

AUSTRALIAN CAPITAL TERRITORY

AUDITOR-GENERAL'S REPORT

ANNUAL REPORT 2006-07

REPORT NO. 6 / 2007

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The Auditor-General's Office

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

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

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

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

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ACT AUDITOR-GENERAL'S OFFICE



M07/20

The Speaker
ACT Legislative Assembly
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to present to you the Annual Report of the ACT Auditor-General's Office for the year ended 30 June 2007.

This report has been prepared under Section 6(1) of the *Annual Reports (Government Agencies) Act 2004*, in accordance with the requirements referred to in the Chief Minister's Annual Reports Directions. It has also been prepared in conformity with other legislation applicable to the preparation of the Annual Report by the Auditor-General's Office.

I hereby certify that the attached Annual Report is an honest and accurate account and that all material information on the operations of the Auditor-General's Office during the period from 1 July 2006 to 30 June 2007 has been included and that it complies with the Chief Minister's Annual Report Directions.

I also hereby certify that fraud prevention has been managed in accordance with the Public Sector Management Standard 2, Part 2.4.

Section 13 of the *Annual Reports (Government Agencies) Act 2004* requires that you cause a copy of the Report to be laid before the Legislative Assembly within 3 months of the end of the financial year.

Yours sincerely

Tu Pham
Auditor-General
26 September 2007

TABLE OF CONTENTS

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

THE AUDITOR-GENERAL'S REVIEW	3
The Organisation	5
Overview	7
Highlights	10
Outlook	12
OFFICE PERFORMANCE	13
Management Discussion and Analysis	13
Analysis of Performance	17
Financial Report	30
Statement of Performance	78
Independent Audit Report	93
Report of Factual Findings	95
MANAGEMENT OF THE OFFICE	101
Fraud Prevention	101
Risk Management and Internal Audit	101
Internal Accountability	102
Human Resource Performance	103
Staffing Profile	104
Workplace Health and Safety	107
Learning and Development	108
Workplace Relations	108
Strategic Asset Management	109
Capital Works	109
Government Contracting	110
Community Grants/Assistance/Sponsorship	111
Territory Records	112
SECTION B: CONSULTATION AND SCRUTINY REPORTING	
Community Engagement	115
Internal and External Scrutiny	115
Legislative Assembly Committee Inquiries and Reports	116
Legislative Report	117
SECTION C: OTHER REPORTING	
Public Interest Disclosures	121
Freedom of Information	123
Human Rights Act 2004	125
Commissioner for the Environment Reporting	126
Ecologically Sustainable Development	126
Contact Information and Availability of Reports	128
Compliance Index for the 2006-07 Report	130

SECTION A

PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

THE AUDITOR-GENERAL'S REVIEW

The Auditor-General's Office continued to work hard throughout the 2006-07 financial year to discharge its statutory functions and meet the expectations of the Legislative Assembly and the broader community. As a result, the year was both busy and rewarding.

Our annual planning review confirmed a strong commitment from all staff to implementing the Office's Strategic Plan, with a strong focus on working to ensure the Office is highly valued by its stakeholders, equipped to respond to the needs of those stakeholders, especially the Assembly, and accountable for its performance.

I believe the Office's efforts in this regard have been well recognised and received.

As in previous years, we successfully completed our annual program of financial audits, completing 82 financial audits and the review of 37 statements of performance, in accordance with the required timetable. This was achieved in a period of substantial restructuring of the ACT public sector, including the creation of the Shared Services Centre, which placed additional pressure on agencies and this Office in coping with the new financial reporting and auditing arrangements and in meeting legislated timeframes. An important product of our financial audit program is a report summarising the outcomes of the 2005-06 financial audits, which was tabled in the Assembly in December 2006.

The financial audit process places the Office in a unique position to advise the senior management of Government agencies of opportunities to strengthen financial reporting and administrative processes and address deficiencies in the control environment identified during our audits. Agencies have generally responded positively to audit recommendations arising from the financial audit process.

I consider that providing such advisory services to Government agencies adds significant value to improving financial reporting and accountability, although the significant effort and commitment required from this Office to achieve such outcomes, is typically not highly visible to the Assembly or the community.

Our performance audit team completed seven performance reports, on a diverse range of subjects including vocational education and training, credit card use, expenditure on hospitality and sponsorship, and the collection of fees and fines. Many of these performance audits were undertaken outside the planned annual audit program, to respond to high priority issues that emerged during the year. Such audits are often conducted in compressed timeframes and attract significant interest in the Legislative Assembly and the community.

I am pleased that the Office met the challenges arising from the volatile demand for performance audit and review services. Further, I am pleased that agencies continued

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

to accept the recommendations from these performance audits and have generally agreed that the audits help to improve administration of the audited activity.

Unfortunately, the Office continued to experience a high staff turnover rate (23.7%), and, as a result, around 62% of staff have been with the Office for less than three years. Although such staffing issues and skill shortages have also been evident in Audit Offices in all jurisdictions and in the finance and audit sector generally, they do mean the Office must put in place additional measures to encourage staff retention as well as providing appropriate training to new staff so that the professional quality of the Office's work is maintained.

Clearly the challenges the Office faces cannot be resolved quickly and I expect staffing issues, particularly those relating to the retention and attraction of staff, to be with us beyond 2007-08. The changes to our financial audit approach brought about by the restructuring of the ACT public sector, and the introduction of new and revised accounting and auditing standards will take some time to settle, and the demand for our performance auditing services continues to grow.

The pressure remains to deliver timely, value-for-money audit services that meet the needs of the various stakeholders. We will continue to work closely with the Public Accounts Committee and Government agencies to better target our resources on areas of significance. In this respect, I am greatly appreciative of the support provided to this Office by the Legislative Assembly and the positive feedback received from members of the Assembly, in particular the Public Accounts Committee, and from agencies on the work we have delivered throughout the year.

I acknowledge and express my thanks for the hard work of my staff during the year. Regardless of the length of their tenure with the Office, staff have continually demonstrated professionalism, commitment, and dedication, and this is well reflected in the quality of the work and the positive feedback from the satisfaction surveys of key stakeholders. I look forward to working closely with all staff in the coming years to achieve the Office's outcomes and objectives.

Finally, I am keenly aware of the important role the Office plays in promoting accountability, efficiency and effectiveness in public administration, and the high regard and trust placed in our Office. The Office and I, remain committed to working diligently to uphold the values of the Office and retain that level of trust.



Tu Pham
Auditor-General
26 September 2007

THE ORGANISATION

The Auditor-General for the ACT is a statutory position created by the ACT Legislative Assembly under the *Auditor-General Act 1996*. The Auditor-General is responsible to the ACT public, through its elected representatives in the Legislative Assembly, for the audit of all ACT public sector agencies.

The Auditor-General Act sets out the role and responsibilities of the Auditor-General and hence the ACT Auditor-General's Office. Broadly speaking, the role is to:

- promote accountability in the public administration of the Territory; and
- provide assurance to the community, through its elected representatives in the Legislative Assembly, that the ACT Public Service is accountable and effectively and efficiently managed.

This role is fulfilled by reporting the results of financial and performance audits to the ACT Legislative Assembly to keep Assembly members informed on the accountability and performance of ACT public sector. The Audit Office also provides advice and recommendations for improving the management of ACT public sector resources.

MISSION OF THE OFFICE

The Office's desired outcomes are directly related to its role and activities. These outcomes are:

- an accountable, effective, and efficient ACT public sector; and
- a highly valued Audit Office.

Within this context, the Office's key objectives are to:

- (i) inform the ACT Legislative Assembly and the community of the performance of the ACT public sector;
- (ii) contribute to improving the performance of ACT public sector agencies;
- (iii) shape its services to anticipate and respond to the needs of the Legislative Assembly and other stakeholders;
- (iv) provide opportunities for staff to further enhance their competencies, knowledge and expertise; and
- (v) maintain the cost efficiency of the Office.

VALUES OF THE OFFICE

The core values that guide the Office's work and behaviours are:

Independence

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

Integrity

The Office will exhibit the highest standards of ethical behaviour.

Professionalism

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

Respect

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

Learning and innovation

The Office will continually seek better ways of performing its work.

THE OFFICE'S STAKEHOLDERS

The Office serves the ACT community, through its elected representatives in the ACT Legislative Assembly. The Office's key stakeholders also include the ACT Government and its agencies, and its staff.

The ACT Legislative Assembly and the ACT Community

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

ACT Public Sector Agencies

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

Audit Office Staff

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

OVERVIEW

STRATEGIC AND ORGANISATIONAL PLANNING

In 2006-07, the Office continued to operate under the guidance of its 'Strategic Plan 2004-07'. In February 2007, the Office held its annual Planning Day and staff reviewed the current plan in light of the progress made during the course of the three years to 2007. The 'Strategic Plan 2008-2010' is currently being developed.

The Strategic Plan is supported by an action plan that assigns responsibility for specific actions and timeframes for completion of those actions. This Plan targets those areas identified as requiring improvement. Actions from this Plan are included in the 'Activity Status Report' considered fortnightly by the Management Committee. Progress against the Strategic Plan is also discussed at monthly staff meetings.

RELEVANT LEGISLATION

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

Auditor-General Act 1996

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

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

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

Financial Management Act 1996

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

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

Territory-owned Corporations Act 1990

The *Territory-owned Corporations Act 1990* addresses the financial management and associated accountability requirements of Territory-owned corporations.

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

Public Interest Disclosure Act 1994

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

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

A proposal to replace the Public Interest Disclosure Act is currently before the Legislative Assembly. The *Public Interest Disclosure Bill 2006* was presented by the Chief Minister on 8 June 2006.

Government Procurement Act 2001

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

The Auditor-General’s specific reporting obligations were significantly amended by the *Government Procurement Amendment Act 2007*, which seeks to provide clearer and more effective arrangements for the operation of the Government Procurement Board and the procurement activities of Territory entities. Under the amended provisions, which are proposed to take effect from 1 October 2007, Territory entities must provide information on contracts containing confidential text to the relevant Legislative Assembly Committee rather than providing such information to the Auditor-General.

If requested by the Auditor-General, a responsible Territory entity for a reportable contract must give the Auditor-General the contracts and information requested. If the Auditor-General requests a copy of a reportable contract under the revised Procurement Act, the Auditor-General must report to the appropriate Legislative Assembly Committee on whether the Auditor-General is satisfied that confidential text in the contract complies with the provisions of Procurement Act.

HIGHLIGHTS

The Audit Office mostly achieved its planned levels of performance in 2006-07.

In particular, the Office:

- completed eighty-two financial audits (82 in 2005-06), seventy five (91%) of which were completed within the required timeframes;
- completed the review of 37 statements of performance prepared by various departments and authorities;
- completed seven performance audits, as well as a report summarising the outcomes of the 2005-06 financial audits;
- provided the Public Accounts Committee with biannual reports on Government contracts that contained confidential text as required by the *Government Procurement Act 2001*;
- obtained a 'satisfactory' or better performance rating from 93% of those surveyed in relation to completed financial and performance audits (98% in 2005-06);
- continued to achieve a high rate of acceptance from agencies to 93% of the 464 recommendations for improvement flowing from financial and performance audit work (96% of the 310 recommendations made in 2005-06 were accepted). It was noted, however, that one department (Justice and Community Safety) chose not to respond specifically to the recommendations addressed to it in two of the performance audits tabled in 2006-07;
- received unqualified reports from the independent auditor on the Office's 2006-07 financial report and statement of performance;
- implemented a two-year internal audit program developed by the Office's Internal Audit and Review Committee;
- established reciprocal financial audit review arrangements with the Tasmanian Audit Office.
- presented seminars to staff of ACT public sector agencies on financial and performance audit processes and on emerging audit and accounting issues. The seminars were well attended by representatives from Government agencies;
- provided briefings to the Public Accounts Committee on completed audits;
- regularly attended the internal audit committee meetings of major agencies, as an important means of sharing information and improving the Office's understanding of agencies' emerging issues;
- provided comments and suggestions on relevant Treasury finance memorandums and other guidance material, when invited to do so; and

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

- significantly increased learning and development opportunities for staff. Staff attended training programs on the Office's new financial audit methodology and other internal and external training programs, including professional development programs run by CPA Australia and the Institute of Chartered Accountants in Australia. The Office also supported several staff who are undertaking relevant university studies.

