beginning of the financial year to the end of the financial year. The schedule shows the value of acquisitions, disposals, revaluations and depreciation. The Budget Papers, however, do not include corresponding information to that

in this movement schedule. As the information is not included in the Budget Papers it is not possible to compare or analyse actual capital transactions which occurred during the year with the transactions which were budgeted to occur.

16.20 The Budget Papers for each agency include details of the projects funded by the capital works program. The information is provided 'by project'. The information, however, has limitations. As it is cash based, it shows only the payments to be made for capital works program projects. It does not necessarily show the value of the works actually planned to be carried out as an accrual based statement would. As well, the information is limited to capital works program expenditure. Capital expenditures made from other sources of finance available to agencies are not included. It also includes projects which are not capital according to accounting standards and concepts. As would be expected from the nature of the information it does not include disposals, revaluations or depreciation of assets.

GOVERNMENT RESPONSE TO THE AUDIT'S RECOMMENDATION[106]

16.21 Three recommendations were made in Chapter 13 of Report No. 11 of 2001. In that Report it was recommended that:

- *'capital works budgets be prepared and included in the Budget Papers for each agency and also for the Territory;*
- *the capital asset movement schedule presented in the notes to agencies' annual financial statements include a comparison of the capital works budget with the actual outcomes; and*
- *the Management Discussion and Analysis which accompanies the end of year financial statements in agencies' annual reports should provide an analysis of the various capital asset transactions i.e. acquisitions, disposals, revaluations and depreciation.'*

16.22 The Government response agreed to the Audit's recommendations. In its response the Government stated that the:

[106] *'Government Submission to the Standing Committee on Public Accounts in Response to the Auditor-General's Report No. 11 of 2001'.*

'Government is considering options to improve the information available on capital works projects within both the Budget Papers and the Annual Financial Statements. This will include the inclusion of greater discussion in agencies' MD&A on capital acquisition and disposal, and where possible improved visibility within Budget Papers.'

16.23 Last year suggested improvements to the information being provided in the Budget Papers, Annual Reports and the Financial Statements were provided to the Department of Treasury by the Audit for consideration. Based on the information provided by Audit, additional reconciliations[107] on capital works expenditure were included by some agencies in their annual reports.

16.24 However, it should be noted that no significant progress has been made to address the Audit recommendations since last year. In particular, there has been no additional information included in the Budget Papers, Financial Statements and agencies' Management Discussion and Analysis[108] reporting.

Recommendations

16.25 It is therefore recommended that:

Recommendation No. 17

- capital works budgets be prepared and included in the Budget Papers for each agency and also for the Territory;

Recommendation No. 18

- the capital asset movement schedule presented in the notes to agencies' annual financial statements include a comparison of the capital works budget with the actual outcomes; and

[107] A 'Reconciliation of Total Current Year Financing' which reconciles the total current year capital works financing to the cash injection from Government as reported in the Statement of Cash Flows and a 'Reconciliation of Total Current Year Actual Expenditure' which reconciles the total current year capital works expenditure to the purchases of property, plant and equipment as reported in the Statement of Cash Flows.

[108] *Chapter 10: Management Discussion and Analysis Reporting* reports that capital works information was not reported in the agencies' Management Discussion and Analysis reporting.

Recommendation No. 19

- the Management Discussion and Analysis which accompanies the end of year financial statements in agencies' annual reports should provide an analysis of the various capital asset transactions i.e. acquisitions, disposals, revaluations and depreciation.

FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2002

SECTION 4

AGENCY AUDIT RESULTS TO WHICH ATTENTION IS SPECIFICALLY DRAWN

FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2002

17 ACTEW CORPORATION LIMITED (INCLUDING REFERENCE TO TRANSACT COMMUNICATIONS PTY LTD)

INTRODUCTION

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

ACTEW, its Subsidiaries and Investments

17.2 ACTEW has three subsidiaries[109]. These subsidiaries and the Chapters they are reported in are set out in the following table.

Table 17.1 ACTEW Subsidiaries

Subsidiary	Chapter
ACTEW China Pty Limited	39
ACTEW Distribution Limited	40
ACTEW Retail Limited	41

17.3 The consolidated results of ACTEW are reported in this Chapter. The consolidated results include the financial results of ACTEW and its subsidiaries, ACTEW's share of the financial results of the ActewAGL Joint Venture and ACTEW's share of the financial results of its investment in TransACT Communications Pty Limited (TransACT[110]).

TransACT Communications Pty Limited

17.4 TransACT is not a subsidiary of ACTEW and is not audited by the Auditor-General. As a result the Audit has not provided extensive comments on TransACT. Some commentary on TransACT is provided at the end of this Chapter.

[109] ACTEW Investments Pty Limited and TransACT Carrier Pty Limited are no longer subsidiaries of ACTEW and were deregistered during the year.

[110] References in this report to 'TransACT' refer to TransACT Communications Pty Limited and a number of entities that it controlled during the year.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

17.5 ACTEW's audited financial statements are reported on pages 22 to 62 of the 'ACTEW Corporation Limited Annual Report 2001-2002'.

17.6 A ***qualified*** audit opinion on ACTEW's financial statements was issued on 19 September 2002.

SIGNIFICANT FINDINGS

- ***A qualified audit opinion was issued on ACTEW's financial statements for non compliance with the Australian Accounting Standard AASB 1016 'Accounting for Investments in Associates' regarding ACTEW's accounting for its investment in TransACT.***

- ***The audit opinion was also qualified in relation to additional disclosures made by the directors in the Directors' Declaration and accompanying notes to the financial statements on ACTEW's accounting for assets that were received free of charge.***

- ***ACTEW's operating profit after tax was $36m[111]. This is $55m less than last year's operating profit of $91m.***

- ***The $55m fall in the operating profit was mostly due to the effects of 'one off' transactions that occurred in 2000-2001 which were not repeated this year. These 'one off' events included the gains from transferring ACTEW's electricity assets to the ActewAGL Joint Venture and a reduction to company income tax rates. ACTEW's operating profit also fell because ACTEW's share of TransACT's losses increased by $6m.***

- ***ACTEW's current ratio has improved since last year. Excluding the provision for dividends the current ratio indicates that there are $1.50 in current assets available to meet each $1.00 of current liability as at 30 June 2002.***

[111] The operating profit after tax of $36m differs to the operating profit after tax of $47m reported in ACTEW's published financial statements. For the purpose of this analysis, the reported financial results have been recast to reflect the result that would have been reported if ACTEW's statements were prepared in accordance with AASB 1016 *Accounting for Investments in Associates*.

- ***TransACT has accumulated losses of $49m. ACTEW's share of these accumulated losses is $16m represented by a 2001-2002 loss of $11m and a 2000-2001 loss of $5m.***

- ***At 30 June 2002 ACTEW's investment in TransACT was $59m. There is a significant risk that ACTEW will not fully recover the $59m that it has invested in TransACT.***

AUDIT QUALIFICATIONS

ACTEW's Investment in TransACT

17.7 ACTEW's financial statements show that ACTEW has increased its investment in TransACT by $36m from $23m as at 30 June 2001 to $59m as at 30 June 2002. ACTEW held 33% of TransACT's issued shares at 30 June 2002 compared to 27% in the previous year. ACTEW controls 24.9% of the shareholder votes at 30 June 2002.

17.8 TransACT is not a subsidiary of ACTEW because ACTEW does not have the capacity to *'control'*[112] TransACT. Consequently, TransACT's financial results are not consolidated into ACTEW's financial results.

17.9 The Audit formed the view that while ACTEW did not have the capacity to *'control'* TransACT, ACTEW did have *'significant influence'*[113] over TransACT. As such, under AASB 1016 *Accounting for Investments in Associates* ACTEW is required to account for its investment in TransACT using the *'equity method'*.

17.10 The *'equity method'* is considered to fairly present the nature of ACTEW's relationship with TransACT. Under this method, ACTEW would include its share of TransACT's financial results in its own results. The major implication of using this method of accounting is that ACTEW's share of the financial losses incurred by TransACT to date would be immediately reflected in ACTEW's financial results.

[112] Under Australian Accounting Standards *'Control'* means the capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity.

[113] Under Australian Accounting Standards *'Significant influence'* means the capacity of an entity to affect substantially (but not control) either, or both, of the financial and operating policies of another entity.

17.11 The Board of ACTEW was advised of the Audit's view. The Board disagreed with the Audit's assessment. In particular, the Board disagreed that ACTEW had *'significant influence'* over TransACT. The Board therefore decided that ACTEW's investment in TransACT should be accounted for on a *'cost basis'*. As a result ACTEW's share of TransACT's financial results are not reflected in ACTEW's results.

17.12 Due to the disagreement with the ACTEW Board on this issue, the Audit issued a ***qualified*** audit opinion on ACTEW's financial statements for non compliance with AASB 1016 *Accounting for Investments in Associates.*

17.13 As disclosed in the ***qualified*** audit opinion on ACTEW's financial statements the main financial effect of the departure from AASB 1016 is that ACTEW has not recorded its share of TransACT's losses for the year ended 30 June 2002 of $11m[114].

17.14 Had the TransACT investment been accounted for in accordance with AASB 1016 then ACTEW's net profit after tax for 2002 would have been $36m and not the published operating profit after tax of $47m. ACTEW's prior year operating profit after tax was mostly unaffected because ACTEW raised a provision for diminution against the investment in TransACT of $6m which approximated ACTEW's share of TransACT's losses in 2001.

Additional Disclosures by Directors

17.15 While the financial statements comply with UIG 11 *Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets* (UIG 11), the ACTEW Board included comments in the financial statements that they strongly disagreed with recording contributed assets as revenue in accordance with UIG 11[115].

17.16 In the Audit's opinion, the accounting treatment, which is in accordance with UIG 11, is required for ACTEW's financial statements to show a true and fair view and is not misleading. The audit opinion on ACTEW's financial statements was therefore qualified in relation to the additional disclosures made by the ACTEW Board.

[114] Last year's audit report on ACTEW's financial statements was not qualified in relation to this matter as ACTEW raised a provision for diminution against the investment in TransACT of $6m which approximated ACTEW's share of TransACT's losses in 2001.

[115] These comments appear in the Director's Declaration and Note 35 to ACTEW's financial statements.

FINANCIAL ANALYSIS

17.17 The following table summarises ACTEW's Consolidated Statement of Financial Performance. The financial results reported in the table differ from ACTEW's published financial results. The table presents the results that would have been reported if ACTEW had complied with AASB 1016 in relation to its accounting for its investment in TransACT.

Table 17.2 ACTEW
Summary Consolidated Statement of Financial Performance

	2001-02 $m	2000-01 $m
Revenue		
Electricity[116]	–	80
Water	63	57
Sewerage	57	53
Gain on sale of assets	2	30
Other sales	2	8
Assets received free of charge from developers	8	5
Other	11	23
	143	**256**
Expenses		
Cost of sales – electricity[117]	–	52
Employee	1	17
Depreciation	20	26
Borrowing costs	26	34
Other	65	64
	112	**193**
Share of profit from the ActewAGL Joint Venture accounted for using the equity method[118]	42	25
Share of losses from the TransACT accounted for using the equity method	(11)	(5)
Operating profit before tax equivalent expense/(benefit)	**62**	**83**
Income tax equivalent expense/(benefit)	26	(8)
Operating profit	**36**[119]	**91**

[116] 2000-2001 results – Electricity revenue is only for the 3 month period from 1 July 2000 to 3 October 2000. On 3 October 2000, ACTEW's electricity retail and distribution operations were transferred to the ActewAGL Joint Venture.

[117] 2000-2001 results – Electricity expenses are only for the 3 month period from 1 July 2000 to 3 October 2000. On 3 October 2000, ACTEW's electricity retail and distribution operations were transferred to the ActewAGL Joint Venture.

[118] 2000-2001 results – Share of profit from joint ventures are only for 9 months from the commencement of the ActewAGL Joint Venture on 3 October 2000.

Revenue

17.18 Revenue fell by $113m from $256m to $143m. The main reasons for this fall are:

- *Electricity* revenue fell by $80m following the transfer of the electricity retail and distribution operations to the ActewAGL Joint Venture on 3 October 2000. For the first 3 months in 2000-2001, the electricity retail and distribution operations generated revenue of $80m.
- *Gain on sale of assets* fell by $28m. Last year, ACTEW earned a 'one-off' $30m gain on the transfer of electricity assets to the ActewAGL Joint Venture that was not repeated this year.
- *Other* revenue fell by $12m. This was mostly due to a range of 'one off' transactions along with a fall in interest revenue brought about by the lower interest bearing investments in 2001-2002.
- *Other sales* fell by $6m. *Other sales* mostly comprised of contestable income[120] and regulated income[121] which remained similar to last year. In 2000-2001, *Other* sales also included a 'one off' settlement payment of $5m that occurred last year and did not reoccur this year.

17.19 These falls in revenue were offset by increases in *Water* and *Sewerage* revenue as follows:

- *Water* revenue increased by $6m due to the increase in retail water revenue (usage), mainly due to a warm and dry winter and summer (especially January 2002). Water revenue (usage) also exceeded budget expectations.
- *Sewerage* revenue increased by $4m due to the rise in domestic sewerage rates of 3% and non-domestic sewerage rates of a maximum of 17%.

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[119] The operating profit after tax of $36m differs to the operating profit of $47m reported in ACTEW's published financial statements. For the purpose of this analysis, the reported financial results have been recast to reflect the result that would, in the Audit's opinion, have been reported if ACTEW's statements were prepared in accordance with AASB 1016 – *Accounting for Investments in Associates*.

[120] *'Contestable income'* - is electricity income generated from larger businesses. Larger businesses are able to select their electricity supplier. ACTEW competes in the open market for this income.

[121] *'Regulated income'* – is income not classified as *'contestable'* income. This income is earned mostly from households and small businesses etc.

Expenses

17.20 Expenses fell by $81m from $193m to $112m. The main reasons for this fall are:

- *Cost of sales - electricity* fell by $52m following the transfer of the electricity retail and distribution operations to the ActewAGL Joint Venture on 3 October 2000.
- *Employee* expenses fell by $16m in 2001-2002 following the secondment of most employees to the ActewAGL Joint Venture.
- *Borrowing costs* fell by $8m due to a reduction in ACTEW's borrowings and interest rates.

Share of Profit of Joint Ventures and Investments Accounted for Using the Equity Method

ActewAGL Joint Venture

17.21 ACTEW's share of profit from the ActewAGL Joint Venture increased by $17m from $25m to $42m. The increase was mainly due to the improved financial performance of the ActewAGL Joint Venture and the operation of the ActewAGL Joint Venture for the full year (in 2001-2002) compared to only 9 months (in 2000-2001). See *Chapter 38: ActewAGL Joint Venture* for further comments on the results of the ActewAGL Joint Venture.

TransACT

17.22 TransACT continued to incur losses in the current year. ACTEW's share of those losses increased from $5m to $11m.

Income Tax Equivalent Expense/(Benefit)

17.23 The *Income tax equivalent expense/(benefit)* increased by $34m from a benefit of $8m to an expense of $26m. This increase was mostly due to the 'one off' taxation effects of transferring electricity assets to the ActewAGL Joint Venture last year and the tax effect of a reduction to company tax rates that did not reoccur again this year.

Operating Profit

17.24 ACTEW's operating profit after tax was $36m[122]. This is $55m less than last year's operating profit of $91m.

17.25 The $55m fall in operating profit was mostly due to the effects of 'one off' transactions that occurred in the 2000-2001 which were not repeated this year. These transactions included a 'one off' $30m gain resulting from the transfer of electricity assets to the ActewAGL Joint Venture and significant falls in income tax equivalent liabilities arising from this transfer of electricity assets and a reduction in Company tax rates. ACTEW operating profit also fell because ACTEW's share of TransACT's losses increased by $6m.

SHORT TERM FINANCIAL POSITION

17.26 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio for the last three years are presented in the table on the following page.

[122] The operating profit after tax of $36m differs to the operating profit of $47m reported in ACTEW's published financial statements. For the purpose of this analysis, the reported financial results have been recast to reflect the result that would, in the Audit's opinion, have been reported if ACTEW's statements were prepared in accordance with AASB 1016 *Accounting for Investments in Associates*.

Table 17.3 ACTEW Consolidated Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets			
Cash and investments	16,461	17,734	13,798
Receivables	17,144	17,442	77,443
Inventories	-	-	7,281
Other	7,065	7,761	7,155
	40,670	**42,937**	**105,677**
Current liabilities			
Payables and interest bearing liabilities	19,520	34,066	61,902
Employee provisions	7,584	8,646	8,858
Provision for dividends	10,887	18,624	18,677
Other	852	1,626	11,793
	38,843	**62,962**	**101,230**
Current liabilities (excluding provision for dividends)	**27,956**	**44,338**	**82,553**
Current ratio (including the provision for dividends)	**1 to 1**	**0.7 to 1**	**1 to 1**
Current ratio (excluding the provision for dividends)	**1.5 to 1**	**1 to 1**	**1.3 to 1**

17.27 ACTEW's current ratio (both including and excluding the provision for dividends) has improved in 2001-2002. If the dividend provision is excluded from the calculation of the current ratio then ACTEW has $1.50 in current assets to meet each $1.00 of current liability.

17.28 ACTEW's operations continue to be profitable and the current ratio has improved since last year. The improvement in the current ratio is the result of lower payables and interest bearing liabilities and lower dividends payable.

ACTEW'S INVESTMENT IN TRANSACT[123]

17.29 TransACT Communications Pty Limited (TransACT) was incorporated, and commenced operations, on 25 February 2000. TransACT was formed to construct and operate an open, full-service, broadband communications network in the Australian Capital Territory. TransACT is not a subsidiary of ACTEW.

[123] References in this report to 'TransACT' refer to TransACT Communications Pty Limited and a number of entities that it controlled during the year.

17.30 ACTEW increased its investment in TransACT over the year. At 30 June 2002 ACTEW had invested $59m in TransACT. The investment equates to a 33% interest in TransACT. ACTEW controls 24.9% of the shareholder votes at 30 June 2002. As at 30 June 2002 TransACT had accumulated losses of $49m.

17.31 During the year, TransACT was provided with additional funding by a bank, the Motor Trades Association of Australia Superannuation Fund and the Telecom Venture Group. The additional funding totalled $70m in new equity. This investment will decrease ACTEW's ownership to 25% by 31 December 2002.

17.32 ACTEW is also committed to provide a guarantee over debt funding for TransACT of $25m.

Financial Analysis

17.33 The following table summarises TransACT's Consolidated Statement of Financial Performance.

Table 17.4 TransACT Communications
Summary Consolidated Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000
Revenue	7,478	1,680
Expenses		
Employee benefits	11,449	5,955
Depreciation and amortisation	8,201	2,561
Borrowing costs	3	2
Other	16,769	8,672
Prior year adjustment	-	471
	36,422	**17,661**
Operating loss before income tax	**(28,944)**	**(15,981)**
Income tax	-	-
Operating loss	**(28,944)**	**(15,981)**
Accumulated losses at the beginning of the year	**(20,488)**	**(4,508)**
Accumulated losses at the end of the year	**(49,432)**	**(20,489)**

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

17.34 As previously mentioned TransACT is not audited by the Auditor-General. PricewaterhouseCoopers was appointed by TransACT as its statutory auditor under the *Corporations Act 2001*.

17.35 An ***unqualified*** audit opinion on TransACT's financial statements was issued by PricewaterhouseCoopers on 30 October 2002.

17.36 For the year ended 30 June 2001, PricewaterhouseCoopers issued an ***unqualified*** audit opinion on TransACT's financial statements that included an emphasis of matter section. The emphasis of matter referred to the significant uncertainty in regard to TransACT continuing as a going concern. The emphasis of matter has been removed from the audit opinion for the year ended 30 June 2002 as a result of the additional funding provided to TransACT during the year. This funding was considered by PricewaterhouseCoopers to be sufficient to ensure that TransACT would continue operating for the next financial year.

ACTEW'S INVESTMENT IN TRANSACT

17.37 TransACT is an operation, operating in a higher risk industry, that has only been operating for a few years. As a result it is very difficult to estimate future cash flows with any real certainty. Cash flow forecasts prepared by ACTEW indicate that it will take a long time[124] to recover the $54m[125] recorded by ACTEW for this investment.

17.38 On the basis of the Audit's assessment of the cash flows and the sensitivity of these cash flows under a range of scenarios the Audit assessed that even a small down turn in TransACT's predicted results would decrease the value of the TransACT investment to an amount that is less than the amount of $59m invested by ACTEW. On this basis the Audit view is that there is a significant risk that ACTEW will not recover all of the $59m that it has invested in TransACT.

[124] Cash flow forecasts prepared by ACTEW indicate that it may take 15 to 25 years depending the discount rate used to discount the cash flows.

[125] ACTEW's reported carrying value for the TransACT investment is the amount paid of $59.5m less the provision for diminution of $5.6m.

17.39 The Chief Executive of ACTEW has advised the Audit that, at the time of this Report:

> *'The TransACT rollout is currently 50% rolled out and the Stage 1 rollout should be completed by the end of 2003. The rollout and customer connections are generally in line with the business plan.'*

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

18 ACTION (ACT INTERNAL OMNIBUS NETWORK) AUTHORITY

INTRODUCTION

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

18.2 ACTION changed from a Department to a Statutory Authority from 1 January 2002 in accordance with the *ACTION Authority Act 2001*.

FINANCIAL ANALYSIS

18.3 Please refer to *Chapter 42: ACTION (ACT Internal Omnibus Network) Department* for a full year financial analysis of the operations of the Department and the Authority.

AUDIT OF THE FINANCIAL STATEMENTS

18.4 The Authority prepared a set of financial statements for the six months ending 30 June 2002. These financial statements are reported on pages 39 to 78 of ACTION's 2001-2002 Annual Report.

18.5 An ***unqualified*** audit opinion was provided to the Minister for Urban Services on 13 September 2002.

SIGNIFICANT FINDINGS

- ***The Authority incurred an operating deficit of $3.1m for the six months ending 30 June 2002.***

- ***Two emphases of matter were included in the audit opinion relating to the Authority's non-compliance with Section 58(1) and Section 59(2) of the Financial Management Act 1996 (FMA) and the inconsistent financial objective of the Authority to its intended and actual operation.***

MATTERS ARISING FROM THE AUDIT

18.6 As a result of the audit some instances were identified where the financial operations or internal controls of the Authority could be improved. These instances were reported to management along with appropriate recommendations.

BREACHES OF FINANCIAL MANAGEMENT ACT 1996

Statement of Intent

18.7 *Section 58(1)* of the FMA requires all Territory authorities, in respect of each financial year, to provide a Statement of Intent to the Treasurer. The Authority did not provide a Statement of Intent to the Treasurer for the financial year ending 30 June 2002 covering its first six months of operation as an authority. Therefore, the Authority did not comply with *Section 58(1).*

18.8 *Section 59(2)* of the FMA requires the financial statements of an authority to be prepared in a form that facilitates a comparison between the financial operations of the authority and the estimates of those operations contained in the Authority's Statement of Intent. As the Authority did not provide a Statement of Intent to the Treasurer, the Authority's financial statements cannot facilitate a comparison between the financial operations of the ACTION Authority and its Statement of Intent. The Authority therefore has not complied with *Section 59(2).*

INAPPROPRIATE FINANCIAL OBJECTIVE

18.9 *Section 5* of the *ACTION Authority Act 2001* sets out the functions of the Authority. The functions include that the Authority is *'to maximise the sustainable return to the Territory on its investment in the authority'*. This is a requirement for the Authority to seek to generate profit.

18.10 A 'profit-seeking' entity is defined in Australian Accounting Standard AASB 1041 *Revaluation of Non-current Assets* as an entity whose financial objectives include the generation of profit. For financial reporting purposes, as the Authority has a legislated function to seek to generate profits, it should prepare its financial statements as a 'profit-seeking' entity. The Authority however, has prepared its financial statements as a 'not-for-profit' entity.

18.11 The Audit agrees that the Authority preparing its statements, as a 'not-for-profit' entity is appropriate.

Recommendation

18.12 As the ACTION Authority's legislated function to seek to generate profits is inconsistent with its intended and actual operations, it is recommended that:

Recommendation No. 20

- the *ACTION Authority Act 2001* be amended to ensure consistency with the intended and actual operations of the Authority.

19 AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

INTRODUCTION

19.1 The Australian International Hotel School (AIHS) provides a degree program in Hotel Management. The prime function of the AIHS is to provide education and training to develop knowledge and skills in relation to hotel management and related fields.

SIGNIFICANT FINDINGS

- ***The AIHS's loss from trading was $1.2m in 2001-2002 compared with $1.6m in 2000-2001.***
- ***The AIHS received subsidy payments from the Government of $2m to meet operational costs and had borrowings of $7.3m waived during 2001-2002.***
- ***The Audit view is that there is no possibility of the AIHS generating profits on the current basis of its operations. The ability of the AIHS to continue operating depends solely on Government support.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

19.2 The AIHS audited financial statements are reported on pages 23 to 54 of the AIHS's Annual Report.

19.3 An ***unqualified*** audit opinion was provided to the Treasurer on 19 August 2002. An emphasis of matter paragraph was included in the audit opinion relating to the inherent uncertainty of the AIHS's continuation as a going concern without reliance on Government support for its continued operations.

MATTERS ARISING FROM THE AUDIT

19.4 As a result of the audit, minor instances were identified where the financial operations or internal controls of the AIHS could be improved.

These instances were reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

19.5 The following table summarises the AIHS's Statement of Financial Performance.

Table 19.1 Australian International Hotel School Summary Statement of Financial Performance[126]

	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000	Actual 1998-99 $000
Revenue				
Student fees	2,564	2,616	2,209	1,814
Hotel trading receipts	2,830	2,714	3,026	2,886
Other	288	435	117	220
	5,682	**5,765**	**5,352**	**4,920**
Expenditure				
Salaries and related costs	3,576	3,527	3,643	3,563
Communications, marketing & travel services & facility expenses	2,240	2,169	2,270	1,987
Other	1,088	1,713	1,730	1,421
	6,904	**7,409**	**7,643**	**6,971**
Trading loss	**(1,222)**	**(1,644)**	**(2,291)**	**(2,051)**
Government contributions				
Annual subsidy	2,000	-	-	-
Waiver of borrowings	7,310	-	-	-
	9,310	**-**	**-**	**-**
Operating surplus/(deficit)	**8,088**	**(1,644)**	**(2,291)**	**(2,051)**

Revenue

19.6 The AIHS has two major sources of revenue, *Student fees* and *Hotel trading receipts*. *Student fees* decreased slightly compared to 2000-2001 due to the reduction in student numbers. This was offset by an increase in *Hotel trading receipts* of $0.1m.

[126] The format of this table differs from the published financial statements to highlight the trading results of the AIHS.

Expenditure

19.7 Expenditure in 2001-2002 was $0.5m less than the previous year. This reduction largely reflects the removal of interest payments on borrowings from the Central Financing Unit from *Other* expenses.

Trading Loss

19.8 The AIHS continued to report losses from its operating activities. In 2001-2002 the trading loss was $1.2m. This improvement on 2000-2001 loss of $1.6m was largely due to the removal of interest payments following the waiver of borrowings from the Central Financing Unit.

Government Contributions

19.9 The AIHS received subsidy payments from the Government of $2m for operational expenses. Subsidy payments are budgeted to continue ($1.5m in 2002-2003) until a decision has been made on the future operations of the AIHS. The AIHS also had borrowings of $7.3m waived during 2001-2002 by the Government. The Audit view is that there is no possibility of the AIHS becoming a profit making organisation on the current basis of its operations.

19.10 The AIHS has disclosed its economic dependency on future Government support in its 2001-2002 financial statements.

GOING CONCERN

19.11 A key issue in 2001-2002, as in previous years, has been the ability of AIHS to be a commercially viable entity. The Government provided funding for a comprehensive review of the operations of the AIHS. This review was completed in June 2002 and recommendations for the future operations of the AIHS have been provided to the Government for consideration.

19.12 The review produced three reports:

- Current State Assessment;
- Stakeholder Expectation Analysis; and
- Feasibility Assessment Report.

19.13 The Government is still considering these reports and has made no announcement on the future of the AIHS including commitments to future funding arrangements.

SHORT TERM FINANCIAL POSITION

19.14 The current ratio is indicative of an entity's ability to meet its obligations in the short term. The following table summarises the AIHS's current assets and current liabilities.

Table 19.2 Australian International Hotel School Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**1,256**	**921**	**1,321**
Current liabilities	**1,638**	**1,936**	**2,024**
Current ratio	**0.77 to 1**	**0.48 to 1**	**0.65 to 1**

19.15 The AIHS's current ratio (0.77 to 1) has improved from last year (0.48 to 1). Although the current ratio has improved it still causes concern that current liabilities ($1.6m) exceed current assets ($1.3m). Based on this ratio of current assets over current liabilities, the AIHS would be unable to meet its liabilities as they fall due if regular Government financial support was not provided.

20 CANBERRA BUSINESS DEVELOPMENT FUND

INTRODUCTION

20.1 The Canberra Business Development Fund (the Fund) is a joint venture between the ACT Government and Australian Capital Ventures Pty Limited with the aim to:

- provide funding to existing businesses to develop and implement innovative ideas and proposals;
- focus on helping existing businesses to expand or diversify;
- provide finance to appropriate businesses in the form of either an investment or a commercial loan; and
- earn a commercial rate of return on investment funds provided to support specific business proposals.

20.2 Each unitholder holds 50% of the units in the trust. The ACT's investment in the Fund is $2m with the total value of the Fund being $4.0m.

20.3 The agreement between Canberra Business Development Fund Management (Manager) and Canberra Business Development Fund Pty Ltd (Trustee) requires the manager to prepare half-yearly financial statements that are to be audited.

SIGNIFICANT FINDINGS

- ***The manager of the Fund did not submit the certified financial statements of the Fund for the periods ended 31 December 2000 and 30 June 2001 until May 2002 in contravention of the Deed of Trust. The certified financial statements for the period ended 31 December 2001 were submitted in October 2002.***
- ***One of the aims of the Fund is to earn a commercial rate of return from investing in businesses. Most income has been earned from bank interest as only three businesses have been provided with funding since the inception of the Fund in March 1997.***
- ***At the time of the preparation of this Report the manager of the Fund had not finalised[127] the financial statements of the Fund for the period ended 30 June 2002 in contravention of the Deed of Trust.***
- ***The Fund is not achieving its aims.***

[127] For the purposes of this Report 'finalised' means that the Directors of the Fund have signed the financial statements.

AUDIT OF THE FINANCIAL STATEMENTS

20.4 ***Unqualified*** audit opinions on the financial statements for the six months ended 31 December 2000 and 30 June 2001 were provided to the Fund on 31 May 2002. The certified financial statements were not received until 29 May 2002 in contravention of the Deed of Trust.

20.5 An ***unqualified*** audit opinion on the financial statements for the six months ended 31 December 2001 was issued on 29 October 2002. The certified financial statements were not received until 29 October 2002 in contravention of the Deed of Trust.

FINANCIAL ANALYSIS

20.6 The Fund recorded an operating profit of $0.4m for the six months ended 30 June 2001. In this period, revenue increased from $0.2m to $0.3m with $0.2m of this revenue being interest received and $0.1m being the profit on sale of its investment.

20.7 One of the Fund's objectives is to provide support to businesses. At 30 June 2001 the Fund had provided only three businesses with support since its inception in March 1997. The Fund therefore cannot be regarded as having achieved this objective.

20.8 In addition, the Fund is required to earn a commercial rate of return on investment funds provided to support specific business proposals. To date this has not occurred. The Fund could have earned a greater rate of return than it has by simply investing its original $4m in fixed term deposit accounts.

COMPLIANCE WITH DEED OF TRUST

20.9 At the time of preparation of this Report, the manager of the Fund had not finalised the financial statements for the six months ended 30 June 2002 in breach of the Deed of Trust.

20.10 The draft financial statements for the period ended 30 June 2002 that were received in October 2002, indicate that the Fund has now lost money as one of its investments was written off. At 30 June 2002 the Fund's equity has reduced from the initial $4.0m to $3.9m. It is the Audit's view that fund is failing to achieve its aims.

20.11 The Chief Executive of the Chief Minister's Department advised that Australian Capital Ventures (ACV), a local company with experience in commercial investments, had taken over management of the Fund in 2002. The Chief Executive advised he expected that the Fund's performance will improve significantly in coming years from the involvement of ACV.

21 CANBERRA TOURISM AND EVENTS CORPORATION

INTRODUCTION

21.1 The Canberra Tourism and Events Corporation (the Corporation) was established as a Statutory Authority by the *Canberra Tourism and Events Corporation Act 1997*. The Corporation commenced operations on 1 July 1997. The Corporation aims to maximise the social, cultural, economic and employment benefits of tourist visitation to the community through the provision of quality tourism events and services.

21.2 The Corporation operates the Canberra Visitors Centre and undertakes a range of promotional and marketing activities and oversights events such as Floriade and the Rally of Canberra.

