

MEDIA RELEASE

21 December 2011

2010-11 Financial Audits

Today a report titled '**2010-11 Financial Audits**' was presented to the Speaker for tabling in the ACT Legislative Assembly by the ACT Auditor-General, Dr Maxine Cooper.

This report provides details of the results of the audits of financial statements and reviews of statements of performance relating to 2010-11. The financial results of audited agencies and other entities are presented in their financial statements. The planned and actual results for accountability (performance) indicators of agencies are reported in their statements of performance.

Results of Financial Audits and Reviews of Statements of Performance

- The Audit Office audited 76 financial statements (See Table 2.1 and pages 17 to 20). No qualified audit reports were issued, indicating that the Office is satisfied that the financial statements fairly present agencies' financial results.
- The Audit Office issued 30 reports of factual findings on agencies' statements of performance (See Table 2.2 and pages 17 to 20). Two of these reports were qualified because some accountability indicators were not measured as required by the *Financial Management Act 1996*.
- The Audit Office was unable to issue audit reports on the financial statements (See paragraphs 2.6 to 2.9) and reports of factual findings on statements of performance (See paragraphs 2.14 and 2.15) of two new territory authorities (the ACT Compulsory Third-Party Insurance Regulator and ACT Teacher Quality Institute) during 2010-11 as these authorities did not prepare the statements required by the *Financial Management Act 1996*.

Audit Findings

- Agencies resolved 126 (66 percent) of the audit findings reported in previous years (See paragraph 3.8).
- Internal control weaknesses in major revenue applications were not fully resolved (See paragraphs 4.7, 4.25, 4.28 to 4.30 and 4.36 to 4.41).
- The overall quality of financial statements submitted for audit did not change significantly compared to the previous year. The combined percentage of financial statements rated as 'satisfactory' and 'good' decreased slightly from 83 percent in 2009-10 to 77 percent in 2010-11 (See paragraphs 3.14 to 3.16).
- The quality of statements of performance declined significantly in 2010-11. The percentage of agencies that prepared 'good' statements of performance fell from 55 percent in 2009-10 to 43 percent in 2010-11, and the percentage of unsatisfactory statements increased from 7 percent in 2009-10 to 30 percent in 2010-11. This significant decrease in quality was caused by several agencies not effectively addressing the effects of the major restructuring of administrative arrangements on 17 May 2011 when preparing their statements of performance (See paragraphs 3.24 to 3.27).

- In 2010-11, as in previous years, there were several instances where accountability indicators provided limited useful information about the planned and actual performance of agencies. Furthermore, information included in the budget papers did not always provide sufficient insight into the planned levels of performance (See paragraphs 3.28 to 3.33).
- The percentage of agencies that complied with the Treasury Directorate's whole-of-government reporting timetable fell significantly in 2010-11. Only 79 percent of the financial statements and 78 percent of the statements of performance were provided to the Audit Office on time compared to 94 percent (financial statements) and 91 percent (statements of performance) in 2009-10 respectively. (See paragraphs 3.19 to 3.21 and 3.34 and 3.35).
- The Territory and the majority of its directorates and authorities operated within their budgets.

The Territory's Financial Results

The **net operating balance** and **operating surplus** are key measures of the Territory's financial performance. These measures provide a good indication of the overall financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time.

1. The **net operating balance** consists of revenue and expenses such as Commonwealth grants, taxation, land sales, employee costs, supplies and services costs and depreciation expenses.
 2. The **operating result** consists of the net operating balance and other economic flows. Other economic flows largely consist of gains and losses on investments, land revenue and other assets which result from changes in market conditions (See Table 5.5 on page 52 and paragraph 5.23).
- The Territory's net operating balance, a surplus of \$1 million, compares favourably to the budgeted deficit of \$247 million (See paragraph 5.6). This mainly reflects higher than budgeted revenue, in particular, (See paragraph 5.15) and taxation revenue (See paragraph 5.16).
 - The Territory's surplus net operating balance of \$1 million was less than the prior year's surplus balance of \$115 million. This decline resulted from an increase in expenses which exceeded the growth in revenue (See paragraph 5.7).
 - The Territory is expected to incur deficits in its net operating balance over the forward years. The estimated deficits are anticipated to decline from \$210 million in 2011-12 to \$64 million in 2014-15 (See paragraph 5.10).
 - The Territory's operating surplus of \$123 million exceeded the budgeted surplus of \$25 million. This was mostly due to the better than expected net operating balance, partially offset by less than expected gains in the market values of land sold and investments held for superannuation and other purposes (See paragraph 5.8).
 - The Territory's operating surplus for 2010-11 of \$123 million was less than the prior period's surplus of \$390 million. This mostly reflects a reduction in gains in market values of investments and land sold, and a decline in the net operating balance (See paragraph 5.9).
 - The Territory has budgeted for operating surpluses ranging from \$99 million to \$261 million over the forward years. The achievement of operating surpluses over the forward years is dependent on the Territory obtaining sufficient gains from investment and property

markets to counter the estimated deficits in the net operating balance over the forward years (See paragraph 5.11).

- The Territory's short-term financial position remains strong and was stronger than was anticipated in the budget (See paragraph 5.30). This position is expected to remain strong over the forward years (See paragraph 5.31).
- The Territory's long-term financial position was slightly better than anticipated in the budget but has weakened significantly in recent years (See paragraph 5.34). This position is estimated to weaken further over the forward years as further borrowings are anticipated to fund the capital assets program, in particular, major water security projects (See paragraph 5.36).
- In 2010-11, the planned capital assets funding was underspent by \$158 million (19.3 percent) mostly due to delays in completing infrastructure and building projects. However, the level of underspending was much less than that experienced in prior years (See paragraphs 5.46 and 5.47).

Computer Information Systems

The Audit Office reviewed the computer information systems used for financial management, human resource management, school administration, public housing, bus and theatre ticketing and the collection of taxes, fees and fines.

Control weaknesses were identified during these reviews. These weaknesses increase the risk of erroneous or fraudulent changes being made to these systems and data, and that these systems will not be promptly restored without the loss of data in the event of a disaster or other disruption. (See chapter 4).

Audit results and findings on ACT Government agencies and other entities

This report also provides the audit results and findings for individual ACT Government agencies and other entities (See chapter 6). In most cases, agencies and other entities made good progress in addressing previously reported audit findings.

The Report

Copies of the report are available from the ACT Auditor-General's Office website, www.audit.act.gov.au and the Office (please call 6207 0833 or go to 11 Moore Street, Canberra City).