During the year, the Office also sought to improve its performance through identifying and addressing areas which need improvement. In particular:

- the Office requested the Victorian Auditor-General's Office (VAO) to review a sample of the Office's financial audits. The VAO identified the need to improve the documentation of the audit in relation to planning, risk assessments and the consideration of fraud. The VAO also suggested that greater attention be given to computer information systems used by agencies to prepare the financial information used in financial reports. The Office addressed these findings and the associated recommendations as part of implementing the financial audit methodology. Further, the information technology component of the first financial audits completed under the new audit methodology was also reviewed by the Queensland Audit Office;
- although the majority of the feedback provided by agencies in response to surveys on performance and financial audits was positive, the Office received feedback expressing concern about its understanding of some agencies' operations and the communication processes during the audit process. The concerns raised by agencies were carefully considered in consultation with the relevant agency representatives, with a view to improving audit procedures; and
- various measures implemented by the Office were not sufficient to retain and attract experienced audit staff. While there was an improvement from the previous year, the staff turnover rate of 23.7% remains high, reflecting the strong demand in the government and the private sectors for experienced audit professionals. The Office is considering additional initiatives to address this issue.

OUTLOOK

The implementation of the restructuring of the ACT public sector announced in the 2006-07 Budget will continue to have an impact on the operations of the Office for the immediate future. The transfer of functions between agencies, the integration of statutory authorities into departmental structures, and the creation of a Shared Services Centre occurred during 2006-07. As a result, the number of financial audit opinions required of the Office fell. The Office expects that financial reporting and audit issues associated with this restructure will be more settled in the coming year as the new arrangements are bedded down.

The reduction in the number of financial audits provides other opportunities. The Office is bringing 'in house' some financial audits currently outsourced to contractors, and is examining ways to improve the delivery of the financial audit program.

The Office will continue to improve its financial audit work using the recently introduced financial audit methodology, which has an increased focus on assessing and documenting agencies' control frameworks and systems.

The increasing number of requests for performance audits and investigations from the community, Legislative Assembly and public sector agencies is expected to continue. As a result, the Office expects that a number of performance audits undertaken and reported in 2007-08 will be outside the planned audit program. The challenge is for the Office to meet this unpredictable demand, and deliver performance audits in a timelier manner. This will require continuous reviews and improvements to audit procedures and practices.

Given the nation-wide shortage of auditing and accounting professionals at all levels, staffing matters will remain a significant issue for this Office in the years ahead. A high staff turnover brings challenges in relation to maintaining the high quality of audit services provided by the Office, a matter which is critical to its overall performance. The Office will explore further options to address these challenges, including the regular reviews of its work program, the composition of staff skills and experience, salary structures, recruitment activities and training programs.

In particular, the Office will continue to invest significantly in its learning and development program, and enhance quality assurance processes to ensure work continues to be delivered to a high professional standard.

OFFICE PERFORMANCE

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF FINANCIAL PERFORMANCE

The Audit Office's financial results from 2003-04 to 2006-07 are provided below:

Table 1: Financial Results

	2003-04 Actual \$ 000	2004-05 Actual \$ 000	2005-06 Actual \$ 000	2006-07 Actual \$ 000	2006-07 Budget \$ 000
Financial audit fees	2 424	2 283	3 049	3 097	2 621
Appropriation	961	1 279	1 380	1 946	1 946
Other	34	51	52	75	25
Income	3 419	3 613	4 481	5 118	4 592
Employee	2 038	2 378	2 768	3 020	3 284
Supplies and services	1 086	1 245	1 424	1 835	1 291
Depreciation	37	23	52	62	38
Expenses	3 161	3 646	4 244	4 917	4 613
Operating surplus / (deficit)	258	(33)	237	201	(21)

Income

Most of the Audit Office's 2006-07 income was obtained from financial audit fees (60.5%). The remainder was predominantly from appropriation (38.0%).

2006-07 Income Compared to Budget

In 2006-07, income exceeded the budgeted amount by \$526 000 (11.5%) due to higher financial audit fees.

Financial audit fees were \$476 000 (18.2%) higher than anticipated and mostly related to the fees charged by contractors on the audits of companies in the ECOWISE group and Rhodium Asset Solutions Ltd.

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

Other income also exceeded expectations as the Audit Office held a higher average balance in its investment account during the year and earned interest on the operating bank account.

2006-07 Income Compared to the Prior Year

Income rose by \$637 000 (14.2%) following an increase in the Office's appropriation and other income (interest).

Appropriation income increased by \$566 000 as the Office was provided with additional funding to improve its audit and investigative capacity.

The small increase in financial audit fees (\$48 000 or 1.6%) was due to increased audit fees charged for auditing Public Trading Enterprises and external entities, largely offset by lower audit fees charged to entities in the General Government Sector.

Trends in Income

Financial audit fees have increased by \$673 000 since 2003-04, representing an average annual increase of 9.3%. Most of this increase occurred in the 2005-06 financial year, where the number of financial audits completed by the Office rose from 82 audits in 2004-05 to 95 audits in 2005-06.

The Office has also received additional appropriation funding in recent years to improve its audit and investigative capacity, engage additional performance auditors, meet higher information technology costs, provide more training for staff and meet rising accommodation costs.

Expenses

Most of the Audit Office's expenses (61.4%) consist of employee expenses. Supplies and services (37.3%) make up most of the rest of the Office's expenses and are mainly comprised of financial audit contractor expenses, accommodation costs, information technology, training and printing costs.

2006-07 Expenses Compared to Budget

Expenses exceeded budget expectations by \$304 000 (6.6%) mainly as a result of higher audit fees charged by financial audit contractors included in supplies and services expenses.

The higher audit fees were mostly related to the audits of financial reports of companies in the ECOWISE group and Rhodium Asset Solutions Ltd. Higher costs of auditing the ECOWISE group were related to an increase in the number of audits required following acquisitions by the group in recent years, the complexity of these audits and significant weaknesses identified in the accounting and control environment. The higher costs of

auditing Rhodium Asset Solutions Ltd's 2005-06 financial report reflected the poor state of the accounting records. Financial audit contractors have also generally sought higher fees for the additional work required to comply with revised auditing standards from 1 July 2006.

These higher costs were partially offset by lower than expected employee costs. The Office experienced high staff turnover and, with the shortage of experienced replacements, was unable to retain full staffing levels throughout 2006-07. The Office's full time equivalent staff numbers of 30.2 was below the budgeted amount of 36.5.

2006-07 Expenses Compared to the Prior Year

Expenses rose by \$673 000 (15.9%) in 2006-07 mainly due to a \$411 000 (28.9%) rise in supplies and services costs combined with a \$252 000 (9.1%) increase in employee costs.

The increase in supplies and services costs reflected the higher financial audit contractor costs. Accommodation costs rose in line with rent increases provided for in the Office's accommodation lease. Information technology and training costs also increased due to the implementation of the Office's new financial audit methodology in 2006-07.

The rise in employee expenses was due to pay rises and higher superannuation expenses following an actuarial assessment of the required superannuation contribution rates.

Trends in Expenses

Expenses have grown by \$1.8 million since 2003-04, representing an average annual increase of 18.5%.

Most of this increase relates to growth in employee expenses. The increases flowed from the recruitment of additional staff to conduct performance audits, higher average staffing levels and a buoyant employment market throughout this period which has significantly increased the cost of attracting and retaining audit and accounting professionals.

Supplies and services costs have also grown over this period. The areas where particular cost pressures have been experienced over this period relate to financial audit contractors and accommodation costs.

Financial audit contractors continue to seek higher fees to perform financial audits. These higher fees reflect a combination of an increasing number of audits, complex and difficult audits and changes to audit and accounting standards. The Office recovers these cost increases from financial audit fees charged to the auditees.

Operating Results

In 2006-07, the Audit Office achieved an operating surplus of \$201 000 compared to a budgeted operating deficit of \$21 000 and operating surplus of \$237 000 in 2005-06. The small operating surplus is consistent with the cost recovery nature of the Audit Office's operations.

2006-07 Operating Result Compared to Budget

The operating surplus is mostly a result of employee costs being below expectations, as a high staff turnover made it difficult to consistently maintain staffing levels in 2006-07.

2006-07 Operating Result Compared the Prior Year

The 2006-07 operating surplus (\$201 000) was similar to the prior year (\$237 000).

Trends in Operating Results

Except for the deficit incurred in 2004-05, this year's operating surplus was similar to the small operating surpluses generated since 2003-04.

Financial Position

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

Table 2: Short-Term Financial Position

	Actual 2005 \$ 000	Actual 2006 \$ 000	Actual 2007 \$ 000	Budget 2007 \$ 000
Short-term assets	1 929	1 926	2 176	2 050
Short-term liabilities ¹	650	400	433	715
Net short-term assets	1 279	1 526	1 743	1 335
Short-term liquidity ratio	2.97	4.81	5.03	2.87

¹ Short-term liabilities do not equal the current liabilities presented in the Balance Sheet. For the purpose of this analysis, the estimated amount of liabilities payable within 12 months has been used.

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

The liquidity ratio shows that, as at 30 June 2007, the Office had \$5.03 in current assets available to meet each dollar of liability expected to be payable within 12 months. The Office's capacity to meet the short-term obligations has improved over recent years.

Table 3: Long-Term Financial Position

	Actual 2005 \$ 000	Actual 2006 \$ 000	Actual 2007 \$ 000	Budget 2007 \$ 000
Current assets	1 929	1 926	2 176	2 050
Total liabilities	1 209	984	1 038	1 316
Net long-term assets	720	942	1 138	734
Ratio of current assets to total liabilities	1.60	1.96	2.10	1.56

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

The ratio of current assets to total liabilities shows that the Office has \$2.10 to meet each dollar of the total liabilities. Consistent with the trend of recent years, the Office's capacity to meet its obligations has improved.

ANALYSIS OF PERFORMANCE

The Audit Office's performance assessed against its performance measures is discussed below.

PERFORMANCE AUDIT ACTIVITIES

Through its performance audits, the Office provides independent assurance to the Assembly and the public on whether Territory moneys are being spent efficiently and effectively, and in accordance with the law.

The proposed program for performance audits was reviewed having regard to the Office's strategic and integrated planning framework, and to recognise the need to conduct investigations or reviews that are urgent or otherwise of a high priority, including public interest disclosures. Four of the audits undertaken and reported during the year were responding to high priority issues, and as such had not been previously included within the proposed performance audit program. Regardless of the Office's strategic planning process for performance audits, there remains a high probability that the proposed program will be revised during any reporting year.

Table 4: Performance Measures for Performance Audit

	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Actual	2006-07 Target
Number of audit reports presented to the Legislative Assembly	4	9	8	8	9
Average period of completion of audits.	13.7 mths	10.0 mths	8.2 mths	6.0 mths	9 mths
Percentage of audits completed within 9 months	0%	38%	43%	86%	95%
Percentage of audits completed within 12 months	33%	62%	100%	86%	95%
Percentage of Chief Executives satisfied with audit reports	100%	100%	97%	87%	95%

Eight audit reports were tabled in the Legislative Assembly (including the summary report on 2005-06 financial audits).

An important focus for the performance audit team during 2006-07 was to reduce the time for the completion of performance audits. The average elapsed time for the completion of performance audits during 2006-07 was reduced to six months, compared to the target of nine months, and four audits were completed within six months.

The Office surveys the Chief Executives of audited agencies following the completion of each performance audit. The survey results continue to show the work of the Office is valued by agencies, and conducted to a high standard, as can be seen in the Figures below. However, some critical feedback was received in which the respondents expressed concern about the auditors' understanding of the agency's operations, and the communication processes during the audit process. Such feedback is carefully considered by the Office with a view to improving audit methods and practices.