SIGNIFICANT FINDINGS

- ***The Corporation's revenue fell by $1.6m in 2001-2002 and was also below budget by $2.5m.***
- ***The Corporation's Net cost of services ($18.5m) was in excess of the budgeted Net cost of services of $14.5m by $4m. The Net cost of services was also $2m higher than in 2000-2001.***
- ***The Corporation managed its operations within its approved expenditure budget, however external source revenue was less than budget.***

- ***The original proposal to fund a series of five V8 car races limited the total value of the funding to $17m, however, after holding the event for three years the Government contribution had already reached $18.2m with further payments to be made in 2002-2003 as compensation for terminated contracts. At the time of finalising this Report termination compensation payments totalling $1.8m had been made.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

21.3 The Canberra Tourism and Events Corporation's audited financial statements are reported on pages 56 to 97 of the Corporation's Annual Report.

21.4 An ***unqualified*** audit opinion was provided to the Minister for Economic Development, Business and Tourism on 3 September 2002.

FINANCIAL ANALYSIS

21.5 The table on the following page summarises the Corporation's Statement of Financial Performance.

Table 21.1 Canberra Tourism and Events Corporation Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenses				
Employee	4,254	3,243	3,444	2,763
Operating	17,402	17,639	19,173	18,239
Write off of Canberra 400 infrastructure	-	1,462	-	-
Other	608	1,457	862	552
	22,264	**23,801**	**23,479**	**21,554**
Revenue				
Entrance/ticket sales	***[128]	1,279	2,142	2,762
Sponsorship and other event related	***	3,738	4,045	3,519
Non event related	***	313	796	1,001
	7,784	**5,330**	**6,983**	**7,282**
Net cost of services	**14,480**	**18,471**	**16,496**	**14,272**
Government contributions				
Government contributions	14,508	16,584	14,357	16,721
Injection for operations	-	2,380	-	-
Capital injections	-	-	85	-
	14,508	**18,964**	**14,442**	**16,721**
Operating surplus/(deficit)	**28**	**493**	**(2,054)**	**2,449**

Expenditure

21.6 The Corporation's expenditure for the year was $1.5m higher than budget due mainly to a write down of property, plant and equipment of $1.5m following the Government's decision to terminate the Canberra 400.

Revenue

21.7 In 2001-2002 total revenue of $5.3m was less than the budget of $7.8m due to lower than expected levels of sponsorship and ticket sales for the Canberra 400.

[128] Not separately disclosed in the Corporation's budget.

Net Cost of Services

21.8 Total *Net cost of services* for 2001-2002 of $18.5m was higher than the budgeted cost of services of $14.5m due to the under achievement of revenue targets for the Canberra 400 ($2.5m) and the write down of property, plant and equipment ($1.5m). The Corporation's *Net cost of services* has grown 29.4%, from $14.3m in 1999-2000 to $18.5m in 2001-2002.

Government Contributions

21.9 *Government contributions* of $19m were higher than the budgeted amount of $14.5m due mainly to additional funding for:

- additional costs of staging events ($3.3m);
- advertising campaigns for Kendell and Hazelton Airlines following the Ansett collapse ($0.5m) along with the Regional Advertising campaign ($0.2m); and
- National Capital Tourism Education Program ($0.1m).

Operating Surplus

21.10 The Corporation reported an *Operating surplus* of $0.5m in the current year compared to a deficit of $2.1m in 2000-2001. The surplus was mainly due to the $2.4m *Injection for operations* received through the *Appropriation Act No.3*, which was passed in April 2002. This injection was to fund losses on events in the current year and also in 2001.

Conclusion

21.11 On the basis of the reasons identified for the major variations from its budget, the Audit has concluded that the Corporation managed its operations within its approved expenditure budget including the approved additional appropriation.

FINANCIAL RESULTS OF THE CORPORATION'S EVENTS

21.12 During 1997-1998, the Corporation adopted an accounting policy that resulted in all revenue and expenses relating to a particular event being reported in the financial year that the event was held. Under this policy all revenue and expenses relating to the event, including amounts

earned or incurred prior to the start of the year, are matched to provide information about the financial result for the event.

Canberra 400

21.13 The following table presents a summary of the Canberra 400 for the 2001-2002 financial year and also the cumulative result of hosting the event after three years.

Table 21.2 Summary Statement of Financial Performance Canberra 400

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000	Cumulative Result After 3 Years $000
Private sourced revenue	3,822	4,094	4,479	12,395
Expenditure	11,142	9,691	8,807	29,640
Operating loss from the event	**(7,320)**	**(5,597)**	**(4,328)**	**(17,245)**

21.14 *Private sourced revenue* fell from $4.1m to $3.8m in 2001-2002. Expenditure rose from $9.7m in 2000-2001 to $11.1m due mainly to the write down in property plant and equipment of $1.5m following the Government's decision to terminate the Canberra 400.

21.15 Total expenditure on the event after three years was $29.6m. In this period *Private sourced revenue* was $12.4m.

21.16 Auditor-General's Report No. 5 of 2002 *V8 Car Races in Canberra – Costs and Benefits*[129] reported that the Government agreed to fund a series of five races (total value of the funding $17m) with annual subsidies of $2.5m and a 'one-off' capital injection of $4.5m. After holding the event for three years the Government contribution had already reached $18.2m with further payments to be made in 2002-2003 as compensation for terminated contracts.

21.17 Since the commencement of the 2002-2003 financial year payments totalling $1.8m have been made to the race promoters, caterers and the track engineers as a result of contracts being terminated early. The Corporation is currently negotiating further claims as a result of the Government's decision to terminate the Canberra 400.

[129] Auditor-General's Report No. 5 of 2002 *V8 Car Races in Canberra – Costs and Benefits* Chapter 4, Section 4.2 Background.

Rally of Canberra

21.18 The Rally of Canberra reported a surplus of $0.02m in 2001-2002 compared to a loss of $0.25m in 2000-2001. The improvement in the result was due mainly to additional Government funding ($0.1m), additional sponsorships ($0.13m) and an overall fall in expenses.

Floriade 2001

21.19 Floriade 2001 reported a small surplus of $0.07m compared to a surplus in the previous year of $0.2m. Revenue from sponsorships and commissions fell by $0.3m from $0.8m to $0.5m whilst operating expenditure fell by $0.2m.

SHORT TERM FINANCIAL POSITION

21.20 The current ratio is indicative of an entity's ability to meet its obligations in the short term. The following table summarises the Corporation's current assets and current liabilities.

Table 21.3 Canberra Tourism and Events Corporation Summary Current Assets and Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**4,528**	**2,646**	**2,892**
Current liabilities	**3,921**	**5,416**	**4,323**
Current ratio	**1.15 to 1**	**0.49 to 1**	**0.67 to 1**

21.21 The Corporation's current ratio of 1.15 to 1 is a significant improvement on the two previous financial years. The improved result is due to the Corporation receiving additional funding from the Government to cover previous financial losses and current year expenses.

22 COMMUNITY CARE

INTRODUCTION

22.1 Community Care provides community based health and disability services for all sections of the community, individuals, families and groups with special needs. The services include caring for people with an illness, promotion of health, prevention of illness and maintaining and improving the quality of life.

SIGNIFICANT FINDINGS

- ***Community Care was unable to fully manage its finances to its budget.***
- ***The main reason Community Care exceeded budget was that the outcome of pay negotiations was greater than expected at the time Community Care's budget was prepared.***
- ***Community Care's current assets are not sufficient to meet its current liabilities. Community Care will need to manage its expenditure very carefully to avoid unexpected cash injections being required from the Government over the next 12 months.***
- ***As a result of delays in some planned capital projects, $2.8m in budgeted capital injection funding was not drawn down in the current financial year.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

22.2 Community Care's financial statements are reported on pages 305 to 348 of the Annual Report of the Health and Community Care Service.

22.3 An ***unqualified*** audit opinion was provided to the Minister for Health on 12 August 2002.

FINANCIAL ANALYSIS

22.4 The table on the following page summarises Community Care's Statement of Financial Performance.

Table 22.1 Community Care
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Employee	57,427	59,692	54,101	51,429
Other operating	30,884	30,900	29,877	25,560
	88,311	**90,592**	**83,978**	**76,989**
Revenue				
Inpatient fees and non inpatient fees, meals, rentals, grants and service fees	3,878	4,177	4,020	3,451
Interest and other	330	1,328	947	956
	4,208	**5,505**	**4,967**	**4,407**
Net cost of services	**84,103**	**85,087**	**79,011**	**72,582**
Government contributions				
Funding for the provision of health services	79,528	80,233	75,629	69,893
Resources received free of charge	1,008	1,079	1,099	1,015
Capital injections[130]	7,136	4,327	1,225	1,076
Injection for operations	208	208	202	400
	87,880	**85,847**	**78,155**	**72,384**
Operating surplus/(deficit)	**3,777**	**760**[131]	**(856)**	**(198)**

22.5 Comments follow on the major variations from the budget and/or the previous year.

Expenditure

22.6 At $90.6m, expenditure exceeded the budgeted expenditure of $88.3m by $2.3m and was $6.6m higher than the prior year's expenditure of $84m.

[130] For the purpose of this analysis, *Capital injections* have been included in the Government contributions to Community Care's *Net cost of services*.

[131] The *Operating surplus* of $0.8m varies from the published operating deficit of $3.6m due to the inclusion of *Capital injections* of $4.3m in the *Government contributions* to Community Care's *Net cost of services.*

Expenditure Comparison with Budget

22.7 The reason expenditure exceeded the budget by $2.3m was due to *Employee* expenses exceeding budget by a similar amount. *Employee* expenses exceeded budget by $2.3m because of a 7% pay rise provided to nurses from September 2001 ($1.3m), higher workers' compensation premiums ($0.7m) and contracted employee costs ($0.3m).

22.8 At $30.9m *Other operating* expenses were in line with the budget amount of $30.9m.

Expenditure Comparison with Prior Year's Actual

22.9 The increase of $6.6m in expenditure from last year was mainly due to increases in *Employee* expenses ($5.6m). *Other operating* expenses were slightly higher ($1m) than last year.

22.10 The increase in *Employee* expenses was mostly due to an increase in staffing levels to meet the provision of expanded services (which had been budgeted for) and the previously mentioned salary rises provided to nurses from September 2001, additional workers' compensation premiums ($0.7m) and contracted employee costs ($0.3m).

Revenue

22.11 At $5.5m, revenue was $1.3m higher than the budgeted revenue of $4.2m and slightly higher than the prior year's revenue of $5m.

22.12 Revenue was $1.3m higher than budget mostly because of the transfer of the Gungahlin Youth Centre ($0.3m) from the Department of Education, Youth and Family Services and additional Grants revenue ($0.5m).

Net Cost of Services

22.13 At $85.1m, *Net cost of services* exceeded the budget amount by $1m and was $6.1m higher than the prior year's amount of $79m.

22.14 The main reason Community Care's *Net cost of services* exceeded budget and the prior year actual is mostly due to the increased *Employee* expenses, which as explained previously, exceeded budget and the prior year actual.

Government Contributions

22.15 At $85.8m, total Government contributions were $2.1m less than the budgeted amount of $87.9m and $7.6m higher than the prior year's amount of $78.2m.

22.16 Government contributions were $2.1m less than budget expectations because some planned capital projects were delayed. As a result of these delays, $2.8m in budgeted capital injection funding was not drawn down in the current financial year. Planned funding was not drawn down for the refurbishment of the Belconnen Health Centre ($1.2m), the Client Care Information System project[132] ($1.3m) and an Energy Management project ($0.2m).

22.17 The increase in Government contributions over prior year of $7.6m was due to an increase of $4.6m in funding for expanded services provided and funded under the purchase agreement with the Health Department and an increase of $3.1m in funding drawn down for capital projects.

22.18 The additional services provided and funded under the purchase agreement with the Health Department were related to dental waiting lists reduction, child and women's services, alcohol and drug, risk management and additional services to people with disabilities.

Operating Surplus/(Deficit)

22.19 At $0.8m, the operating surplus was $3m less than the budgeted surplus of $3.8m. The main reason the budgeted surplus was not achieved was due to delays in some planned capital projects ($2.1m), *Employee* expenses exceeding budget by $2.3m offset by the increase of $1.4m in revenue.

22.20 Community Care reported an operating surplus of $0.8m compared to a prior year deficit of $0.9m. The small increase in the operating result was mostly due to increased services provided and funded under the purchase agreement with the Health Department which exceeded the cost of providing these services.

[132] Then 'Client Care Information System' refers to a comprehensive clinically based client administration system which is expected to provide better booking, registration and information services to clients.

Conclusion

22.21 At $85.1m, Community Care's *Net cost of services* exceeded budget by $1m. The main reason Community Care's *Net cost of services* exceeded budget was mostly due to the increases in *Employee* expenses which resulted in the expenditure budget (and the budget for *Employee* expenses) being exceeded by $2.3m. This increase was not fully offset by a $1.4m increase in revenue.

22.22 Whilst Community Care exceeded its budget for expenditure budget and *Employee* expenses by $2.3m this was mostly due to a $1.3m pay rise provided to nurses during 2001-2002 and was funded after a second appropriation. The budget was developed before the outcome of the negotiations on the nurses pay rise was finalised. As a result Community Care was not able to fully manage its finances to budget.

SHORT TERM FINANCIAL POSITION

22.23 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio over the last four years are presented in the following table.

Table 22.2 Community Care
Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000	Actual 1999 $000
Current assets (excluding prepayments)	**4,700**	**5,263**	**3,287**	**3,749**
Current liabilities	**12,877**	**9,426**	**9,045**	**5,801**
Current ratio	**0.4 to 1**	**0.6 to 1**	**0.4 to 1**	**0.6 to 1**

22.24 Community Care's current ratio of 0.4 to 1 is very low and has declined from last year. The current ratio is so low that Community Care will need to manage its expenditure very carefully to avoid the need for unexpected cash injections from the Government to support its operations in the next twelve months.

22.25 The low current ratio also shows that Community Care is completely reliant on the Government to support its continued operations

and to assist in meeting its commitments as they fall due in the next twelve months.

23 COMMUNITY HOUSING CANBERRA LIMITED

INTRODUCTION

23.1 Community Housing Canberra Limited (CHCL) was established as a not-for-profit company, limited by guarantee in January 1998. The principal activity of CHCL is to make housing stock available to people in need of housing assistance, at affordable levels of rent.

23.2 CHCL has a seven member Board and three of them are appointed by the Government.

SIGNIFICANT FINDING

- ***CHCL made a significant profit through its involvement in the City Edge Joint Venture.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

23.3 CHCL's financial statements are reported on pages 29 to 43 of the Annual Report of Community Housing Canberra Limited.

23.4 An ***unqualified*** audit opinion was provided to the Minister for Disability, Housing and Community Services on 10 September 2002.

FINANCIAL ANALYSIS

23.5 The table on the following page summarises CHCL's Statement of Financial Performance.

Table 23.1 Community Housing Canberra Limited Summary Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000
Revenue		
Apartment sales	583	4,805
Rental income	906	787
Other	2,065	679
	3,554	**6,271**
Expenses		
Costs of apartment sales	858	4,521
Operating activities	1,994	1,565
	2,852	**6,086**
Operating profit before Government contributions	**702**	**185**
Government Contributions		
Revenue from transfer of housing stock	-	1,665
Rental subsidy	597	578
Grants	-	45
	597	**2,288**
Operating profit	**1,299**	**2,473**

Revenue

23.6 Total revenue of $3.6m was $2.7m less than last year's revenue of $6.3m. The variance was mostly attributed to a:

- $4.2m decrease in City Edge *Apartment sales* as the majority of the joint venture properties were sold in 2000-2001; and
- $1.4m increase in *Other* income primarily due to transfer of City Edge land and buildings ($0.7m) to CHCL and recognition of the remaining proportion of the profit on the sale of apartment land to the City Edge Joint Venture and the townhouse land to the City Edge Joint Venture partner ($0.7m).

Expenses

23.7 At $2.9m, total expenses were less than last year's expenses of $6.1m by $3.2m. This was mainly due to a significant decrease in the costs associated with the sales of City Edge properties as the majority of the joint venture properties were sold in 2000-2001. *Operating activities* expenses also increased by $0.4m compared to last year primarily due to

increased administrative and other expenses, transfer of the refugee property back to Housing ($0.13m) and the repayment of an unspent grant to the Territory ($0.12m).

Government Contributions

23.8 CHCL's ongoing housing operations are dependent on continuing subsidy funding by the Government for the housing stock managed.

23.9 A total of 210 dwellings with a book value of $22.5m were transferred on long-term lease to CHCL between 1998-1999 to 2000-2001 in accordance with a Government agreement with CHCL. No property was transferred to CHCL during 2001-2002. However, a property valued $0.13m, which had been transferred to CHCL under a refugee program in 2000-2001 was returned to Housing as the tenants had become eligible for public housing.

Operating Profit

23.10 CHCL reported an operating profit of $1.3m, which was $1.2m less than the previous year. The decrease was mainly due to a reduction in City Edge *Apartment sales* during the year.

SUMMARY OF CITY EDGE JOINT VENTURE

23.11 The CHCL holds a 50% interest in a joint venture operation named the City Edge Joint Venture. The principal activity of the Joint Venture is developing part of the former multi-unit housing property located at MacPherson Court, O'Connor into apartments and offices. The joint venture partner is developing the balance of the former multi-unit housing property after purchasing the land from CHCL.

23.12 The joint venture project involves redeveloping the McPherson Court site for private, public and community housing. Construction for the project commenced in June 2000. The redevelopment project was completed in 2001-2002 and the Joint Venture will be wound up in 2002-2003.

23.13 The joint venture project contains 86 apartments - 30 of which are available to people with low incomes through Housing and CHCL. The remaining 56 apartments were sold to private owners/investors.

Outline of Partners' Financial Responsibilities and Benefits

23.14 Under the Joint Venture Agreement:

- CHCL contributed the site on which the project was constructed at a market value of $2.4m;
- the joint venture partner was also the builder; the Joint Venture paid the partner to construct the apartments;
- the building costs, marketing and all other expenses were met by the Joint Venture;
- interest was credited to the partners' capital accounts at agreed rates on their outstanding balances;
- upon completion of the redevelopment, 30 apartments and an office unit were transferred to CHCL at established market prices. The value of these apartments was treated as a repayment to CHCL of its contribution; and
- the net profit from sales of the apartments, after the contributions by the partners have been repaid, will be distributed equally.

Financial Results

23.15 The following table summarises the participation by the partners in the City Edge Joint Venture since inception.

Table 23.2: Outline of Participation by Joint Venture Partners

	CHCL $000	Joint Venture Partner $000	Total $000
Land	4,685	-	4,685
Building costs	-	9,329	9,329
Interest on capital accounts	745	380	1,125
Other contributions	298	8	306
Joint venture net profit	351	351	702
Total participation	**6,079**	**10,068**	**16,147**

23.16 CHCL contributed land to the value of $4.7m. Of this, land to the value of $2.4m was used by the Joint Venture for the apartments site. The joint venture partner paid $2.2m for the balance of the land. The partner is constructing townhouses on this portion of the land as its own redevelopment project.

23.17 The joint venture partner sourced all financial capital required for the project and where this was provided from its own funds it was paid interest.

23.18 The Joint Venture partner was also the builder. The partner was paid $9.3m to build the apartments for the Joint Venture.

23.19 The Joint Venture derived a profit of $702,000 which is to be split equally between CHCL and the joint venture partner.

ACT Housing Involvement

23.20 ACT Housing met the costs for the relocation of the existing MacPherson Court tenants. The Joint Venture met the costs of demolishing the building.

23.21 The vacant site was transferred from Housing to CHCL for consideration of $3m. Payment of the consideration to Housing was through transfer to Housing of 15 completed apartments valued at $2.6m and cash of $0.4m.

CHCL Net Profit

23.22 The following table summarises the profit earned by CHCL through its participation in the City Edge Joint Venture.

Table 23.3 CHCL Net Profit from Participation in the City Edge Joint Venture

	CHCL 2001-02 $000
Revenue from Joint Venture	
Value of completed apartments and the office transferred to CHCL	5,862
Other	217
Total Revenue	**6,079**
Costs	
15 apartments transferred to Housing	2,559
Cash adjustment paid to Housing	451
Total Costs	**3,010**
Net Profit	**3,069**

23.23 CHCL made a significant profit of $3.1m through its involvement in the City Edge Joint Venture. This overall profit is represented by 15 units and by office premises situated within the City Edge development and cash of $0.1m.

24 FORESTS

INTRODUCTION

24.1 Forests operates as a public trading enterprise providing commercial forest industry products. It manages 26,900 hectares of land including 16,532 hectares of commercial pine and eucalypt plantations. The plantations provide raw material for the local saw milling industry, which produce timber for use in housing construction in the ACT, Sydney and Brisbane markets. The forests, which attract a large number of recreational visitors a year, also provides venues for various sporting events.

24.2 Forests manages non-plantation areas for conservation purposes and is responsible for protecting natural and cultural heritage sites, and plantation resources. It also provides diverse forest-based recreational and educational opportunities for the community.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

24.3 Forests' financial statements are reported on pages 141 to 173, volume 2 of the Urban Services 2001-2002 Annual Report.

24.4 An ***unqualified*** audit opinion was issued to the Minister for Urban Services on 17 September 2002.

SIGNIFICANT FINDING

- ***Forests incurred a net cost of operations of $3.4m. Forests has incurred significant net costs for the last several years.***

MATTERS ARISING FROM THE AUDIT

24.5 Several instances were identified where the operations of Forests could be improved or where internal controls could be enhanced. These instances were reported to Forests along with appropriate recommendations.

FINANCIAL ANALYSIS

24.6 The following table summarises Forests' Statement of Financial Performance.

Table 24.1 Forests
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Employee	2,664	3,144	2,740	2,563
Log harvesting and other operating expenses	10,905	8,947[133]	7,264	8,864
Other	295	350	327	351
	13,864	**12,441**	**10,331**	**11,778**
Revenue				
Log sales and forestry services	10,080	8,854	7,290	10,223
Other	0	128	116	19
	10,080	**8,982[134]**	**7,406**	**10,242**
Net cost of operations	**3,784**	**3,459**	**2,925**	**1,536**
Government contributions				
Government funding for public use and policy, insurance and other	2,230	2,724	1,685	1,504
Injection for operations	1,050	1,350	245	0
Capital injections	240	240	650	340
	3,520	**4,314**	**2,580**	**1,844**
Operating (loss)/profit	**(264)**	**855**	**(345)**	**308**

[133] Total cost directly associated with fire of $0.9m has been excluded because it is not relevant to the assessment of Forests' performance against budget.

[134] Total revenue reported in the published financial statements has been adjusted by excluding the gain from revaluation of plantation growing stocks of $2.2m, which is an accounting adjustment and insurance recovery of $2.1m relating to the loss of forests from the Christmas bushfires. This insurance recovery has been excluded because it is not relevant to the assessment of Forests' performance against budget.

24.7 Comments on significant expenditure, revenue and Government contributions are as follows.

Expenditure

24.8 At $12.4m, total expenditure was $1.4m less than the budget of $13.8m but $2.1m higher than last year's expenditure of $10.3m.

24.9 The increase in expenditure by 20% compared to last year was mainly due to additional costs associated with selling more timber and increased *Employee* expenses due to payment of staff redundancies.

Revenue

24.10 At $8.9m, total revenue was $1.1m less than the budget of $10m and $1.6m higher than last year's revenue of $7.4m.

24.11 Revenue was $1.6m higher than last year because of an increase in the volume of logs sold and forestry services provided, however, it was still lower than the level anticipated in the budget.

Net Cost of Operations

24.12 The operating results as presented in Forests' audited financial statements have been revised in the Summary Statement of Financial Performance in this Report to more clearly highlight Forests' operational performance.

24.13 Forests' *Net cost of operations* of $3.4m was lower than the budget of $3.8m. The *Net cost of operations* for this year was higher than prior years.

Government Contributions

24.14 During the year, Forests received a total of $4.3m in *Government contributions*. This was higher than the budget of $3.5m and last year's contributions of $2.6m. *Government contributions* exceeded the budget and last year due to a higher *Injection for operations* to fund redundancy packages and career assistance costs as a result of the payment of staff redundancies.

Financial Result

24.15 With *Government contributions* of $4.3m, Forests recorded a profit of $0.9m, which compares favourably with the budgeted loss and last year's actual loss of $0.3m.

Conclusion

24.16 On the basis of the reasons identified for the major variations from budget, the Audit has concluded that Forests managed its operations to budget.

24.17 The financial viability of Forests is dependent on Government contributions to support its continued operations. Given the small scale of Forests' operations relevant to other timber producers, this situation is unlikely to change.

VALUATION OF PLANTATION GROWING STOCKS

24.18 As in last year, this year an independent valuer revalued Forests' plantation growing stocks using a methodology that complied with the Australian Accounting Standard AASB 1037 - *Self Generating and Regenerating Assets*.

SHORT TERM FINANCIAL POSITION

24.19 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term.

24.20 For purposes of assessing the financial position of Forests, the current ratios excluding the current portion of plantation growing stocks have been shown in the table on the following page.

Table 24.2 Forests
Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**4,211**	**2,000**	**2,582**
Current liabilities	**2,005**	**1,160**	**1,579**
Current ratio	**2.1 to 1**	**1.7 to 1**	**1.6 to 1**

24.21 The current ratio rose from an almost constant level of around 1.6 and 1.7 to 1 in the last two years. Overall, the short-term financial position of Forests was sound as at 30 June 2002.

25 GOLD CREEK COUNTRY CLUB

INTRODUCTION

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

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

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

25.3 An ***unqualified*** audit opinion was issued to the Minister for Planning on 19 August 2002.

25.4 There is no requirement for the financial statements to be published. Given the small nature of the financial operations this appears reasonable.

SIGNIFICANT FINDINGS

- ***The Club's loss of $0.6m is the same as last year's loss.***
- ***The Club is reliant on the Government to financially support its continued operations. This year the Government has provided loans to the Club of $2.5m (2001 $1.8m).***

FINANCIAL ANALYSIS

25.5 The following table summarises the Club's operations over the past three years.

Table 25.1 Gold Creek Country Club
Summary Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Revenue	**2,690**	**2,460**	**1,982**
Expenses	**3,346**	**3,108**	**2,381**
Operating loss	**(656)**	**(648)**	**(399)**

Operating Loss

25.6 The Club's operating loss of $0.6m in 2001-2002 is approximately the same as the loss reported in 2000-2001. Revenue rose by $0.2m due to additional beverage and food sales along with additional revenue generated by the Health Club. There was also a rise in expenditure of $0.2m due mainly to increases in security and repairs and maintenance expenses along with excess water charges for the golf course. Costs for management of the Club by an external organisation also contributed to a rise in total expenditure.

SHORT TERM FINANCIAL POSITION

25.7 The current ratio is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio are presented in the table on the following page.

Table 25.2 Gold Creek Country Club
Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**400**	**206**	**169**
Current liabilities	**737**	**647**	**400**
Current ratio	**0.5 to 1**	**0.3 to 1**	**0.4 to 1**

25.8 The Club's current ratio (0.5 to 1) has improved from last year due to an increase in cash holdings, however, it remains well below the desirable current ratio of 1 to 1.

25.9 The Club is reliant on the Government to support its continued operations and to assist in meeting its commitments as they fall due in the next twelve months. At 30 June 2002 the Government had provided the Club with loans totalling $2.5m ($1.8m in 2001).

26 HEALTH AND COMMUNITY CARE DEPARTMENT

INTRODUCTION

26.1 The Department of Health and Community Care (the Department) plans and implements health policy and provides some public health services. It also plans and purchases public health services to meet the needs of residents of the Canberra region and evaluates those services. The Department also provides support and information to the Government, other agencies and individuals.

26.2 On 14 November 2001, the Department of Health, Housing and Community Care transferred housing policy functions to the Department of Urban Services. As a result of this restructure, the Department was renamed the Department of Health and Community Care.

26.3 The Department is predominantly funded through Legislative Assembly appropriations.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

26.4 The Department's financial statements are reported on pages 61 to 124 of volume 1of its Annual Report.

26.5 An ***unqualified*** audit opinion was provided to the Minister for Health on 20 September 2002.

SIGNIFICANT FINDINGS

- ***The Department, in exceeding its budget net cost of services for its Health related operations by $13.4m, did not manage its operations to budget.***

- ***The cost of purchasing health services of $369.6m significantly exceeded the budget of $346.1m by $23.5m.***

MATTERS ARISING FROM THE AUDIT

26.6 During the audit a few minor instances were identified where the Department's internal controls or procedures could be improved. These instances will be reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

DEPARTMENTAL TRANSACTIONS - HEALTH

26.7 The table on the following page summarises the Department's Statement of Financial Performance. The Statement of Financial Performance differs from that presented in the Department's published financial statements, because Housing policy functions have been excluded for the purpose of the analysis. As a result the table highlights the results of the Department's health related operations.

Table 26.1 Health and Community Care Department (Health Related Operations[135]) Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Purchase of health services[136]				
- The Canberra Hospital (clinical)*	214,852	232,968	208,550	196,020
- Community Care*	74,703	75,166	70,927	66,401
- Calvary Hospital (clinical)*	56,503	61,490	51,063	48,212
	346,058	**369,624**	**330,540**	**310,633**
Grants to non Government organisations*	48,893	45,746	33,742	30,390
Other costs				
Employee	19,282	18,916	18,405	17,344
Other operating	32,325	30,804	34,605	25,312
Depreciation	934	393	403	398
	447,492	**465,483**	**417,695**	**384,077**
Revenue				
Cross border receipts*	47,100	50,056	46,042	32,603
Inventory sales to external clients*	3,458	3,950	3,607	3,459
Services to external clients and Public Trading Entities*	786	1,792	1,757	1,421
Other	765	914	2,181	1,934
	52,109	**56,712**	**53,587**	**39,417**
Net cost of outputs	**395,383**	**408,771**	**364,108**	**344,660**
Government contributions				
Government payment for health services outputs*	365,186	380,530	336,895	314,804
Payments for the provision of financial services[137]*	5,280	5,070	5,409	5,232
Inventory sales to Government entities*	10,183	9,553	10,176	9,480
Injection for operations	11,714	11,714	11,497	13,352
Capital injections	1,645	565	2,672	2,838
Resources received free of charge	334	443	399	403
	394,342	**407,875**	**367,048**	**346,109**
Operating (deficit)/surplus	**(1,041)**	**(896)**	**2,940**	**1,449**

* These figures were not separately reported in the 2001-2002 Budget Paper No.4 for the Department. These figures were provided by the Health Department.

26.8 Comments follow on major sources of revenue and expenditure which show significant variations from the budget and/or the previous year.

[135] Health related operations excludes the Housing policy function.

[136] *Purchase of health services* is comprised of amounts paid for health services to health service providers under purchase agreements with the health service and amounts paid as *Injections for operations*. The amount of $233m paid to The Canberra Hospital is comprised of purchases of $221.5m plus injections for operations of $11.5m. The amount of $75.2m paid to Community Care is comprised of purchases of $75m plus injections for operations of $0.2m.

[137] *Payments for the provision of financial services* were received from The Canberra Hospital ($4.1m) and Community Care ($1m) for Business Services Bureau Support.

Expenditure

26.9 At $465.5m, expenditure was substantially more than the budgeted expenditure of $447.5m by $18m and higher than last year's expenditure of $417.7m by $47.8m.

Expenditure Comparison with Budget

26.10 Actual expenditure exceeded budget expenditure by $18m mainly due to higher than expected payments for the *Purchase of health services* which exceeded budget by $23.5m partially offset by lower than expected *Grants to non Government organisations* which were less than budget by $3.1m. The higher than budgeted expenditure was funded by a second Appropriation Act for 2001-2002 which provided for an extra $18.1m expenditure.

26.11 Payments for the *Purchase of health services* exceeded budget by $23.5m. Payments to The Canberra Hospital and Calvary Hospital exceeded budget by $18.1m and $5m respectively. Additional payments were made to fund the costs of additional services acquired under the Department's purchase agreement with The Canberra Hospital and Calvary Hospital and to cover unexpected costs including enterprise bargaining salary increases, workers' compensation premiums, equipment and systems, additional nursing staff and additional surgical and medical throughput.

26.12 *Grants to non Government organisations* were $3.1m less than expected due to the deferral of Commonwealth funded programs.

Expenditure Comparison with Prior Year's Actual

26.13 At $465.5m expenditure exceeded last year's amount of $417.7m by $47.8m due to an increase in payments for the *Purchase of health services* ($39.1m) and *Grants to non Government organisations* ($12m) offset by a decrease in *Other operating* expenses by $3.8m.

26.14 Expenditure has increased since last year due to:

- payments for the *Purchase of health services* being $39.1m higher than last year. The major health service providers were paid significantly more than last year. Payments to The Canberra

Hospital, Community Care and Calvary Hospital exceeded prior year's actuals by $24.5m, $4.3m and $10.4m respectively; and

- *Grants to non Government organisations* being $12m higher than last year due to deferred Commonwealth projects, higher levels of new Commonwealth funds, indexation, building community capacity budget initiative and Social and Community Services award costs.

Revenue

Revenue Comparison with Budget and Prior Year's Actual

26.15 At $56.7m revenue exceeded budget by $4.6m and the prior year's actual of $53.6m by $3.1m.

26.16 Revenue exceeded budget and prior year because *Cross border receipts* exceeded the budget of $47.1m by $3m and the prior year amount of $46m by $4.1m.

Net Cost of Outputs

26.17 At $408.8m, *Net cost of outputs* exceeded budget by $13.4m and was $44.7m higher than the prior year's amount of $364.1m.

Net Cost of Outputs Comparison with Budget

26.18 *Net cost of outputs* exceeded budget mainly due to the previously mentioned higher than expected cost of health services purchased from The Canberra Hospital and the Calvary Hospital. These higher than expected costs were partially offset by higher levels of *Cross border receipts*.

Net Cost of Outputs Comparison with Prior Year's Actual

26.19 *Net cost of outputs* was higher than last year due to the previously mentioned higher cost of health services purchased from The Canberra Hospital, Community Care and Calvary Hospital. These higher costs were partially offset by a fall in *Other operating* expenses and higher amounts of *Cross border receipts*.

Government Contributions

26.20 At $407.9m, Government contributions were $13.6m higher than the budgeted amount of $394.3m and $40.9m higher than the prior year's amount of $367m.

Government Contributions Comparison with Budget

26.21 Government contributions exceeded budget due to a $15.3m increase in the *Government payment for health services outputs*.

26.22 The higher than expected *Government payment for health services outputs* was mainly due to additional unexpected funding required to meet the substantially higher costs of purchasing health services.

Government Contributions Comparison with Prior Year's Actual

26.23 Government contributions increased by $40.9m due to an increase in *Government payment for health services outputs*. This increase was to meet the substantially higher cost of purchasing health services.

Operating Deficit/ Surplus

26.24 The operating surplus shows the difference between the *Net cost of outputs* of the Department and the Government's contributions to those costs. An operating surplus means that the Government has contributed more than the net costs incurred by the Department.

26.25 The Department's operating deficit was $0.9m compared to the budgeted deficit of $1m and is $3.8m less than the prior year's operating surplus of $2.9m.

Conclusion

26.26 The Department, in exceeding its budget *Net cost of services* for its Health related operations, did not manage its operations to budget.

26.27 While the Audit has concluded that the Department did not manage its operations to budget, the Audit is not able to comment on the appropriateness of the budget or on whether the Department could reasonably have been expected to achieve budget.

DEPARTMENTAL TRANSACTIONS – HOUSING

26.28 The table below summarises the Department's Statement of Financial Performance relating to the Housing policy function.

Table 26.2 Housing Policy Function Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Purchase of housing services				
- Housing	30,541	11,751	26,866	-
- Grants to non Government organisation	2,881	629	688	-
	33,422	**12,380**	**27,554**	**-**
Government contributions				
Government payment for housing services outputs	35,002	13,626	28,211	-
	35,002	**13,626**	**28,211**	**-**
Operating surplus	**1,580**	**1,246**	**657**	**-**

26.29 At $12.4m expenditure was lower than the budget amount of $33.4m by $21m and the prior year's actual of $27.6m by $15.2m because the Housing policy function was transferred to the Department of Urban Services under Administrative Arrangement Order of 14 November 2001.

27 HOUSING

INTRODUCTION

27.1 Housing provides property management and tenancy management services for public housing in accordance with the *Housing Assistance Act 1987* and the *Commonwealth State Housing Agreement 1999*. The services provided include information to tenants and prospective tenants on available housing assistance options, assessment of eligibility for public housing, and assessment and provision of rental rebates to eligible tenants.

27.2 Housing also manages the Territory's public housing assets, including the acquisition, disposal, redevelopment and also repairs, maintenance and improvement of those assets.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

27.3 Housing's financial statements are reported on pages 188 to 219 of the Department of Urban Services Annual Report.

27.4 An ***unqualified*** audit opinion was provided to the Minister for Health, Housing and Community Services on 23 September 2002.

SIGNIFICANT FINDINGS

- ***Housing received $10m from the Treasurer's Advance in June 2002. The Audit view is that this was a misuse of the Treasurer's Advance and its legality could also be questioned.***

- ***Housing recorded an operating surplus of $17m against a budgeted deficit of $2.6m.***

MATTERS ARISING FROM THE AUDIT

27.5 Some instances were identified where the operations of Housing could be improved or where internal controls could be enhanced. These instances have been reported to management with appropriate recommendations.

MISUSE OF THE TREASURER'S ADVANCE

27.6 Details of this matter are reported in *Chapter 7: Compliance with the Financial Management Act 1996*.

FINANCIAL ANALYSIS

27.7 The table on the following page summarises Housing's Statement of Financial Performance.

Table 27.1 Housing
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Employee	14,586	12,924	12,837	11,557
Operating	48,634	48,833	47,447	44,040
Depreciation	10,318	11,198	10,437	8,809
Other[138]	15,050	13,165	9,823	11,407
	88,588	**86,120**	**80,544**	**75,813**
Revenue				
Net rental	48,228	52,490	49,054	46,944
Other[139]	7,189	10,069	10,848	10,186
	55,417	**62,559**	**59,902**	**57,130**
Net cost of services	**33,171**	**23,561**	**20,642**	**18,683**
Government contributions				
Payments for provision of housing services	30,541	30,561	34,909	25,581
Treasurer's advance	-	10,000	-	-
Resources received free of charge	-	-	-	125
	30,541	**40,561**	**34,909**	**25,706**
Operating (deficit)/surplus[140]	**(2,630)**	**17,000**	**14,267**	**7,023**

27.8 Comments on significant expenditure, revenue and Government contributions are as follows.

Expenditure

27.9 This year's expenditure of $86.1m is $2.5m lower than the budget of $88.6m and $5.6m higher than last year's expenditure of $80.5m.

[138] *Other* expenses for 1999-2000 and 2000-2001 differ from the published total because, for the purpose of this analysis, property transfers to the community-housing sector have been excluded. There was no property transfer to the community-housing sector in 2001-2002.

[139] *Other* revenue for 2001-2002 differs from the published total because, for the purpose of this analysis, settlement of properties previously transferred to the community-housing sector have been excluded. In 2001-2002, this amounted to $3.01m representing property received back from sale/transfer of MacPherson Court (City Edge).

[140] The operating (deficit)/surplus presented in the above table may vary from the published operating surplus/(deficit) because, for the purposes of this analysis, property transfers to the community-housing sector have been excluded.

Expenditure Comparison with Budget

27.10 Expenditure was less than budget mainly due to:

- *Employee* expenses being less than expected by $1.7m due to a delay in recruitment; and
- *Other* expenses being less than expected by $1.9m due to the delay in the demolition of Gowrie Court which was planned for redevelopment.

27.11 The savings in the above expenditure against the budget were partially offset by the *Depreciation* expense which exceeded budget by $0.9m due to the increase in the value of properties.

Expenditure Comparison with Prior Year's Actual

27.12 Expenditure increased by $5.6m compared to last year mainly due to the following:

- an increase of $1.4m in *Operating* expenses mainly due to the increase in repairs and maintenance costs of housing stock; and
- an increase of $3.3m in *Other* expenses mainly due to the write off of Burnie Court ($2.8m) and increased demolition expenses ($0.8m).

Revenue

27.13 This year's revenue of $62.6m exceeded the budget of $55.4m by $7.2m and the previous year's revenue of $59.9m by $2.6m.

Revenue Comparison with Budget

27.14 Total revenue exceeded budget mostly because the following items were not anticipated in the budget:

- higher than expected *Net rental* revenue which exceeded budget by $4.3m. This was due to the:
  - deferral of property transfers to the community housing sector (100 properties were expected to be transferred but were not transferred as planned);
  - higher than expected rent revenues as a result of rent revaluation with only slight rebates adjustment;
  - slight falls in vacancy rates; and

  - extra revenues due to the delay in the demolition of Burnie Court.
- higher than expected *Other* revenue which exceeded budget by $2.9m primarily due to higher interest revenue and higher than budgeted profit on sale of assets brought about by higher than expected market prices for inner city properties.

Revenue Comparison with Prior Year's Actual

27.15 This year's revenue was $2.7m higher than last year because of higher *Net rental* revenue collected. *Net rental* revenue increased by $3.4m mainly to higher rentals charged as a result of an adjustment in market rents (average increase of 9.8% across the housing portfolio). This was offset by a $0.7m decrease in *Other* revenue mainly due to a decrease in profit on sale of non-current assets.

Net Cost of Services

27.16 This year's *Net cost of services* of $23.6m was $9.6m less than the budgeted cost of $33.2m mainly due to the higher than expected revenue and lower expenditure not anticipated in the budget as discussed above.

27.17 The *Net cost of services* was $2.9m more than last year's actual cost of $20.6m. This increase was mainly due to the write off of Burnie Court and associated demolition expenses.

Government Contributions

27.18 Contributions received from the Government exceeded budget by $10m. This was due to an amount being received from Treasurer's Advance late in the financial year. The Treasurer's Advance was for additional funding to meet works associated with fire safety and Building Code of Australia compliance requirements, particularly at the multi-unit flat complexes. None of the $10m had been paid out at 30 June 2002.

27.19 Excluding the receipt of the Treasurer's Advance, contributions from the Government were $4.3m less than last year. The decrease was due to a reduction in *Payments for provision of housing services* as a

result of the termination of funding for the Crisis Accommodation Program and the Boarding House[141].

Operating Surplus/(Deficit)

27.20 The operating surplus/(deficit) shows the difference between the *Net cost of services* of Housing's operations and the Government contributions to those costs. Without the Treasurer's Advance of $10m, the operating surplus would still indicate that the Government contributed more than the net costs incurred by Housing.

27.21 Housing recorded a surplus of $17m against a budgeted deficit of $2.6m due mainly to the Treasurer's Advance of $10m and lesser *Net cost of services* than anticipated in the budget.

27.22 This year's operating surplus was $2.7m more than last year mainly due to the Treasurer's Advance of $10m. Without the Treasurer's Advance, this year's operating surplus would be less than last year by $7.3m mainly due to much higher expenditure level this year primarily because of the write off of Burnie Court and associated demolition expenses and a reduction in Government contributions explained previously.

PROPERTY PORTFOLIO

27.23 Housing's land and dwellings are revalued at 31 March each year to incorporate valuation changes reflecting market conditions. As a result of the 31 March 2002 revaluation, subsequent acquisitions, disposals, capital improvements and depreciation, the net value of the property portfolio as at 30 June 2002 increased from last year by 23% or $352m. The increase was made up of a $235m increase in the value of land and a $118m increase in the value of dwellings.

[141] Boarding House is to accommodate women escaping abuse, younger people and singles. In 2000-2001, an extra 'one-off' funding of $2m was provided to Housing in setting up the Boarding House program.

Table 27.2 Housing
Number and Value of Land and Dwellings

	Actual 2001-02	Actual 2000-01
Number of land parcels	7,078	7,035
Land value ($000)	**$1,133,651**	**$899,009**
Number of dwellings	11,467	11,724
Dwellings value ($000)	**$722,165**	**$604,405**

27.24 The number of dwellings decreased by 257 during 2001-2002. The significant decrease is due to the demolition of 263 units at Burnie Court in October 2001.

27.25 Housing properties range widely in value, depending on size, condition and location. The influence of these factors is illustrated in the value of Housing's stock of 3-bedroom houses, which ranged from $109,000 to $596,000 in 2001-2002 ($78,000 to $548,000 in 2000-2001). This range does not include rural properties, which have no land component in their valuation.

28 INSURANCE AUTHORITY

INTRODUCTION

28.1 The Insurance Authority (the Authority) commenced operations on 1 April 2001 as an independent statutory authority under the *ACT Insurance Authority Act 2000*. The 2001-2002 financial year presents the first full year of operations for the Authority. Prior to 1 April 2001, the Authority functioned for the period 1 July 2000 to 31 March 2001 as the Insurance Management Department under the *Financial Management Act 1996*.

28.2 The objectives of the Authority are to enable the Territory to effectively meet the costs of its insurable claims and losses and to ensure the costs are fully reflected in the Territory accounts.

28.3 The Authority operates a centrally managed fund to cover the insurable risks of Territory agencies.

SIGNIFICANT FINDINGS

- ***The Authority did not manage its operations to budget due to a higher level of claims provisioning than originally anticipated.***

- ***The level of reserves currently held is sufficient to cover known claims, however, would be insufficient if an unexpected increase in the number of claims occurred.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

28.4 The Authority's audited financial statements are reported on pages 9 to 30 of the Authority's Annual Report.

28.5 An ***unqualified*** audit opinion was provided to the Treasurer on 18 September 2002.

MATTERS ARISING FROM THE AUDIT

28.6 During the audit instances were identified where the Authority's internal controls could be improved. These matters have been reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

28.7 A summary of the Authority's Statement of Financial Performance is presented in the table on the following page.

Table 28.1 Insurance Authority
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Revenue			
Insurance premiums	18,817	16,704	13,629
Workers' compensation premiums	21,790	24,123	22,288
Other	3,043	4,158	5,184
	43,650	**44,985**	**41,101**
Expenses			
Insurance claims	18,064	21,441	16,522
Workers' compensation claims	22,270	23,849	21,727
Other	794	1,169	4,834
	41,128	**46,459**	**43,083**
Operating surplus/(deficit)	**2,522**	**(1,474)**	**(1,982)**

Revenue

28.8 Revenue increased by $3.9m over the previous year and was also $1.3m greater than the budgeted amount as the Authority increased annual premiums in an attempt to build up reserves for future claims.

Expenses

28.9 Expenses increased by $3.4m over the previous year and was also $5.3m greater than the budgeted amount. The majority of the increase was due to higher costs of insurance and an increase in the outstanding claims provision at year end.

Operating Surplus/(Deficit)

28.10 As a result of expenses exceeding budget by $5.3m and revenue exceeding budget by $1.3m, the budgeted operating surplus of $2.5m was not achieved. The operating deficit was $1.5m compared to a deficit in 2000-2001 of $2.0m. The improved result is due to a rise in insurance premiums to raise the level of reserves for future claims. The deficit in 2001-2002 was largely the result of higher costs of insurance and an increase in the outstanding claims provision for the year.

Conclusion

28.11 The Audit has concluded that the Authority did not fully manage its operations to budget.

28.12 The Chairman of the Authority (an ACT public servant) responded to this Office in relation to this matter as follows.

> *'The outstanding claims provision is an estimate of the sum needed to settle all losses which have been sustained but which have not yet been paid. This includes estimated losses incurred but not reported and estimated losses incurred but not enough reported. It arises because there may be time lags in notifying claims to insurers, and the length of time required to settle claims. These time lags are most pronounced for classes of insurance where issues of liability and quantum are complex, eg. classes involving personal injury or financial loss. Settlement for these claims may be in excess of twenty years after the event.*
>
> *The claims provision was increased in 2001-2002 due to the following:*
>
> *a) Case estimates were significantly increased for a number of public liability and medical malpractice claims. Case estimates for long tail claims may increase over time as more information is gathered concerning the likely cost of each claim.*
>
> *b) A number of large property damage claims were recognised in 2001-2002. These included the Forest fires and a significant school fire. In addition there was an increase in the number of claims made by Housing.*
>
> *c) A data cleansing exercise identified a number of material claims not previously recorded by agencies in the claims management system.*
>
> *The claims provision was also increased as a consequence of the decrease in the estimate for reinsurance recoveries. A large medical malpractice claim had previously been recorded in the wrong insurance year causing the recoveries to be over estimated for that year.'*

SHORT TERM FINANCIAL POSITION

28.13 The current ratio is indicative of an entity's ability to meet its obligations in the short term. A current ratio in the range of 1 to 1 is the minimum usually desirable in a business. The following table indicates the Authority's current assets and current liabilities for the past two financial years.

Table 28.2 Insurance Authority Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000
Current assets	**44,896**	**36,001**
Current liabilities	**14,132**	**11,248**
Current ratio	**3.18 to 1**	**3.2 to 1**

28.14 The Authority continues to maintain a strong short term financial position despite the operating result being below the budgeted outcome.

LONG TERM FINANCIAL POSITION

28.15 The following table indicates the Authority's total assets and total liabilities for the past two financial years.

Table 28.3 Insurance Authority Total Assets and Total Liabilities

	Actual 2002 $000	Actual 2001 $000
Total assets	**46,722**	**36,931**
Total liabilities	**45,396**	**34,573**
Net assets	**1,326**	**2,358**

28.16 The table indicates that at present the Authority has just enough assets to cover known claims and other liabilities. One of the major risks facing the Authority and therefore the Territory is the lack of reserves if there was a large increase in the number of claims in any one year.

29 INTACT

INTRODUCTION

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

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

29.2 InTACT's financial statements are reported on pages 223 to 256 of volume 2 of the Annual Report of the Department of Treasury.

29.3 An ***unqualified*** audit opinion was provided to the Treasurer on 30 August 2002.

SIGNIFICANT FINDINGS

- ***Revenue received as user charges from other Government agencies for provision of IT services ($54.5m) does not cover InTACT's total cost of providing its services ($62.8m). InTACT's ongoing financial viability is therefore dependent on Government appropriations.***

- ***The Property, plant and equipment of $39.4m represents a significant proportion (66%) of the total assets reported in InTACT's financial statements as at 30 June 2002. The implementation of an on-line asset register system and stocktaking of all non-current assets which commenced in 1999-2000 had not been completed at 30 June 2002.***

MATTERS ARISING FROM THE AUDIT

29.4 As a result of the audit a number of instances were identified where the financial operations or internal controls of InTACT could be improved. These instances were reported to management along with appropriate recommendations.

29.5 A significant matter reported to management which warrants particular mention is that in 2000-2001, it was reported in the Auditor General's Report - '*Financial Audits with Years Ending to 30 June 2001'* (Report No.11 of 2001) that:

> *'The implementation of the new asset on line system (asset register) and stocktaking of all non current assets which commenced in 1999-2000 had not been completed at 30 June 2001.'*

29.6 Property, plant and equipment valued at $39.4m represents a significant proportion (66%) of the total assets reported in InTACT's financial statements as at 30 June 2002. The majority ($38.8m) of these non-current assets are computer and information technology equipment. Last year, InTACT advised that remedial action had been undertaken to address the issues in relation to its asset system.

29.7 During the 2001-2002 audit, it was noted that InTACT's new on-line asset register system had not been implemented. InTACT was still entering assets into the new asset register system and a full stocktake of all its property, plant and equipment had not been completed.

29.8 Testing undertaken during the audit revealed that the assets register was not accurate and complete. Some assets were unable to be easily traced from the assets register to the relevant agencies and some assets were located at different agencies to that recorded in the asset register.

29.9 It was also noted that assets valued at $0.8m were recorded as having unknown locations and were subsequently written-off.

29.10 InTACT has recently advised that the stocktake of all assets and implementation of the on-line assets system is scheduled to be completed by the end of 2002-2003.

FINANCIAL ANALYSIS

29.11 The table on the following page summarises InTACT's Statement of Financial Performance.

Table 29.1 InTACT
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Expenditure			
Operating	31,221	34,640	35,015
Employee	7,590	8,192	8,026
Depreciation and amortisation	21,793	17,065	17,855
Other	1,917	3,921	2,284
	62,521	**63,818**	**63,180**
Revenue			
Other	1,402	1,006	1,192
	1,402	**1,006**	**1,192**
Net cost of outputs	**61,119**	**62,812**	**61,988**
Government contributions			
Revenue from IT services provided to Government agencies	52,497	54,536	52,498
Waiver of borrowings	30,120	30,120	1,183
Injection for operations	2,640	2,640	10,640
Capital injections	8,000	8,000	-
Resources received free of charge	258	185	185
	93,515	**95,481**	**64,506**
Operating surplus[142]	**32,396**	**32,669**	**2,518**

29.12 Comments on the major sources of expenditure, revenue and Government contributions are provided below.

Expenditure

29.13 InTACT's total expenses for 2001-2002 were $63.8m compared with budgeted expenses of $62.5m and prior year expenses of $63.2m.

Expenditure Comparison with Budget

29.14 Total expenditure was $1.3m greater than budget. Some expenses varied significantly from budget. These included:

[142] The *Operating surplus* presented in the above table varies from the published operating surplus because, for the purposes of this analysis, *Capital injections* have been included in *Government contributions* and '*Distribution to Government'* has been excluded from the analysis.

- *Operating* expenses exceeding budget by $3.4m primarily due to a rise in IT costs, lease costs and contractor costs;
- *Other* expenses exceeding budget by $2m mainly due to debt write-off of $1.9m and write-off of unlocated assets $0.8m offset by lower borrowing costs of $0.7m due to lower lease activity; and
- *Employee* expenses exceeding budget by $0.6m arising from a higher number of positions filled.

29.15 These were offset by *Depreciation and amortisation* which was $4.7m under budget as new leases entered into for IT assets in 2001-2002 were lower than budgeted. The leases for these assets were deferred to 2002-2003 due to the delay in the timing of the upgrade of the Government's IT operating environment.

Net Cost of Outputs

29.16 This year's *Net cost of outputs* of $62.8m was $1.7m and $0.8m higher than budget and prior year respectively. The increase in the *Net cost of outputs* was primarily due to the increase of $1.3m in total expenditure compared to budget and $0.6m from the prior year. Total revenue also decreased marginally from budget and the prior year.

Government Contributions

29.17 Total *Government contributions* were $95.5m compared with budgeted contributions of $93.5m and prior year contributions of $64.5m.

Government Contributions Comparison with Budget

29.18 This year InTACT received an additional $2m in *Government contributions* compared to budget. The additional Government funding was due to an increase in *Revenue from provision of IT services to other Government agencies* in relation to amounts charged to agencies for IT services and the leasing of IT equipment.

Government Contributions Comparison with Prior Year

29.19 InTACT received an additional $31m in *Government contributions* compared to 2000-2001. The increase was mainly due to a *Waiver of borrowings* from Central Financing Unit of $30.1m. The

borrowings were used to fund the major upgrade of the Government IT infrastructure and modernisation. The borrowings were waived as it was realised that it was unrealistic to charge agencies for InTACT's services at the level which would be necessary for the charges to generate sufficient funds for InTACT to be able to repay the borrowings.

Conclusion

29.20 This year's *Net cost of outputs* ($62.8m) was $1.7m higher than budget and $0.8m higher than the prior year's actual.

29.21 InTACT recorded a large *Operating surplus* of $32.7m this year compared to $2.5m in the prior year, however, $30.1m of this surplus was attributable to the 'one off' *Waiver of borrowings.* InTACT's surplus adjusted for the waiver indicates that InTACT has achieved a surplus of $2.6m[143] which is similar to that of the prior year.

29.22 Funding earned by InTACT in the form of *Revenue from IT services to other Government agencies* ($54.5m) does not cover InTACT's total cost of providing outputs ($62.8m). InTACT's financial viability is therefore dependent on other forms of *Government contributions*.

SHORT TERM FINANCIAL POSITION

29.23 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio for InTACT's last three years of operations are shown in the table on the following page.

[143] *Operating surplus* of $32.7m less *Waiver of borrowings* of $30.1m.

Table 29.2 InTACT
Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**19,625**	**17,222**	**20,638**
Current liabilities			
Borrowings from the Government	-	30,120	2,366
Other	14,383	14,849	28,712
	14,383	**44,969**	**31,078**
Current ratio	**1.4 to 1**	**0.4 to 1**	**0.7 to 1**

29.24 A current ratio in the range of 1 to 1 is the minimum usually desirable in a business.

29.25 InTACT's current ratio has significantly improved compared to prior years. A significant factor in the 2001-2002 current ratio result (1.4 to 1) was the waiver of the balance of InTACT's borrowing commitment to the Government ($30.1m).

29.26 The current ratio of 1.4 to 1 shows that InTACT is receiving funding from the Government (either directly through capital or operating injections or indirectly through agency contributions) at sufficient levels to meet its current commitments.

30 JUSTICE AND COMMUNITY SAFETY DEPARTMENT

INTRODUCTION

30.1 The Department of Justice and Community Safety (the Department) is responsible for the provision of legal and emergency services for the community. This includes services to support the administration of justice, the protection of human rights, and legal services to the Government. Ambulance, Fire Brigade, Bushfire,

Emergency service prevention and Response services are also provided by the Department.

30.2 Other portfolio responsibilities include the registration of births, deaths and marriages, maintaining title to land, conducting elections, consumer affairs and community policing services provided by the Australian Federal Police.

30.3 The responsibility for Youth Justice was transferred to the Department of Education, Youth and Family Services in November 2001.

SIGNIFICANT FINDINGS

- ***Capital injections received for 2001-2002 were $2.5m compared to the budgeted amount of $11m due mainly to the cancellation of the construction of the Woden Joint Emergency Services Centre.***

- ***The Department was unable to manage its financial operations according to budget due to circumstances outside the Department's control.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

30.4 The Department of Justice and Community Safety's audited financial statements are reported in pages 16 to 92 of volume 2 of the Department's Annual Report.

30.5 An ***unqualified*** audit report on the Department's financial statements was provided to the Attorney-General on 10 September 2002.

MATTERS ARISING FROM THE AUDIT

30.6 As a result of the audit instances were identified where the financial operations of the Department could be improved or where internal controls were not operating satisfactorily. Instances were also noted where the recording and reporting of performance information could be improved. These matters were reported to management with appropriate recommendations.

FINANCIAL ANALYSIS

DEPARTMENTAL TRANSACTIONS

30.7 The following table summarises the Department's Statement of Financial Performance.

Table 30.1 Department of Justice and Community Safety Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenses				
Employee	69,247	70,626	64,938	62,469
Operating	42,495	47,588	42,314	34,948
Other	3,778	4,044	3,645	3,317
	115,520	**122,258**	**110,897**	**100,734**
Revenue				
Fees and levies[144]	8,342	8,974	8,883	8,341
Other	1,599	2,894[145]	4,071	3,733
	9,941	**11,868**	**12,954**	**12,074**
Net cost of services	**105,579**	**110,390**	**97,943**	**88,660**
Government contributions				
Government payment for outputs	97,199	98,647	92,049	80,649
Injection for operations	5,889	5,889	5,392	3,269
Capital injections	11,000	2,538	1,468	250
	114,088	**107,074**	**98,909**	**84,168**
Operating surplus/(deficit)	**8,509**	**(3,316)[146]**	**966**	**(4,492)**

30.8 Brief comments follow on major sources of revenue and expenditure, which show significant variations from budget and/or the previous year.

[144] *Fees and levies* comprises charges for fire services, ambulance transport fees, workers compensation levy, registration fees and other minor charges.

[145] The 'one-off' asset revaluation increment of $2m was not included in the budget and did not occur in either of the two previous financial years, therefore it has been removed for comparative purposes. As a result the reported operating deficit does not agree with the published departmental financial statements.

[146] See 145 above.

Expenditure

Expenditure Comparison to Budget

30.9 Expenditure exceeded budget by $6.7m mainly in the areas of *Employee* expenses ($1.4m) and *Operating* expenses ($5.1m).

30.10 *Employee* expenses exceeded budget mainly due to additional overtime worked by emergency services staff attending the bushfires over the Christmas period along with an increase in the Department's workers' compensation premium.

30.11 *Operating* expenses were higher than the budget mainly due to the provision for doubtful debts being increased by $5m to provide for the unpaid fire services provided to the Commonwealth.

Expenditure Comparison to Prior Year Actual

30.12 Total expenditure rose in the current year by $11.4m compared to the previous year due to:

- additional *Operating* expenses ($5.3m) due mainly to the provision for doubtful debts being raised by $5m to provide for the unpaid fire services provided to the Commonwealth; and
- a rise in *Employee* expenses ($5.7m) due to new budget initiatives for additional staff in the fire and ambulance services, new programmes in Corrective Services and other Departmental programmes.

Revenue

Revenue Comparison to Budget and Prior Year Actual

30.13 Total revenue of $11.9m was higher than budget ($9.9m) due to additional professional fees but lower than the previous year due mainly to a reduction in interest received.

Net Cost of Services

30.14 This year's *Net cost of services* of $110.4m is $4.8m more than the budgeted cost of services of $105.6m due mainly to the increase in the provision for doubtful debts that was not envisaged in the budget process.

30.15 The *Net cost of services* was significantly more than last year's cost of $97.9m by $12.5m due to the increased expenditure mentioned previously.

Government Contributions

Government Payment for Outputs

30.16 *Government payment for outputs* increased by $6.6m in the current year to cater for a number of new budget initiatives such as crime prevention programs for home detention ($3m), additional fire brigade and paramedic resources ($2m) and supplementation for various departmental programs ($1.6m).

Injection for Operations

30.17 *Injection for operations* received in 2001-2002 were $5.9m, which were greater than the amount received in 2000-2001 of $5.4m.

Capital Injection

30.18 *Capital injections* received for 2001-2002 were $2.5m compared to the budgeted amount of $11m. The major reason for the actual expenditure being less than budget was the cancellation of the construction of the Woden Joint Emergency Services Centre.

Operating Surplus/(Deficit)

30.19 The *Operating surplus/(deficit)* shows the difference between the net cost of the Department and the Government contribution to those costs. An operating surplus means the Government has contributed more than the costs incurred by the Department.

30.20 The operating deficit of $3.3m is less than the budgeted surplus of $8.5m and lower than last year's operating surplus of $1m.

30.21 This year's result is a deficit rather than the budgeted surplus because *Net cost of services* was higher due to unbudgeted outcomes and capital injection funds earmarked for projects that were not drawn down by the Department due to the cancellation of a major capital project.

Conclusion

30.22 The Audit has concluded that the Department did not manage its operations to budget due to several events beyond its control, namely:

- the decision to cancel the construction of the Woden Joint Emergency Services Centre made by the new Government following the October 2001 election;
- the bushfires in the Canberra region over the Christmas period in 2001; and
- the decision by the Commonwealth not to pay its fire protection levy for 2001-2002.

SHORT TERM FINANCIAL POSITION

30.23 The current ratio is indicative of an entity's ability to meet its obligations in the short term. A current ratio in the range of 1 to 1 is the minimum usually desirable in a business. The following table indicates the Department's current assets and current liabilities for the past three financial years.

Table 30.2 Department of Justice and Community Safety Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**9,035**	**9,107**	**8,794**
Current liabilities	**20,625**	**17,652**	**16,505**
Current ratio	**0.4 to 1**	**0.5 to 1**	**0.5 to 1**

30.24 The Department's current ratio has reduced from 0.5 to 1 in 2000-2001 to 0.4 to 1 in the current year mainly due to the increase in employee entitlements. This is well below the desirable minimum. The Department will need to carefully manage its operations in future years to ensure that it can meet its short term financial commitments as they fall due.

TERRITORIAL TRANSACTIONS

Revenue

30.25 Territorial revenue, other than payments received from the Central Financing Unit and Commonwealth Grants are mainly comprised of Taxes, Fees and Fines and Other Revenue.

30.26 *Taxes, Fees and Fines* — the actual result for 2001-2002 was $16.1m which was greater than the budget of $14.5m mainly due to greater than anticipated land title fee revenue and fines imposed by the Magistrates Court. The actual revenue in 2001-2002 is marginally higher than the prior year amount of $15.3m.

Expenditure

30.27 Territorial expenditure other than transfers made to the Central Financing Unit mainly comprised Administrative Expenses and Grants and Subsidies.

30.28 *Operating Expenses* — in 2001-2002 operating expenses were $78.9m compared to a budgeted amount of $71.1m. The actual result for 2000-2001 was $68.6m. The increases are mainly attributable to additional payments to the Australian Federal Police for community policing.

30.29 *Grants and Subsidies* — this represents payments made to the Legal Aid Commission (ACT). In 2001-2002 the amount paid of $5.1m matched the budget and was a small increase on the prior year of $4.9m.

Conclusion

30.30 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that the Department, in an overall sense, managed its territorial operations to budget.

31 KINGSTON FORESHORE DEVELOPMENT AUTHORITY

INTRODUCTION

31.1 The Kingston Foreshore Development Authority (the Authority) was established as a statutory authority on 17 February 2000. The principal objectives of the Authority are to promote, coordinate, develop and manage the redevelopment of the Kingston Foreshore, and to carry out works for the development and enhancement of the area.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

31.2 The Authority's audited financial statements are reported on pages 35 to 68 of the Authority's Annual Report.

31.3 An ***unqualified*** audit opinion was provided to the Minister for Planning on 11 September 2002.

SIGNIFICANT FINDING

- ***The Authority was unable to manage its operations to budget due to the later than anticipated development approval of the Kingston Stage 1A Joint Venture.***

FINANCIAL ANALYSIS

31.4 The table on the following page summarises the Authority's Statement of Financial Performance.

Table 31.1 Kingston Foreshore Development Authority Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Revenue			
Land sales	6,664	9,800	-
Contribution from Government	-	-	4,196
Revenue from joint ventures	7,192	-	-
Other	63	154	98
	13,919	**9,954**	**4,294**
Expenditure			
Cost of land sales	1,330	7,142	-
Expenses of joint ventures	4,937	1	-
Borrowing costs	550	394	114
Employee	653	686	606
Operating	1,308	1,318	1,284
Other	20	7	-
	8,798	**9,548**	**2,004**
Operating surplus	**5,121**	**406**	**2,290**

31.5 Comments follow on the Authority's revenue and expenditure.

Revenue

31.6 The combined revenue from *Land sales* and *Revenue from joint ventures* was budgeted to be $13.8m, however, due to a later start than anticipated for the Kingston Stage 1A Joint Venture, actual revenue was only $9.8m. The anticipated distributions from the Joint Venture did not occur in 2001-2002 as planning approval was not received for the Kingston Stage 1A Joint Venture until June 2002.

31.7 There was no revenue in 2000-2001 from land sales and joint ventures as the redevelopment had not commenced. The major source of revenue in 2000-2001 was a contribution from the Government to allow the Authority to retire its establishment debt. This contribution did not occur again in 2001-2002.