Figure 1: Chief Executives' Survey – 'The audit will help our organisation to improve administration of the audited activity'

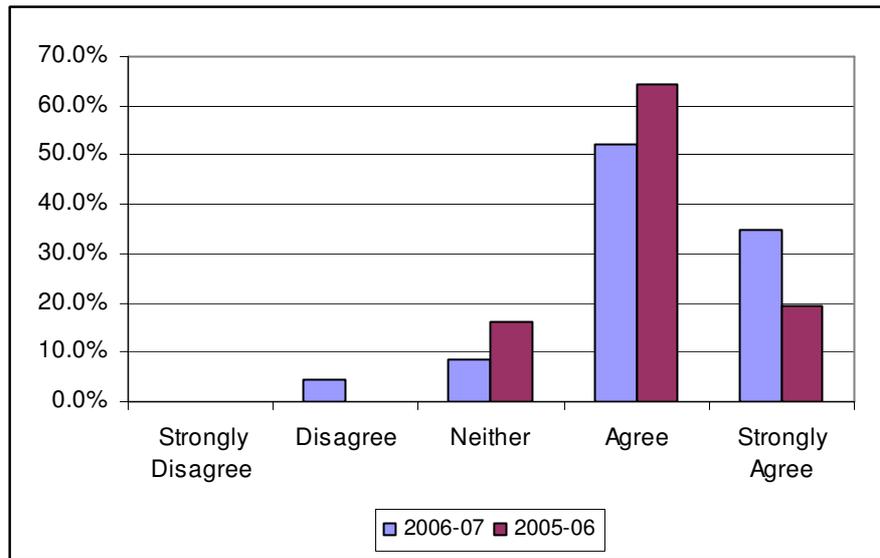
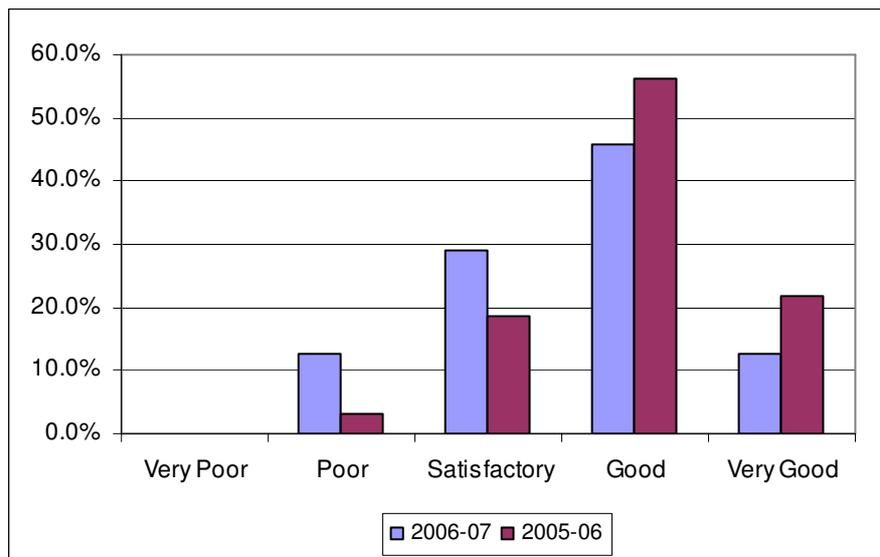


Figure 2: Chief Executive Survey – 'Performance audit - overall performance'



The following audit reports were presented in the Legislative Assembly:

- Rhodium Asset Solutions Limited
- Vocational Education and Training
- Sale of Block 8, Section 48, Fyshwick
- 2005-06 Financial Audits
- Credit Card Use, Hospitality and Sponsorship
- Agency Implementation of Audit Recommendations
- Collection of Fees and Fines
- Regulation of ACT Liquor Licences

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

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

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

Report No. 5 of 2006, Rhodium Asset Solutions Limited (August 2006)

This audit examined the governance and accountability framework of Rhodium Asset Solutions Limited, a small government business entity, formed in 2004 to conduct the Government's fleet management business. Rhodium operated in a competitive market, with about 30 staff in 2005-06. The audit examined concerns raised by a former staff member with the Board regarding certain management practices, and was extended beyond the specific issues raised, to an examination of the general administrative and control framework.

The Office found Rhodium's corporate governance and accountability framework generally conformed to the governance provisions of the applicable legislation and good governance principles. However, in practice, Rhodium's internal control environment did not progress sufficiently within the first fifteen months of its operation, and could not be considered effective during this period. This was reflected by a corporate culture that did not encourage care and diligence in spending taxpayers' funds, a lack of formal policies and procedures on operational and ethical issues, and an inadequate system of risk management at the operational level.

The audit made six recommendations, which were all agreed to by Rhodium. The Rhodium Board also took action to address many deficiencies as soon as they become known to the Board.

Report No.6 of 2006, Vocational Education and Training (September 2006)

This audit considered whether the Department of Education and Training (DET) was delivering Vocational Education and Training (VET) services to meet ACT community and industry needs. At the time of audit, there were around 23,000 students enrolled in VET activities in the ACT with training provided by the Canberra Institute of Technology and more than 100 other Registered Training Organisations.

The audit found that the strategic planning by relevant agencies provided a reasonable assessment of community and industry needs, but could be strengthened through a more transparent approach to informing stakeholders of the potential demand for trainees in each area of VET priority. Funding priorities, on the whole, reflected the assessed demand for trainees. However, there was little collection of information at a course or provider level about whether trainees achieve outcomes such as employment, and it was difficult to form a view on the relative effectiveness of VET in the ACT in helping

students to get a job. Furthermore, student and employer satisfaction rates in the ACT were generally below the Australian average.

The audit made six recommendations. DET agreed or agreed-in-part to all recommendations.

Report No. 7 of 2006, Sale of Block 8, Section 48, Fyshwick (December 2006)

This audit examined the sale by the Land Development Agency (LDA) of Block 8 Section 48, Fyshwick and associated issues. The audit assessed whether the sale was in accordance with relevant legislation, policy and accepted better practice; was conducted fairly and with appropriate accountability; and achieved appropriate financial and planning outcomes for the ACT.

The audit found that the sale of this block of land reflected weaknesses in the communications process and a lack of clarity of information, rather than any fundamental flaws in agency procedures or administrative processes. The weaknesses resulted from a sale process in which the two key agencies – the LDA (as the vendor agency) and ACTPLA (as the planning regulator), each operated separately according to its own established procedures, rather than in a way to ensure all aspects of the sale process were fully coordinated to provide efficient and effective services to parties involved.

Despite this, the sale of the block for \$39 million represented an appropriate financial outcome for the Territory on the basis of the permissible uses for the site and generally conformed to the Government's strategic policy planning intentions for the site.

The audit made three recommendations. The LDA disagreed with two of the three recommendations. ACTPLA agreed with the recommendations that affected it. The ACT Government subsequently agreed or agreed-in-principle to all recommendations.

Report No. 8 of 2006, 2005-06 Financial Audits (December 2006)

This report summarised the results of the Office's audits of financial reports and statements of performance completed during 2005-06. The report included comments on the quality of reporting by Territory agencies, the Territory's 2005-06 financial results, spending on the capital work program, and a discussion of the financial results and budget performance of reporting agencies.

Consistent with the trend of recent years, almost all of the 77 audit opinions issued on agencies' financial reports were unqualified (only four reports were qualified). Additionally, for the first time in recent years, no audit reports were qualified for non-compliance with Australian Accounting Standards. Of

the four qualified reports, two referred to breaches of reporting requirements of the *Financial Management Act 1996*, and two referred to financial information included in financial reports that was unable to be audited.

The audit found there was scope for significantly improving financial reporting processes in the Territory. The audit rated only 55% of financial reports received in 2005-06 as 'satisfactory' or 'good' compared to 75% in 2004-05. Additionally, there were significant issues with the timeliness of the provision of financial reports.

***Report No. 1 of 2007, Credit Card Use, Hospitality and Sponsorship
(February 2007)***

The audit assessed whether selected government agencies had sound policies and guidelines to efficiently manage and account for credit card use and hospitality and sponsorship expenses and promote accountability and transparency in these expenditures. In part, the audit considered whether the problems identified during the Office's audit of Rhodium Asset Solutions Limited (see Report No. 5 of 2006 discussed previously) were evident in other government agencies.

The audit found that most audited agencies had adequate policies and guidelines and a satisfactory control framework in place to manage and account for credit card use and hospitality expenditure. However, the audit observed there was scope to improve accountability and transparency by developing specific policies for the assessment and administration of sponsorship arrangements, monitoring and evaluating sponsorship and improving disclosures in agencies' annual reports.

The Office made nine recommendations. The audited agencies agreed or agreed-in-part to all recommendations.

***Report No. 2 of 2007, Agency Implementation of Audit Recommendations
(June 2007)***

This audit assessed whether ACT Government agencies had addressed recommendations and findings from audit reports presented to the Legislative Assembly by the Auditor-General. The Audit Office examined the agency response to the audits on Leave Management (August 2004), Waiting Lists for Elective Surgery and Medical Treatment (December 2004) and Travel Arrangements and Expenses (June 2004).

The audit found that progress by agencies in implementing recommendations from these performance audits varied significantly between agencies and from audit to audit. Recommendations from audit reports that examined operational areas specific to an individual agency received more robust implementation action than audit reports that focussed on corporate issues common across

agencies (e.g. leave and travel arrangements).

Overall, the review and reporting arrangements adopted by the agencies were not adequate to provide assurance to the Government and the Assembly that recommendations arising from performance audit reports are implemented consistently across agencies in a timely manner.

The audit made four recommendations to address the issues raised. The audited agencies generally agreed or agreed-in-principle to all recommendations.

Report No. 3 of 2007, Collection of Fees and Fines (June 2007)

This audit examined the efficiency and effectiveness of the administration and collection of selected fees and fines in the Department of Territory and Municipal Services, the Department of Justice and Community Safety (JACS) and the ACT Planning and Land Authority. The audit focused on legislative compliance, policies and procedures for fee determinations, debt management, performance reporting and risk management.

The audit found that audited agencies were generally clear about the intent and purpose of fees and fines. However, the methods by which fees and fines were determined were not robust and did not always reflect their purposes. There was little evidence that the cost of services was being taken into account in determining the amount of the fee. Revenue collection was not effective in a number of areas, with traffic and parking related fees and fines being particularly at risk. There was little guidance on the administration of fees available to agencies, although the Department of Treasury was drafting a new policy and guidance document. There was little information collected on the effectiveness and efficiency of fees and fines collections, and particularly whether certain fees achieve their objective of changing fee-payers' behaviours. Additionally, there was significant scope for improvement in the systems of risk-management within the audited agencies.

The report made 14 recommendations, most of which were accepted by the agencies involved. However, one agency (JACS) did not provide specific comments on each recommendation.

Report No. 4 of 2007, Regulation of ACT Liquor Licences (June 2007)

This audit assessed whether the Department of Justice and Community Safety (JACS) had an effective and efficient regulatory program to encourage and promote responsibility in the sale and consumption of liquor. At the time of the report, there were about 600 liquor licences in operation in the ACT. The regulation of liquor licences under the *Liquor Act 1975* is the responsibility of the Office of Regulatory Services within JACS.

The audit found that licensing procedures adopted by JACS were not sufficiently robust to ensure the effectiveness of the liquor licensing regime. Furthermore, the decision making process in assessing applications for, and issuing of, liquor licences lacked consistency and transparency. Approval processes for occupancy loadings were neither timely nor consistent and there was no formalised risk-based strategy to assess the regulatory risks necessary to monitor licensees' compliance with the Liquor Act.

The audit also found that decisions made by the Board and Registrar to address identified non-compliance were documented and made in a timely manner.

Additionally, there were only a small number of appeals to the Administrative Appeal Tribunal, the majority of which were found in favour of the Board and Registrar.

The report made seven recommendations. JACS did not provide specific comments on each recommendation, however, JACS largely accepted the basis of these recommendations and noted they would complement its own review of the core services of the Office of Regulatory Services.

FINANCIAL AUDIT ACTIVITIES

The Office conducted independent audits on the financial reports of the Territory and its agencies to provide assurance to the Legislative Assembly and the community on the reliability of the financial and performance information reported by agencies.

IMPACT OF DEVELOPMENTS IN FINANCIAL AUDITING

In response to major corporate failures, the Commonwealth introduced amendments to the *Corporations Act 2001*. In May 2006, all auditing standards were rewritten and issued as legally binding standards for audits completed under the Corporations Act. The Audit Office is required to comply with these revised auditing standards regardless of whether or not a financial audit is being performed under the *Corporations Act 2001*.

The Institute of Chartered Accountants and CPA Australia estimate that financial audit costs could increase by 10% to 30% under the new auditing requirements. The Office presently believes the overall cost impact of addressing the revised auditing requirements will probably be towards the lower end of this range. The impact on costs to this Office will be reviewed following completion of the 2006-07 financial audit program.