31.8 Total expenditure in 2001-2002 was significantly higher than the previous year as the demolition and clearing of the site in readiness for the redevelopment was undertaken. Expenditure exceeded budget by

$0.8m due to the actual costs of providing infrastructure and preparing the site exceeding the early estimates of the costs.

Operating Surplus

31.9 As a result of revenue being below budget and expenditure above budget, the Authority generated an operating surplus of $0.4m against a budgeted surplus of $5.1m. The current year surplus of $0.4m is less than the previous year's surplus of $2.3m.

Conclusion

31.10 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that, the Authority was unable to manage its operations to budget. The main reason for the variances was the later than anticipated development approval for the Kingston Stage 1A Joint Venture.

31.11 The Chief Executive Officer of the Authority provided the following response in relation to this matter as follows.

> *'Expenditure not directly related to the joint venture activity was only 1.5% ($30,000) higher than budget, and this was more than offset by lower than budget Borrowing Costs ($156,000) and higher than budget Other Revenue ($91,000). The impact of the delay in the start of joint venture activities was to defer revenue from 2001-2002 to subsequent financial years. Expenditure directly related to joint venture activities was higher than budget because of the adoption by the Authority of a more conservative accounting policy which brought to account in Cost of Land Sales a proportion of the costs of major infrastructure works scheduled to be completed in future years.'*

SHORT TERM FINANCIAL POSITION

31.12 The Authority maintains a healthy financial position with current assets of $5.7m and current liabilities of $2.1m.

KINGSTON STAGE 1A JOINT VENTURE

INTRODUCTION

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

31.14 The management committee, which has equal representation from both partners, and an independent chair manage the Joint Venture. St Hilliers Pty Ltd provides development, administrative and accounting services for the Joint Venture. Actual costs for these services are paid for by the Joint Venture through a management fee.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

31.15 An ***unqualified*** audit opinion was provided to the Minister for Planning on 19 September 2002.

31.16 There is no current requirement for the Kingston Stage 1A Joint Venture audited financial statements to be separately published. The Authority's share of the Kingston Stage 1A Joint Venture was incorporated into the Authority's financial statements and annual report for 2001-2002.

FINANCIAL ANALYSIS

31.17 The table on the following page summarises the Kingston Stage 1A Joint Venture's (Joint Venture) Statement of Financial Performance.

Table 31.2 Kingston Stage 1A Joint Venture Summary Statement of Financial Performance

	Actual 2001-02 $000
Revenue	**-**
Expenditure	
Operating	1
	1
Operating (deficit)	**(1)**

31.18 Comments follow on the Joint Venture's revenue and expenditure.

Revenue

31.19 The Joint Venture deed indicates that all developed lots shall be sold by the Joint Venture on an 'off the plan' basis or as they become available for sale and as market conditions may dictate. The Joint Venture received development approval on 12 June 2002.

31.20 The development is due to deliver 167 one, two and three bedroom walk-up and lifted access apartments, three bedroom terrace homes, live-work units and 483 square metres of commercial space. The sales program commenced with a public release of dwellings for sale off the plan in late June 2002. Whilst over 70 deposits were taken these will not count as revenue for the Joint Venture as land sales revenue is recognised on settlement of a legally binding contract and the receipt of the agreed settlement price. As a result the Joint Venture has reported no revenue for the period ended 30 June 2002.

Expenditure

31.21 All payments in 2001-2002 except for audit fees and bank charges have been capitalised as inventory as they directly relate to the development of the land.

31.22 The major items of expenditure which have been capitalised were:

- Cost of land acquired from the Authority ($9.8m);
- Operating expenses ($1.5m);

- Borrowing expenses ($0.3m); and
- Marketing expenses ($0.3m).

SHORT TERM FINANCIAL POSITION

31.23 The Joint Venture maintains a healthy financial position with current assets of $11.9m and current liabilities of $0.6m.

32 STADIUMS AUTHORITY

INTRODUCTION

32.1 The Stadiums Authority (the Authority) commenced operations on 1 July 2000. The Authority was created by the *Stadiums Authority Act 2000*. The Authority was formed to manage the Canberra Stadium (the Stadium).

32.2 The results of the Stadium's operating activities are included in the financial statements of the Authority. The Authority's revenue mainly relates to events held at the Stadium. A significant amount of this revenue is derived from football games played at the Stadium by the Canberra Raiders and the ACT Brumbies.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

32.3 The Authority's financial statements are reported on pages 22 to 49 of its Annual Report.

32.4 An ***unqualified*** audit opinion on the Authority's financial statements was provided to the Treasurer on 5 August 2002.

SIGNIFICANT FINDINGS

- ***The Authority incurred an operating loss from its operations of $3m this year. This is a continuation of a trend of losses since the redevelopment of the Stadium.***

- ***The past and current year's operating loss from the Authority's operations and the Authority's budgets for the future years indicate that the Authority will continue to be reliant on the continued financial support of the Government to continue operations and to enable it to meet its financial obligations as they fall due.***

MATTERS ARISING FROM THE AUDIT

32.5 As a result of the audit a number of instances were identified where the financial operations or internal controls of the Authority could be improved. These instances will be reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

32.6 The table on the following page summarises the Authority's Statement of Financial Performance. The table highlights the results of the Authority's operations before and after the Authority meets its revenue assurance obligations to the Stadium's hirers.

Table 32.1 Stadiums Authority
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Revenue			
Sale of goods and services	1,912	1,905	2,714
Other	231	297	287
	2,143	**2,202**	**3,001**
Expenses			
Depreciation/Stadium assets expensed	614	886	561
Operating	2,830	2,382	2,695[147]
	3,444	**3,268**	**3,256**
Operating loss before payments to the Stadium's hirers	**(1,301)**	**(1,066)**	**(255)**
Revenue assurance payments to hirers	1,681	1,902	1,670
Operating loss	**(2,982)**	**(2,968)**	**(1,925)**

The table shows the underlying loss from Stadium's operations. The revenue provided by the Government to allow the Authority to continue operating has been excluded from the Authority's published operating results. The published operating result for prior year has also been adjusted to exclude liabilities acquired from the Bruce Operations Pty Limited on the commencement of the Authority.

Revenue

32.7 The Authority's revenue mainly comes from the *Sale of goods and services* comprising of hiring of the Stadium, sale of corporate suites, corporate boxes and other products.

32.8 At $2.2m total revenue slightly exceeded budget of $2.1m and was $0.8m less than last year's actual of $3m.

32.9 The decrease in revenue of $0.8m from last year was mainly due to a decrease in *Sale of goods and services.*

32.10 The decrease in *Sale of goods and services* was consistent with the decrease in the number of events held since last year. In 2000-2001 the Stadium hosted 40 events, whilst in 2001-2002 it was 17. The events

[147] For the purpose of this analysis the cost of a car parking licence of $0.7m included in last year's published operating result has been excluded from this analysis as it was considered to be 'non recurring' in nature.

held in 2000-2001 which were not held in 2001-2002 included six Olympic soccer, two Brumbies rugby finals, one Canberra Raiders rugby league final and 14 Cosmos soccer games. Apart from the hiring fees, there was a corresponding fall in catering, parking and corporate hospitality revenues, etc.

Expenses

32.11 There were no significant variations against budget or the prior year.

Revenue Assurance Payments to Hirers

32.12 The *Revenue assurance payments to hirers* of $1.9m is based on minimum revenue guarantees payable under the contracts with the hirers. The *Revenue assurance payments to hirers* exceeded budget by $0.2m as the revenue assurance payments to the Canberra Raiders was more than that anticipated at the time the Authority's budget was prepared.

Operating Loss

32.13 The table shows that the Authority would have incurred a loss even if the revenue assurance payments had not been made to the Stadium's major hirers. The year's operating loss before meeting these obligations was $1.1m.

Conclusion

32.14 The Authority's operating loss of $3m was in line with budget. On the basis of the Audit's analysis of the financial results of the Authority the conclusion has been drawn that the Authority managed its operations to budget.

32.15 The Authority incurred an operating loss of $3m this year. This year's loss represents a continuation of trend of losses since the redevelopment of the Stadium.

32.16 The budget[148] for future years, from 2002-2003 to 2005-2006, also indicates that the Authority will continue to incur losses ranging from $0.5m to $2.9m from its operations for the next few years.

32.17 The past and current year's operating losses and the Authority's forecasts contained in its budget for future years indicates that the Authority will continue to rely on financial support from Government for the foreseeable future.

33 SUPERANNUATION UNIT

INTRODUCTION

33.1 The objective of the Superannuation Unit is to manage the funds set aside to meet the liabilities of the Territory and its agencies relating to employer superannuation.

33.2 The *Territory Superannuation Provision Protection Act 2000* provides for the protection of funds set aside to meet superannuation liabilities of the Territory, Territory Authorities and Territory Owned Corporations and for other purposes.

33.3 The Superannuation Unit receives funds from budget appropriations, Government agencies and interest returns and makes payments for the management of the employer superannuation liabilities of the Territory, Territory Authorities and Territory Owned Corporations.

SIGNIFICANT FINDINGS

- ***A qualified audit opinion was issued on the Superannuation Unit's financial statements due to the incorrect recognition of an 'Unrealised Gain from Actuarial Review' as a liability and for inaccurately recording the superannuation expense.***

[148] Page 366 of 2002-2003 Budget Paper No.4 shows estimates of the future operating results of the Authority. The operating results adjusted for User Charges – ACT Government is $2.9m, $2.6m, $0.5m and $0.5m for the years 2002-2003 to 2005-2006 respectively.

- ***Had the Superannuation Unit correctly reported the superannuation expense it would have reported an operating deficit of $238.9m compared to a budgeted deficit of $40.1m and prior year deficit of $121.1m.***

- ***The Superannuation Unit incurred an $83.5m loss in the net market value of investments set aside to meet the superannuation liability. The largest losses occurred in overseas equities.***

- ***The Superannuation Unit did not manage its operations to budget due to the unexpected loss of $83.5m in the net market value of investments and higher than expected increases in superannuation expenses.***

- ***Unfunded superannuation liabilities increased from $318m in 2001 to $507m in 2002.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

33.4 The Superannuation Unit's audited financial statements are reported on pages 190 to 212 of volume 2 of the Department of Treasury Annual Report.

33.5 A ***qualified*** audit opinion was provided to the Treasurer on 20 September 2002.

AUDIT QUALIFICATION

33.6 Australian Accounting Standard AAS 29 '*Financial Reporting by Departments'* states that a liability of a Government department must be recognised in the Statement of Financial Position when and only when:

- it is probable that the future sacrifice of economic benefits will be required; and
- the amount of the liability can be measured reliably.

33.7 The Superannuation Unit adopted an accounting policy in the year ended 30 June 1999 whereby actuary's annual revisions of the superannuation liability were accumulated in an account titled *'Unrealised Gain from Actuarial Review'* in order to reduce year by year volatility in the Unit's annual reported operating results.

33.8 The Accounting Standard definition of a 'liability' requires it to be probable that future sacrifices of economic benefits will be required before a liability can be recognised in the Statement of Financial Position. The account *'Unrealised Gain from Actuarial Review'* does not meet the definition of a 'liability' as future sacrifices of economic benefits will not be required to meet the amount recorded in this account. As this account does not meet the definition of a 'liability' under this Australian Accounting Standard it should not have been recognised as a 'liability' in the Superannuation Unit's Statement of Financial Position.

TREASURY'S RESPONSE

33.9 The Acting Chief Executive Officer of the Department of Treasury provided the following advice in relation to this matter.

> *'The Report advises that the accounting treatment adopted by the Territory for recognition of the superannuation liability was not in accordance with the requirements of Australian Accounting Standard AAS 29 'Financial Reporting by Departments'. This incorrectly implies that AAS 29 has specific requirements in regard to the recognition of superannuation liabilities.*
>
> *Australian Accounting Standards, including AAS 29, do not presently address the issue of recognition of superannuation liabilities. The treatment used by the Superannuation Unit is based on a hybrid of an International Accounting Standard and is consistent with the practice adopted and accepted by the Auditor-General in previous years.*
>
> *Advice was provided to the Superannuation Unit by a leading accounting firm regarding the validity of the adopted accounting treatment. The advice received was that the Superannuation Unit is complying with Australian Accounting Standards in relation to the measurement of the superannuation liability and that various treatments will exist in regard to the reporting of superannuation liabilities until a Standard is introduced which specifically addresses this issue.*
>
> *However, Treasury notes the recent developments by the Australian Accounting Standards Board regarding convergence with developments in International Accounting Standards on the reporting of superannuation liabilities, and considers that it*

would be appropriate for this issue to be addressed as part of the 2002-2003 financial statements.'

AUDIT FURTHER COMMENTS

33.10 The Audit has carefully considered the advice provided by Treasury and the advice of the 'leading accounting firm' referred to by Treasury.

33.11 It is important to note that the Treasury advice and the advice provided by the 'leading accounting firm' do not explain why AAS 29's requirements do not apply to 'superannuation' liabilities. Consequently, the basis for the Treasury view that the amount recorded in the account - *'Unrealised Gain from Actuarial Review'* constitutes a 'liability' under AAS 29 and why it complies with Australian Accounting Standards has also not been explained by Treasury or the accounting firm.

33.12 Treasury's view and that of the accounting firm is, in the opinion of the Audit, based on the incorrect view that AAS 29 does not specifically address 'superannuation' liabilities and that therefore AAS 29's requirements do not apply to 'superannuation' liabilities.

33.13 AAS 29 states that *'a liability of a government department must be recognised in the statement of financial position when and only when it is probable that future sacrifice of economic benefits will be required.'* This AAS 29 requirement clearly does not exclude any type of 'liability'. This requirement therefore clearly applies to all liabilities whether they are trade creditors, loan obligations, employee leave entitlements provisions or superannuation. Indeed AAS 29 clearly envisages that it would apply to employee entitlements (such as superannuation) because it also states that *'liabilities of a government department* ***can include amounts payable to employees*** *in respect of wages, salaries and* ***other employee entitlements'***[149].

33.14 On the basis of the Audit's evaluation of the requirements of the Australian Accounting Standards the Audit disagrees with the conclusions reached by Treasury and the accounting firm.

[149] Paragraph 8.1.3 of AAS 29 '*Financial Reporting by Government Departments*'.

33.15 The Audit also notes that Treasury's reference to the accounting firm's view that various accounting treatments exist[150] and to recent developments in the accounting standards are largely irrelevant to the assessment of whether the amount recorded in the account - *'Unrealised Gain from Actuarial Review'* constitutes a liability.

Effects of the Departure from the Australian Accounting Standard on the Statement of Financial Position

33.16 The Superannuation Unit has reported the balance of the account *'Unrealised Gain from Actuarial Reviews'* to be $146.8m in its Statement of Financial Position as at 30 June 2002, whilst at 30 June 2001 it was reported as $209.2m.

33.17 The effects of the departure from the Australian Accounting Standard are shown in the following table. In the Statement of Financial Position at 30 June 2002 'Total Liabilities' are overstated by $146.8m and 'Net Assets' and 'Equity' understated by the same amount. In the Statement of Financial Position at 30 June 2001 'Total Liabilities' are overstated by $209.2m and 'Net Assets' and 'Equity' understated by the same amount.

Table 33.1 Superannuation Unit
Statement of Financial Position – Net Assets and Equity

Financial Year Ending	Incorrect Amount Reported by Unit	Amount of Understatement of Net Assets and Equity	Correct Amount
	$m	$m	$m
30 June 2002	(650.4)	146.8	(503.6)
30 June 2001	(524.0)	209.2	(314.8)
30 June 2000	(623.1)	275.5	(347.6)
30 June 1999	(885.1)	91.6	(793.5)

[150] This view could be questioned on the basis of accounting firm's other advice that '*our observation is that where AAS 31* (AAS 29) *is applied* (i.e. in the Victorian, NSW, Western Australian and South Australian Governments) *the full unfunded liability is disclosed as Government liability*'. It would seem that the expected variety of accounting treatments have not occurred in reporting by Governments.

Effects of the Departure from the Australian Accounting Standard on the Reported Superannuation Expenses

33.18 As a result of the departure from the Australian Accounting Standard, *Superannuation* expenses have also been incorrectly reported in the Superannuation Unit's Statement of Financial Performance since the above mentioned accounting policy was introduced for the financial year ended 30 June 1999.

33.19 For the year ended 30 June 2002 *Superannuation* expenses were reported as $177.4m. The correct amount was $239.9m.

33.20 For the year ended 30 June 2001 *Superannuation* expenses were reported as $131.3m. The correct amount was $197.4m.

Effects of the Departure from the Australian Accounting Standard on the Reported Operating Results

33.21 The accounting policy, which resulted in the departure from Australian Accounting Standards, was adopted in the year ended 30 June 1999. If the departure from Australian Accounting Standards had not occurred, the Superannuation Unit's operating results since the adoption of the accounting policy would have differed from the reported operating results as shown in the following table.

Table 33.2 Superannuation Unit
Statement of Financial Performance – Operating Results

Financial Year Ending	Incorrect Amount Reported by Unit	Amount of (Over)/Understatement of Operating Deficit	Correct Amount
	$m	$m	$m
30 June 2002	(176.4)	(62.5)	(238.9)
30 June 2001	(54.9)	(66.2)	(121.1)
30 June 2000	(38.7)	183.8	145.1
30 June 1999	(111.6)	91.6	(20.0)

Note: Figures in brackets are operating deficits.

FINANCIAL ANALYSIS

33.22 A summary of the Superannuation Unit's revenue and expenses is presented in the table on the following page. The amount of Superannuation expenses as published in the Superannuation Unit's

financial statements has been revised to the amount that would have been reported if the departure from the Australian Accounting Standard had not occurred.

Table 33.3 Superannuation Unit
Summary Statement of Revenues and Expenses on behalf of the Territory

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Revenue			
Reimbursement of annual pension costs to the Commonwealth	33,400	33,400	27,139
Interest	19,632	28,209	21,760
Superannuation contributions	***[151]	13,815	14,070
Dividends	***	15,259	15,669
Other	***	9	137
Gain from an increase in the net market value of investments	***	-	3,502
Direct investment expenses	***	(3,042)	(3,085)
	110,220	**87,650**	**79,192**
Expenses			
Superannuation	146,523	239,856	197,447
Loss from the fall in the net market value of investments	-	83,503	-
Other	3,751	3,143	2,851
	150,274	**326,502**	**200,298**
Operating deficit	**(40,054)**	**(238,852)**	**(121,106)**

Revenue

33.23 *Interest* revenue increased by $6.4m in 2001-2002 mainly due to higher investments in money and fixed interest markets during the year. This result was also $8.6m higher than budget.

33.24 There was a substantial loss of $83.5m in the net market value of investments compared to last year's net gain of $3.5m. This explains the large variance between actual revenue and budgeted revenue in 2001-2002.

33.25 *Reimbursement of annual pension costs to the Commonwealth* rose by $6.3m in 2001-2002 as expected in the budget.

[151] Not separately identified in the Superannuation Unit's Budget.

Expenditure

33.26 *Superannuation* expenses increased by $42.4m from the previous year due mainly to the increases in the superannuation liability. *Superannuation* expenses for the financial year were significantly higher ($93.3m or 63.7%) than the budgeted amount.

33.27 The Superannuation Unit incurred a *Loss from the fall in the net market value of investments* of $83.5m compared to a gain of $3.5m in 2000-2001. The total loss was made up of $24m in realised losses and $59.5m in unrealised losses with the largest losses occurring in overseas equities.

Operating Deficit

33.28 The *Operating deficit* was $198.8m higher than budget and $117.7m higher than the previous year due mainly to the significant increase of $93.3m in *Superannuation* expenses and the *Loss from the fall in the net market value of investments* of $83.5m.

Conclusion

33.29 The Audit has concluded that the Superannuation Unit did not manage its operations to its budget, due to the large unexpected investment losses and the significantly higher than expected *Superannuation* expenses.

SUPERANNUATION LIABILITY

33.30 The *Superannuation liability* is the estimated future payments to *past* and *current* employees who are members of the Government superannuation schemes. An actuary takes into account wage and salary growth, member life expectancy, investment returns and inflation when estimating the liability.

33.31 As at 30 June 2002, the overall liability was estimated to be $1,467m[152] for payments to be made to members of the schemes. Given the nature of the estimate, the amount should be regarded as an approximation. It can vary, depending on the factors used in its calculation.

[152] This balance excludes the *'Unrealised Gain from Actuarial Review'* from the liability.

UNFUNDED SUPERANNUATION LIABILITIES

33.32 The Territory has been setting aside investment funds to meet the *Superannuation liabilities* as payments fall due. From 1 July 2000 these funds were quarantined to be used for superannuation purposes by the *Territory Superannuation Provision Protection Act 2000.* At 30 June 2002 the investments totalled $960m.

33.33 The Territory's unfunded superannuation liability is the total superannuation liability less investments set aside to meet the liability. The level of unfunded liabilities for superannuation over the past four years has been as follows.

Table 33.4 Superannuation Unit Unfunded Superannuation Liabilities

	Actual 2002 $m	Actual 2001 $m	Actual 2000 $m	Actual 1999 $m
Investments	960	946	744	359
Superannuation liabilities[153]	(1,467)	(1,264)	(1,093)	(1,151)
Unfunded superannuation liabilities	**(507)**	**(318)**	**(349)**	**(792)**
Ratio of investments held to superannuation liabilities	**0.65 to 1**	**0.75 to 1**	**0.68 to 1**	**0.31 to 1**

33.34 The table indicates that unfunded superannuation liabilities have increased significantly over last year. The amount of unfunded liabilities has increased due to the increase in *Superannuation liabilities* and the previously mentioned substantial losses in the net market value of investments. Although *Investments* increased marginally, the level of *Superannuation liabilities* increased by a significantly greater amount.

33.35 The ratio between *Investments* held and *Superannuation liabilities* shows that, at the end of 2000-2001 financial year, the Territory had $0.75 in investments set aside to meet every dollar of superannuation liability. In 2001-2002 this comparison has declined to $0.65 in investments set aside to meet every dollar of superannuation liabilities due to investments not growing at the same rate as the liability.

[153] *'Unrealised Gain from Actuarial Review'* has been excluded from the liability balance because it is not a liability.

34 THE CANBERRA HOSPITAL

INTRODUCTION

34.1 The Canberra Hospital (the Hospital) provides health and hospital services to the ACT and South East Region. Services provided by the Hospital include all major medical, surgical, women's and children's health and mental health specialties on an in patient and outpatient basis, and accident and emergency, pathology, pharmacy and medical imaging services.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

34.2 The Hospital's financial statements are reported on pages 257 to 296 of the Annual Report of the Health and Community Care Service.

34.3 An ***unqualified*** audit opinion was provided to the Minister for Health on 4 September 2002.

34.4 An emphasis of matter paragraph was included in the audit report indicating that *'the result for some performance measures was not measured'*. The Audit was therefore unable to form an opinion on these measures.

SIGNIFICANT FINDINGS

- ***The Hospital, in exceeding its 'revised internal budget'[154] for 'Other operating expenses' and 'Net cost of services' did not fully manage its operations to budget.***

- ***The Hospital's current assets are not sufficient to meet its current liabilities. The Hospital will need to manage its***

[154] The '*revised internal budget*' is the budget as revised by the Hospital to take into account major changes to the Hospital's funding and purchase agreement variations that occurred during the year. This budget is presented in the Hospital's Management, Discussion and Analysis reporting that is presented on pages 249 to 256 of the Health and Community Care Service's Annual Report. The '*revised internal budget'* is not the budget included in The Canberra Hospital's Statement of Intent and therefore cannot be used as its 'budget' for reporting under the *Financial Management Act 1996*. However as the '*revised internal budget*' takes into account the major changes to the Hospital's funding and purchase agreement variations it is considered to be a more relevant basis for assessing the Hospital's budget performance.

expenditure very carefully to avoid unexpected cash injections being required from the Government over the next 12 months.

- ***As a result of delays in some capital works projects, $2.9m of budgeted capital injections funding was not drawn down in the current financial year.***

- ***No audit opinion could be expressed on some of the Hospital's performance measure results.***

MATTERS ARISING FROM THE AUDIT

34.5 During the audit a few minor instances were identified where the Hospital's internal controls or procedures could be improved. These instances will be reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

34.6 The table on the following page summarises the Hospital's Statement of Financial Performance.

Table 34.1 The Canberra Hospital
Summary Statement of Financial Performance

	'Revised Internal Budget' 2001-02	Budget 2001-02	Actual 2001-02	Actual 2000-01
	$000	$000	$000	$000
Expenditure				
Employee	163,363	148,972	162,981	146,336
Other operating	109,355	107,122	114,717	101,909
	272,718	**256,094**	**277,698**	**248,245**
Revenue				
Patient fees, facilities fees, Department of Veteran Affairs, meals and accommodation, other fees and charges	27,586	24,954	29,038	27,475
Grants from the Commonwealth	5,258	5,258	4,868	4,154
Interest, other grants and donations	1,937	1,937	3,275	4,267
	34,781	**32,149**	**37,181**	**35,896**
Net cost of services	**237,937**	**223,945**	**240,517**	**212,349**
Government contributions				
Funding for the provision of hospital services	220,952	203,930	221,945	190,877
Other 'one off' funding from the Health Department[155]	-	-	-	5,807
Resources received free of charge	200	200	427	-
Capital injections	14,531	14,531	11,583	11,232
Injections for operations	11,506	11,506	11,506	12,295
	247,189	**230,167**	**245,461**	**220,211**
Operating surplus	**9,252**	**6,222**	**4,944**[156]	**7,862**

34.7 Comments on the major variations from the budget and/or the previous year are provided below and on the following pages.

Expenditure

Expenditure Comparison with Budget

34.8 At $277.7m expenditure substantially exceeded the budgeted amount of $256.1m by $21.6m because *Employee* expenses and *Other*

[155] Last year, additional funding of $5.8m was received from the Health Department for expenditure on plant and equipment projects and to provide some working capital for GST payments.

[156] For the purpose of this analysis, the operating surplus varies from the published operating deficit of $6.6m due to the inclusion of capital injections of $11.6m in the *Government contributions* to the Hospital's *Net cost of services*.

operating expenses both exceeded their budgets by $14m and $7.6m respectively.

34.9 *Employee* expenses exceeded budget by $14m mainly due to enterprise bargaining salary increases, higher than budgeted workers' compensation premiums, expenses related to 'new initiatives'[157] and an increase in nursing staff numbers.

34.10 *Other operating* expenses exceeded budget by $7.6m mainly due to cost increases in medical and surgical supplies, consultants, contractors and non-contract staff and Visiting Medical Officers.

34.11 The cost overrun of $21.6m compared to budget was mostly funded by additional *Funding for the provision of hospital services* provided by the Health Department. The Management, Discussion and Analysis accompanying the Hospital's financial statements explains that additional funding, including a second appropriation of $14m, was required to pay for a nursing Enterprise Bargaining Award pay rise, equipment and systems and other cost increases.

34.12 The Management, Discussion and Analysis Report accompanying the Hospital's financial statements and Table 34.1 also shows that the Hospital did not manage its operations within its '*revised internal budget*' for expenditure. At $277.7m total expenditure exceeded the *'revised internal budget'* of $272.7m by $5m.

34.13 Table 34.1 (on the previous page) shows that the Hospital successfully managed its *Employee* expenses to within its '*revised internal budget*' but did not manage its *Other operating* expenses to within its *'revised internal budget'*.

Expenditure Comparison with Prior Year Actual

34.14 At $277.7m expenditure substantially exceeded the prior year amount of $248.2m by $29.5m because of the previously mentioned significant rises in *Employee* expenses ($16.7m) and *Other operating* expenses ($12.7m).

[157] 'New initiatives' mainly relates to Renal Services, Eating Disorders Day Program, Older Persons Mental Health Service, Clinical Health Improvement, Psychiatric Consultation for General Practitioner's Project, Screening for Deafness in Newborns, Indigenous Mental Health Workers, Clinical School Department of Internal Medicine and Low Acuity Clinic.

34.15 *Employee* expenses were $16.7m higher than the prior year due to enterprise bargaining salary increases, increase in workers' compensation premium, expenditure related to 'new initiatives'[158] and additional nursing staff to meet staff shortages.

34.16 *Other operating* expenses were $12.7m higher than the prior year mainly due to increased costs in medical and surgical supplies, Visiting Medical Officers, insurance and information technology expenses.

Revenue

34.17 At $37.2m revenue exceeded the budget of $32.1m by $5.1m and the previous year's revenue of $35.9m by $1.3m.

Comparison with Budget and Prior Year's Actual

34.18 Revenue exceeded budget mainly due to increase in patient revenues ($3m), grants and donations ($1.1m) and facility fees revenue ($0.7m). The increase over the prior year was mainly due to increases in patient revenue and facility fees.

Net Cost of Services

34.19 At $240.5m, *Net cost of services* exceeded the budget of $223.9m by $16.6m and was $28.2m higher than the prior year's amount of $212.3m. This is mostly due to the higher than expected *Employee* expenses and *Other operating* expenses explained previously.

34.20 Table 34.1 also shows that the Hospital also did not manage its *Net cost of services* to within its '*revised internal budget*'. At $240.5m total expenditure exceeded the '*revised internal budget*' of $237.9m by $2.6m.

[158] 'New initiatives' mainly relates to Renal Services, Eating Disorders Day Program, Older Persons Mental Health Service, Clinical Health Improvement, Psychiatric Consultation for General Practitioner's Project, Screening for Deafness in Newborns, Indigenous Mental Health Workers, Clinical School Department of Internal Medicine and Low Acuity Clinic.

Government Contributions

Government Contributions Comparison with Budget and Prior Year's Actual

34.21 At $245.5m, Government contributions were $15.3m higher than the budgeted amount of $230.2m and $25.3m higher than the prior year's amount of $220.2m.

34.22 Government contributions exceeded budget due to second appropriation funding and additional purchase contract revenues from the Health Department offset by *Capital injections* being less than budget as a result of delays in some capital works projects.

34.23 The $25.3m increase in Government contributions over the prior year was mainly due to:

- increased funding to pay for Enterprise Bargaining Award and CPI increases, additional nursing staff, workers' compensation and insurance and funding for general price increases; and
- additional purchase contract revenues received from the Health Department paid under the 2001-2002 Purchase Agreement.

Operating Surplus

34.24 The operating surplus shows the difference between the net cost of the Hospital and the Government's contributions to those costs. An operating surplus means that the Government has contributed more than the net costs incurred by the Hospital.

34.25 This year's operating surplus of $4.9m was less than its budgeted surplus of $6.2m and prior year amount of $7.9m.

Conclusion

34.26 The Hospital did not manage its *Other operating* expenses or the *Net cost of services* to within its *'revised internal budget'*. From the Audit's review of the financial statements and the explanations for variations from budget, the Audit has concluded that the Hospital did not manage its operations to its *'revised internal budget'*.

34.27 While the Audit has concluded that the Hospital did not fully manage its operations to its *'revised internal budget'*, the Audit is not

able to comment on the appropriateness of the budget or on whether the Hospital could reasonably have been expected to achieve its *'revised internal budget'*.

SHORT TERM FINANCIAL POSITION

34.28 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratios of the last four years are presented in the following table.

Table 34.2 The Canberra Hospital Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000	Actual 1999 $000
Current assets (excluding prepayments)	**22,731**	**18,750**	**12,658**	**13,043**
Current liabilities	**40,849**	**38,263**	**36,804**	**36,248**
Current ratio	**0.6 to 1**	**0.5 to 1**	**0.3 to 1**	**0.4 to 1**

34.29 The Hospital's current ratio of 0.6 to 1 has improved from last year. However, the current ratio remains low which indicates that the Hospital will need to manage its expenditure very carefully to avoid a further unexpected need for cash injections from the Government to support its operations in the next twelve months.

34.30 The low current ratio also shows that the Hospital is completely reliant on the Government to support its continued operations and to assist in meeting its commitments as they fall due in the next twelve months.

35 TOTALCARE INDUSTRIES LIMITED

INTRODUCTION

35.1 Totalcare Industries Limited (Totalcare) is a Territory Owned Corporation. Totalcare comprises the following main business activities:

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

SIGNIFICANT FINDINGS

- ***Totalcare's operating loss of $8.7m was mainly due to the net financial cost from its participation in the Williamsdale Quarry Joint Venture.***
- ***Totalcare's accumulated losses have increased from $12.3m to $21m following this year's operating loss.***
- ***The cost of disposing of the Williamsdale Quarry Joint Venture in 2001-2002 was $3.4m. Totalcare will also be responsible for funding the negative net assets of the Williamsdale Quarry Joint Venture ($0.3m) and any other costs associated with the wind up of the joint venture.***
- ***The proceeds of the sale of the Williamsdale Quarry Joint Venture were received directly by the Williamsdale Quarry Joint Venture and mainly used to retire finance lease debts of the Joint Venture and Pavement Salvage Holdings.***
- ***Totalcare received no direct monetary benefit from the sale of the Williamsdale Quarry Joint Venture.***
- ***At 30 June 2002 the investment in the Williamsdale Quarry Joint Venture has had a negative financial impact of $5.3m on Totalcare.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

35.2 The Totalcare audited financial statements are reported on pages 15 to 43 of Totalcare's Annual Report.

35.3 An ***unqualified*** audit opinion on Totalcare's financial statements was issued on 19 September 2002.

MATTERS ARISING FROM THE AUDIT

35.4 During the audit instances were identified where Totalcare's internal controls or procedures could be improved. These instances were reported to management along with appropriate recommendations for improvement.