REVIEW OF FINANCIAL AUDITS

In 2006-07, the Office requested the Victorian Auditor-General's Office (VAO) to review a selection of financial audits. The purpose of this review was to identify opportunities for improving the quality of financial audit work performed by the Office, particularly given the above-mentioned revisions to auditing standards.

The VAO review made a number of recommendations including the need to improve the documentation of the assessment of the risk of material misstatements in financial reports due to error or fraud, and the explicit linking of the planned audit work to these risk assessments. The VAO also recommended that greater attention be given to the consideration of computer information systems used by agencies to prepare the financial information used in financial reports.

These recommendations were addressed by the Office during the 2006-07 financial audit program predominantly through the implementation of a new financial audit methodology.

NEW FINANCIAL AUDIT METHODOLOGY

To meet the changed auditing requirements and to improve the quality of financial audit work, the Office implemented the financial audit methodology recently developed by the Queensland Audit Office and Victorian Auditor-General's Office in 2006-07. As reported in last year's Annual Report, the Office collaborated with these Audit Offices in the development of the methodology.

This methodology, called the 'Integrated Public Sector Audit Methodology' (IPSAM), is expected to improve the quality and consistency of the Office's financial audit work and has a public sector focus.

This audit methodology will assist in meeting the documentation requirements of the revised auditing standards as it requires comprehensive documentation of important audit processes such as the consideration of fraud, understanding the entity, responses to assessed risks, the compilation of evidence supporting the audit opinion and evidence of compliance with auditing standards.

Under this methodology, the computer information systems used by agencies to produce financial reports also receive greater attention with IT specialists being engaged to assist on some audits. The Office engaged the Queensland Audit Office to examine the Office's review of information technology systems in relation to audits completed for the first time using the new audit methodology.

The audit methodology is expected to provide a number of benefits not available under the previous methodology. The methodology:

- provides more guidance to audit teams on financial audit policies and the required procedures;

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

- will be updated for developments in the audit requirements and for policies and practices used by other public sector audit offices;
- provides opportunities for the Office to improve its capacity to assess the adequacy of computer information environments and systems used by agencies; and
- provides a sound basis for the sharing of information and training programs and the conduct of peer reviews by other audit offices that also use this methodology.

These benefits should enhance the quality and consistency of financial audit work.

The methodology is less expensive than that previously sourced from a private sector firm and reduces the Office's dependency on private sector suppliers to provide and support the methodology over the long term.

FUTURE PEER REVIEWS

In 2006-07, the Audit Office implemented ongoing annual peer review arrangements with the Tasmanian Audit Office.

The Office reviewed a selection of audits performed by the Tasmanian Audit Office in February/March 2007. The Tasmanian Audit Office is expected to complete a review of the Office's financial audits in December 2007.

The Office will continue to improve the quality of its financial audit work through this regular review process.

PERFORMANCE MEASURES

Table 5: Performance Measures for Financial Audit

	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Actual	2006-07 Target
Number of audit reports issued on financial reports	86	83	95	82	82
Number of reports of factual findings issued on statements of performance	-	-	-	37	37
Percentage of audits completed within required timetable	100%	95%	97%	91%	95%
Percentage of recommendations accepted in audits	-	93%	96%	87%	95%
Percentage of Chief Executives satisfied with audits	100%	98%	98%	96%	95%

FINANCIAL AUDIT REPORTS AND REPORTS OF FACTUAL FINDINGS

The number of financial reports and reports of factual findings that the Audit Office is required to provide each year is determined by legislative or other externally imposed requirements.

The number of financial audit reports issued in 2006-07 was in line with the target. As expected, the number of reports fell from the unusually high level experienced in 2005-06, as some audits were no longer required to be performed in 2006-07.

The financial audits completed in 2006-07 are detailed in the Office's 'Statement of Performance' on page 78.

In 2006-07, as in previous years, the Office completed all audits as required, including the audits of the financial reports for the Territory and its departments, authorities and companies.

The Office was required by the *Financial Management Act 1996*, to issue reports of factual findings on statements of performance prepared by departments and authorities for the first time in 2006-07. The Office issued 37 reports of factual findings on statements of performance.

Percentage of Audits Completed within the Required Timetable

Almost all financial audits conducted in 2006-07 were completed by the due date. This outcome was achieved, despite the fact that many agencies did not comply with the required timetable for the provision of their financial reports to the Audit Office and the declining quality noted in financial reports submitted to the Office.²

Seven audit reports (9%) were not completed on time because financial reports were not provided to the Office in accordance with the required timetable.

Percentage of Recommendations Accepted in Audits

Although the primary purpose of a financial audit is to provide an audit report that expresses an opinion on the financial report, the Office also assists agencies to improve the quality of their financial reports during the audit process. The Office alerts agencies to errors in their financial reports, provides advice on the compliance with accounting standards, and recommends improvements to the disclosures in these reports prior to their publication.

² Report No. 8 of 2006: '2005-06 Financial Audits'.

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

As part of the financial audit process, the Office brings concerns, such as internal control weaknesses and poor financial management procedures and practices to the attention of senior management. These concerns and associated recommendations are not publicly reported unless the matter is assessed to be serious or systemic.

In 2006-07, 315 of the 363 (87%) recommendations made by the Office were 'accepted' by agencies. This represents a substantial increase on the number of recommendations made in 2005-06, although there was a decrease in the percentage accepted (215 and 96% respectively).

The lower than expected percentage of recommendations accepted by agencies was significantly affected by the Legal Aid Commission's responses to its audit management report. The Office was unable to determine whether 19 of the 22 recommendation made in that report had been accepted. The Commission has since advised the Office that audit recommendations would receive proper consideration in time for the 2006-07 financial audit of the Commission's financial report.

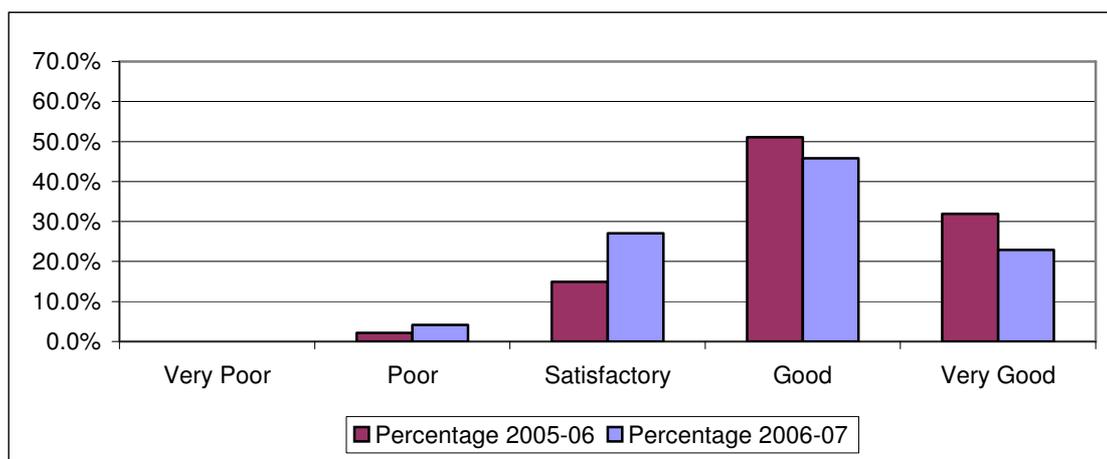
The continuing high acceptance rate of audit recommendations by most agencies indicates the Office is making a useful contribution to improving public sector financial management and reporting processes by providing sound advice and practical recommendations to agencies.

Percentage of Chief Executives Satisfied with Financial Audits

Responses by agencies to the Office's annual satisfaction survey indicated that 96% of agencies rated the Office's performance as 'satisfactory' or better in 2006-07, down slightly from 98% in 2005-06.

Most agencies (69%) rated the Office's performance as 'good' or 'very good'.

Figure 3: Chief Executive Survey – 'Financial audit - overall performance'



The Office also sought further information on specific aspects of its performance in its annual satisfaction survey to identify areas for improvement. Where appropriate, the

Office responded in writing to the comments provided by agencies and has used this feedback to improve performance and communication with agencies.

OTHER ACTIVITIES

The Office looks for opportunities to contribute to improving the performance of ACT public sector agencies, through means other than 'traditional' performance audit and financial audit activities. To this end, the Office organised and delivered information seminars during the year.

These seminars and briefings are an important means of ensuring agencies are aware of audit procedures and potential financial reporting issues, as well as encouraging agencies to be well prepared for the audit process.

Following the tabling of audit reports, the Audit Office briefs the Public Accounts Committee and other Legislative Assembly members as requested. The Office offers similar briefings to audited agencies. During the year, the Office's representatives continued to regularly attend meetings of the internal audit committees of major agencies.

The Office met and briefed a number of overseas delegations on the role and responsibilities, and the operations of the Office. These forums provided an opportunity for the exchange of information as well as allowing audit agencies to benchmark their operations against the Office's practices.

The Office also provided comments and suggestions on relevant Treasury finance memorandums and other guidance material, when invited to do so.

During the year, the Office met its obligations under the *Government Procurement Act 2001* (Section 39) to provide the Public Accounts Committee with biannual reports on Government contracts that contained confidential text. It also provided advice and information to agencies to improve their compliance with the reporting requirement of the Act. The Office noted improvements in compliance by agencies, in part reflecting the increased role of ACT Procurement Solutions, which undertakes much of the procurement activity on behalf of agencies. As mentioned above, the Office's role in relation to the Procurement Act will change substantially when amended provisions come into effect (proposed for 1 October 2007).

Through its input to the Australasian Council of Auditors-General (ACAG), the Audit Office contributed to the national review and development of accounting and auditing policy and standards. ACAG also provides the opportunity for the Office to participate in, and share the benefits of, national projects such as audit methodology, performance audit training, and benchmarking.

The Office is also represented on an ACAG Group advising the Auditing and Assurance Standards Board on revisions to the existing performance audit standards issued by the Australian accounting profession.

FINANCIAL REPORT

ACT AUDITOR-GENERAL'S OFFICE

FINANCIAL REPORT YEAR ENDED 30 JUNE 2007

STATEMENT OF RESPONSIBILITY

In my opinion, the accompanying financial report for the ACT Auditor-General's Office for the year ended 30 June 2007, consisting of the:

- Operating Statement;
- Balance Sheet;
- Statement of Recognised Income and Expense;
- Cash Flow Statement; and
- Statement of Appropriation

fairly reflects the financial operations of the Office for the year ended 30 June 2007 and the financial position of the Office on that date.



Tu Pham
Auditor-General

26 July 2007

ACT AUDITOR-GENERAL'S OFFICE

**FINANCIAL REPORT
YEAR ENDED 30 JUNE 2007**

STATEMENT BY THE CHIEF FINANCE OFFICER

In my opinion, the accompanying financial report for the ACT Auditor-General's Office for the year ended 30 June 2007, consisting of the:

Operating Statement;

Balance Sheet;

Statement of Recognised Income and Expense;

Cash Flow Statement; and

Statement of Appropriation

has been prepared in accordance with generally accepted accounting principles, is in agreement with the Office's accounts and records and fairly reflects the financial operations of the Office for the year ended 30 June 2007 and the financial position of the Office on that date.



Bernie Sheville
Chief Finance Officer
ACT Auditor-General's Office

26 July 2007

ACT AUDITOR-GENERAL'S OFFICE

OPERATING STATEMENT
YEAR ENDED 30 JUNE 2007

	Note	Actual 2006-07 \$	Budget 2006-07 \$	Actual 2005-06 \$
INCOME				
Financial audit fees	6	3 097 004	2 621 000	3 049 277
Appropriation	(a)	1 946 000	1 946 000	1 380 000
Other	7	75 224	25 000	51 653
Total income		5 118 228	4 592 000	4 480 930
EXPENSES				
Employee	8	3 020 039	3 284 000	2 767 501
Supplies and services	9	1 834 916	1 291 000	1 424 488
Depreciation	10	62 528	38 000	52 139
Total expenses		4 917 483	4 613 000	4 244 128
Operating surplus / (deficit)		200 745	(21 000)	236 802

- (a) Further information on appropriation income is provided in the Statement of Appropriation.