FINANCIAL ANALYSIS

35.5 A summary of Totalcare's Statement of Financial Performance is shown in the following table.

Table 35.1 Totalcare
Summary Statement of Financial Performance

	Actual 2001-02 $000	Actual[159] 2000-01 $000	Actual 1999-00 $000
Revenue			
Operating activities	68,061	73,594	70,985
Sale of non current assets	7,633	6,817	12,258
Other	1,284	1,117	279
	76,978	**81,528**	**83,522**
Expenses			
Operating activities	77,401	85,780	84,110
Williamsdale Quarry Joint Venture	7,565	2,160	1,360
Other	723	788	583
	85,689	**88,728**	**86,053**
Operating loss before income tax equivalents	**(8,711)**	**(7,200)**	**(2,531)**

[159] Actual results for 2000-2001 and 1999-2000 are different to the published financial results due to the allocation of items to the correct financial reporting period.

Revenue

35.6 Revenue from *Operating activities* decreased by $5.5m from $73.6m in 2000-2001 to $68.1m in 2001-2002 mainly due to:

- a decrease in roads maintenance activity for the year;
- the termination of unprofitable linen service contracts from the Sydney market; and
- declining building maintenance activity due to the loss of a major ACT Government contract.

Expenses

35.7 Total expenditure from *Operating activities* decreased by $8.4m from $85.8m in 2000-2001 to $77.4m in 2001-2002 largely as a result of lower employee expenses. Totalcare's total staff reduced from 466 at 30 June 2001 to 369 at 30 June 2002.

35.8 *Williamsdale Quarry Joint Venture* expenses of $7.5m includes:

- cost of operations for the year $3.8m;
- cost of disposal $3.4m (see table 35.2 below); and
- other costs of $0.3m.

Cost of Disposal of the Williamsdale Quarry Joint Venture

35.9 The cost of disposing of the Williamsdale Quarry Joint Venture in 2001-2002 was $3.4m as shown in the table below.

Table 35.2 Williamsdale Quarry Joint Venture Components of Totalcare's Loss on Disposal

	Actual 2001-2002 $000
Loss on disposal of property, plant and equipment	1,966
Write off of Pavement Salvage Holdings debt	1,250
Provision for wind up expenses	220
Write off of inventory and other debtors	7
Total cost of disposal	**3,443**

35.10 Totalcare will also be responsible for funding the negative net assets of the Williamsdale Quarry Joint Venture ($0.3m) and any other costs associated with the wind up of the Joint Venture.

35.11 Totalcare received no direct monetary benefits as a result of the Quarry sale.

Operating Loss

35.12 The *Operating loss before income tax equivalents* rose by $1.5m from $7.2m in 2000-2001 to $8.7m in 2001-2002. The operating result was mainly affected by Totalcare's net financial cost of participating in the Williamsdale Quarry Joint Venture. Totalcare has now accumulated losses of $21m.

WILLIAMSDALE QUARRY JOINT VENTURE INVESTMENT

35.13 In February 2002 Totalcare announced its intention to sell its share in the Williamsdale Quarry Joint Venture. The business and assets of the Joint Venture were sold by 30 June 2002 with final settlement occurring on 12 July 2002. The substance of the sales agreement resulted in control of the quarry being assumed by the purchaser at 30 June 2002.

35.14 The proceeds from the sale of the quarry operations were paid directly to the Williamsdale Quarry Joint Venture. The amount paid was just sufficient to meet the finance lease debts of the Williamsdale Quarry Joint Venture and Pavement Salvage Holdings. No monetary benefit was received directly by Totalcare from the sale of the quarry operations.

35.15 The loss recognised on disposal of the quarry includes those transactions associated with the realisation of assets and settlement of liabilities.

35.16 The table on the following page summarises Totalcare's investment in the Williamsdale Quarry Joint Venture over the life of the project.

Table 35.3	Williamsdale Quarry Joint Venture Summary of Totalcare's Investment			
	Actual 2002 $000	**Actual[160] 2001 $000**	**Actual[161] 2000 $000**	**Cumulative Result $000**
Revenue	**1,047**	**967**	**3,756**	**5,770**
Expenses				
Cost of operations	3,809	2,044	1,360	7,213
Cost of disposal	3,443	0	0	3,443
Other	313	116	0	429
	7,565	**2,160**	**1,360**	**11,085**
Operating (loss)/profit	**(6,518)**	**(1,193)**	**2,396**	**(5,315)**

35.17 Over the life of the investment the Williamsdale Quarry Joint Venture had a negative financial impact on Totalcare of $5.3m.

SHORT TERM FINANCIAL POSITION

35.18 The current ratio is indicative of an entity's ability to meet its obligations in the short term. The following table indicates Totalcare's current assets and current liabilities for the last three years.

Table 35.4	Totalcare Current Assets and Current Liabilities		
	Actual 2002 $000	**Actual 2001 $000**	**Actual 2000 $000**
Current assets	**18,696**	**20,392**	**35,539**
Current liabilities	**14,684**	**15,333**	**36,847**
Current ratio	**1.27 to 1**	**1.31 to 1**	**0.96 to 1**

35.19 Totalcare's current ratio of 1.27 to 1 at 30 June 2002 was above the normally accepted liquidity benchmark of 1 to 1. Totalcare will need to continue the measures implemented in recent years to improve its

[160] Actual results for 2000-2001 and 1999-2000 are different to the published financial results due to the allocation of items to the correct financial reporting period.
[161] See 160.

liquidity position and to ensure that it continues to operate as a viable going concern.

36 WILLIAMSDALE QUARRY JOINT VENTURE

INTRODUCTION

36.1 The Williamsdale Quarry Joint Venture was a joint venture between Totalcare Industries Ltd and Pavement Salvage Holdings Pty Ltd with both parties holding a 50% share. However, over the life of the Joint Venture transactions were not recorded on a 50/50 basis as a result of variations in contributed funds by each party.

36.2 As part of the Joint Venture agreement, three entities were created being Williamsdale Quarry Joint Venture, Williamsdale Operations Pty Limited and Williamsdale Quarry Pty Limited.

36.3 The Joint Venture was responsible for the payment of all expenses. Williamsdale Operations Pty Limited acted as agent on behalf of the participants to operate the quarry and produce quarried product. Williamsdale Quarry Pty Limited acted as agent under marketing agreements with each of the participants to sell quarried product of the Joint Venture.

Sale of the Williamsdale Quarry Joint Venture

36.4 In February 2002, the Joint Venture participants announced their intentions to sell the operations and assets of the Joint Venture. A purchase agreement was subsequently recorded with Pioneer Construction Materials Pty Ltd in April 2002 with the final settlement occurring on 12 July 2002. The substance of the sale agreement resulted in control of the quarry being assumed by Pioneer Construction Materials Pty Ltd at 30 June 2002.

36.5 The proceeds from the sale of the Williamsdale Quarry Joint Venture were received directly by the Joint Venture and mainly used to

settle finance lease debts of the Joint Venture and Pavement Salvage Holdings.

SIGNIFICANT FINDINGS

- ***The proceeds from the sale of the quarry were received directly by the Joint Venture and mainly used to retire finance lease debts of the Joint Venture and Pavement Salvage Holdings.***

- ***The Joint Venture incurred an operating loss for the year of $8.3m (2001 $4.1m) including a loss on disposal of property, plant and equipment of $4m. Total losses over the life of the project were $12.4m.***

- ***Total operating expenses of the Joint Venture were $12.7m over the life of the project. Despite holding only a 50% share in the Joint Venture, Totalcare's share of these operating expenses was $11.1m or 87%. The net financial cost to Totalcare of its investment in the Joint Venture was $5.3m.***

- ***Totalcare elected not to publish the Williamsdale Quarry Joint Venture's financial statements in its annual report. In the Audit's opinion Totalcare should have published these financial statements even though there is no legislated requirement to do so.***

PUBLICATION OF JOINT VENTURE FINANCIAL STATEMENTS

36.6 In 2000-2001 the audited financial statements for the Williamsdale Quarry Joint Venture were reported in Totalcare's annual report. However in 2001-2002 Totalcare elected not to publish the Williamsdale Quarry Joint Venture financial statements in its annual report.

Audit Comment

36.7 Whilst there is no current legal requirement for ACT agencies to publish Joint Venture financial statements in their annual reports, the Audit considers that agencies have a duty to the taxpayers to report all relevant financial information. The financial statements of other

significant joint ventures in which Territory agencies are involved are published in the agencies' annual reports.

Recommendations

36.8 To ensure that there is appropriate level of public reporting of entities in which the Territory has a 'controlling interest'[162] it is recommended that:

Recommendation No. 21

- the Annual Reports Directions issued by the Chief Minister's Department be amended to require all agencies to include, in their Annual Reports, the audited financial statements of all entities over which they have a 'controlling interest'.

Recommendation No. 22

- as a matter of standard practice joint venture agreements include provisions which require the provision of audited financial statements of the Joint Venture and their inclusion in the Annual Report of the Territory agency that has the 'controlling interest' in the Joint Venture.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

36.9 An ***unqualified*** audit opinion on the Williamsdale Quarry Joint Venture's financial statements was issued on 23 September 2002.

36.10 ***Unqualified*** audit opinions were also issued on the financial statements of the Williamsdale Operations Pty Limited and Williamsdale Quarry Pty Limited on 23 September 2002.

[162] *Section 5* of the *Auditor-General Act 1996* states that the Territory or a Territory entity has a 'controlling interest' in a Company if its interest in the Company is such that –

(a) it is able to;
  (iv) control the composition of the board of directors of a Company;
  (v) cast or control the casting of more than 50% of the maximum number of votes that might be cast at a general meeting of the Company;
  (vi) control more than 50% of the issued share capital of the Company; or

(b) where paragraph (a) does not apply, - no person holds a greater interest in the Company. Similar provisions apply in respect of controlling interests in joint ventures and trusts.

FINANCIAL ANALYSIS

36.11 The following table represents the Williamsdale Quarry Joint Venture's Statement of Financial Performance.

Table 36.1 Williamsdale Quarry Joint Venture Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000
Revenue		
Interest	4	7
Other	268	-
	272	**7**
Expenses		
Cost of operations	2,054	2,684
Employee	786	252
Depreciation and amortisation	728	262
Borrowing costs	592	91
Other	473	807
	4,633	**4,096**
Loss from trading	**(4,361)**	**(4,089)**
Loss on disposal of non-current assets	**(3,982)**	-
Total operating loss	**(8,343)**	**(4,089)**

Revenue

36.12 *Other* income in 2001-2002 consists of proceeds from:

- the sale of the Williamsdale Quarry to Pioneer Construction Materials Pty Ltd (PCM);
- an insurance claim for the damaged overland conveyer; and
- compensation paid by the blasting contractor for damage caused.

Expenses

36.13 The Williamsdale Quarry Joint Venture's total cost of operations was $4.6m for the year ended 30 June 2002. These costs are direct costs incurred in producing the inventory such as blasting, excavation, conveying, crushing and direct labour costs. The increase from 2000-2001 of $0.5m was attributable to increases in *Employee* expenses not

directly attributable to operations ($0.5m), *Depreciation and amortisation* ($0.4m), *Borrowing costs* ($0.5m), offset by decreases in *Cost of operations* ($0.6m) and *Other* expenses ($0.3m).

Loss on Disposal of Non-Current Assets

36.14 As part of the sale, the Williamsdale Quarry Joint Venture was required to pay out finance leases on plant and equipment belonging to Pavement Salvage Holdings totalling $1.1m. In addition, the quarry traded in a primary crushing plant for 2 smaller crushers resulting in a loss of $0.09m.

36.15 The *Loss on disposal on non-current assets* reported of $4m includes those assets not sold to PCM as part of the sale of the Quarry ($5m) plus the loss on the crushing equipment ($0.09m) less the plant and equipment formerly owned by Pavement Salvage Holdings ($1.1m).

Summary of Totalcare's Investment in the Joint Venture

36.16 The following table summarises Totalcare's investment in the Williamsdale Quarry Joint Venture.

Table 36.2 Williamsdale Quarry Joint Venture Summary of Totalcare's Investment

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000	Cumulative Result $000
Revenue	**1,047**	**967**	**3,756**	**5,770**
Expenses				
Cost of operations	3,809	2,044	1,360	7,213
Cost of disposal	3,443	0	0	3,443
Other	313	116	0	429
	7,565	**2,160**	**1,360**	**11,085**
Operating (loss)/profit	**(6,518)**	**(1,193)**	**2,396**	**(5,315)**

36.17 Over the life of the project the Williamsdale Quarry Joint Venture incurred $12.7m in expenses. The above table indicates that Totalcare's share of these expenses was $11.1m or 87% despite the fact that it held only a 50% in the Joint Venture.

36.18 Over the life of the investment the Williamsdale Quarry Joint Venture had a negative financial impact on Totalcare of $5.3m.

Assets and Liabilities

36.19 The following table represents the Williamsdale Quarry Joint Venture's Statement of Financial Position.

Table 36.3 Williamsdale Quarry Joint Venture Statement of Financial Position

	Actual 2002 $000	Actual 2001 $000
Current assets		
Cash	68	-
Receivables	3,925	183
Inventories	-	681
Other	38	53
Total current assets	**4,031**	**917**
Non-current assets		
Property, plant and equipment	-	3,011
Intangibles	-	3
Other	-	3,335
Total non-current assets	**-**	**6,349**
Total assets	**4,031**	**7,266**
Liabilities		
Creditors and borrowings – current	4,335	1,097
Provisions	22	19
Creditors and borrowings – non current	-	2,386
Total liabilities	**4,357**	**3,502**
Net assets	**(326)**	**3,764**

Current Assets

36.20 The *Receivables* balance consists mainly of the consideration due from PCM for the purchase of the assets and the consideration for the purchase of the business. No *Inventories* were held by the quarry at year end as it had been purchased by PCM on sale of the quarry.

Non-Current Assets

36.21 No *Property, plant and equipment* was held at the quarry at year end as it had been deemed sold to PCM or written off. Other non-current assets were associated with development costs that were also written off due to the sale of the quarry.

Liabilities

36.22 The majority of current creditors and borrowings balance relates to the finance leases to be paid out upon the settlement of the sale in July 2002. All liabilities have been reclassified as current, as they are to be paid out upon the completion of the sale of the quarry.

Net Assets

36.23 The Joint Venture has negative net assets of $0.3m at year end. Totalcare will be responsible for the shortfall in assets and any additional costs incurred in the process of the windup of the Joint Venture.

37 WORKERS' COMPENSATION SUPPLEMENTATION FUND

INTRODUCTION

37.1 The Workers' Compensation Supplementation Fund (the Fund) was established pursuant to the *Workers' Compensation Supplementation Fund Act 1980* (the Act). The purpose of the Fund is to meet the payment of workers' compensation claims and settlements in the event that an insurance company failed or was unable to meet its liabilities arising from workers' compensation insurance policies.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

37.2 The Fund's financial statements are reported on pages 104 to 121 of the Annual Report of the Office of the Occupational Health and Safety Commissioner and WorkCover.

37.3 An ***unqualified*** audit opinion on the Fund's financial statements was provided to the Minister for Industrial Relations on 20 September 2002.

SIGNIFICANT FINDINGS

- ***The Territory provided $30m to the Fund, during 2000-2001, to meet claims arising from the HIH collapse. During 2001-2002 claims were estimated to be $17.2m, however only $7.3m in claims were paid out.***
- ***Claims for 2002-2003 are estimated to be $10.4m, therefore funding is sufficient to cover these claims over the next 12 months.***
- ***No strategy has presently been implemented for funding the substantial net liability position of the Fund, which was caused by the HIH collapse.***

FINANCIAL ANALYSIS

37.4 The table on the following page summarises the Fund's Statement of Financial Performance.

Table 37.1 Workers' Compensation Supplementation Fund Summary Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000	Actual 1998-99 $000
Revenue				
Territory contributions	-	30,000	-	-
Other	1,771	1,049	1,224	415
	1,770	**31,049**	**1,224**	**415**
Expenses				
HIH claims payable	-	64,219	-	-
Other	607	205	182	146
	607	**64,424**	**182**	**146**
Operating profit/(loss)	**1,163**	**(33,375)**	**1,042**	**269**

37.5 The Fund reported an operating profit of $1.2m for the year ended 30 June 2002 compared to an operating loss of $33.4m for the previous year.

37.6 The loss reported last year was due to the collapse of HIH Insurance in March 2001 and the acceptance that the Fund would meet the workers' compensation claims that would have been payable by HIH in the ACT. The Territory provided $30m to the Fund, during 2000-2001, to meet the HIH outstanding claims of $64m as estimated using an actuarial assessment.

37.7 During 2001-2002, the Fund only paid out $7.3m of the $17.2m estimated claims for 2001-2002. However, the actuarial assessment of the estimated liability in June 2002 confirmed that there would be no significant change to the previous estimated liability of $64m. As a result, there was no adjustment to the Fund's financial liabilities during 2001-2002. The amount of liability estimated to be payable over the next twelve months is $10.4m.

SHORT TERM FINANCIAL POSITION

37.8 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and current ratio for the Fund's last three years of operation are shown in the table on the following page.

Table 37.2 Workers' Compensation Supplementation Fund Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets			
Cash	366	165	6
Receivables	154	98	216
Investments	32,087	42,000	9,620
	32,607	**42,264**	**9,842**
Current liabilities			
Creditors	137	3,194	22
HIH claims payable	10,400	17,170	0
	10,537	**20,364**	**2**
Current ratio	**3.1 to 1**	**2.1 to 1**	**447 to 1**

37.9 The Fund's current ratio indicates that the Fund has sufficient funds to meet its obligations as they fall due over the next 12 months.

LONG TERM FINANCIAL POSITION

37.10 The total ratio, which represents the ratio of total assets to total liabilities, is indicative of an entity's ability to meet its obligations over the long term. Details of the total assets, total liabilities and total ratio for the Fund's last three years of operation are shown in the table on the following page.

Table 37.3 Workers' Compensation Supplementation Fund Total Assets and Total Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	32,607	42,264	9,842
Non current assets	1,778	1,320	-
Total assets	**34,385**	**43,584**	**9,842**
Current liabilities	10,537	20,364	22
Non current liabilities	46,260	46,774	-
Total liabilities	**56,797**	**67,138**	**22**
Net (liabilities)/assets	**(22,412)**	**(23,554)**	**9,820**
Total ratio of assets to liabilities	**0.61 to 1**	**0.65 to 1**	**447 to 1**

37.11 The Fund's total ratio indicates that without action being taken to provide substantial amounts of additional funds the Fund may not be able to meet its long-term liabilities.

37.12 During 2000-2001 the Fund advised:

> *'The Government's contribution to the Fund, together with existing investments, has provided an adequate level of resources to meet any claims arising from the HIH collapse for a period of at least three to four years. During this period, the level of liabilities will be continually reassessed and may vary depending on levels of cost of case run off, any reinsurance that may eventuate and any settlement returns from the liquidator. The Fund Manager and Supervising Insurer will also be reviewing claim strategies on a quarterly basis with the aim of minimising long-term liabilities. These strategies over this period will also provide the Government with the opportunity to consider further options for funding any shortfall in long term liabilities.'*

37.13 The above response by the Fund indicated that strategies would be developed, and options to fund the shortfall in long-term liabilities would be considered. To date no strategies have been implemented to fund the shortfalls.

SECTION 5

AUDIT RESULTS FOR OTHER AGENCIES

FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2002

38 ACTEWAGL JOINT VENTURE

INTRODUCTION

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

38.2 ACTEW's electricity business contribution to the Joint Venture was valued at more than the ACT, Queanbeyan and Yarrowlumla Shire's gas business contribution by AGL. Last financial year, AGL made an equalisation payment of $157m to ACTEW for respective contributions to, and interest in, the assets and financial results of the Joint Venture.

38.3 ACTEW now holds a 50% interest in the Joint Venture. The Joint Venture is comprised of the ActewAGL Retail Partnership, the ActewAGL Distribution Partnership and its controlled entity ECOWISE Environmental Pty Limited (ECOWISE). Financial statements aggregating the transactions of the Partnerships were prepared and published to provide an overall view of the Joint Venture for public reporting purposes.

38.4 The principal activities of the Joint Venture are to:

- operate the energy networks;
- operate the water and sewerage services of the ACT;
- supply energy to customers in the ACT;
- supply gas to Queanbeyan and Yarrowlumla Shire customers;
- supply electricity to contestable customers elsewhere in the competitive national market; and
- undertake other related business activities.

38.5 Prior to last year's commencement of the Joint Venture, ECOWISE was a subsidiary of ACTEW. ECOWISE was transferred to the Joint Venture on 3 October 2000. Comments on ECOWISE are included in Chapter 55 of this Report.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

38.6 Audited financial statements for the Joint Venture are reported in ACTEW's *'Supplementary Report to Government, ActewAGL Joint Venture – General Purpose Financial Report and Subsidiary Company Annual Reports 2001-2002'*.

38.7 Under *Section 32* of the *ActewAGL Partnership Facilitation Act 2000*, the financial statements of the Joint Venture are required to be *'audited jointly by the Auditor-General and an auditor appointed by AGL'*[163]. The Auditor-General and the auditor appointed by AGL therefore jointly issue an audit opinion on the financial statements of the Joint Venture.

38.8 An ***unqualified*** joint audit opinion on the Joint Venture's 'general purpose' financial statements was issued on 2 September 2002.

38.9 An ***unqualified*** joint audit opinion on the Joint Venture's 'concise' financial statements was issued on 2 September 2002.

38.10 ***Unqualified*** joint audit opinions were also issued on the 'special purpose' financial statements of the ActewAGL Retail Partnership and the ActewAGL Distribution Partnership on 2 September 2002.

38.11 There is no requirement for the individual financial statements of the ActewAGL Retail Partnership, ActewAGL Distribution Partnership and the ActewAGL Joint Venture (comprising the results of the Retail and Distribution Partnerships) to be published and tabled in the Legislative Assembly. As the financial results of the ActewAGL Joint Venture are published in ACTEW's *'Supplementary Report to Government, ActewAGL Joint Venture – General Purpose Financial Report and Subsidiary Company Annual Reports 2001-2002'* which is tabled at the Legislative Assembly the non-publication of the financial results of each Partnership is reasonable.

MATTERS ARISING FROM THE AUDIT

38.12 In general, the internal control environment within ActewAGL was found to be sound. A few minor instances were identified where internal controls could be improved. These matters were reported to

[163] AGL's appointed auditor was Deloitte Touche Tohmatsu.

management along with recommendations to address the matters raised by the Audit.

FINANCIAL ANALYSIS

38.13 The following table summarises the ActewAGL Joint Venture's Statement of Financial Performance.

Table 38.1 ActewAGL Joint Venture Summary Statement of Financial Performance

	Actual 2001-02 $m	Actual 2000-01* $m
Revenue		
Provision of gas and electricity services	403	266
Provision of water and sewerage services	62	45
Other	23	23
	488	**334**
Expenses	**405**	**284**
Operating profit	**83**	**50**

* 2000-2001 results are for the nine months of operation from 3 October 2000 to 30 June 2001. It is not possible to extrapolate the 2000-2001 results due to the seasonal nature of the business.

Operating Profit

38.14 The Joint Venture made an operating profit of $83m for the year ended 30 June 2002. This represents an improvement in the operating result compared to last year.

SHORT TERM FINANCIAL POSITION

38.15 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio for this year are presented in the table on the following page.

Table 38.2 ActewAGL Joint Venture Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000
Current assets		
Cash	4	1
Receivables	97	108
Other financial	19	28
Other	10	10
	130	**147**
Current liabilities		
Payables	86	71
Other	14	12
	100	**83**
Current ratio	**1.3 to 1**	**1.8 to 1**

38.16 ActewAGL's current ratio of 1.3 to 1 indicates that the short-term financial position of the Joint Venture is sound. The significant decline in the current ratio is mostly due to the substantial amounts of cash distributed to partners ($113m[164]) during the year and not due to a decline with the underlying profitability of the business.

CHIEF EXECUTIVE'S ADVICE

38.17 The Chief Executive of ActewAGL provided the following comments for publication in this Report.

> *'I welcome the Auditor General's Report confirming an unqualified audit opinion and a sound internal control environment'.*

[164] Cash distributions of $56.5m were distributed to ACTEW.

39 ACTEW CHINA PTY LIMITED

INTRODUCTION

39.1 ACTEW China Pty Limited (ACTEW China) was incorporated on 31 October 1997 as a wholly owned subsidiary of ACTEW Corporation Limited (ACTEW). The principal activity of ACTEW China is to develop commercial business opportunities in the Peoples' Republic of China.

39.2 ACTEW China continued to hold a 17% interest in Beijing Green World Environment Protection Technology Company Ltd. ACTEW China also continued to be the prime contractor in a project with the ACT Government to assist the Beijing Olympics bid for 2008.

39.3 ACTEW China's results are consolidated into ACTEW's financial statements. ACTEW's financial results are explained in Chapter 17 of this Report.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

39.4 ACTEW China's audited financial statements are reported in the ACTEW '*Supplementary Report to Government, ActewAGL Joint Venture – General Purpose Financial Report and Subsidiary Company Annual Reports 2001-2002'*.

39.5 An ***unqualified*** audit opinion on ACTEW China's financial statements was issued on 30 August 2002.

40 ACTEW DISTRIBUTION LIMITED

INTRODUCTION

40.1 ACTEW Distribution Limited (ACTEW Distribution) is a wholly owned subsidiary of ACTEW Corporation Limited (ACTEW).

40.2 ACTEW Distribution's results are consolidated into ACTEW's financial statements. ACTEW's financial results are explained in Chapter 17 of this Report.

OPERATIONS IN 2000-2001

40.3 Since the commencement of the ActewAGL Joint Venture on 3 October 2000, the principal activity of ACTEW Distribution has been to hold ACTEW's 50% interest in the ActewAGL Distribution Partnership.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

40.4 ACTEW Distribution's audited financial statements are reported in the ACTEW *'Supplementary Report to Government, ActewAGL Joint Venture – General Purpose Financial Report and Subsidiary Company Annual Reports 2001-2002'*.

40.5 An ***unqualified*** audit opinion on ACTEW Distribution's financial statements was issued on 30 August 2002.

41 ACTEW RETAIL LIMITED

INTRODUCTION

41.1 ACTEW Retail Limited (ACTEW Retail) is a wholly owned subsidiary of ACTEW Corporation Limited (ACTEW). ACTEW Retail's name used to be ACTEW Energy Limited.

41.2 ACTEW Retail's results are consolidated into ACTEW's financial statements. ACTEW's financial results are explained in Chapter 17 of this Report.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

41.3 ACTEW Retail's audited financial statements are reported in the ACTEW *'Supplementary Report to Government, ActewAGL Joint Venture – General Purpose Financial Report and Subsidiary Company Annual Reports 2001-2002'*.

41.4 An ***unqualified*** audit opinion on ACTEW Retail's financial statements was issued on 30 August 2002.

42 ACTION (ACT INTERNAL OMNIBUS NETWORK) DEPARTMENT

INTRODUCTION

42.1 ACTION operates Canberra's public bus network and school services with the objective of providing effective and accessible passenger services. It also provides special needs services and charter bus services.

42.2 ACTION's status has been changed from a Department to a Statutory Authority from 1 January 2002 in accordance with the *ACTION Authority Act 2001*.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

42.3 An ***unqualified*** audit opinion on the last financial statements of ACTION as a Department at 31 December 2001 was provided to the Minister for Urban Services on 25 June 2002. These financial statements are reported on pages 226 to 254 of volume 2 of Urban Services 2001-2002 Annual Report.

42.4 Likewise, an ***unqualified*** audit opinion on the first financial statements of ACTION as an authority covering the six months from 1 January 2002 to 30 June 2002 was provided to the Minister for Urban Services on 13 September 2002.

42.5 The consolidated result of the ACTION Department (1 July 2001 to 31 December 2001) and the ACTION Authority (1 January 2002 to 30 June 2002) is presented in this Chapter for the purpose of presenting ACTION's financial performance for the whole financial year.

SIGNIFICANT FINDING

- ***ACTION managed its operations to budget. The net cost of ACTION's services was less than budget by $2.4m but increased by $3.8m over last year.***

MATTERS ARISING FROM THE AUDIT

42.6 As a result of the audit some instances were identified where the financial operations or internal controls of ACTION could be improved. These instances were reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

42.7 The table on the following page summarises ACTION's Statement of Financial Performance.

Table 42.1 ACTION
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Employee	40,916	42,574	41,382	44,635
Bus running, maintenance and other operating	19,369	17,204	17,455	17,341
Depreciation and amortisation	4,756	4,734	4,719	5,181
Other	3,150	2,764	3,059	3,968
	68,191	**67,276**	**66,615**	**71,125**
Revenue				
Bus fares and other charges	14,372	15,445	18,501	17,702
Commonwealth grants and other	-	445	537	1,213
	14,372	**15,890**	**19,038**	**18,915**
Net cost of services	**53,819**	**51,386**	**47,577**	**52,210**
Government contributions				
Government payments for public transport services	47,541	46,538	42,731	42,631
Injection for operations	4,398	4,398	3,624	5,241
Capital injections	4,200	5,650	-	2,826
Resources received free of charge	-	53	46	-
	56,139	**56,639**	**46,401**	**50,698**
Operating surplus/(deficit)	**2,320**	**5,253**	**(1,176)**	**(1,512)**

42.8 Comments follow on the major expenditure, revenue and Government contributions.

Expenditure

42.9 Expenditure for the year of $67.3m was less than budget by $0.9m and increased by $0.7m from prior year expenditure of $66.6m.

Expenditure Comparison with Budget

42.10 The expenditure was $0.9m less than budget mainly due to lower than expected *Bus running, maintenance and other operating* expenses of $2.2m and lower than expected *Other* expenses of $0.4m offset by higher than expected *Employee* expenses of $1.7m.

Expenditure Comparison with Prior Year's Actual

42.11 Overall expenditure increased marginally from the previous year.

Revenue

42.12 ACTION's total revenue was $15.9m compared with budgeted revenue of $14.4m and prior year revenue of $19m.

Revenue Comparison with Budget

42.13 Total revenue exceeded budget by $1.5m mainly due to a lower budget for *Bus fares and other charges* in anticipation of the introduction of the free school bus scheme which was run for four months.

Revenue Comparison with Prior Year's Actual

42.14 Overall revenue was $3.1m less than last year mainly due to the reduction in *Bus fares and other charges* brought about by the free school bus scheme which operated for four months, the change in pricing of school tickets to a one-zone fare and the absence this year of 'one-off' revenue such as the Olympics in 2000-2001.

Net Cost of Services

42.15 At $51.4m, the *Net cost of services* was $2.4m less than budget and was $3.8m more than the prior year's amount of $47.6m. The *Net cost of services* was less than budget mainly due to lower than expected *Bus running, maintenance and other operating* expenses and more revenue than expected from *Bus fares and other charges*.

42.16 As the revenue raised from ACTION's operations is not sufficient to cover its costs, ACTION's financial viability is dependent on Government contributions to support its continued operations and provision of public transport to the community.

42.17 As ACTION's *Net cost of services* is less than budget, it is concluded that ACTION has managed its operations to budget.

Government Contributions

42.18 Government contributions totalled $56.6m compared with budgeted contributions of $56.1m and prior year contributions of $46.4m.

Government Contributions Comparison with Prior Year's Actual

42.19 Government contributions increased by $10.2m compared with last year mainly due to the following:

- ACTION received $3.8m more in *Government payments for public transport services* this year compared to last year mainly due to the additional costs of providing free school bus services; and
- ACTION received *Capital injections* of $5.7m this year. This funding was provided for the acquisition of buses ($4m), radio replacement ($1.5m), and bus door safety initiative ($0.1m).

Operating Surplus/(Deficit)

42.20 ACTION recorded an *Operating surplus* of $5.3m, which is a turnaround from the operating deficits of previous years. The operating surplus is mainly attributable to an increase in Government contributions.

42.21 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that ACTION, in an overall sense, managed its finances to budget.

SHORT TERM FINANCIAL POSITION

42.22 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio for the last three years are presented in the table on the following page.

Table 42.2 ACTION
Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**12,152**	**5,743**	**4,611**
Current liabilities	**9,809**	**9,528**	**9,973**
Current ratio	**1.2 to 1**	**0.6 to 1**	**0.5 to 1**

42.23 ACTION's current ratio of 1.2 to 1 is an improvement over recent years. However, this was mainly due to funds held in investment at 30 June 2002 representing *Capital injections* for asset purchases of $5.6m committed for the year 2002-2003.

43 ACTTAB LIMITED

INTRODUCTION

43.1 ACTTAB Limited is a Territory Owned Corporation. The principal activity of ACTTAB Limited is the provision of a totalisator betting service, offering a wide range of bet types and betting facilities, in active competition with other gambling mediums. The principal activities of the business also include ACTTAB Keno since November 1997.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

43.2 ACTTAB's audited financial statements are reported on pages 32 to 50 of ACTTAB's Annual Report.

43.3 An ***unqualified*** audit opinion on the 2001-2002 financial statements was provided to ACTTAB and the Minister for Sport, Racing and Gaming on 20 August 2002.

MATTERS ARISING FROM THE AUDIT

43.4 As a result of the audit instances were identified where ACTTAB's financial operations and internal controls could be improved. These instances have been notified to management with appropriate recommendations.