In 2006-07, the Audit Office achieved an operating surplus of \$200 745 compared to a budgeted operating deficit of \$21 000 and operating surplus of \$236 802 in 2005-06. The operating surplus is mostly a result of employee costs being below expectations, as a high staff turnover resulted in difficulties in maintaining staffing levels in 2006-07. The number of full time equivalents staff employed in 2006-07 was 30.2 compared to a budgeted level of 36.5.

The small operating surplus was consistent with the cost recovery nature of the Audit Office's operations.

Financial audit fees were higher than budgeted by \$476 004 (18.2%) as the Office recovered, from audited agencies, significant increases in fees charged by financial audit contractors to audit a number of financial reports. Most of these increases related to audits of the financial reports of companies in the ECOWISE group and Rhodium Asset Solutions Ltd.

Expenses also exceeded the budgeted amount by \$304 483 (6.6%) mainly as a result of higher audit fees charged by financial audit contractors (included above in supplies and services expenses). This reflected additional work on some financial audits and complying with revised auditing standards. These increases were partially offset by lower than expected employee costs.

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

The budget amounts disclosed above are sourced from 2006-07 Budget Paper No. 4.

ACT AUDITOR-GENERAL'S OFFICE

BALANCE SHEET
AS AT 30 JUNE 2007

	Note	Actual 2007 \$	Budget 2007 \$	Actual 2006 \$
CURRENT ASSETS				
Cash and cash equivalents	11	788 896	1 203 000	774 178
Receivables	12	1 381 984	839 000	1 145 723
Other	13	5 056	8 000	6 279
Total current assets		2 175 936	2 050 000	1 926 180
NON-CURRENT ASSETS				
Plant and equipment	14	566 338	455 000	561 497
Total non-current assets		566 338	455 000	561 497
Total assets		2 742 274	2 505 000	2 487 677
CURRENT LIABILITIES				
Payables	15	84 056	397 000	114 401
Finance leases	16	13 682	-	-
Employee benefits	17	806 748	295 000	776 905
Other	18	15 625	23 000	15 625
Total current liabilities		920 111	715 000	906 931
NON-CURRENT LIABILITIES				
Finance leases	16	38 428	-	-
Employee benefits	17	42 656	553 000	24 787
Other	18	36 458	48 000	52 083
Total non-current liabilities		117 542	601 000	76 870
Total liabilities		1 037 653	1 316 000	983 801
NET ASSETS		1 704 621	1 189 000	1 503 876
EQUITY				
Accumulated funds	19	1 704 621	1 189 000	1 503 876
Total Equity		1 704 621	1 189 000	1 503 876

This Balance Sheet should be read in conjunction with the accompanying notes.

The budget amounts disclosed above are sourced from 2006-07 Budget Paper No. 4.

ACT AUDITOR-GENERAL'S OFFICE

**STATEMENT OF RECOGNISED INCOME AND EXPENSE
YEAR ENDED 30 JUNE 2007**

	Note	Actual 2006-07 \$	Budget 2006-07 \$	Actual 2005-06 \$
Equity at the beginning of the year		1 503 876	1 210 000	1 267 074
Accumulated funds				
Operating surplus	19	200 745	(21 000)	236 802
Total income / (expense) recognised directly in equity		200 745	(21 000)	236 802
Equity at the end of the year		1 704 621	1 189 000	1 503 876

This Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes.

The budget amounts disclosed above are sourced from 2006-07 Budget Paper No. 4.

ACT AUDITOR-GENERAL'S OFFICE

CASH FLOW STATEMENT
YEAR ENDED 30 JUNE 2007

	Note	Actual 2006-07 \$	Budget 2006-07 \$	Actual 2005-06 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
RECEIPTS				
Financial audit fees		2 892 877	2 621 000	2 713 942
Appropriation		1 946 000	1 946 000	1 380 000
Interest		68 985	25 000	39 830
Goods and Services Tax collected from auditees		289 290	215 000	271 516
Goods and Services Tax refunded from the Australian Taxation Office		32 062	-	124 491
Other		36	-	3 333
Total receipts from operating activities		5 229 250	4 807 000	4 533 112
PAYMENTS				
Employee		2 967 296	3 230 000	2 721 112
Supplies and services		1 870 119	1 307 000	1 412 084
Goods and Services Tax paid on goods and services		191 978	115 000	180 928
Goods and services tax remitted to the Australian Taxation Office		167 180	100 000	184 939
Total payments from operating activities		5 196 573	4 752 000	4 499 063
Net cash inflows from operating activities	(a)	32 677	55 000	34 049

Net cash flows from operations were below budget expectations and 2005-06 levels.

The small operating cash flows were consistent with the cost recovery nature of the Audit Office's operations. The higher financial audit fees and appropriation were just sufficient to meet the continuing growth in employee costs and supplies and services expenses. Further information on the movements in these accounts is provided in the explanatory information included in the Statement of Appropriation, Note 6: 'Financial Audit Fees', Note 8: 'Employee' and Note 9: 'Supplies and Services'.

This Cash Flow Statement should be read in conjunction with the accompanying notes.

The budget amounts disclosed above are those included in 2006-07 Budget Paper No. 4.

ACT AUDITOR-GENERAL'S OFFICE

**CASH FLOW STATEMENT (CONTINUED)
YEAR ENDED 30 JUNE 2007**

	Note	Actual 2006-07 \$	Budget 2006-07 \$	Actual 2005-06 \$
CASH FLOWS FROM INVESTING ACTIVITIES				
PAYMENTS				
Payments for plant and equipment		5 746	-	342 362
Cash (outflows) from investing activities		(5 746)	-	(342 362)
CASH FLOWS FROM FINANCING ACTIVITIES				
PAYMENTS				
Payment of finance leases		12 213	-	-
Cash (outflows) from financing activities		(12 213)	-	-
Net increase / (decrease) in cash and cash equivalents		14 718	55 000	(308 313)
Cash and cash equivalents at the beginning of the year		774 178	1 148 000	1 082 491
Cash and cash equivalents at the end of the year	(b)	788 896	1 203 000	774 178

Non-cash financing activities are presented in note (c) on the following page.

Cash outflows from investing activities, being payments for plant and equipment, fell as the Audit Office largely completed the costs of fitting-out its accommodation in 2005-06.

Payment of finance leases related to motor vehicles provided as part of the remuneration of senior executives. In 2006-07, for the first time, motor vehicles were provided under a finance lease arrangement. In previous years, vehicles were provided under an operating lease arrangement.

This Cash Flow Statement should be read in conjunction with the accompanying notes.

The budget amounts disclosed above are those included in 2006-07 Budget Paper No. 4.

ACT AUDITOR-GENERAL'S OFFICE

NOTES TO THE CASH FLOW STATEMENT
YEAR ENDED 30 JUNE 2007**Note (a): Reconciliation of the Operating Surplus to the Net Cash Inflows from Operating Activities**

	Actual 2006-07 \$	Actual 2005-06 \$
Operating surplus	200 745	236 802
Depreciation	62 528	52 139
Borrowing costs on finance leases – motor vehicles	2 700	-
Changes in assets and liabilities		
(Increase) in receivables	(236 261)	(306 375)
Decrease other current assets	1 223	1 384
(Decrease) in payables	(30 345)	(8 355)
Increase in employee benefits	47 712	60 891
(Decrease) in other liabilities	(15 625)	(2 437)
Net cash inflows from operating activities	32 677	34 049

Note (b): Reconciliation of Cash and Cash Equivalents in the Cash Flow Statement to the Related Items in the Balance Sheet

	Actual 2007 \$	Actual 2006 \$
Cash at bank and on hand	88 896	124 178
Investments with the Central Financing Unit - at call	700 000	650 000
Cash and Cash Equivalents in the Cash Flow Statement and the Balance Sheet	788 896	774 178

ACT AUDITOR-GENERAL'S OFFICE

NOTES TO THE CASH FLOW STATEMENT (CONTINUED)
YEAR ENDED 30 JUNE 2007

Note (c): Non-Cash Financing Activities

	Actual 2007 \$	Actual 2006 \$
Acquisition of motor vehicles by means of finance leases	61 623	-

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF APPROPRIATION
YEAR ENDED 30 JUNE 2007

	2006-07 Original Budget \$	2006-07 Total Appropriated \$	2006-07 Appropriation Drawn \$	2005-06 Appropriation Drawn \$
Appropriation	1 946 000	1 946 000	1 946 000	1 380 000
Total appropriation	1 946 000	1 946 000	1 946 000	1 380 000

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

Page 24 of 2006-07 Budget Paper No. 4. discloses that the Office's appropriation was increased 'to improve the audit and investigative capacity of the Office'.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

1. Objectives

The objectives of the ACT Auditor-General's Office (the Audit Office) are to inform the ACT Legislative Assembly and the community of the performance of the ACT public sector, promote accountability and to contribute to the improvement of the performance of ACT public sector agencies.

2. Significant Accounting Policies

The significant accounting policies adopted in the preparation of this financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Financial Management Act 1996*.

(i) Historical Cost Convention

This financial report has been prepared in accordance with the historical cost convention.

(ii) Significant Accounting Estimates

The preparation of this financial report required the use of certain significant accounting estimates and the exercise of judgement in applying the Audit Office's significant accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial report, are disclosed in Note 5: 'Significant Accounting Estimates and Judgements'.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

2. Significant Accounting Policies (Continued)

(b) The Reporting Period

This financial report presents the Audit Office's financial performance, changes in equity and cash flows for the year ended 30 June 2007 and its financial position as at 30 June 2007.

(c) Comparatives

(i) Budget Information

The *Financial Management Act 1996* requires this financial report to facilitate a comparison with the Budget Papers. Budget figures contained in 2006-07 Budget Paper No. 4 have therefore been presented in this financial report to enable a comparison to the Budget Papers to be easily made.

(ii) Prior Year Comparatives

Comparative information in respect of the previous financial year has been presented in this financial report. Where the presentation or classification of items in the financial report is amended, the comparative amounts have also been reclassified where practical.

(d) Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the Audit Office and the recognition criteria described below for the Audit Office's sources of revenue have been met.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

2. Significant Accounting Policies (Continued)

(d) Revenue Recognition (Continued)

(i) Appropriation

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

This Appropriation is recognised as revenue in the Operating Statement on receipt.

(ii) Financial Audit Fees

The Audit Office charges fees for auditing financial reports. Revenue from financial audits is recognised in the Operating Statement by reference to the stage of completion of each audit at the end of the reporting period and the budgeted fee for each audit.

The stage of completion for each financial audit is estimated by reference to the staff hours incurred to date as a percentage of total budgeted staff hours for each audit.

(iii) Interest

Interest income is recognised as it is earned.

(e) Cash and Cash Equivalents

Cash and cash equivalents are stated at their nominal amount.

For Cash Flow Statement presentation purposes, cash and cash equivalents includes petty cash, cash held in the bank account, highly liquid investments that are readily convertible to cash and are subject to insignificant risk of changes in value and any bank overdrafts.

Any bank overdrafts are presented as a borrowing in the Balance Sheet.

Notes to the Financial Report
Year Ended 30 June 2007

2. Significant Accounting Policies (Continued)

(f) Receivables

Receivables include accrued revenue in relation to financial audits (unbilled revenue) and interest accrued on investments up until the end of the financial year. Receivables are less any provision for impairment.

Accrued financial audit income represents amounts earned but not yet billed on financial audits and is recognised according to the estimated stage of completion of each financial audit. Each financial audit's stage of completion is estimated by reference to the audit hours incurred at the end of the reporting period as a percentage of total budgeted hours to complete each audit.

The collectability of receivables is reviewed on an ongoing basis. A provision for impairment is recorded when there is objective evidence that the collection of the amount receivable for each financial audit is not considered probable. The amount of any provision for impairment is the difference between the carrying amount of the amount of each receivable from each debtor and the estimated cash flows. As all receivables are short term, and the effect of discounting is immaterial, estimated cash flows are not discounted.

The amount of any provision for impairment of receivables is recorded as an expense in the Operating Statement. Receivables that are known to be uncollectible are written off as an expense in the Operating Statement.

(g) Plant and Equipment

(i) Valuation

Plant and equipment is recorded at the historical cost of acquisition less accumulated depreciation less any accumulated impairment losses.