FINANCIAL ANALYSIS

43.5 A summary of ACTTAB's Statement of Financial Performance follows.

Table 43.1 ACTTAB Summary Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Operating revenue			
Commission on turnover[165]	23,150	23,207	19,958
Other revenue	1,306	1,193	1,782
	24,456	**24,400**	**21,740**
Operating expenditure	**(23,643)**	**(23,060)**	**(20,704)**
Operating profit before income tax equivalents	813	1,340	1,036
Income tax equivalents	(331)	(503)	(329)
Operating profit	**482**	**837**	**707**

Revenue

43.6 The main source of revenue is ACTTAB's commission on gambling turnover (i.e. gambling receipts from racing, ACTTAB Keno and sports betting). ACTTAB's gambling turnover for the year was $138.8m compared to $139.4m in 2000-2001 resulting in commission on turnover being $23.2m over the last two financial years.

[165] ACTTAB receives a commission on all sales made on racing, Keno and sports betting.

Expenditure

43.7 Expenditure increased by $0.6m to $23.6m in 2001-2002 due to increased expenses relating to the ACTTAB agency network and staff related costs stemming from ACTTAB's new enterprise bargaining agreement along with the write off of $0.3m in previously capitalised costs associated with the failed Fern Hill Park Head Office project.

43.8 ACTTAB is exempt from income tax under the provisions of the *Income Tax Assessment Act*. However, ACTTAB is required to pay income tax equivalents to the ACT Government in accordance with the *Territory Owned Corporations Act 1990*. In 2001-2002 *Income tax equivalents* attributable to operating profit were $0.3m ($0.5m for 2000-2001).

Operating Profit

43.9 The slight decrease in operating profit from $0.8m to $0.5m is mainly due to the small increase in expenses outlined above.

SHORT TERM FINANCIAL POSITION

43.10 The current ratio is indicative of an entity's ability to meet its obligations in the short term. ACTTAB's current ratio of 1.9 to 1 has improved compared to 2000-2001 (1.7 to 1) and indicates that ACTTAB has a sound short-term financial position.

44 AGENTS BOARD OF THE ACT

INTRODUCTION

44.1 The Agents Board of the ACT (the Board) was established pursuant to the *Agents Act 1968* and acts as the licensing authority for the real estate and travel industries in the ACT.

44.2 The Board created the Agents Fidelity Guarantee Fund (the Fund) on 1 July 1992 in accordance with the *Agents (Amendment) Act 1992*, with the purpose to provide funds for the protection of consumers in the event that a licensed agent fails to account for monies held in trust (other than travel agents, who operate under a separate scheme). Persons who are dealing with a licensed agent who suffer monetary loss are entitled to make a claim for compensation from the Fund.

44.3 Under the *Agents Act 1968*, licensed agents are required to maintain a trust account. The banks transfer interest earned on these accounts directly to the Board. This interest along with interest on the Board's invested funds is the Board's principal source of income.

SIGNIFICANT FINDINGS

- ***A discussion paper was released by the Attorney-General in April 2001 following a review of the Agents Act 1968. One of the major recommendations of this discussion paper is the removal of the Agents Board due to perceived serious problems with the current regulatory arrangements. However, no firm decisions have been taken yet on the future of the Agents Board.***

- ***The funds proposed to be transferred from other Board funds to the Agents Fidelity Guarantee Fund have not been transferred pending the outcome of the Government's request for an actuarial review of the Fund.***

- ***Under the Agents Act 1968, banks are not required to transfer interest earned on the Agents' Accounts to the Board. This issue is also being addressed in the Government's review of the Agents Act 1968.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

44.4 The Board's audited financial statements are reported on pages 194 to 219 of volume 1 of the Department of Justice and Community Safety's Annual Report.

44.5 An ***unqualified*** audit opinion was provided to the Attorney-General on 6 September 2002.

MATTERS ARISING FROM THE AUDIT

44.6 During the audit instances were identified where the Board's financial operations and internal controls could be improved. These matters have been related to management along with appropriate recommendations.

REVIEW OF THE AGENTS ACT 1968

44.7 The Government was required to undertake a review of all legislation that contained anti-competitive restrictions on market behaviour under the national Competition Principles Agreement. The opportunity was also taken to conduct a general review of the *Agents Act 1968* to improve and enhance its effectiveness.

44.8 The Attorney-General released a discussion paper in April 2001 titled '*Review of the Agents Act 1968 and the Auctioneers Act 1959'* requesting comments be provided by 30 June 2001.

44.9 The general review of the *Agents Act 1968* identified serious problems with the current regulatory arrangements. Various reform proposals were put forward for consideration. The general review recommends that the Board be removed in favour of the Commissioner for Fair Trading taking responsibility for registering and licensing of agents.

44.10 No decision has been taken by the Government on the major recommendations contained within the discussion paper. As a result the funds proposed to be transferred from other Board funds to the Agents Fidelity Guarantee Fund have not been transferred pending the outcome of the Government's request for an actuarial review of the Fund.

44.11 Under the *Agents Act 1968*, banks are not required to transfer interest earned on the Agents' Accounts to the Board. This issue is also being addressed in the Government's review of the *Agents Act 1968.*

FINANCIAL ANALYSIS

44.12 The table on the following page summarises the Board's Statement of Financial Performance.

Table 44.1 Agents Board
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Revenue				
Bank interest on deposits	1,000	1,441	1,651	1,227
Registration and license fees	200	128	105	102
Investment interest	408	311	488	293
Other	-	47	74	-
	1,608	**1,927**	**2,318**	**1,622**
Expenditure				
Board costs	43	30	25	12
Employee	445	199	194	232
Office and administration	230	66	92	72
Other	120	-	-	-
	838	**295**	**311**	**316**
Operating surplus	**770**	**1,632**	**2,007**	**1,306**

44.13 Comments follow on the Board's revenue and expenditure.

Revenue

44.14 The Board's revenue for the year totalled $1.9m. Total revenue was $0.4m lower than the prior year but exceeded budget by $0.3m. The decrease in revenue from the prior year was attributed to a general decrease in interest rates offered by the banks. Revenue exceeded budget due to increased volume of sales in the market, higher average sales values and rentals.

44.15 Total expenditure fell marginally in 2001-2002 but was significantly below the budget estimate. Expenditure was below budget due to continued suspension of grants for educational purposes and an administrative reorganisation (which involved the Agents Services Section being absorbed into the Office of Fair Trading) that had not been accounted for in the budget.

Operating Surplus

44.16 Despite the reduction in revenue from the prior year, the Board generated an operating surplus of $1.6m compared to a budget surplus of $0.8m.

Conclusion

44.17 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that the Board managed its operations to budget. The main reason for the variances from budget was that the budget had not yet taken into account the administrative reorganisation within the Office of Fair Trading.

SHORT TERM FINANCIAL POSITION

44.18 The Board continues to maintain a very strong financial position with current assets of $9.4m and current liabilities of only $0.1m.

45 BRUCE OPERATIONS PTY LIMITED

INTRODUCTION

45.1 Bruce Operations Pty Ltd (the Company) ceased trading operations prior to 30 June 2001. Since then, the Canberra Stadium's[166] operations have been reflected in the financial statements of the Stadiums Authority. The Stadiums Authority's financial results are reported in Chapter 32.

45.2 The activities of the Company during 2001-2002 were mainly to finalise some outstanding legal and other matters and prepare the Company for deregistration.

45.3 The Company was deregistered on 30 September 2002.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

45.4 An ***unqualified*** audit opinion on the Company's financial statements for the year ended 30 June 2002 was provided to the Treasurer on 26 July 2002.

[166] Formerly known as the 'Bruce Stadium'.

46 BUILDING AND CONSTRUCTION INDUSTRY TRAINING FUND BOARD

INTRODUCTION

46.1 The Building and Construction Industry Training Fund Board (the Board) was established under the *Building and Construction Industry Training Levy Act 1999*. The Board is a Statutory Authority and commenced operations on 22 November 1999.

46.2 The principal objective of the Board is to make training grants for skills identified as being in short supply to people in eligible occupations and eligible employment within the building and construction industry.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

46.3 The financial statements are reported on pages 16 to 29 of the Board's annual report.

46.4 An ***unqualified*** audit opinion was presented to the Minister for Education, Youth and Family Services on 28 August 2002.

47 CANBERRA INSTITUTE OF TECHNOLOGY

INTRODUCTION

47.1 The Canberra Institute of Technology (CIT or the Institute) is a Statutory Authority established on 4 January 1988 under the *Canberra Institute of Technology Act 1987*. The functions of the Institute include conducting an educational institution for the purpose of fostering excellence in the fields of technical and further education, and supporting industry, commerce and the community in the ACT. It serves the vocational, educational and training needs of the ACT and its region. The Institute has a 31 December year-end for financial reporting.

AUDIT OF THE 2001 FINANCIAL STATEMENTS

47.2 CIT's financial statements are reported on pages 27 to 66 of the Canberra Institute of Technology 2001 Annual Report.

47.3 An ***unqualified*** audit opinion with an emphasis of matter on one performance measure was provided to the Minister for Education, Planning and Industrial Relations on 11 March 2002.

MATTERS ARISING FROM AUDIT

47.4 During the audit it was noted that the financial reporting processes had improved since last year, however a few instances were identified where the financial operations or internal controls of the Institute could be improved. These instances were reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

47.5 The table on the following page summarises CIT's Statement of Financial Performance.

Table 47.1 Canberra Institute of Technology
Summary Statement of Financial Performance

	Budget 2001 $000	Actual 2001 $000	Actual 2000 $000	Actual 1999 $000
Expenditure				
Employee	42,588	43,911	43,749	48,992
Operating	21,105	23,158	22,072	21,785
Depreciation and amortisation	2,916	3,082	2,941	4,008
	66,609	**70,151**	**68,762**	**74,785**[167]
Revenue				
Courses, student fees and other charges	9,609	13,278	10,954	10,363
Grants and other	3,568	4,256	4,153	3,576
	13,177	**17,534**	**15,107**	**13,939**
Net cost of services	**53,432**	**52,617**	**53,655**	**60,846**
Government contributions				
Government payments for education and training programs	50,068	51,138	48,292	47,675
Capital injections	4,127	4,545	8,024	5,245
Injection for operations	-	-	2,721	8,869
Resources received free of charge[168]	-	51	38	31
	54,195	**55,734**	**59,075**	**61,820**
Operating surplus[169]	**763**	**3,117**	**5,420**	**974**

47.6 Comments on the major expenditure, revenue and Government contributions are as follows.

Expenditure

47.7 At $70.2m, expenditure was $3.6m higher than the budgeted expenditure of $66.6m and $1.4m higher than last year's expenditure of $68.8m.

[167] Total expenditure for 1999 excludes an 'abnormal expense' of $16.4m as a result of the revaluation of property, plant and equipment undertaken during the year.
[168] *Resources received free of charge* are included in other revenue in the published Consolidated Statement of Financial Performance.
[169] The operating surplus presented in the above table varies from the published operating surplus/(deficit) because, for the purposes of this analysis, *Capital injections* have been included in Government contributions.

Expenditure Comparison with Budget

47.8 CIT's expenditure in 2001 exceeded budget by $3.6m primarily due to *Operating* expenses and *Employee* expenses exceeding budget by $2.1m and $1.3m respectively.

47.9 *Operating* expenses exceeded budget mainly due to higher payments for the 'flexible learning leaders project'[170], higher management fees due to an increase in the number of overseas students and higher costs for the use of information technology communications (data lines, network links etc).

47.10 *Employee* expenses were higher than budget mainly due to higher staff salaries not anticipated at the time of budget.

Expenditure Comparison with Prior Year's Actual

47.11 Total expenditure increased by $1.4m compared with last year. This was primarily due to an increase in *Operating* expenses ($1.1m) from an increase in payments for the flexible learning leaders project, higher repairs and maintenance expenses and an increase in use of information technology communications (data lines, network links etc) expenditure.

Revenue

47.12 At $17.5m, revenue was $4.3m higher than the budgeted revenue of $13.2m and $2.4m higher than the prior year's revenue of $15.1m.

Revenue Comparison with Budget

47.13 Total revenue exceeded budget by $4.4m mainly due to:

- *Courses, student fees and other charges* exceeding budget by $3.7m as a result of higher than expected enrolments for international students, higher levels of commercial activity and higher numbers of funded apprentices and trainees; and
- *Grants and other* revenue exceeding budget by $0.7m due to additional Commonwealth grants provided to the Institute.

[170] The 'flexible learning leaders project' is a nationwide Vocational Education Group initiative.

Revenue Comparison with Prior Year's Actual

47.14 The increase in total revenue of $2.4m was mainly attributable to an increase in the number of international students ($1m), commercial activity by the Faculty of Tourism and Hotel Management and numbers of funded apprentices and trainees.

Net Cost of Services

47.15 CIT's *Net cost of services* was $0.8m less than budget and $1m less than the prior year. The lower *Net cost of services* was attributable to the increase in revenue more than offsetting the increases in expenditure.

Government Contributions

47.16 Total Government contributions were $1.5m greater than budget and $3.4m less than the prior year.

Government Contributions Comparison with Prior Year's Actual

47.17 Total Government contributions were $3.4m less than the prior year. This was due to:

- a decrease in *Capital injections* of $3.5m compared to last year. Last year additional funding was received to complete the Watson campus re-location to Reid; and
- a decrease in *Injection for operations* of $2.7m mainly due to the Institute reducing its costs to the benchmarked level over a four year period since 1997. No *Injection for operations* was paid in 2001.

47.18 These reductions were offset by an increase in *Government payments for education and training programs* for additional curriculum hours and salary supplementation for teachers and an increase in training programs run by the Institute.

Operating Surplus

47.19 The operating surplus shows the difference between the net cost of the Institute and the Government contributions to those costs. An operating surplus means that the Government contributed more than the CIT's *Net cost of services*.

47.20 CIT's operating surplus is better than the budgeted surplus by $2.4m mainly due to a reduction in the *Net cost of services* ($0.8m) and additional *Government payments for education and training programs* ($1.6m).

47.21 The 2001 operating surplus for the year is $2.3m lower than last year mainly due to reductions in Government contributions in form of *Capital injections* and *Injection for operations* offset by a lower *Net cost of services*.

Conclusion

47.22 The table shows that the CIT's *Net cost of services* was less than budget. From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that the Institute has generally managed its operations to budget.

SHORT TERM FINANCIAL POSITION

47.23 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its financial obligations in the short term. The current ratios for the last three years are presented in the table below.

Table 47.2 Canberra Institute of Technology Current Assets and Current Liabilities

	Actual 2001 $000	Actual 2000 $000	Actual 1999 $000
Current assets	**10,953**	**9,481**	**10,237**
Current liabilities	**10,919**	**11,457**	**9,882**
Current ratio	**1 to 1**	**0.8 to 1**	**1 to 1**

47.24 The current ratio for the Institute has improved compared to last year. However, the ratio of 1 to 1 indicates that the Institute will have to manage its financial resources carefully if it is to avoid problems in meeting its commitments as they fall due.

48 CANBERRA PUBLIC CEMETERIES

INTRODUCTION

48.1 The Canberra Public Cemeteries Trust (the Trust) manages and operates public cemeteries in the ACT at Gungahlin, Hall and Woden. The Trust operates pursuant to the provisions of the *Cemeteries Act 1933* and aims to operate the cemeteries in a sustainable manner and on a user pays principle to minimise the cost to the Government and the community.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

48.2 The financial statements of the Canberra Public Cemeteries Trust are reported on pages 8 to 26 of the Trust's 2001-2002 Annual Report.

48.3 An ***unqualified*** audit opinion was provided to the Minister for Urban Services on 5 August 2002.

48.4 An emphasis of matter paragraph was included in the audit report indicating the results of three performance measures in the Statement of Performance were not measured. The Audit was therefore unable to express an opinion on these performance measures.

48.5 The Trust has advised that actions have been undertaken to address the deficiencies identified by the Audit.

49 CENTRAL FINANCING UNIT

INTRODUCTION

Departmental Operations

49.1 The Central Financing Unit (CFU) provides financial services that include financial asset and liability management through the

establishment of investment and borrowing policies and objectives, and the coordination of investment and borrowing activities. The CFU manages the Government's surplus cash balances and arranges for the investment of these funds through external fund managers within known cash flow requirements and established investment policies. The CFU is also responsible for the administration of the ACT's debt portfolio and the management of the Territory's debt servicing liabilities.

Territorial Operations

49.2 The CFU administers the central finances of Government through its Territorial account operations. Territory revenues collected by departments and agencies are paid to the CFU. The CFU also makes the payment of appropriations.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

49.3 The Central Financing Unit's financial statements are reported on pages 141 to 177 of volume 2 of the Department of Treasury's Annual Report.

49.4 An ***unqualified*** audit opinion on CFU's financial statements for the year ended 30 June 2002 was provided to the Treasurer on 13 September 2002.

SIGNIFICANT FINDINGS

- ***CFU's operating deficit of $1m was significantly less than its budgeted operating surplus of $11.7m and last year's operating surplus of $14.7m.***

- ***Current investment balances increased by 53% over last year.***

MATTERS ARISING FROM THE AUDIT

49.5 The matters reported to CFU along with recommendations included:

- Possible breaches of *Sections 38* and *45* of the *Financial Management Act 1996*. Further comments on these possible breaches are provided in *Chapter 7: Compliance with the Financial Management Act 1996*.

- The Territorial Financial Statements do not fully comply with AAS17: *Leases* in relation to the accounting for and disclosure of the motor vehicle leasing arrangements.

FINANCIAL ANALYSIS

49.6 The table below summarises the CFU's Statement of Financial Performance.

Table 49.1 Central Financing Unit Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Revenue				
Interest received from Government entities	40,330	35,097	48,303	30,149
Income from market investments	23,178	36,149	35,005	22,355
	63,507	**71,246**	**83,308**	**52,504**
Expenditure				
Interest on borrowings	39,173	33,524	47,434	30,611
Interest paid to Government entities	11,848	32,206	20,849	17,747
Other	734	6,557	314	706
	51,755	**72,287**	**68,597**	**49,064**
Operating surplus/(deficit)	**11,752**	**(1,041)**	**14,709**	**3,440**

49.7 Comments follow on the major sources of revenue and expenditure, which show significant variations from budget and previous year.

DEPARTMENTAL TRANSACTIONS

Revenue

49.8 Total revenue exceeded budget by $7.7m and was $12.1m less than the prior year's actual revenue.

Revenue Comparison with Budget

49.9 Total revenue of $71.2m exceeded budget of $63.5m by $7.7m. This was mainly due to *Income from market investments* exceeding

budget by $12.9m offset by *Interest received from Government entities* being $5.2m less than budget.

49.10 *Income from market investments* exceeded budget by $12.9m due to higher than expected average balances invested with external fund managers.

49.11 *Interest received from Government entities* was $5.2m less than budget due mainly to the effect of lower than expected consumer price index (CPI) on the $250m indexed annuity bond loans provided to ACTEW.

Revenue Comparison with Prior Year's Actual

49.12 Total revenue of $71.2m was $12.1m less than the prior year mainly due to a decrease of $13.2m in *Interest received from Government entities* offset by an increase of $1.1m in *Income from market investments*.

49.13 The decrease in *Interest received from Government entities* of $13.2m was due to a reduction in interest received from ACTEW on the $250m indexed annuity bonds loan. Interest payments on the ACTEW loan are based on the quarterly change in CPI, which was comparatively lower in 2001-2002 than the previous year. This loan was provided to ACTEW in 1999-2000.

49.14 This year's small increase of $1.1m in *Income from market investments* was mainly due to a higher level of investments compared to last year.

Expenditure

49.15 Total expenditure exceeded budget significantly by $20.5m and increased by $3.7m from prior year's actual expenditure.

Expenditure Comparison with Budget

49.16 Total expenditure of $72.3m exceeded budget of $51.8m by $20.5m. This was mainly due to *Interest paid to Government entities* and *Other* expenses exceeding budget by $20.4m and $5.8m respectively offset by *Interest on borrowings* which was $5.6m less than budget.

49.17 *Interest paid to Government entities* significantly exceeded budget by $20.4m mainly due to higher than expected investment interest payments made to agencies on the higher than expected levels of average balances held on behalf of these agencies as investments.

49.18 *Other* expenses were $5.8m higher than budget primarily due to a waiver of a loan to Totalcare.

49.19 *Interest on borrowings* was $5.6m less than budget due to a fall in interest rates on indexed annuity bonds and the refinancing of matured inscribed stock bonds at a lower floating interest rate compared to the estimated floating interest rate used in the budget.

Expenditure Comparison with Prior Year's Actual

49.20 Total expenditure of $72.3m increased by $3.7m over the prior year's actual amount of $68.6m. The increase was attributable to an increase in *Interest paid to Government entities* ($11.4m) and *Other* expenses ($6.2m) offset by a fall in *Interest on borrowings* of $13.9m.

49.21 *Interest paid to Government entities* increased by $11.4m in 2001-2002. Departments and agencies invest their funds that are surplus to their immediate requirements with the CFU. The amount of funds invested by departments and agencies increased during the year resulting in an increase in interest paid to departments and agencies. This year, the actual interest earned on amounts invested on behalf of the Territory Banking Account was paid out rather than retaining these amounts as revenue as was the practice in prior years.

49.22 The increase in *Other* expenses of $6.2m was mainly due to a waiver of a loan to Totalcare of $5.8m this year.

49.23 The decrease of $13.9m in *Interest on borrowings* was primarily due to the refinancing of matured inscribed stock bonds at a lower floating interest rate compared with the higher fixed interest rate that previously applied to the bonds.

Investment Performance

49.24 During the year the CFU invested in a cash enhanced fund (short term period of less than one year) and a fixed interest fund (more than a

year). These funds mainly comprise of amounts invested by CFU on behalf of the agencies and were managed by external fund managers.

49.25 At 30 June 2002, the CFU had an investment balance of $827m in the cash enhanced fund ($541m in 2000-2001) and $74m in the fixed interest fund ($72m in 2000-2001). The increase in the balance of cash enhanced fund represents a 53% rise in the funds not immediately required by agencies and therefore provided to the CFU for short-term investment.

49.26 The cash enhanced fund mainly comprised of cash, bank bills and promissory notes. It had a benchmark return of 4.67%[171]. The fund's performance for the year (after fees) was 4.74%.

49.27 The fixed interest fund comprised of Commonwealth Government and semi-Government fixed rate bonds and had a benchmark return of 5.38%[172]. The fund's performance for the year (after fees) was 5.39%.

49.28 Overall, the performance of the CFU's investments during the year was satisfactory.

Operating Surplus/(Deficit)

49.29 This year's operating deficit of $1m was significantly less than last year's operating surplus of $14.7m and the budgeted surplus of $11.8m.

49.30 The significant fall in the operating result was primarily due to an increase in the amount of *Interest paid to Government entities* as a result of all interest earned on amounts invested on behalf of the Territory Banking Account being paid out compared to the prior year practice of retaining it as revenue and a 'one-off' waiver of a loan to Totalcare.

TERRITORIAL TRANSACTIONS

49.31 The CFU's Territorial transactions cover most Government revenue and expenditure activity. An analysis of the Territory's financial statements is included in *Section 3* of this Report. As the CFU's

[171] The benchmark return of 4.67% for the cash enhanced fund was based on UBS Warburg Bank Bill Index.
[172] The benchmark return of 5.38% for the fixed interest fund was based on 50% UBS Warburg Government Bond 0-5 years Index and 50% UBS Warburg Semi Government Bond 0-5 years Index.

Territorial transactions are reflected in the Audit's analysis of these Statements no analysis is presented here.

SHORT TERM FINANCIAL POSITION

49.32 The current ratio, which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the CFU's current assets and current liabilities for the last three years are presented in the following table.

Table 49.2 Central Financing Unit
Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**848,665**	**560,795**	**432,390**
Current liabilities	**1,113,266**	**820,256**	**565,040**
Current ratio	**0.8 to 1**	**0.7 to 1**	**0.8 to 1**

49.33 The CFU's current ratio improved marginally compared to last year. Although current assets were less than the current liabilities, it will not affect the CFU's ability to meet its obligations in the short term as the major component of the current liabilities was borrowings relating to agencies' investments with the CFU. In addition, there was $212m in borrowings that were classified as current liabilities as they were financed by way of a short-term (maturity less than 365 days) commercial paper, whereas the matching loan receivables were classified as non-current assets as they were not due to be paid within the next year.

50 CHIEF MINISTER'S DEPARTMENT

INTRODUCTION

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

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

50.2 The Department was administratively restructured during the year. Under the Administrative Arrangement Order of 14 November 2001 the functions associated with Work Safety and Labour Regulation, and Sport and Recreation were transferred to the Department. Some of the Department's functions, such as, Canberra Connect and Economic Policy, were transferred to other agencies.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

50.3 The Department's financial statements are reported on pages 51 to 161 of volume 2 of its Annual Report.

50.4 An ***unqualified*** audit opinion on the Department's financial statements was provided to the Chief Minister on 19 September 2002.

SIGNIFICANT FINDING

- ***As a result of delays in Electronic Service Delivery Projects[173], $6.9m of budgeted capital injections funding was not drawn down in the current financial year.***

MATTERS ARISING FROM THE AUDIT

50.5 As a result of the audit some instances were identified where the financial operations or internal controls of the Department could be improved. These instances were reported to management along with appropriate recommendations.

[173] *Electronic Service Delivery Projects* are projects whose primary focus is to provide either Government Services through electronic channels including internet or projects to provide infrastructure for such services to be delivered.

FINANCIAL ANALYSIS

DEPARTMENTAL TRANSACTIONS

50.6 The table below summarises the Department's Statement of Financial Performance.

Table 50.1 Chief Minister's Department Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Expenditure			
Operating	28,589	16,094	25,795
Payments for business, tourism and the arts services[174]	20,907	21,545	20,058
Employee	18,255	18,100	15,587
Grant to Impulse Airlines	-	-	8,000
Grants – ACT Business Incentive Scheme (ACTBIS)	-	4,420	5,019
Other	5,783	9,595	2,939
	73,534	**69,754**	**77,398**
Revenue			
Sale of services to non Government entities	492	1,302	2,175
Other	732	498	449
	1,224	**1,800**	**2,624**
Net cost of outputs	**72,310**	**67,952**	**74,774**
Government contributions			
Government payments for outputs	63,820	57,964	65,184
Capital injections	14,614	1,871	3,241
Resources received free of charge - ACTBIS	-	4,420	5,019
Other	6,065	5,705	3,151
	84,499	**69,960**	**76,595**
Operating surplus[175]	**12,189**	**2,008**	**1,821**

[174] The Department makes payments to the Canberra Tourism and Events Corporation for business and tourism services and makes payments to the Cultural Facilities Corporation for the use of arts facilities.
[175] The *Operating surplus* of $2.0m in the table differs from the published operating surplus of $0.1m because, for the purpose of this analysis, *Capital injections* of $1.9m have been included in the Government contributions.

50.7 Comments follow on the major sources of expenditure and revenue and Government contributions which show significant variations from budget and prior year.

Expenditure

50.8 This year's expenditure was $3.7m less than budget and significantly less than last year's expenditure by $7.6m.

Expenditure Comparison with the Budget

50.9 This year's expenditure of $69.8m was $3.7m less than the budgeted amount of $73.5m. This was due to *Operating* expenses being $12.5m less than budget partially offset by higher than expected costs relating to *Grants - ACT Business Incentive Scheme* and *Other* expenses which exceeded budget by $4.4m and $3.8m respectively.

50.10 *Operating* expenses were less than budget was due to the deferral of the Knowledge Fund Project[176] expenditure into 2002-03, lower than forecast depreciation and the cancellation of the Ansett Call Centre project.

50.11 *Grants - ACT Business Incentive Scheme* exceeded budget by $4.4m because these costs were not included in the budget.

50.12 The increase in *Other* expenses of $3.8m was due to grant payments exceeding budget forecasts as a result of the transfer of Sport and Recreation to the Department as part of the Administrative Arrangement Order of 14 November 2001.

Expenditure Comparison with Prior Year's Actual

50.13 This year's expenditure of $69.8m was significantly ($7.6m) less than the prior year amount of $77.4m.

50.14 This fall in expenditure was mainly due to a $9.7m reduction in *Operating* expenses, an $8m *Grant to Impulse Airlines* made last year and not repeated this year offset by increases in *Other* expenses ($6.7m) and *Employee* expenses ($2.5m).

[176] The *Knowledge Fund Project* provides grant payments to organisations that work on Research and Development in technology related matters.

50.15 The $9.7m fall in *Operating* expenses was mainly due to the transfer of costs associated with Canberra Connect which was transferred to the Department of Urban Services as a result of the Administrative Arrangement Order of 14 November 2001 and 'one-off' Olympic Games expenses totalling $6m last year were not repeated this year.

50.16 The increase in *Other* expenses of $6.7m mainly related to an increase in Non-ACT Government grants.

50.17 The increase in *Employee* expenses was due to an increase in staff numbers following the transfer of functions to the Department as the result of the Administrative Arrangement Order of 14 November 2001.

Revenue

Revenue Comparison with the Budget

50.18 This year total revenue of $1.8m exceeded the budget of $1.2m by $0.6m mainly due to the *Sale of services to non-Government entities* exceeding budget by $0.8m.

50.19 *Sale of services to non-Government entities* exceeded budget due to 'one-off' revenue this year in relation to the Beijing Olympics of $0.3m and Commonwealth grants for cultural programs of $0.3m.

Revenue Comparison with Prior Year's Actual

50.20 This year's revenue of $1.8m was lower than last year's revenue of $2.6m by $0.8m mainly due to a decrease in *Sale of services to non-Government entities* as a result of the transfer of Canberra Connect and Centenary of Federation from the Department to other agencies under the Administrative Arrangement Order of 14 November 2001.

Net Cost of Outputs

50.21 This year's *Net cost of outputs* of $68.0m was less than the budget of $72.3m and prior year actual of $74.8m. This was mainly due to expenditure being less than budget and prior year.

50.22 As the *Net cost of outputs* is less than the budget, the Audit has concluded that the Department generally managed its operations to budget.

Government contributions

50.23 This year's Government contributions of $70m were $14.5m less than budget and $6.6m less than the prior year.

50.24 Government contributions were $14.5m less than budget because *Capital injections* and *Government payments for outputs* were less than budget by $12.7m and $5.9m respectively offset by $4.4m in unbudgeted *Resources received free of charge - ACT Business Incentive Scheme*.

50.25 *Capital injections* were $12.7m less than budget mostly because of the deferral of expenditure in relation to the Electronic Services Delivery projects[177] of $6.5m. The remaining $5.7m in funding was not drawn down because the funding was transferred from the Department as a result of the Administrative Arrangement Order of 14 November 2001.

50.26 *Government payments for outputs* was $5.9m less than budget mainly due to the cancellation of project funding such that relating to the Ansett Call Centre.

Operating surplus

50.27 The operating surplus shows the difference between the net cost of the Department and the Government contributions to those costs. An operating surplus means that the Government has contributed more than the net costs incurred by the Department.

50.28 This year's operating surplus of $2m was substantially lower than the budgeted surplus of $12.2m and slightly higher than the prior year amount of $1.8m.

Conclusion

50.29 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that the Department generally managed its operations to budget.

[177] Projects whose primary focus is to provide either Government Services through electronic channels including internet or projects to provide infrastructure for such services to be delivered.

TERRITORIAL TRANSACTIONS

Territorial Expenses

50.30 Territorial expenditure is comprised of Grants, subsidies and transfer payments. The table below summarises the Territorial expenses.

Table 50.2 Chief Minister's Department Territorial Expenses

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Grants, subsidies and transfer payments			
Grants to non-Government organisations	4,448	1,427	4,378
Stadiums Authority	3,647	3,647	2,605
	8,095	**5,074**	**6,983**

50.31 *Grants to non-Government organisations* are for community activity programs such as arts, music and dance activities. The reduction in grants from prior year is as a result of the transfer of this function to the Department of Urban Services as part of the Administrative Arrangement Order of 14 November 2001.

50.32 A cash injection of $3.6m was provided to the Stadiums Authority to allow the Authority to meet its financial obligations.

Conclusion

50.33 From the Audit's review of the Territorial statements the conclusion has been drawn that the Department has generally managed its Territorial operations to budget.

51 CIT SOLUTIONS PTY LTD

INTRODUCTION

51.1 CIT Solutions Pty Limited (the Company) is wholly owned by the Canberra Institute of Technology (the Institute). It undertakes projects, courses and other ventures connected with the Institute on a commercial

basis. The Company has a 31 December year-end for financial reporting and is consolidated with the Institute.

AUDIT OF THE 2001 FINANCIAL STATEMENTS

51.2 An ***unqualified*** audit report was issued to the Minister for Education, Planning and Industrial Relations on 11 March 2002.

52 CLEANING INDUSTRY LONG SERVICE LEAVE BOARD

INTRODUCTION

52.1 The Cleaning Industry Long Service Board (the Board) is an independent statutory authority established by the *Long Service Leave (Contract Cleaning Industry) Act 1999* (the Act). The Board administers a scheme to provide long service leave benefits as established by the Act to employees in the ACT cleaning industry based on service in the industry rather than service with a particular employer.

52.2 The scheme is funded by a levy payable by the employer. The levy is a set percentage of the basic remuneration payable to the employees. The levy rate is set under the Act and can be varied through a determination by the Minister for Industrial Relations.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

52.3 The Cleaning Industry Long Service Leave Board's audited financial statements are set out on pages 9 to 28 of the Board's Annual Report.

52.4 An ***unqualified*** audit opinion was provided to the Minister for Industrial Relations on 7 August 2002.

53 CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD

INTRODUCTION

53.1 The Construction Industry Long Service Leave Board (the Board) was established by the *Long Service Leave (Building and Construction Industry) Act 1981* (the Act). The Board administers a scheme to provide long service leave benefits to employees and sub-contractors in the ACT construction industry, based on service in the industry rather than service with a particular employer.

53.2 The scheme allows employees who work in the industry for some time but who work for several employers to accrue long service leave benefits. It also provides a mechanism which ensures that money is available to meet those long service leave benefits. Similar schemes exist in other Australian States.

53.3 The scheme is funded by a levy paid by the employer. The levy is a set percentage of the basic remuneration payable to the employees. The levy rate (currently 1%) is set under the Act. The rate can be varied through a determination by the Minister for Industrial Relations.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

53.4 The Board's audited financial statements are reported on pages 15 to 39 of the Board's Annual Report.

53.5 An ***unqualified*** audit opinion was provided to the Minister for Industrial Relations on 7 August 2002.

SIGNIFICANT FINDINGS

- ***The Board incurred a loss of $3.2m compared to a prior year loss of $0.4m.***

- ***The Board continues to have a strong financial position despite the operating loss in the current year.***

FINANCIAL ANALYSIS

53.6 The following table summarises the Board's Statement of Financial Performance for recent years.

Table 53.1 Construction Industry Long Service Leave Board Summary Statement of Financial Performance

	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Revenue			
Contributions from employers	1,359	1,334	1,171
(Loss)/income from investments	(738)	2,399	2,160
Other	460	871	763
	1,081	**4,604**	**4,094**
Expenses			
Long service leave benefits	2,266	2,168	1,426
Accrued long service leave liability	1,400	2,200	300
Salaries and on cost	275	228	387
Other	388	366	445
	4,329	**4,962**	**2,558**
Operating (loss)/profit	**(3,248)**	**(358)**	**1,536**

53.7 The Board incurred a significant loss for the year due to losses of ($0.7m) from investments compared to positive $2.4m in the previous year. The investment losses were due mainly to the poor performance in overseas equity markets.

53.8 Expenditure fell by $0.6m due mainly to a lower than expected increase in the provision for long service leave liability as valued by the NSW Government Actuary.

SHORT-TERM FINANCIAL POSITION

53.9 The current ratio is indicative of an entity's ability to meet its obligations in the short term. The table on the following page summarises the Board's current assets and liabilities.

Table 53.2 Construction Industry Long Service Leave Board Summary Current Assets and Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current Assets	**40,303**	**42,059**	**40,241**
Current Liabilities	**20,919**	**19,426**	**17,249**
Current Ratio	**1.9 to 1**	**2.2 to 1**	**2.3 to 1**

53.10 The current ratio indicates that the financial position of the Board continues to be sound even though operating losses have been incurred over the last 2 years.

54 CULTURAL FACILITIES CORPORATION

INTRODUCTION

54.1 The Cultural Facilities Corporation (the Corporation) was established on 1 November 1997 by the *Cultural Facilities Act 1997*. The Corporation is comprised of the Canberra Theatre Centre, the Canberra Museum and Gallery as well as a number of historic sites. The Corporation is also responsible for the management and promotion of Civic Square.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

54.2 The Corporation's audited financial statements are reported on pages 94 to 118 of its Annual Report.

54.3 An ***unqualified*** audit opinion was provided to the Minister for the Arts on 22 August 2002.

SIGNIFICANT FINDINGS

- ***In 2001-2002 the Corporation received Government contributions of $6.4m (2000-2001 $6.2m). This equates to a Government subsidy of $18.77 per visitor/patron per visit to facilities managed by the Corporation in 2001-2002 and is higher than 2000-2001 ($18.55 per person/visitor).***

- ***The Corporation's reported loss of $0.6m was less than the budgeted loss of $0.9m. The loss included $1.3m in depreciation expenses. The loss continued a sequence of operating losses over the past few years as the Government contributions continue to exclude depreciation.***

MATTERS ARISING FROM THE AUDIT

54.4 During the audit instances were identified where the financial operations or internal controls of the Corporation could be improved. These instances were reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

54.5 The table on the following page summarises the Corporation's Statement of Financial Performance.

Table 54.1 Cultural Facilities Corporation
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Salaries and related	4,287	4,863	4,381	4,173
Operating	4,992	4,755	4,836	4,742
Depreciation	1,149	1,282	1,115	1,121
Other	-	247	157	34
	10,428	**11,147**	**10,489**	**10,070**
Revenue				
Venue hire, ticket sales, sponsorships, sale of products	3,027	3,914	3,212	3,129
Other	122	249	226	115
	3,149	**4,163**	**3,438**	**3,244**
Net cost of services	**7,279**	**6,984**	**7,051**	**6,826**
Government contributions	6,357	6,357	6,173	6,124
Operating loss	**(922)**	**(627)**	**(878)**	**(702)**

Expenditure

54.6 The Corporation attracted more visitors/patrons to its facilities, held more temporary exhibitions than planned, conducted more education and public programs than anticipated. This increased activity resulted in higher salaries and operating costs.

Revenue

54.7 Revenue was 32% above budget and 21% above the prior year due to increased sponsorships, grants and donations and revenue from venue hire.

Net Cost of Services

54.8 The *Net cost of services* of $7m was marginally lower than last year's *Net cost of services* of $7.1m. This year's *Net cost of services* was less than the budgeted cost of services of $7.3m indicating that the Corporation managed the net cost of its operations to budget.

Government Contributions

54.9 During the year, the total number of visitors/patrons to facilities managed by the Corporation was 360,782. Government contributions to the Corporation were $6.4m meaning that the Government paid a subsidy of $18.77 for each person who visited the Corporation's facilities in 2001-2002. The subsidy paid in 2000-2001 was $18.55 per person.

Operating Loss

54.10 The Corporation reported an operating loss of $0.6m for the financial year compared with a budgeted operating loss of $0.9m and last year's operating loss of $0.9m. This continues the Corporation's sequence of operating losses over the last 4 years.

54.11 The Corporation's losses reflect the cost of depreciation on the significant assets of the Corporation, which the Corporation does not fully recover through its operating activities. The Government provides cash capital injections to fund new major assets and asset replacements through the capital works program. It is therefore not necessary for the Corporation to cover depreciation costs.

Conclusion

54.12 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that the Corporation, in an overall sense, managed its operations within budget.

SHORT TERM FINANCIAL POSITION

54.13 The current ratio is indicative of an entity's ability to meet its obligations in the short term. The Corporation's current ratio is 1.9 to 1, which indicates the Corporation's short-term financial position is sound despite incurring operating losses over the last 4 years.

55 ECOWISE ENVIRONMENTAL PTY LIMITED

INTRODUCTION

55.1 Prior to the commencement of the ActewAGL Joint Venture last year, ECOWISE Environmental Pty Limited (ECOWISE) was a subsidiary of ACTEW. ECOWISE was transferred to the Joint Venture as a controlled entity of the ActewAGL Distribution Partnership on 3 October 2000.

55.2 ECOWISE's results are therefore consolidated into the ActewAGL Joint Venture's financial statements. The ActewAGL Joint Venture's financial results are explained in Chapter 38 of this report.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

55.3 An ***unqualified*** audit opinion on ECOWISE's financial statements was issued on 12 September 2002.

55.4 There is no requirement for ECOWISE's financial statements to be published. As the results of ECOWISE are included in the ActewAGL Joint Venture's financial statements this level of reporting is reasonable.

56 EDUCATION, YOUTH AND FAMILY SERVICES DEPARTMENT

INTRODUCTION

56.1 The Department of Education, Youth and Family Services (the Department) provides school education, training, care and protection of children and sport and recreation services to meet the needs of the people of Canberra.

56.2 The Department's services include the provision of government school education, registration of non-Government schools, coordination and purchase of vocational education and training, registration of child care providers and provision of preschool education. In addition, the Department provides services for the identification of, and assistance to, children and youth with specific needs, appropriate care and protection strategies for children, youth justice services and support for community development activities and management of sport and recreation programs and facilities.

56.3 In November 2001 responsibility for sport and recreation was transferred to the Chief Minister's Department, whilst sports ovals and pools were transferred to the Department of Urban Services. The Department received Youth Justice from the Department of Justice and Community Safety.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

56.4 The Department's audited financial statements are reported on pages 83 to 157 of the Department's Annual Report.

56.5 An ***unqualified*** audit opinion was provided to the Minister for Education, Youth and Family Services on 17 September 2002.

MATTERS ARISING FROM THE AUDIT

56.6 During the audit a few minor instances were identified where the Department's internal controls or procedures could be improved. These instances were reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

DEPARTMENTAL TRANSACTIONS

56.7 The table on the following page summarises the Department's Statement of Financial Performance.

Table 56.1 Department of Education, Youth and Family Services Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Expenditure				
Employee	258,445	255,103	245,771	244,626
Purchase of CIT training services	46,359	45,744	43,939	47,524
Grant payments	42,189	44,070	42,408	34,549
Costs incurred directly by schools	43,063	41,076	39,967	40,764
Operating	43,034	36,930	38,462	36,552
Depreciation	24,007	23,838	23,810	23,657
Interest	11,332	10,724	13,267	14,283
Other	400	973	440	376
	468,829	**458,458**	**448,064**	**442,331**
Revenue				
Money collected by schools	13,941	16,131	15,005	13,893
Revaluation increment of assets	-	10,077	-	-
International private students	2,900	3,928	2,914	2,216
Grants from the Commonwealth	2,061	2,308	2,142	1,910
Hire of school buildings and facilities	2,069	2,228	2,650	2,483
Interest	950	1,368	1,552	1,666
Other	555	1,127	684	577
	22,476	**37,167**	**24,947**	**22,745**
Net cost of services	**446,353**	**421,291**	**423,117**	**419,586**
Government contributions				
Government payment for outputs	419,905	417,157	402,502	388,257
Capital injections	24,925	19,782	19,331	9,400
Injection for operations	-	-	-	7,730
Other	808	1,145	916	464
	445,638	**438,084**	**422,749**	**405,851**
Operating (deficit)/surplus	**(715)**	**16,793**	**(368)**	**(13,735)**

56.8 Comment follows on the major sources of revenue and expenditure, which show significant variations from budget and previous year's figures.

Expenditure

Expenditure Comparison to Budget

56.9 Total expenditure in 2001-2002 of $458.5m was below budget by $10.4m due mainly to:

- The transfer under Administrative Arrangements Order of sport and recreation to the Chief Minister's Department and sports ovals and pools to the Department of Urban Services ($6.1m);
- A change in the employee superannuation profile resulting in lower superannuation costs ($3.7m);
- Savings in communication technology costs and delays associated with the teacher award program ($4.3m);
- Expenditure in schools discretionary funds and timing issues in relation to excursion funds ($1.4m); offset by
- Higher grants expenditure relating to substitute care, Social and Community Service Award and Commonwealth grants ($5.1m).

Expenditure Comparison to Prior Year Actual

56.10 Total expenditure in 2001-2002 of $458.5m increased by $10.4m over the previous year due mainly to increases in:

- *Employee* expenses mainly relating to salary increases resulting in part from the enterprise bargaining agreement and initiatives such as lower early childhood class sizes for primary schools ($9.3m); and
- the cost of purchasing CIT training services ($1.8m), *Grant payments* ($1.7m), *Costs incurred directly by schools* ($1.1m) and an increase in *Other* expenses ($0.5m).

56.11 These increases were partially offset by a decrease in the capital charge payment ($2.5m) and lower *Operating* expenses ($1.5m) due to the transfer of functions to other departments.

Revenue

Revenue Comparison to Budget and Prior Year Actual

56.12 Total revenue in 2001-2002 included a 'one off' asset revaluation increment of $10.1m. After removing this item from the analysis, revenue in 2001-2002 was higher than the previous year by $2.1m and budget by $4.6m primarily due to increases in revenue from *Money collected by schools* and *International private students*.

Net Cost of Services

56.13 This year's *Net cost of services* of $421.3m is $25.1m less than the budgeted *Net cost of services* of $446.4m due to expenditure being $10.4m below budget and revenue being $14.7m above budget. The *Net cost of services* of $421.3m was slightly less than last year's cost of $423.1m by $1.8m.

Government Contributions

Government Payment for Outputs

56.14 The increase of $14.7m in *Government payment for outputs* from $402.5m to $417.2m is primarily due to:

- indexation for the maintenance of funding for Government schooling ($5.1m) and services for other areas of the Department ($1.8m);
- teacher's enterprise bargaining agreements ($3.3m); and
- 2001-2002 budget initiatives ($6.2m).

56.15 These increases were partially offset by an enrolment adjustment ($1.4m) and other minor reductions ($0.4m).

Capital Injections

56.16 *Capital injections* received for 2001-2002 were $19.8m compared to the budgeted amount of $24.9m. The major reason for expenditure being less than budget was the deferral to 2002-2003 of capital works projects ($3.1m) primarily relating to the Griffin Centre ($1.7m), forward design for the Gungahlin primary and high schools ($0.8m) and the

transfer of capital works as a result of administrative arrangements orders ($2.1m).

Operating Surplus

56.17 The operating surplus of $16.8m is significantly higher than the budgeted deficit of $0.7m and significantly higher than last year's operating deficit of $0.4m. This year's operating surplus is the result of the *Net cost of services* being $25m below budget whereas the Government's contributions were only $7.6m below budget.

Conclusion

56.18 From the Audit's review of the financial statements and the explanations for variations from budget, the conclusion has been drawn that the Department, in an overall sense has managed its operations to budget.

TERRITORIAL TRANSACTIONS

Expenditure

56.19 Territorial expenditure other than transfers made to the Central Financing Unit comprised *Grants and purchased services* and *Other expenses*. The table below summarises Territorial expenses.

Table 56.2 Department of Education, Youth and Family Services Territorial Expenses

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000	Actual 1999-00 $000
Grants and purchased services				
Grants – non Government schools	95,531	103,580	92,091	83,651
Sports grants	6,500	500	292	2,580
Junior Bursary Scheme	410	292	385	426
Other grants	65	39	43	57
ACTEW Community service obligation subsidies	8,138	9,448	8,537	8,361
	110,644	**113,859**	**101,348**	**95,075**
Other expenses				
Subsidies and concessions	11,690	11,031	11,007	10,780
	11,690	**11,031**	**11,007**	**10,780**
Total Expenses	**122,334**	**124,890**	**112,355**	**105,855**

56.20 *Grants and purchased services* - are payments made to non-Government schools, sports grants to non Government organisations as well as reimbursements to ACTEW for concessional electricity, water and sewerage charges. The 2001-2002 expenditure of $113.9m was $3.2m higher than budget and $12.5m higher than the previous year. Increased costs in these areas primarily relate to increases in payments to non-Government schools and increased expenditure for ACTEW's community service obligations.

56.21 *Other expenses* are payments made to reimburse various organisations for subsidised costs of services such as general rates, motor vehicle registration, bus travel and the supply of spectacles to eligible applicants. Expenditure in 2001-2002 of $11m was relatively consistent with the previous year and budget.

Revenue

56.22 Territorial revenue other than amounts received from the Central Financing Unit was comprised of Commonwealth Government grants and fees and charges totalling $132.6m in 2001-2002 compared to a budgeted amount of $124m and a prior year amount of $123m. The variance from budget and previous year is mainly the result of additional Commonwealth funding for non-Government schooling and vocational education and training.

Conclusion

56.23 From the Audit's review of the financial statements and the explanations for variations from the budget, the conclusion has been drawn that the Department, in an overall sense, managed its Territorial operations to budget.

SHORT TERM FINANCIAL POSITION

56.24 The current ratio is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets, current liabilities and the current ratio are presented in the table on the following page.

Table 56.3 Department of Education, Youth and Family Services Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual 2000 $000
Current assets	**38,766**	**27,860**	**21,156**
Current liabilities	**33,106**	**29,008**	**27,132**
Current ratio	**1.17 to 1**	**0.96 to 1**	**0.78 to 1**

56.25 The Department's current ratio has improved from 0.96 to 1 to 1.17 to 1 as a result of increased cash holdings. The additional cash holdings were caused by the deferral of some expenditure to 2002-2003 relating to Commonwealth specific purpose programs, incomplete capital works, increased creditors and revenue received in advance for private international students.

57 EXECUTIVE

INTRODUCTION

57.1 The ACT Executive Appropriation Unit (the Executive) is administered by the Chief Minister's Department. An appropriation is made to the ACT Executive Appropriation Unit for salaries and administrative expenses associated with Ministers and the staff of Ministers.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

57.2 The Executive's audited financial statements are reported on pages 14 to 39 of volume 2 of the Chief Minister's Department Annual Report.

57.3 An ***unqualified*** audit opinion was provided to the Chief Minister on 20 August 2002.

58 EXHIBITION PARK IN CANBERRA

INTRODUCTION

58.1 The National Exhibition Centre Trust is a Statutory Authority established under the *National Exhibition Centre Trust Act 1976*. It is responsible for managing the Exhibition Park in Canberra (EPIC). The major objectives of the Trust are to:

- manage the centre and conduct exhibitions, sporting, recreational and cultural activities and any other activities approved by the minister; and
- provide buildings and other facilities as appropriate to conduct the activities described above.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

58.2 The National Exhibition Centre Trust's audited financial statements are reported on pages 26 to 51 of the Trust's Annual Report.

58.3 An ***unqualified*** audit opinion was provided to the Treasurer on 28 August 2002.

FINANCIAL ANALYSIS

58.4 Previous reports have disclosed that EPIC has made operating losses of $0.07m (2000-2001), $0.35m (1999-2000), $0.25m (1998-99) and $0.18m (1997-98). EPIC's operating loss of $0.14m for 2001-2002 was higher than last year but was lower than the budgeted loss of $0.19m.

58.5 Net assets improved during the year due to a capital injection received from the Government of $0.58m.

58.6 The current ratio is indicative of an entity's ability to meet its obligations in the short term. The Trust has a current ratio of 3 to 1 indicating that their short-term position is satisfactory.

59 GAMBLING AND RACING COMMISSION

INTRODUCTION

59.1 The Gambling and Racing Commission (the Commission) was established on 1 December 1999 under *Section 5* of the *Gambling and Racing Control Act 1999*.

59.2 The primary objectives of the Commission are to:

- regulate gambling and racing activities in accordance with the Territory's gaming laws;
- review gaming laws to ensure their continued relevance and appropriateness;
- manage research and data collection in regard to the social and economic impacts of gambling in the Territory; and
- ensure compliance by gaming organisations and persons with the payment of fee and tax liabilities.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

59.3 The Commission's financial statements are reported on pages 41 to 62 of its Annual Report.

59.4 An ***unqualified*** audit opinion was provided to the Chief Minister on 2 August 2002.

60 GUNGAHLIN DEVELOPMENT AUTHORITY

INTRODUCTION

60.1 The Gungahlin Development Authority (GDA) was established by the *Gungahlin Development Authority Act 1996*. The main objective of GDA is to ensure that the Gungahlin Central Area and Town Centre is developed in accordance with the principles and policies set out in the

Territory Plan in order to provide for the social and economic needs of the community.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

60.2 GDA's audited financial statements are reported in Part 4.3 of GDA's Annual Report.

60.3 An ***unqualified*** audit opinion was provided to the Minister for Planning on 28 August 2002.

FINANCIAL ANALYSIS

60.4 The following table summarises the GDA's 2001-2002 Statement of Financial Performance.

Table 60.1 Gungahlin Development Authority Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual[178] 2000-01 $000
Revenue			
Land sales	18,900	30,180	22,680
Land contribution from the Government	2,976	3,362	620
Other	280	536	294
	22,156	**34,079**	**23,594**
Expenditure			
Cost of land sold contributed by the Government	2,976	3,362	620
Employee	339	418	316
Operating	166	155	153
Infrastructure to be returned to the Territory [179]	10,850	13,680	12,060
Other	648	633	883
	14,979	**18,248**	**14,032**
Operating profit	**7,177**	**15,831**	**9,562**

[178] The *Operating profit* for 2000-2001 of $9.6m differs from the published *Operating profit* of $2.3m because, for the purpose of this analysis, the financial effect of the sale of the Yerrabi Estate has been included in the 2000-2001 financial year.

[179] GDA is required at the practical completion of infrastructure works such as water and sewage, storm water and roads, to transfer this infrastructure to appropriate authorities such as ActewAGL and the Department of Urban Services. GDA recognises this transfer as an expense.

60.5 Comment follows on the major sources of revenue and expenditure items that show significant variations from budget and prior year results.

Revenue

60.6 *Land sales* – The significant increase in land sales is a result of the release and sale of the Horsepark Estate. The sale of this estate resulted in a record price for any land release in the Territory. The total value of the sale was $30.2m with $16.2m being paid in cash and the remaining $13.7m being in infrastructure. This result was $11.3m higher than budget.

60.7 *Land contribution from the Government* – during 2001-2002 GDA received parcels of land to the value of $3.4m from the Government. A corresponding *Cost of land sold contributed by the Government* is included in the Statement of Financial Performance. The receipt of the land therefore had no effect on GDA's operating result. This cost represents the acquisition costs, development costs and costs during development.

Expenditure

60.8 The major expenditure item in GDA's financial statements is *Infrastructure to be returned to the Territory*. The increase of $2.8m is due to the corresponding increase in infrastructure received as revenue for the Horsepark Estate.

Operating Profit

60.9 GDA generated an *Operating profit* for the year of $15.8m against a budgeted profit of $7.2m, due to the additional revenue generated from the sale of the Horsepark Estate.

Conclusion

60.10 On the basis of the reasons identified for the major variations from budget, the Audit has concluded that GDA has managed its operations to budget.

SHORT TERM FINANCIAL POSITION

60.11 The current ratio is indicative of GDA's ability to meet its obligations in the short term. GDA's current ratio of 2.1 to 1 indicates that it has a sound short-term financial position and has improved over the prior year of 1.2 to 1.

PALMERSTON FOUR JOINT VENTURE

60.12 The financial statements of the Palmerston Four Joint Venture (the Joint Venture) appear in Part 4.3 of GDA's Annual Report.

60.13 An ***unqualified*** audit opinion was provided to the Minister for Planning on 31 July 2002.

60.14 The Joint Venture is a housing estate development of 226 blocks. It is a Joint Venture between GDA and the Palmerston Builders Group Unit Trust. The respective parties have a 50% share in the operating results, assets and liabilities of the Joint Venture.

60.15 The Joint Venture has effectively ceased operations with all the land having been sold. The only revenue received in 2001-2002 was from interest. The expenses for this financial year consist mainly of accounting fees and bank charges with some remaining costs associated with landscaping prior to the Joint Venture being formally wound up.

60.16 The Joint Venture has made total profits of $2.7m since it was established in 1999.

61 HEALTH AND COMMUNITY CARE SERVICE

INTRODUCTION

61.1 The Health and Community Care Service (the Service) is comprised of Community Care and The Canberra Hospital. The Service

was established as a Statutory Authority under the *Health and Community Care Services Act 1996* (the Act).

61.2 The objectives of the Service as stated in the Act are to:

- provide health and community care services for residents of the Territory that promote, protect and maintain public health;
- maintain quality standards of health and community care services;
- take all measures to ensure the efficient and economic operation of its resources; and
- effectively coordinate the provision of health and community care services.

61.3 The Service is a provider of acute hospital and community care services under service purchasing agreements between the Department of Health and Community Care and The Canberra Hospital, and Community Care.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

61.4 The Service's financial statements are reported on pages 213 to 247 of its Annual Report.

61.5 An ***unqualified*** audit opinion was provided to the Minister for Health on 5 September 2002.

61.6 As the Service's financial statements are a consolidation of The Canberra Hospital and Community Care, no specific comment on the Service is provided in this Report.

61.7 Comments on Community Care and The Canberra Hospital are provided in Chapter 22 and Chapter 34 respectively.

62 HEALTHPACT

INTRODUCTION

62.1 Healthpact is the administrative entity of the Health Promotion Board (the Board). The Board was established in November 1995 under the *Health Promotion Act 1995*. The funding arrangements for the Board were amended with effect from 1 July 1998 by the *Health Promotion (Amendment) Act 1998*.

62.2 The functions of the Board include the promotion of good health in the community through sponsorship and the funding of activities related to the promotion of good health and research and development projects.

62.3 Healthpact is predominantly funded by payments from the Government.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

62.4 Healthpact's financial statements are reported on pages 33 to 61 of its Annual Report.

62.5 An ***unqualified*** audit opinion was provided to the Minister for Health on 29 July 2002.

63 INDEPENDENT COMPETITION AND REGULATORY COMMISSION

INTRODUCTION

63.1 The Independent Competition and Regulatory Commission (the Commission) commenced operations from 1 July 2000.

63.2 The Commission's objectives are mainly to:

- regulate prices for monopoly or near monopoly services;
- provide advice to the Minister about proposed agreements about third party access to infrastructure (such as gas pipelines);
- arbitrate disputes about third party access to infrastructure;
- provide advice about competitive neutrality, as set out in the Competition Principles Agreement and relating to the conduct of a government business activities, and government regulated activities; and
- licence utility services and ensure compliance with licence conditions.

63.3 The Commission's functions and powers are set out in both the *Independent Competition and Regulatory Commission Act 1997* and the *Utilities Act 2000*.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

63.4 The Commission's financial statements are reported on pages 37 to 57 of its Annual Report.

63.5 An ***unqualified*** audit opinion was provided to the Chief Minister on 16 August 2002.

64 LAND AND PROPERTY

INTRODUCTION

64.1 Land and Property is responsible for the Government Asset Management Strategy, Government owned and leased office accommodation, surplus assets, land release, joint ventures, and the Gold Creek Country Club Pty Limited.

SIGNIFICANT FINDINGS

- ***Land and Property had a significantly higher operating result than budgeted.***

- ***The Dunlop 3 joint venture wound up in May 2002 with the Territory receiving $2.1m in profits and $10.7m in infrastructure assets from the joint venture over the life of the project.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

64.2 Land and Property's audited financial statements are reported on pages 265 to 299 of volume 2 of the Department of Urban Services Annual Report.

64.3 An ***unqualified*** audit opinion was provided to the Minister for Urban Services on 11 September 2002.

MATTERS ARISING FROM THE AUDIT

64.4 During the audit minor issues were identified where Land and Property's internal controls could be improved. These matters have been reported to management along with appropriate recommendations.

FINANCIAL ANALYSIS

64.5 The table on the following page summarises Land and Property's Statement of Financial Performance.

Table 64.1 Land and Property
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Revenue			
Property rental	31,697	30,623	31,880
Land sales	56,390	81,373	56,160
Revenue from land joint ventures	22,624	16,762	28,893
Asset revaluation increments	-	6,410	10,947
Asset transfers from other agencies	-	5,800	-
Other	7,424	8,713	11,757
	118,135	**149,681**	**139,637**
Expenditure			
Employee	2,676	2,151	2,333
Operating	21,392	23,798	23,919
Expenses of land joint ventures	12,681	9,464	18,807
Depreciation and amortisation	3,392	3,448	3,313
Borrowing costs	5,721	5,738	6,374
Infrastructure provided free of charge	15,921	24,245	23,524
Other	-	4,758	14,634
	61,783	**73,602**	**92,904**
Operating surplus	**56,352**	**76,079**	**46,733**

64.6 Brief comments follow on major sources of revenue and expenses, which show significant variations from budget and/or the previous year.

Revenue

Revenue Comparison to Budget

64.7 Total revenue of $149.7m was higher than the budgeted amount of $118.1m by $31.6 mainly due to higher than anticipated revenue in the following areas:

- *Land sales* revenue ($25m);
- *Asset revaluation increments* of properties ($6.4m); and
- *Asset transfers from other agencies* ($5.8m).

64.8 These higher than expected results were partially offset by lower than expected *Revenue from land joint ventures* ($5.9m).

Revenue Comparison to Prior Year Actual

64.9 Total revenue of $149.7m was $10m higher than the previous year mainly due to increases in *Land sales* ($25.2m) and *Asset transfers from other agencies* ($5.8m).

64.10 These increases were partially offset by falls in:

- revenue earned from the land joint ventures ($12.1m) which were being wound down;
- *Asset revaluation increments* of properties ($4.5m);
- interest income ($2.9m); and
- *Property rental* income ($1.2m).

Expenditure

Expenditure Comparison to Budget

64.11 Expenditure exceeded budget by $11.8m due mainly to:

- higher amounts of infrastructure assets being provided free of charge to other Government agencies due to higher than forecast levels of infrastructure completion ($8.3m);
- the write down of property and infrastructure assets to more accurately reflect their current values that was not budgeted ($4.7m); and
- higher than expected property maintenance expenses due to the number of aging properties ($2.4m).

64.12 These were partially offset by *Expenses of land joint ventures* and *Employee* expenses being less than budget by $3.2m and $0.5m respectively.

Expenditure Comparison to Prior Year Actual

64.13 Total expenditure fell in the current year by $19.3m compared to the previous year due mainly to reduced:

- write downs in asset values ($9.8m);
- land joint venture expenses from the wind down of the land joint ventures ($9.3m); and

- *Borrowing costs* ($0.6m).

64.14 These decreases were partially offset by an increase in infrastructure assets transferred to other Government agencies ($0.7m).

Operating Surplus

64.15 The operating surplus of $76.1m was $19.7m more than the budgeted operating surplus of $56.4m and $29.3m more than the previous year due mainly to higher than anticipated revenue.

Conclusion

64.16 The Audit has concluded that Land and Property did not manage its operations to budget due to factors that were difficult to predict. These factors include the increase in land sales revenue, changes in asset valuations and the level of infrastructure transferred to other Government agencies.

64.17 The Chief Executive Officer of the Department of Urban Services responded to this Office in relation to this matter as follows.

> *'Land and Property managed its operations to budget in the areas that it was able to do so. However, there were areas of its operations that were difficult to manage to budget. These were:*
>
> - *Increase in land sales revenue: economic conditions and the demand for land determine auction results and the amount of revenue; land sales revenue also include infrastructure assets from developers who may, in response to demand for land, have infrastructure completed ahead of estimated time.*
>
> - *Changes in asset valuations: property values are based on forecast revenue earning capacity which reflects movements in the property market due to changes in the general economy. Such movements are difficult to predict with accuracy and do not reflect the specific financial performance of Land and Property.*

- *Infrastructure transfers: in response to demand for land, infrastructure assets may be completed by developers ahead of the estimated time. Infrastructure assets are difficult to predict as developers control the timing of their completion.*

- *Revenue and expenses of joint ventures: the budget for joint ventures' revenues and expenses were estimated by six joint ventures. As these joint ventures also respond to fluctuations in demand their revenue and expenses were not easy to predict accurately in 2001-2002.*

- *Asset transfers from other agencies: the transfer of an asset from another agency was not advised to us at budget time so was not included in the budget.'*

SHORT TERM FINANCIAL POSITION

64.18 The current ratio is indicative of an entity's ability to meet its obligations in the short term. A current ratio in the range of 1 to 1 is the minimum usually desirable in a business. The following table presents Land and Property's current assets and current liabilities for the past three financial years.

Table 64.2 Land and Property Current Assets and Current Liabilities

	Actual 2002 $000	Actual 2001 $000	Actual[180] 2000 $000
Current assets	**78,476**	**59,274**	**199,029**
Current liabilities	**22,835**	**20,063**	**66,315**
Current ratio	**3.44 to 1**	**2.95 to 1**	**3.0 to 1**

64.19 Land and Property continues to maintain a strong financial position due to ongoing operating surpluses.

[180] Includes Home Loan Portfolio transactions that are now reported by the Department of Treasury.

SUMMARY OF THE LAND JOINT VENTURES

64.20 During 2001-2002 Land and Property was involved in six land development joint ventures. The Dunlop 3 Joint Venture was wound up on 15 May 2002 and the majority of the other joint ventures should be completed in 2002-2003.

Dunlop 3 Joint Venture

64.21 The Dunlop 3 Joint Venture commenced in 1996 with the Government contributing undeveloped land of 55.22 hectares. Operating profits of $4.3m were reported over the life of the Joint Venture. Following completion of the joint venture, the Government received $2.1m in cash distributions and $10.7m in infrastructure assets such as water, sewerage and roads.

Ongoing Land Joint Ventures

64.22 The following table summarises the overall financial operations of the remaining joint ventures. This table shows that as at 30 June 2002, the ongoing land joint ventures reported current year profits of $14.5m and have accumulated profits of $52.1m since inception. As indicated in the following table, the Territory shares in the profits of these joint ventures to varying degrees. In total these joint ventures contributed profit of $7.3m to the operating result of Land and Property in 2001-2002.

Table 64.3 Summary of Financial Operations of Land Joint Ventures

Joint Venture	Territory Share of Profit %	Joint Venture Operating Profit/(Loss) 2001-2002 $000	Joint Venture Total Profit Since Inception $000
Harcourt Hill	50	12,877	25,471
Dunlop 1	82.5	(99)	295
Amaroo 3 (formerly Dunlop 4)	60	772	14,230
Nicholls Lakeside Estate	50	60	4,824
Condor 1/Gordon 9 (Southside Estates)	50	871	7,254
Total		**14,481**	**52,074**

Harcourt Hill

64.23 The Harcourt Hill Joint Venture commenced in 1993 with the Government contributing undeveloped land of 304.1 hectares. Since its inception the Joint Venture has earned operating profits of $25.5m. Since its inception the Government has received $9.5m in cash distributions from the joint venture.