Cost includes the purchase price and costs directly associated with the acquisition of an asset. Subsequently incurred costs are included in an asset's carrying amount, or recognised as a separate asset (as appropriate) only when the cost can be measured reliably, the future economic benefits associated with the item will flow to the Audit Office and the cost exceeds the asset capitalisation threshold of \$5 000.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

2. Significant Accounting Policies (Continued)

(g) Plant and Equipment (Continued)

(ii) Depreciation

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

Depreciation on plant and equipment assets is calculated on a straight-line basis to allocate their cost, net of any estimated residual value, over their estimated useful lives using rates that are reviewed annually.

As disclosed in Note 2(h): 'Impairment', an asset's carrying amount is written down immediately to its 'recoverable amount' if the asset's carrying amount is greater than its 'recoverable amount'.

Depreciation of plant and equipment is estimated as follows:

Class of Asset	Estimated Useful Life
Computer equipment	5 years
Office fit-out	12 years
Motor vehicles	2 years

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

2. Significant Accounting Policies (Continued)

(h) Impairment

Assets are annually assessed for impairment when events or circumstances indicate that their carrying amount may not be recoverable. If this assessment indicates that an asset is impaired then the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount of an asset is the higher of its 'fair value less the cost to sell' and its 'value in use'. As asset's 'value in use' is its depreciated replacement cost where the Audit Office would, if deprived of the asset, replace its remaining future economic benefits.

An impairment loss is recognised as an expense in the Operating Statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

(i) Payables

Payables represent liabilities for goods and services provided to the Audit Office prior to the end of the financial year which are unpaid. Payables are recognised at the amount to be paid for these goods and services.

Payables are unsecured and are usually paid within 28 days of recognition.

(j) Employee Benefits

(i) Salaries, Annual Leave and Sick Leave

Liabilities for salaries, including non-monetary benefits, annual leave, and accumulating sick leave, are recognised in respect of services provided by employees up to the reporting date and are measured at the estimated amounts expected to be paid when the liabilities are settled.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

2. Significant Accounting Policies (Continued)

(j) Employee Benefits (Continued)

These liabilities are classified as 'current' in the Balance Sheet when a legal obligation to pay salaries, including non-monetary benefits, annual leave, and accumulating sick leave to an employee exists at the reporting date. All such liabilities have therefore been classified as current.

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

(ii) Long Service Leave

A liability for long service leave is recognised for services provided up to the reporting date and is measured at the amounts expected to be paid when the liability is settled.

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

This liability is classified as 'current' in the Balance Sheet when a legal obligation to pay long service leave to an employee exists at the reporting date and irrespective of when the liability is expected to be settled.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

2. Significant Accounting Policies (Continued)

(j) Employee Benefits (Continued)

(iii) Superannuation

Defined Benefit Superannuation Schemes

The Audit Office makes a superannuation payment to the Superannuation Unit each year, to cover the Audit Office's liability for the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. This payment covers the required employer contribution to the Commonwealth Superannuation Scheme and Public Sector Superannuation Scheme. A 3% productivity component is paid directly to Comsuper.

The Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme are 'defined benefit schemes' meaning that the defined benefits received by employees are based on an employee's years of service and final average salary.

No liability for superannuation for employees in these 'defined benefit schemes' is recognised in the Balance Sheet as the Superannuation Unit recognises this liability for all agencies in the Territory.

Accumulated Benefit Superannuation Schemes

Superannuation payments have also been made directly to superannuation funds for those employees who are members of accumulated benefit superannuation schemes. This includes the Public Sector Superannuation Scheme Accumulation Plan and any other accumulation schemes chosen by employees.

No liability is recognised in the Balance Sheet in relation to the Public Sector Superannuation Scheme Accumulation Plan or any other accumulation schemes as the Audit Office's liability is extinguished when superannuation payments are made to the plan.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

2. Significant Accounting Policies (Continued)

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The Audit Office has entered into finance leases and operating leases.

(i) Finance Leases

Leases of property, plant and equipment, where the risks and benefits of ownership are substantially transferred to the Audit Office, are classified as finance leases.

Finance leases are capitalised, at the lease's inception, at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Each lease payment is allocated between the lease liability and the borrowing cost.

Borrowing costs are expensed in the Operating Statement as they are incurred.

Lease liabilities are classified as a current liability unless the Audit Office has unconditional right to defer the settlement of the liability for at least 12 months after the Balance Sheet date.

Assets under a finance lease are depreciated over the shorter of the asset's useful life and the lease term.

(ii) Operating Leases

Operating leases are leases where the lessor effectively retains substantially the risks and benefits of ownership of the leased assets.

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

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

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

3. Changes to Significant Accounting Policies

There were no changes to significant accounting policies during the reporting period.

4. Financial Risk Management

Financial instruments are comprised of cash, investments and finance leases. These instruments provide the funds needed to meet the expenses, liabilities and commitments of the Audit Office. The main risk to the Office of these financial instruments is 'interest rate risk' which is discussed below.

Other financial assets and liabilities consist of receivables and payables which arise from the operations of the Audit Office. The main risk to the Audit Office of these financial instruments is 'credit risk' which is discussed below.

Details of the significant accounting policies for these financial assets and liabilities are disclosed in Note 2: 'Significant Accounting Policies'.

(i) Interest Rate Risk

A significant proportion of financial assets are held in floating interest rate arrangements with the financial liabilities being held in either non-interest bearing arrangements (payables) or fixed interest arrangements (finance leases). The Audit Office's exposure to movements in interest rates is therefore confined to movements in the amount of interest receivable on investments held with the Central Financing Unit.

As the Audit Office's operating cash flows are not significantly dependant on interest from these cash and investments, the Office is not materially exposed to changes in interest rates.

Further details on the Audit Office's interest rate exposure are provided in Note 24: 'Financial Instruments'.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

4. Financial Risk Management (Continued)

(ii) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Audit Office's exposure to credit risk is limited to the amount of its financial assets. Financial assets consist of cash, investments, and receivables.

Cash and investment accounts are held with high credit quality financial entities under whole-of-government banking arrangements. Cash at bank is held with the Commonwealth Bank and cash not immediately required for operations is invested with the Central Financing Unit. The Central Financing Unit coordinates the investment of this money with various fund managers. These fund managers have the discretion to invest this money in a variety of different investments, within certain parameters.

Nearly all receivables consist of financial audit fees charged to government agencies and other entities with strong credit histories. In addition, government agencies are generally required by legislation to pay the audit fees charged by the Audit Office.

Credit risk is therefore considered to be low with no significant concentrations of credit risk.

(iii) Liquidity Risk

Appropriations received to fund performance audit and other activities are drawn down progressively throughout the year and financial audit fees are invoiced progressively to ensure the Audit Office can meet its obligations throughout the year.

The Office holds sufficient cash on hand to meet its immediate operating requirements with sufficient cash and investments being held in cash and investment accounts to meet its short and long term obligations.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

5. Significant Accounting Estimates and Judgements

In preparing this financial report, significant estimates and assumptions have been made about the future. The resulting accounting estimates will therefore seldom equal the related actual results. These estimates and assumptions have been based on the most current information available.

(i) Receivables – Accrued Financial Audit Income

Note 2(f): 'Receivables' discloses that accrued financial audit income is recognised according to the estimated stage of completion of each financial audit. The estimation of each financial audit's stage of completion requires an estimate of the total hours that will eventually be required to complete each audit.

(ii) Receivables – Impairment

Note 2(f): 'Receivables' discloses that where there is objective evidence that a receivable may not be collected, an assessment of the likelihood of the recovery of a receivable is required to determine whether an impairment loss must be recognised.

(iii) Plant and Equipment - Depreciation

Note 2(g)(ii): 'Depreciation' discloses that plant and equipment is systematically depreciated over its estimated useful life. The estimated useful life of plant and equipment is reassessed each year and adjusted when the condition and other factors affecting the useful life of plant and equipment indicate an adjustment is warranted.

(iv) Plant and Equipment - Impairment

Note 2(h): 'Impairment' discloses that plant and equipment is annually assessed for impairment. If this assessment indicates an asset is impaired, then an assessment of the asset's recoverable amount must be estimated to determine whether an impairment loss must be recognised.

ACT AUDITOR-GENERAL'S OFFICE

**Notes to the Financial Report
Year Ended 30 June 2007**

5. Significant Accounting Estimates and Judgements (Continued)

(v) Employee Benefits

Note 2(j)(i): 'Salaries, Annual Leave and Sick Leave' and Note 2(j)(ii): 'Long Service Leave' disclose that the liability for employee benefits is measured at the estimated amounts expected to be paid when the liability is settled.

This estimate requires an assessment of each employee future salary levels and the timing of the settlement of this liability.

(vi) Employee Benefits - Amounts estimated to be payable within 12 months and after 12 months

Note 17: 'Employee Benefits' provides information on employee benefits estimated to be payable within 12 months and after 12 months.

This estimate requires an assessment of the timing of the settlement of this liability.

(vii) Leases

Note 2(k): 'Leases' discloses that leases are classified according to the assessed risk and benefits under the leasing arrangements.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

6. Financial Audit Fees

	2006-07	2005-06
	\$	\$
General Government Sector	1 656 302	1 985 436
Public Trading Enterprises	512 617	359 766
External	928 085	704 075
Total Financial Audit Fees	3 097 004	3 049 277

Financial audit fees rose by \$47 727 (1.6%) over 2005-06 levels. The increases in fees charged for auditing Public Trading Enterprises and external entities were mostly offset by lower audit fees charged to entities in the General Government Sector.

The Audit Office charged higher fees for auditing Public Trading Enterprises and external entities to recover significant fee increases charged by the Office's financial audit contractors. Most of these increases related to auditing the financial reports of the ECOWISE group of companies and Rhodium Asset Solutions Ltd. Lower fees were charged in 2006-07 for auditing entities in the General Government Sector because fewer audits were required as agencies were amalgamated or abolished.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

7. Other Income

	2006-07	2005-06
	\$	\$
Interest	71 748	39 830
Legal services received free of charge from the ACT Government Solicitor's Office	3 168	9 117
Other	308	2 706
Total Other Income	75 224	51 653

Interest earned on investments rose as the Audit Office held a higher average balance in its investment account during the year. In addition, the Office earned interest on its operating bank account following changes to whole-of-government banking arrangements.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

8. Employee

	2006-07 \$	2005-06 \$
Salaries	2 392 632	2 238 980
Superannuation	493 428	368 948
Annual leave	4 130	12 016
Long service leave	45 861	43 787
Fringe Benefits Tax	24 393	28 798
Operating lease - motor vehicle	35 411	51 603
Borrowing costs on finance leases – motor vehicles	2 700	-
Temporary audit staff – financial audits	-	23 369
Workers' compensation premium	21 484	-
Total Employee	3 020 039	2 767 501

Employee expenses increased by \$252 538 (9.1%) due mostly to pay rises and higher superannuation expenses following an actuarial assessment of the required superannuation contribution rates.

The number of full time equivalents staff employed remained steady with an average of 30.2 being employed in 2006-07 compared to an average of 30.8 in 2005-06.

In 2006-07, leasing arrangements applicable to motor vehicles changed from an operating to a finance lease arrangement. Consequently, operating lease costs fell and were replaced with borrowing costs on finance leases and depreciation of motor vehicles. Depreciation of motor vehicles held under this finance lease arrangement is included in the depreciation expense disclosed in Note 10: 'Depreciation'.

The Audit Office met the costs of the workers' compensation premium for the first time in 2006-07. This premium was previously funded by the Chief Minister's Department.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

9. Supplies and Services

	2006-07	2005-06
	\$	\$
Contractors – performance audits	23 855	3 500
– financial audits	1 094 117	778 488
– other	12 134	2 768
Sub-total	<u>1 130 106</u>	<u>784 756</u>
Accommodation lease	197 233	178 013
Information technology	180 646	167 294
Training	91 644	63 300
Printing	32 715	29 941
Payroll and recruitment processing	22 948	26 965
Recruitment and advertising costs	22 745	25 701
Electricity, gas and cleaning	26 423	23 835
Telephones	18 460	22 213
Travel	15 155	11 027
Library journals and subscriptions	11 104	8 647
Security	9 954	8 617
Computer software and consumables	8 508	8 284
Insurance	7 332	7 138
Audit fees	7 000	6 500
Stationery	6 426	6 643
Financial audits provided free of charge	4 115	4 884
Legal services received free of charge from the ACT Government Solicitor's Office	3 168	9 117
Office equipment	2 287	8 924
Other	36 947	22 689
Sub-total	<u>704 810</u>	<u>639 732</u>
Total Supplies and Services	<u>1 834 916</u>	<u>1 424 488</u>

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

9. Supplies and Services (Continued)

Supplies and services expenses rose by \$410 428 (28.8%) due largely to an increase of \$315 629 (40.5%) in fees charged to the Office by its financial audit contractors to complete the audits of the financial reports of the ECOWISE group of companies and Rhodium Asset Solutions Ltd. A significant amount of additional work was required to complete these audits. More generally, financial audit contractors also sought higher fees for the additional work required to comply with revised auditing standards from 1 July 2006.

Accommodation costs rose during the year due to rent increases provided for in the accommodation lease.

The Office also incurred higher information technology and training costs as part of the implementation of the Office's new financial audit methodology in 2006-07.

10. Depreciation

	2006-07 \$	2005-06 \$
Office fit-out	51 538	51 059
Computer equipment	1 080	1 080
Depreciation of motor vehicles held under a finance lease arrangement	9 910	-
Total Depreciation	62 528	52 139

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report
Year Ended 30 June 2007

10. Depreciation (Continued)

In 2006-07, the leasing arrangement applicable to motor vehicles changed from an operating to a finance lease arrangement. Motor vehicles held under finance lease arrangements were therefore recognised as an asset in the Balance Sheet and depreciated for the first time in 2006-07.

11. Cash and Cash Equivalents

	2007	2006
	\$	\$
Bank	88 396	123 678
Petty cash	500	500
Investments with the Central Financing Unit	700 000	650 000
Total Cash and Cash Equivalents	788 896	774 178

Under changed whole-of-government banking arrangements, cash at bank held with the Commonwealth Bank became interest bearing for the first time in 2006-07. These funds earned a floating interest rate of 6.1% in 2006-07 (2005-06: Nil)

Cash invested with the Central Financing Unit earned a floating interest rate of 6.4% in 2006-07 (2005-06: 5.90%).

Bank and investment funds may be withdrawn upon request.

The overall increase in cash and cash equivalents was not significant. The Cash Flow Statement provides further information on cash movements during 2006-07.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

12. Receivables

	2007 \$	2006 \$
Invoiced financial audit debtors (i)	681 203	211 605
Accrued financial audit income (ii)	688 924	915 853
Sub-total	1 370 127	1 127 458
Goods and Services Tax net receivable (iii)	-	3 857
Other accrued interest revenue	5 663	2 900
Other debtors	6 194	11 508
Sub-total	11 857	18 265
Total Receivables	1 381 984	1 145 723

- (i) Invoiced financial audit debtors – represents amounts billed to auditees for the audit of their financial reports. Credit terms are net 14 days.
- (ii) Accrued financial audit income – represents unbilled amounts receivable from auditees for audit work performed up until the end of the financial year.
- (iii) Goods and Services Tax net receivable – is the amount receivable from the Australian Taxation Office when the Business Activity Statement is lodged on a quarterly basis. The amount is the net of the Goods and Services Tax paid on supplies and the Goods and Services Tax collected from financial audits payable to the Australian Taxation Office.

As disclosed in Note 15: 'Payables', there was a net amount owing to the Australian Taxation Office at 30 June 2007.

Credit risk relating to receivables is disclosed in paragraph (ii) of Note 4: 'Financial Risk Management'. Receivables are non-interest bearing.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

12. Receivables (Continued)

The increase in financial audit debtors and accrued income is primarily due to an increase in the audit work required in the months leading up to 30 June 2007 to implement the Office's financial audit methodology. This additional work included the establishment of audit files along with additional planning and interim audit work.

Aging of Receivables	2007	2006
	\$	\$
Not overdue	1 379 743	1 134 215
Overdue for less than 30 days	-	11 508
Overdue for 30 to 60 days	1 941	-
Overdue for more than 60 days	300	-
Sub-total	<u>1 381 984</u>	<u>1 145 723</u>
Less: Allowance for doubtful debts	-	-
Total Receivables	<u>1 381 984</u>	<u>1 145 723</u>

Receivables with other ACT Government Entities	2007	2006
	\$	\$
Invoiced financial audit debtors	291 640	101 230
Accrued financial audit income	626 267	777 423
Other accrued revenue	4 608	2 900
Sub-total	<u>922 515</u>	<u>881 553</u>
Less: Allowance for doubtful debts	-	-
	<u>922 515</u>	<u>881 553</u>

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

12. Receivables (Continued)

Receivables with Non-ACT Government Entities	2007 \$	2006 \$
Invoiced financial audit debtors	389 563	110 375
Accrued financial audit income	62 657	138 430
Other accrued revenue	1 055	-
Goods and Services Tax paid on supplies	-	3 857
Other debtors	6 194	11 508
Sub-total	459 469	264 170
Less: Allowance for doubtful debts	-	-
	459 469	264 170
Total Receivables	1 381 984	1 145 723

13. Other Current Assets

	2007 \$	2006 \$
Prepayments	5 056	6 279
Total Other Current Assets	5 056	6 279

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

14. Plant and Equipment

	2007 \$	2006 \$
Office fit-out (at cost)	618 449	612 704
Less: Accumulated depreciation	(106 953)	(55 416)
Sub-total	<u>511 496</u>	<u>557 288</u>
Computer equipment (at cost)	5 379	5 379
Less: Accumulated depreciation	(2 250)	(1 170)
Sub-total	<u>3 129</u>	<u>4 209</u>
Motor vehicles under finance leases	61 623	-
Less: Accumulated depreciation	(9 910)	-
Sub-total	<u>51 713</u>	<u>-</u>
Total plant and equipment (at cost)	685 451	618 083
Less: Accumulated depreciation	(119 113)	(56 586)
Total Plant and Equipment	<u>566 338</u>	<u>561 497</u>

The small increase in the plant and equipment balance relates to motor vehicles obtained under a new finance lease arrangement (\$61 623) and minor Office fit-out costs (\$5 745) being largely offset by depreciation charges (\$62 528).

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

14. Plant and Equipment (Continued)

Reconciliations of the Movements in the Carrying Amounts of Plant and Equipment	2006-07 \$	2005-06 \$
Office fit-out		
Carrying amount at the beginning of the year	557 288	540 922
Additions	5 745	67 425
Depreciation	(51 537)	(51 059)
Write-offs	-	-
Carrying amount at the end of the year	511 496	557 288

Office fit-out additions fell as the Audit Office largely completed the costs of fitting out its accommodation in 2005-06.

Computer equipment

Carrying amount at the beginning of the year	4 209	5 289
Additions	-	-
Write-offs	-	-
Depreciation	(1 080)	(1 080)
Carrying amount at the end of the year	3 129	4 209

Motor vehicles under a finance lease

Carrying amount at the beginning of the year	-	-
Additions	61 623	-
Depreciation	(9 910)	-
Carrying amount at the end of the year	51 713	-

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

14. Plant and Equipment (Continued)

In 2006-07, motor vehicles were obtained under a new finance lease arrangement. These vehicles were previously obtained under an operating lease arrangement.

15. Payables

	2007 \$	2006 \$
Creditors and accruals	77 396	114 401
Goods and Services Tax – net payable (i)	6 660	-
Total Payables	84 056	114 401

Creditors and accruals represent amounts payable for goods and services provided to the Office prior to the end of the financial year.

Creditors and accruals are recognised at the amount to be paid for these goods and services when the liabilities are settled. Creditors and accruals are settled on 28-day terms and are non-interest bearing.

- (i) Goods and Services Tax net payable - is the amount payable to the Australian Taxation Office when the Business Activity Statement is lodged on a quarterly basis. The amount is the net of the Goods and Services Tax paid on supplies and the Goods and Services Tax collected from financial audits payable to the Australian Taxation Office.

As disclosed in Note 12: 'Receivables', there was a net amount owing from the Australian Taxation Office at 30 June 2006.

Payables fell as the Office paid ACT Government suppliers before 30 June 2006.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

15. Payables (Continued)

Aging of Payables	2007	2006
	\$	\$
Not overdue	84 056	114 401
Overdue for less than 30 days	-	-
Overdue for 30 to 60 days	-	-
Overdue for more than 60 days	-	-
Total Payables	84 056	114 401

Payables with other ACT Government Entities	2007	2006
	\$	\$
Creditors and accruals	13 242	73 978
	13 242	73 978

Payables with other Non-ACT Government Entities	2007	2006
	\$	\$
Creditors and accruals	70 814	40 423
	70 814	40 423
Total Payables	84 056	114 401

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

16. Finance Leases

	2007 \$	2006 \$
Current - due at the reporting date	13 682	-
Non current – not due at the reporting date	38 428	-
Total Finance Leases	52 110	-

Finance leases relate to motor vehicles provided as part of the remuneration of senior executives.

Terms and conditions of finance leases are disclosed in Note 21: 'Commitments'.

In 2006-07, the leasing arrangement applicable to motor vehicles changed from an operating to a finance lease arrangement. A finance lease liability has therefore been recognised as a liability in the Balance Sheet.

17. Employee Benefits

	2007 \$	2006 \$
Current - due at the reporting date		
Accrued salaries	23 934	24 284
Salary packaging expenses	13 940	15 869
Annual leave	334 311	330 181
Long service leave	434 563	406 571
	806 748	776 905
Non-current – not due at the reporting date		
Long service leave	42 656	24 787
	42 656	24 787
Total Employee Benefits	849 404	801 692

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report**Year Ended 30 June 2007****17. Employee Benefits (Continued)**

The increase in employee benefits is largely due to the accumulation of long service leave by staff. During the year, no staff took long service leave.

As disclosed in Note 2 (j): 'Employee Benefits', these liabilities are classified as current when they are due, irrespective of when the liability is expected to be settled. Information on employee benefits estimated to be payable within 12 months and after 12 months is disclosed below.

For disclosure purposes only	2007	2006
	\$	\$
Estimated amount payable within 12 months		
Accrued salaries	23 934	24 284
Salary packaging expenses	13 940	15 869
Annual leave	282 213	229 523
	320 087	269 676
Estimated amount payable after 12 months		
Annual leave	52 098	100 659
Long service leave	477 219	431 357
	529 317	532 016
Total Employee Benefits	849 404	801 692

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

17. Employee Benefits (Continued)

Staffing Levels

The Audit Office full time staff equivalents employed was 34.4 at 30 June 2007 compared to 29.4 at 30 June 2006.

The *average* number of full time equivalents staff employed was 30.2 in 2006-07 compared to 30.8 in 2005-06.

18. Other Liabilities

	2007	2006
	\$	\$
Current		
Lease incentive liability	15 625	15 625
	15 625	15 625
Non Current		
Lease incentive liability	36 458	52 083
Total Other Liabilities	36 458	52 083

The lease incentive liability represents lease incentives (for example, half-rent) included in the Office's accommodation lease. This liability is amortised over the 6-year lease term.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

19. Accumulated Funds

	2007 \$	2006 \$
Balance at the beginning of the year	1 503 876	1 267 074
Operating surplus	200 745	236 802
Balance at the end of the year	1 704 621	1 503 876

20. Auditor's Remuneration

The Treasurer appointed the auditor to audit the Audit Office's financial report and to provide a report of factual findings on the Office's statement of performance.

The auditor's remuneration for 2006-07 is \$7 000 (2005-06: \$6 500).

Neither the auditor nor any related practice of the auditor provided other services to the Audit Office during the year.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

21. Commitments**Finance Lease Commitments**

Finance lease commitments for motor vehicles are as follows:

	2007 \$	2006 \$
Not later than one year	16 619	-
Later than one year and not later than five years	39 069	-
Later than five years	-	-
	55 588	
Future interest charges	(3 578)	
Total Finance Lease Commitments	52 110	-

The current and non-current liability for finance leases is presented in Note 16: 'Finance Leases'.

The leases are for 2-year terms with an implicit fixed interest rate ranging from 6.52% to 6.65%.

In 2006-07, the leasing arrangement applicable to motor vehicles provided as part of the remuneration of senior executives changed from an operating to a finance lease arrangement.