Dunlop 1

64.24 The Dunlop 1 Estate Joint Venture commenced in 1993 with the Government contributing undeveloped land of 40.34 hectares and capital contributions of $2.5m. Since its inception the Joint Venture has earned operating profits of $0.3m. At 30 June 2002 the Government had received $2.5m in return of equity since inception.

Amaroo 3 (formally Dunlop 4)

64.25 The Amaroo 3 Joint Venture commenced in 1999 with the Government contributing undeveloped land of 52.41 hectares. Since its inception the Joint Venture has earned operating profits of $14.2m. At 30 June 2002 the Government had received $8m in cash distributions since inception.

Nicholls Lakeside Estate

64.26 The Nicholls Lakeside Estate Joint Venture commenced in 1997 with the Government contributing undeveloped land of 14.47 hectares. Since its inception the Joint Venture has earned operating profits of $4.8m. At 30 June 2002 the Government had received $2.5m in cash distributions.

Condor 1/Gordon 9 (Southside Estates)

64.27 The Condor 1/Gordon 9 Joint Venture commenced in 1995 with the Government contributing undeveloped land of 37.15 hectares. Since its inception the Joint Venture has earned operating profits of $7.3m. At 30 June 2002 the Government had received $3.6m in cash distributions.

65 LEGAL AID COMMISSION

INTRODUCTION

65.1 The Legal Aid Commission (the Commission) was established by the *Legal Aid Act 1977*. The Commission provides legal assistance to eligible people by arranging for the services of private legal practitioners to be made available at the expense of the Commission or by making available the services of Commission officers.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

65.2 The Commission's audited financial statements are reported on pages 35 to 61 of the Commission's Annual Report.

65.3 An ***unqualified*** audit opinion was provided to the Attorney-General on 9 August 2002.

MATTERS ARISING FROM THE AUDIT

65.4 During the audit instances were identified where the operations of the Commission could be improved or where internal controls were not operating satisfactorily. These matters were reported in a management letter to the Commission along with appropriate recommendations.

FINANCIAL ANALYSIS

65.5 The table on the following page summarises the Commission's Statement of Financial Performance.

Table 65.1 Legal Aid Commission
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Expenditure			
Employee	2,891	2,607	2,497
Operating	3,222	3,818	3,093
Depreciation and amortisation	92	55	74
	6,205	**6,480**	**5,664**
Revenue			
Client contributions and recoveries	500	759	382
Other	465	765	662
	965	**1,524**	**1,044**
Net cost of services	**5,240**	**4,956**	**4,620**
Government contributions	**5,090**	**5,090**	**5,075**
Operating (deficit)/surplus	**(150)**	**134**	**455**

Operating (Deficit)/Surplus

65.6 Expenditure rose by $0.9m mainly due to rises in *Employee* expenses of $0.2m, an increase in referrals to private legal practitioners of $0.6m and an increase in legal disbursement payments of $0.1m.

65.7 The increase in revenue of $0.5m was mainly attributable to the receipt of Commonwealth grants for expensive cases.

65.8 The overall surplus of $0.1m was better than the budgeted deficit of $0.2m due to the higher than anticipated revenue received.

Conclusion

65.9 From the Audit's review of the financial statements and the explanations for the variations from budget, the conclusion has been drawn that the Commission has managed its operations to budget.

SHORT TERM FINANCIAL POSITION

65.10 The Commission's short term financial position has improved over the past few years prior to this year, however, the current year result

of 1.6 to 1 (1.8 to 1 in 2000-2001, 1.4 to 1 in 1999-2000) indicates a slight decline in the financial position of the Commission. It would be expected that the Commission will meet its obligations as they fall due.

66 LEGISLATIVE ASSEMBLY SECRETARIAT

INTRODUCTION

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

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

66.2 The Secretariat's financial statements are reported on pages 77 to 109 of the Secretariat's Annual Report.

66.3 An ***unqualified*** audit opinion was provided to the Speaker on 26 August 2002.

67 NICHOLLS PRIMARY SCHOOL SHARED FACILITIES

INTRODUCTION

67.1 Shared primary school facilities exist at Nicholls Primary School. The shared facilities consist of the library, hall/gymnasium, canteen, a computer laboratory, two general use rooms, a carpark and surroundings. These facilities are jointly used by both Holy Spirit Primary School, which is operated by the Roman Catholic Church, and Gold Creek School

(formerly Nicholls Primary School). Both schools commenced operation at the beginning of Term 1 in January 1996.

67.2 An agreement was made on 21 December 1995 between the Territory and the Trustees of the Roman Catholic Church for the Archdiocese of Canberra and Goulburn concerning the development and use of the shared facilities at Nicholls. The agreement specifies that costs for operation of the joint facilities be funded in line with equity, that is 53% by the Territory and 47% by the Trustees of the Roman Catholic Church.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

67.3 An ***unqualified*** audit opinion was provided to the Minister for Education, Youth and Family Services on 31 July 2002.

67.4 There is no requirement for the financial statements of the joint venture to be published. Given the small amounts of money involved this is reasonable. The Department of Education, Youth and Family Services share of the Nicholls Primary School Shared Facilities was incorporated into the Department's financial statements and annual report for 2001-2002.

68 NOMINAL INSURER

INTRODUCTION

68.1 The Nominal Insurer is appointed pursuant to *Section 18B* of the *Workers' Compensation Act 1951* (the Act). The current Nominal Insurer is the Occupational Health and Safety Commissioner.

68.2 The responsibility of the Nominal Insurer is to meet employees' entitlements to workers' compensation where employers fail to meet their obligations. The Nominal Insurer is empowered by the Act to recover from employers any payments made to injured employees.

68.3 Under *Section 18H* of the Act the Nominal Insurer can raise levies from approved workers' compensation insurers and exempt employers (large employers which have been permitted to self-insure). The amount of levies is based on the level of payments made or expected to be made in relation to compensation claims.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

68.4 The Nominal Insurer's financial statements are reported on pages 86 to 97 of the Annual Report of the Office of the Occupational Health and Safety Commissioner and WorkCover.

68.5 An ***unqualified*** audit opinion was provided to the Minister for Industrial Relations on 23 August 2002.

69 PUBLIC TRUSTEE FOR THE ACT

INTRODUCTION

69.1 The Office of the Public Trustee was established by the *Public Trustee Act 1985*. The Public Trustee prepares wills, acts as an executor of wills or as administrator of estates for deceased persons, and as a trustee for deceased estates. The Public Trustee acts as Attorney for clients under an Enduring Power of Attorney, as financial manager under an Order of the Guardianship and Management of Property Tribunal and provides asset services in relation to Proceeds of Crime forfeitures. The Trustee acts as a trustee of moneys awarded by the court to minors and persons with a disability.

69.2 The Public Trustee is generally appointed as trustee for the administration of trusts, by the Courts, and also as financial manager under orders of the Guardianship and Management of Property Tribunal.

AUDITS OF THE 2001-2002 FINANCIAL STATEMENTS

69.3 The Public Trustee prepares two sets of financial statements. These financial statements are the 'Corporate' financial statements which relate to the activities of operating the Office of the Public Trustee and the 'Trust Account' financial statements relating to deceased estates and trusts which are administered by the Public Trustee.

69.4 The Public Trustee's Corporate and Trust Account financial statements are reported on pages 21 to 45 of the Public Trustee's Annual Report.

69.5 ***Unqualified*** audit opinions for the Corporate and Trust Account financial statements were provided to the Public Trustee on 8 August 2002 and 26 September 2002 respectively.

70 TREASURY DEPARTMENT

INTRODUCTION

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

70.2 Treasury was restructured following an Administrative Arrangement Order dated 14 November 2001. The functions relating to Energy and Water, Procurement Solutions and Economic Policy were transferred to Treasury from other agencies.

SIGNIFICANT FINDINGS

- ***No audit opinion could be expressed on one of Treasury's performance measure results.***
- ***As a result of a delay in the Tax Collection System Replacement Project, $2.7m in budgeted capital injection funding was not drawn down in the current financial year.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

70.3 Treasury's financial statements are reported on pages 33-130 of volume 2 of its Annual Report.

70.4 An ***unqualified*** audit opinion on Treasury's financial statements was provided to the Treasurer on 20 September 2002.

MATTERS ARISING FROM THE AUDIT

70.5 As a result of the audit a number of instances were identified where the financial operations or internal controls of Treasury could be improved. These instances were reported to management along with recommendations.

FINANCIAL ANALYSIS

DEPARTMENTAL TRANSACTIONS

70.6 The table on the following page summarises Treasury's Statement of Financial Performance.

Table 70.1 Treasury
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Expenditure			
Operating	12,654	10,388	8,821
Employee	9,608	12,221	8,477
Interest on Commonwealth borrowings (Home Loan Portfolio)	4,749	4,854	5,062
Grants to ACT Government entities	4,133	4,133	647
	31,144	**31,596**	**23,007**
Revenue			
Interest on loans receivable (Home Loan Portfolio)	7,360	4,253	7,594
Interest on investments with Central Financing Unit (Home Loan Portfolio)	2,306	3,895	3,162
Other	56	1,332	512
	9,722	**9,480**	**11,268**
Net cost of outputs	**21,422**	**22,116**	**11,739**
Government contributions			
Government payments for outputs	25,847	25,406	19,915
Capital injections	3,000[181]	270	689
Other[182]	268	3,025	503
	29,115	**28,701**	**21,107**
Operating surplus[183]	**7,693**	**6,585**	**9,368**

70.7 Comments follow on the major sources of expenditure, revenue and Government contributions, which show significant variations from budget and prior year actual.

[181] The budget amount for *Capital injections* differs from the budget amount of $8m reported in Treasury's financial statements by $5m because, for the purpose of this analysis, $5m that was received and then passed to Totalcare has been excluded. The effect of this adjustment is to present the budget capital amounts for the capital project undertaken by Treasury (Treasury's Tax Collection System Replacement Project.)

[182] Approximately $2.4m of this amount relates to fees charged by Procurement Solutions for the provision of procurement services. Procurement Solutions was transferred from Department of Urban Services to Treasury following an Administrative Arrangement Order dated 14 November 2001.

[183] The *Operating surplus* of $6.6m in the table differs from the published operating result of $6.3m because, for the purpose of this analysis, *Capital injections* of $0.3m have been included in the Government contributions.

Expenditure

70.8 This year's expenditure was slightly higher than budget and $8.6m higher than last year's actual expenditure.

Expenditure Comparison with Budget

70.9 This year's expenditure was slightly higher ($0.5m) than the budgeted amount of $31.1m mainly due to higher than expected *Employee* expenses ($2.6m) offset by lower *Operating* expenses ($2.3m).

70.10 *Employee* expenses were higher than budget as a result of higher than expected staff numbers which resulted mainly from the transfer in of functions to Treasury as a result of the Administrative Arrangement Order of 14 November 2001.

70.11 *Operating* expenses were less than budget mainly because the use of contractors was less than expected.

Expenditure Comparison with Prior Year's Actual

70.12 This year's expenditure of $31.6m was $8.6m higher than the prior year amount of $23m. This increase in expenditure was mainly attributable to increases in *Grants to ACT Government entities* ($3.5m), *Employee* expenses ($3.7m) and *Operating* expenses ($1.6m).

70.13 The increase in *Grants to ACT Government entities* of $3.5m was due to an increase in payments made to the Gambling and Racing Commission.

70.14 The increase in *Employee* expenses was due to an increase in staff numbers following the transfer of functions to Treasury under the Administrative Arrangement Order of 14 November 2001.

70.15 The increase in *Operating* expenses of $1.6m was due to the transfer in of functions relating to Procurement Solutions[184] from Department of Urban Services ($0.9m) as a result of the Administrative Arrangement Order of 14 November 2001 and the increase in costs

[184] Procurement Solutions mainly provide projects management and procurement services to Government agencies (particularly in relation to infrastructure projects).

associated with information technology software and systems upgrade ($0.9m).

Revenue

70.16 This year's revenue of $9.5m was slightly ($0.2m) less than the budget of $9.7m and $1.8m less than last year's actual revenue of $11.3m.

Revenue Comparison with Budget

70.17 This year's revenue of $9.5m was slightly less than the budget of $9.7m due to significantly lower than budget *Interest on Loans Receivable (Home Loan Portfolio)* ($3.1m) offset by higher than budgeted *Interest on Investments with Central Financing Unit (Home Loan Portfolio)* ($1.6m).

70.18 *Interest on Loans Receivable (Home Loan Portfolio)* was less than budget because borrowers discharged their loans earlier than anticipated in the budget.

70.19 *Interest on Investments with Central Financing Unit (Home Loan Portfolio)* was higher than budget because investment levels were higher than expected as borrowers discharged their loans earlier than anticipated in the budget.[185]

70.20 *Other* revenue was higher than budget because of a higher than expected appreciation in the value of investments and interest received from the Central Financing Unit.

Revenue Comparison with Prior Year's Actual

70.21 The decrease of $1.8m from prior year's revenue was mainly attributable to a decrease in *Interest on loans receivable (Home Loan Portfolio)* of $3.3m partially offset by increases in *Other* revenue of $0.8m and *Interest on investments with Central Financing Unit (Home Loan Portfolio)* of $0.7m.

[185] *Interest on Investments with Central Financing Unit (Home Loan Portfolio)* was earned from the investment of cash obtained from the Home Loan Portfolio repayments.

70.22 The fall in *Interest on loans receivable (Home Loan Portfolio)* was mainly due to less interest being earned on loans as a result of borrowers discharging their loans earlier than expected.

70.23 The increase in *Other* revenue of $0.8m resulted primarily from appreciation in the value of long term investments of $0.5m.

70.24 *Interest on investments with the Central Financing Unit (Home Loan Portfolio's)* increased by $0.7m due to additional revenue received being from a higher investment balance.

Net Cost of Outputs

70.25 This year's *Net cost of outputs* of $22.1m was slightly higher than the budgeted *Net cost of outputs* of $21.4m and significantly higher than last year's *Net cost of outputs* of $11.7m by $10.4m.

70.26 *Net cost of outputs* rose mainly as a result of increased grants paid to the Gambling and Racing Commission and costs associated with functions transferred to Treasury along with a fall in interest revenue relating to the Home Loan Portfolio.

Government contributions

70.27 This year's Government contributions of $28.7m were slightly less than budget and $7.6m higher than last year.

Government Contributions Comparison with Budget

70.28 Government contributions were slightly less than budget because *Capital injections* were less than budget by $2.7m. This was offset by *Other* Government contributions which exceeded budget by $2.8m.

70.29 *Capital injections* were $2.7m less than budget due to delays in the Tax Collection System Replacement project. This project has been deferred to 2002-03. The Acting Chief Executive of Treasury has provided further information explaining these delays as follows:

> *'The scope of the project was larger than anticipated and before the project could commence the current system had to go through a computing language conversion. This process has caused*

delays in progressing to the main part of the project, being development of a new system'.

70.30 *Other* Government contributions exceeded budget mostly because of fees levied by Procurement Solutions, a function than was transferred to Treasury under the Administrative Arrangement Order of 14 November 2001. As this function was transferred to Treasury after the preparation of the budget these fees were unable to be included in the budget.

Operating Surplus

70.31 The *Operating surplus* shows the difference between the net cost of the Department's outputs and the Government contributions to those costs. An operating surplus means that the Government has contributed more than the costs incurred by the Department.

70.32 The *Operating surplus* of $6.6m was slightly less than the budgeted surplus of $7.7m and the prior year actual of $9.4m.

Conclusion

70.33 As mentioned Treasury's *Net cost of outputs* of $22.1m was only slightly higher than the budgeted *Net cost of outputs* of $21.4m. This indicates that overall, Treasury managed its *Net cost of outputs* fairly closely to budget.

70.34 The *Net cost of outputs* adjusted for the financial effects of functions transferred to Treasury under the Administrative Arrangement Order of 14 November 2001 is considered to be a more relevant measure of Treasury's performance against budget as it removes the financial effects of net costs passed to Treasury under restructuring of administrative arrangements. The budget *Net cost of outputs* adjusted for the financial effects of administrative restructures is $25m[186]. As

[186] The Appendix to the Management Discussion and Analysis (MD&A) accompanying Treasury's statements has a *'Reconciliation of Original Budget to Revised Budget – Department of Treasury excluding the Home Loan Portfolio – Statement of Financial Performance'*. The reconciliation takes into account the financial effects of administrative restructures under *Section 16* of the *Financial Management Act 1996*. The information in the MD&A has been used to work out the adjusted *Net cost of outputs* for the purpose of this analysis.

The adjusted *Net cost of outputs* of $25m was calculated by adding the additional expenses relating to administrative restructures of $3.5m (according to Treasury's MD&A) to Treasury's budget *Net cost of outputs* of $21.4m (as per Table 70.1 presented earlier in this Chapter).

Treasury's *Net cost of outputs* of $22.1m is less than $25m the conclusion has been drawn that the Department has managed its operations to budget.

TERRITORIAL TRANSACTIONS

70.35 The Territorial revenue of Treasury consists mainly of rates, taxes, fees and fines and Commonwealth grants. These transactions are reported separately in *Chapter 15: Territory's Revenue and Expenditure*. No analysis is therefore provided here.

71 UNIVERSITY OF CANBERRA

INTRODUCTION

71.1 On 30 November 1997 the Commonwealth Government transferred the University of Canberra (the University) to the Territory under the *University of Canberra (Transfer) Act 1997*.

71.2 The University has a 31 December year end for financial reporting purposes.

AUDIT OF THE 2001 FINANCIAL STATEMENTS

71.3 An ***unqualified*** audit opinion was provided to the Minister for Education on 15 March 2002.

FINANCIAL ANALYSIS

71.4 The table on the following page summarises the University's Statement of Financial Performance.

Table 71.1 University of Canberra
Summary Statement of Financial Performance

	Actual 2001 $000	Actual 2000 $000	Actual 1999 $000
Expenditure			
Employee	64,779	61,115	59,019
Operating and other	29,903	25,580	22,909
Depreciation	6,457	6,322	5,639
	101,139	**93,017**	**87,567**
Revenue			
Government sources			
Commonwealth Government grants	37,801	37,876	35,717
Higher education contribution scheme	23,596	23,074	24,127
State Government grants	507	199	309
	61,904	61,149	60,153
Other sources			
Fees and charges	23,270	19,878	17,821
Other research grants and contracts	4,802	4,372	2,775
Investment income	1,037	1,190	958
Other	12,084	9,664	8,193
	41,193	35,104	29,747
	103,097	**96,253**	**89,900**
Operating surplus	**1,958**	**3,236**	**2,333**

71.5 Comments follow on the major sources of revenue and expenditure, which show significant variations from the previous year.

Expenditure

71.6 Expenditure has increased steadily in recent years.

71.7 Total expenditure of $101.1m exceeded previous year's expenditure of $93m by $8.1m. This was mostly attributable to increases in *Operating and other* expenses ($4.3m) and *Employee* expenses ($3.7m).

71.8 *Operating and other* expenses increased due to the additional travel expenses incurred and an increase in the use of consultants.

71.9 The increase in *Employee* expenses of $3.7m was as a result of an increase in staff numbers and general pay rises.

Revenue

71.10 In recent years revenue from Government sources has only increased marginally compared to significant increases in revenue from other sources.

71.11 At $103.1m total revenue exceeded previous year's revenue of $96.3m by $6.8m.

71.12 The increases are primarily attributable to an increase of:

- $3.4m in *Fees and charges* resulting from increases in enrolment numbers for international students along with an increase in the number of short courses offered by the University; and
- $2.4m in *Other* revenue resulting from additional donations and bequests, along with recoveries received for expenses incurred on behalf of the Cooperative Research Centre for Freshwater Ecology.

Operating Surplus

71.13 The operating surplus for the year ending 31 December 2001 of $2m was $1.3m less than the $3.2m surplus reported in 2000. The operating surplus represents a continuation of a trend of small operating surpluses in recent years.

72 UNIVERSITY OF CANBERRA COLLEGE

INTRODUCTION

72.1 The University of Canberra College (the Company) is wholly owned by the University of Canberra. The Company was established in response to a growing demand for university programs, which would prepare students, who had not otherwise met the University's minimum entry requirements. The Company benefits the University as it provides a mechanism for increasing the number of students who are able to continue on to complete their qualifications.

72.2 The Company has a 31 December year end for financial reporting purposes and is consolidated in the financial statements of the University.

AUDIT OF THE 2001 FINANCIAL STATEMENTS

72.3 An ***unqualified*** audit opinion was provided to the Minister for Education on 15 March 2002.

73 URBAN SERVICES DEPARTMENT

INTRODUCTION

73.1 The Department of Urban Services (the Department) provides a wide range of urban, rural and other services to the community and to other Government agencies, including:

- municipal services;
- transport regulation and services;
- environment and heritage services;
- planning and land management services; and
- arts and cultural services.

73.2 The Department includes several functions that report as separate entities, including:

- provision of a public bus service, prior to the establishment of the ACTION Authority, on 1 January 2002 (ACTION);
- provision and management of housing assistance and rental accommodation (Housing);
- management of renewable forest resources (Forests); and
- strategic management of the Government's land stock and property assets (Land and Property).

73.3 The Department also has responsibilities in relation to a number of Territory Authorities, including the Gungahlin Development Authority,

the Cultural Facilities Corporation, ACTION Authority and the Canberra Public Cemeteries Trust.

73.4 The Department was subject to administrative restructure during the year. Under the Administrative Arrangement Order of 14 November 2001 the functions associated with Housing Policy, Canberra Connect, Cultural Services, and Sports Grounds and Pools were transferred to the Department. Some of the Department's functions, such as Procurement Solutions, Workplace Safety and Insurance, Energy and Water Reform and Essential Services Consumer Council, were transferred to other agencies.

REPORTING ENTITIES

73.5 Each of the Department's reporting entities, listed below, prepared financial statements which were subject to audit:

- Department of Urban Services;
- ACTION (Chapter 42);
- ACT Housing (Chapter 27);
- ACT Forests (Chapter 24); and
- Land and Property (Chapter 64).

73.6 Comments for the Department are included below.

SIGNIFICANT FINDING

- ***No audit opinion could be expressed on fourteen of the Department's performance measure results.***

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

73.7 The Department's financial statements are reported on pages 25 to 130 of volume 2 of the Department of Urban Services Annual Report.

73.8 An ***unqualified*** audit opinion on the 2001-2002 financial statements was provided to the Minister for Urban Services on 23 September 2002.

STATEMENT OF PERFORMANCE

73.9 The *Financial Management Act 1996* requires a Department's Statement of Performance to compare the forecast of the performance contained in the Department's budget that was laid before the Legislative Assembly with the Department's actual performance.

73.10 A number of performance measures were disclosed as 'not measured' in the Department's Statement of Performance. These performance measures were therefore unable to be independently verified by the Audit. No audit opinion was expressed on these performance measures. These performance measures were referred to in an emphasis of matter paragraph in the audit report.

MATTERS ARISING FROM THE AUDIT

73.11 As a result of the audit some instances were identified where the financial operations or internal controls of the Department could be improved. These instances were reported to management along with recommendations.

FINANCIAL ANALYSIS

DEPARTMENTAL TRANSACTIONS

73.12 The table on the following page summarises the Department's Statement of Financial Performance.

Table 73.1 Department of Urban Services
Summary Statement of Financial Performance

	Budget 2001-02 $000	Actual 2001-02 $000	Actual 2000-01 $000
Expenditure			
Payments for housing services – Housing	-	19,065	9,639
Payments for transport services – ACTION	45,358	44,761	40,128
Payments for arts and cultural facilities – Cultural Facilities Corporation	-	3,747	-
Payments for other services	2,140	3,506	2,042
Payments for services	47,498	71,079	51,809
Operating	113,888	119,593	112,521
Employee	74,789	75,868	72,552
Other	3,794	6,452	6,372
Depreciation and amortisation	71,584	72,923	70,403
	311,553	**345,915**	**313,657**
Revenue			
Sale of goods and services	22,034	21,307	22,708
Other	1,382	3,121	3,202
	23,416	**24,428**	**25,910**
Net cost of outputs	**288,137**	**321,487**	**287,747**
Government contributions			
Government payments for outputs	207,196	236,565	207,496
Injection for operations	9,569	9,798	9,198
Capital injections	79,034	72,164	46,367
Transfer of infrastructure assets	17,596	23,752	16,442
Resources received free of charge	42	1,678	1,225
	313,437	**343,957**	**280,728**
Operating surplus/(deficit) [187]	**25,300**	**22,470**	**(7,019)**

73.13 Comments on the major sources of expenditure, revenue and Government contributions are provided on the following pages.

[187] The *Operating surplus/(deficit)* presented in the above table varies from the published operating surplus/(deficit) because, for the purposes of this analysis, *Capital injections* have been included in Government contributions.

Expenditure

Expenditure Comparison with Budget

73.14 Total expenses were $34.3m higher than budget. This was mainly due to:

- *Payments for services* exceeding budget by $23.6m mainly due to transfer in of functions relating to housing policy and arts and cultural facilities to the Department in accordance with the Administrative Arrangement Order of 14 November 2001. The payments for these functions were *Payments for housing services - Housing* ($19.1m) and *Payments for arts and cultural facilities - Cultural Facilities Corporation* ($3.7m);
- *Operating* expenses exceeding budget by $5.7m mainly due to costs arising from the transfer of functions of Canberra Connect ($4.4m) and pools and ovals ($3m) to the Department in accordance with the Administrative Arrangement Order of 14 November 2001 partially offset by a reduction in Commonwealth funded road maintenance ($1.8m); and
- *Other* expenses exceeding budget by $2.7m due to higher borrowing costs ($1.2m), loss on disposal and write-off of assets ($0.9m) and write-off of bad and doubtful debts ($0.6m).

Expenditure Comparison with Prior Year's Actual

73.15 Total expenditure increased by $32.2m from the previous year mainly due to:

- *Payments for services* increasing by $19.3m since last year. Most ($13.1m) of this increase related to costs of the newly acquired functions - Housing ($9.4m) and Cultural Facilities Corporation ($3.7m). *Payments for transport services - ACTION* also increased by $4.6m largely to fund the additional costs of providing free school bus services;
- *Operating* expenses being $7.1m higher than prior year due to higher costs associated with the transfer of functions on 14 November 2001; and
- *Employee* expenses increasing by $3.3m following the transfer in of employees relating to the above-mentioned newly acquired functions under Administrative Arrangement Order of 14 November 2001.

Net Cost of Outputs

73.16 The Department's *Net cost of outputs* was $33.4m and $33.8m more than budget and prior year respectively. This was mainly due to additional *Payments for services* and the increase in *Operating* expenses offset by a decrease in *Sale of goods and services*.

73.17 The Department's budget for the *Net cost of outputs*, adjusted for the functions transferred to the Department in accordance with the Administrative Arrangement Order of 14 November 2001, was $329.7m[188]. As the *Net cost of outputs* for this year of $321.5m was less than $329.7m, conclusion can be drawn that the Department has managed its operations to its budget adjusted for Administrative Arrangement Order of 14 November 2001.

Government Contributions

Government Contributions Comparison with Budget

73.18 Total Government contributions were $30.6m higher than budget. This variance was mainly due to:

- *Government payments for outputs* exceeding budget by $29.4m. This was mainly due to the transfer of the Housing Policy function ($20.9m) from the Department of Health and the transfer of Cultural Services ($5.5m) from the Chief Minister's Department; and
- *Transfer of infrastructure assets* from Land and Property and Gungahlin Development Authority exceeding budget by $6.2m. The infrastructure assets transferred to the Department include water and sewerage, storm water and roads.

73.19 These higher than expected results were offset by *Capital injections* which were $6.8m less than budget because funds were not drawn down due to delays in projects.

[188] Attachment A 'Reconciliation of Original Budget to Revised Budget – Departmental' to the Department's MD&A provides a statement of financial performance prepared by the Department which takes into account the financial effects of administrative restructures and supplementary appropriations arising from the administrative restructure. The revised *Net cost of outputs* of $329.7m has been calculated as follows: Total Expenses from Ordinary Activities of $352.9m less User charges of $21.8m and Other revenue of $1.4m.

Government Contributions Comparison with Prior Year's Actual

73.20 Total Government contributions were $63.3m greater than the prior year. This variance was mainly due to:

- the above-mentioned $29.4m increase in *Government payment for outputs* following the acquisition of the Housing Policy function and Cultural Services; and
- an increase in *Capital injections* of $25.8m due to additional funding for the capital works program. The increase mainly related to the Road Safety and Congestion Program ($14m) and Roads and Stormwater ($8m).

Operating Surplus/(Deficit)

73.21 The *Operating surplus/(deficit)* shows the difference between the net cost of the Department's outputs and the Government contributions to those costs. An operating surplus means that the Government contributed more than the *Net cost of outputs* incurred by the Department.

73.22 The Department's *Operating surplus* was $2.8m less than the budgeted surplus due to expenditure exceeding budget by more than the additional revenue that was received from Department's operations and Government contributions.

73.23 The Department's *Operating surplus* of $22.5m was $29.5m more than last year's *Operating deficit* of $7m. This is due mainly to the increase in Government contributions by way of *Government payments for outputs* and *Capital injections* partially offset by an increase in expenditure.

Conclusion

73.24 From the Audit's review of the financial statements and the explanations for variations from prior year's results and budget, the conclusion has been drawn that the Department, in an overall sense, managed its departmental operations to budget during 2001-2002.

TERRITORIAL TRANSACTIONS

73.25 The Territorial revenue of the Department is mainly fees and fines and Commonwealth grants. These transactions are reported separately in

Chapter 15: Territory's Revenue and Expenditure of this Report. No analysis is therefore provided here.

CAPITAL WORKS

73.26 *Capital works* are reported separately in *Chapter 16: Reporting on Capital Assets and the Capital Works Program.* No analysis is therefore provided here.

74 WORKCOVER

INTRODUCTION

74.1 WorkCover and the Office of the Commissioner for Occupational Health and Safety commenced operations on 24 June 2000.

74.2 WorkCover and the Commissioner are responsible for advice, education and regulation in the areas of:

- Occupational Health and Safety;
- Injury management;
- Workers' compensation;
- Dangerous goods management; and
- Labour regulation.

AUDIT OF THE 2001-2002 FINANCIAL STATEMENTS

74.3 WorkCover's financial statements are reported on pages 45 to 82 of the Annual Report of the Office of the Occupational Health and Safety Commissioner and WorkCover.

74.4 An ***unqualified*** audit opinion was provided to the Minister for Industrial Relations on 26 August 2002.

PREVIOUS AUDIT REPORTS[189]

Reports Published in 2002

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

Reports Published in 2001

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

Reports Published in 2000

1. Bruce Stadium Redevelopment — Summary Report
2. Bruce Stadium Redevelopment — Value for Money
3. Bruce Stadium Redevelopment — Costs and Benefits

[189] 46 Reports were issued prior to 1996. Details can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: http://www.audit.act.gov.au.

Reports Published in 2000 (con't)

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

Reports Published in 1999

1 Stamp Duty on Motor Vehicle Registrations

2 The Management of Year 2000 Risks

3 Annual Management Report for Year Ended 30 June 1999

4 Financial Audits With Years Ending to 30 June 1999

Reports Published in 1998

1 Management of Preschool Education

2 Lease Variation Charges - Follow-up Review

3 Major IT Projects - Follow-up Review

4 Annual Management Report for Year Ended 30 June 1998

5 Management of Housing Assistance

6 Assembly Members' Superannuation and Severance Payments to Former Members' Staffers

7 Magistrates Court Bail Processes

8 Territory Operating Losses and Financial Position

9 Financial Audits with Years Ending To 30 June 1998

10 Management of Schools Repairs and Maintenance

11 Overtime Payment To A Former Legislative Assembly Member's Staffer

Reports Published in 1997

1 Contracting Pool and Leisure Centres

2 Road and Streetlight Maintenance

3 1995-96 Territory Operating Loss

4 ACT Public Hospitals - Same Day Admissions
Non Government Organisation - Audit of Potential Conflict of Interest

5 Management of Leave Liabilities

6 The Canberra Hospital Management's Salaried Specialists Private Practice

7 ACT Community Care - Disability Program and Community Nursing

8 Salaried Specialists' Use of Private Practice Privileges

9 Fleet Leasing Arrangements

10 Public Interest Disclosures - Lease Variation Charges and Corrective Services

11 Annual Management Report for Year Ended 30 June 1997

12 Financial Audits with Years Ending to 30 June 1997

13 Management of Nursing Services

Reports Published in 1996

1. Legislative Assembly Members – Superannuation Payments/Members' Staff – Allowances and Severance Payments

2 1995 Taxi Plates Auction

3 VMO Contracts

4 Land Joint Ventures

5 Management of Former Sheep Dip Sites

6 Collection of Court Fines

7 Annual Management Report For Year Ended 30 June 1996

8 Australian International Hotel School

9 ACT Cultural Development Funding Program

10 Implementation of 1994 Housing Review

11 Financial Audits with Years Ending to 30 June 1996

Availability of Reports

Copies of Reports issued by the ACT Auditor-General's Office are available from:

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