Operating Lease Commitments

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

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

21. Commitments (Continued)

	2007	2006
	\$	\$
Not later than one year	412 824	443 912
Later than one year and not later than five years	628 440	1 163 589
Later than five years	-	-
Total Operating Lease Commitments	1 041 264	1 607 501

Most information technology equipment is under 3-year leases, accommodation is under a 6-year lease and motor vehicles are under 2-year leases.

Operating lease commitments fell as operating lease payments were made for the Audit Office's accommodation and information technology equipment.

Commitments relating to motor vehicles under an operating lease arrangement also fell as vehicles previously acquired under an operating lease were progressively replaced with vehicles under a finance lease.

Other Commitments

Other commitments to financial audit contractors are as follows.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

21. Commitments (Continued)

	2007 \$	2006 \$
Not later than one year	838 231	615 765
Later than one year and not later than five years	200 774	555 660
Later than five years	-	-
Total Other Commitments	1 039 005	1 171 425

Other commitments fell as the Audit Office met its contracted obligations to audit contractors assisting the Office to complete the financial audit program.

22. Contingent Liabilities

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

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

During the reporting period, there were no Act of Grace payments made by the Audit Office pursuant to the *Financial Management Act 1996*.

Similarly, there were no waivers or write-offs of public monies during the period.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

24. Financial Instruments**(a) Terms, Conditions and Accounting Policies**

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

	Accounting Policies	Terms and Conditions
Financial Assets		
Cash and cash equivalents	Note 2(e)	Note 11
Receivables	Note 2(f)	Note 12
Financial Liabilities		
Payables	Note 2(i)	Note 15
Finance leases	Note 2(k)(i)	Note 16

(b) Net Fair Values of Financial Assets

Financial assets and liabilities are carried at their net fair value at balance date.

The net fair value of financial assets and liabilities approximate their carrying value reported in the Balance Sheet because of the short term to maturity or realisation for cash and receivables and the expected short term to payment of payables.

(c) Unrecognised Financial Assets and Liabilities

There were no unrecognised financial assets or liabilities.

(d) Credit Risk Exposure

Credit risk exposure is discussed in Note 4: 'Financial Risk Management'.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

24. Financial Instruments (Continued)

(e) Interest Rate Exposure

Interest rate risk exposure is discussed in Note 4: 'Financial Risk Management'.

The interest rate risk and the average interest rate for each class of financial assets and liabilities are set out below.

As at 30 June 2007

Financial Assets	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	%	\$	Maturing in 1 year or less \$	Maturing in 1 to 2 years \$	\$	\$
Cash and cash equivalents	6.1-6.4%	788 396	-	-	500	788 896
Receivables	-	-	-	-	1 381 984	1 381 984
Total		788 396	-	-	1 382 484	2 170 880
Financial Liabilities						
Payables	-	-	-	-	84 056	84 056
Finance leases	6.5%	-	13 682	38 428	-	52 110
Total		-	13 682	38 428	84 056	136 166
Net Financial Assets/(Liabilities)		788 396	(13 682)	(38 428)	1 298 428	2 034 714

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

24. Financial Instruments (Continued)

As at 30 June 2006

Financial Assets	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	%	\$	Maturing in 1 year or less \$	Maturing in 1 to 2 years \$	\$	\$
Cash and cash equivalents	5.4%	650 000	-	-	124 178	774 178
Receivables	-	-	-	-	1 145 723	1 145 723
Total		650 000	-	-	1 269 901	1 919 901
Financial Liabilities						
Payables	-	-	-	-	114 401	114 401
Finance leases	-	-	-	-	-	-
Total		-	-	-	114 401	114 401
Net Financial Assets		650 000	-	-	1 155 500	1 805 500

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

24. Financial Instruments (Continued)**Reconciliation of Net Financial Assets to Net Assets**

	2007 \$	2006 \$
Net financial assets as above	2 034 714	1 805 500
Non financial assets and liabilities		
Other current assets	5 056	6 279
Plant and equipment	566 338	561 497
Employee benefits	(849 404)	(801 692)
Other liabilities	(52 083)	(67 708)
Net assets reported in the Balance Sheet	1 704 621	1 503 876

25. Related Parties

Australian Accounting Standard AASB 124: 'Related Party Disclosures' applies only to private sector entities. One of the significant requirements of AASB 124 is to require the financial reports of private sector entities to disclose transactions that have taken place between the Key Management Personnel³ of an entity and parties that are related to the Key Management Personnel.

The Audit Office considers that it represents better practice to include related party disclosures in its financial report.

³ AASB 124 defines 'Key Management Personnel' as those persons that have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

ACT AUDITOR-GENERAL'S OFFICE

Notes to the Financial Report

Year Ended 30 June 2007

25. Related Parties (Continued)

The following disclosures are therefore made in relation to the Auditor-General, the Director, Performance Audits and Corporate Services and the Director, Financial Audits as they are considered to be Key Management Personnel for the purposes of AASB 124.

The remuneration paid to the Auditor-General, the Director, Performance Audits and Corporate Services and the Director, Financial Audits is determined by the ACT Remuneration Tribunal and tabled in the ACT Legislative Assembly.

The Director, Financial Audits is the brother of an Executive Director in WalterTurnbull. WalterTurnbull conducts financial audits under contract for the Audit Office from time to time. Any potential conflict of interest was addressed by the Director, Financial Audits not being involved in the selection of audit contractors or in the Audit Office's management of any contract with WalterTurnbull.

STATEMENT OF PERFORMANCE

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE YEAR ENDED 30 JUNE 2007

STATEMENT OF RESPONSIBILITY

In my opinion, the accompanying statement of performance for the ACT Auditor-General's Office for the year ended 30 June 2007 fairly reflects the operational performance of the Office for the year ended 30 June 2007.



Tu Pham
Auditor-General

17 August 2007

ACT AUDITOR-GENERAL'S OFFICE

**STATEMENT OF PERFORMANCE
YEAR ENDED 30 JUNE 2007**

STATEMENT BY THE CHIEF FINANCE OFFICER

In my opinion, the accompanying statement of performance for the ACT Auditor-General's Office for the year ended 30 June 2007 fairly reflects the operational performance of the Office for the year ended 30 June 2007.



Bernie Sheville
Chief Finance Officer

17 August 2007

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

The ACT Auditor-General's Office's objectives are to inform the Legislative Assembly and the community of the performance of the ACT public sector, promote accountability, contribute to the improvements of agency performance and to operate in a cost efficient manner.

The Office fulfils its role and meets its objectives by efficiently conducting audits of the annual financial reports of the Territory, Departments and Territory Authorities, performance audits, and other reviews.

The performance indicators below measure the number and timeliness of reports as well as measuring the quality and effectiveness of audit work using feedback obtained from agencies and the acceptance rate of recommendations made on financial audits. The cost effectiveness of the Office can be evaluated by considering the audit costs per hour and by comparing the cost of the Office to total Territory expenditure.

Measures	Notes	Target 2006-07	Result 2006-07	Variance from Target
Costs				
Audit costs per hour excluding audit contractor costs	1	\$112.15	\$102.85	(8.3%)
Office costs as a percentage of total Territory expenditure	2	0.1494%	0.1619%	8.4%
Quantity				
Number of financial audit opinions issued	3	82	82	-
Number of reports of factual findings issued on statements of performance	4	37	37	-
Number of audit reports presented to the Legislative Assembly	5	9	8	(11.1%)

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Measures	Notes	Target 2006-07	Result 2006-07	Variance from Target
Quality/Effectiveness				
Percentage of Chief Executives satisfied with financial audits	6	95%	96%	1.1%
Percentage of Chief Executives satisfied with performance audit reports	7	95%	87%	(8.4%)
Percentage of recommendations accepted in financial audits	8	95%	87%	(8.4%)
Timeliness				
Percentage of financial audits completed within the required timetable	9	100%	91%	(9.0%)
Average period of completion of performance audits (months)	10	9	6	(33.3%)

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

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations

- 1 Audit costs per hour excluding audit contractor costs** (i.e. the Office's 'internal costs') represents total expenses of the Office less audit contractor costs divided by the number of hours charged to audits by Office staff.

The target **Audit costs per hour excluding audit contractor costs** of \$112.15 was calculated as the budget total Office expenses of \$4 612 840 less budget audit contractor costs of \$575 600 divided by the budgeted hours of 36 000 (based on 2005-06 actual hours).

The actual **Audit costs per hour excluding audit contractor costs** of \$102.85 was calculated as the actual total expenses of \$4 917 483 less actual audit contractor costs of \$1 117 972 divided by the actual hours for the year ended 30 June 2007 of 36 943.

Audit costs per hour were lower because in-house audit costs were less than anticipated mainly due to lower than expected employee costs and the number of hours charged to audits was marginally higher than anticipated. Employee costs were \$263 961 (8.0%) below expectations as a high staff turnover made it difficult to consistently maintain staffing levels throughout 2006-07.

- 2 Office costs as a percentage of total Territory expenditure** represents total Audit Office costs divided by total Territory expenditure.

The target **Office costs as a percentage of total Territory expenditure** of 0.1494% represents the budget Office expenses for 2006-07 of \$4 612 840 divided by total budget Territory expenditure for 2006-07 as reported in 2006-07 Budget Operating Statement for the Australian Capital Territory of \$3 087m⁴.

The **Office costs as a percentage of total Territory expenditure** was 0.1619%. This was calculated as Office expenses of \$4 917 483 divided by the 2006-07 estimated outcome of the total Territory expenditure of \$3 037m⁵.

4 Page 259 of 2006-07 Budget Paper No. 3.

5 Page 271 of 2007-08 Budget Paper No. 3.

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

Office costs as a percentage of total Territory expenditure were 8.4% higher than expected due to:

- Latest estimates of Territory expenditure in 2007-08 Budget Paper No. 3 being less than that anticipated in the 2006-07 Budget Operating Statement for the Australian Capital Territory; and
- Office costs being \$304 643 (6.6%) higher than expected mainly as a result of higher audit fees charged by financial audit contractors. This reflected additional work by contractors on some financial audits and complying with revised auditing standards. These increases were only partially offset by the lower than expected employee costs referred to above.

- 3 Number of financial audit opinions issued** represents the financial audits that were completed and audit opinions issued in the period from 1 July 2006 to 30 June 2007.

The 82 financial audit opinions issued was consistent with expectations.

- 4 Number of reports of factual findings issued on statements of performance** represents the number of reviews of statements of performance that were completed in the period from 1 July 2006 to 30 June 2007.

The 37 reports of factual findings issued on statements of performance was consistent with the expected number.

- 5 Number of audit reports presented to the Legislative Assembly.** The following audit reports were presented in the Legislative Assembly in 2006-07:

1. Rhodium Asset Solutions Limited;
2. Vocational Education and Training;
3. 2005-06 Financial Audits;
4. Sale of Block 8, Section 48, Fyshwick;
5. Credit Card Use, Hospitality and Sponsorship;
6. Agency Implementation of Audit Recommendations;

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

7. Collection of Fees and Fines; and
8. Regulation of ACT Liquor Licences.

The number of reports tabled was less than expected due to the departure of a number of senior auditors during the year.

- 6 Percentage of Chief Executives satisfied with financial audits.** A survey of Chief Executives (or equivalent) was conducted to rate their satisfaction with financial audits completed in 2006-07.

The results of the survey are shown below.

Rating	No. of Responses	%
Very Good	11	23
Good	21	45
Satisfactory	13	28
	45	96
Poor	2	4
Very Poor	-	-
Total	47	100

Three surveys requested by the Audit Office from agencies are excluded from the above results. These surveys were:

- the Department of Urban Services provided an unsigned survey with a 'good' rating;
- ACT Forests did not respond to the survey because staff representatives involved in the reporting process had left the agency; and
- the University of Canberra College Pty Ltd did not provide a response.

These surveys do not have a material affect on the reported results.

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

The percentage of Chief Executives satisfied with financial audits (96%) was consistent with the target (95%) with 68% of the Chief Executives rating the Audit Office's performance as 'good' or 'very good'.

The two 'poor' ratings were provided by Chief Executive Officer of the Construction Industry Long Service Leave Authority and the Cleaning Industry Long Service Leave Authority. The Chief Executive Officer expressed the view that there was a lack of understanding of their operations by the audit team and also indicated disagreement with the audit qualification of their financial reports and statements of performance.

These concerns were discussed and resolved with the respective Chairs of these Authorities.

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

The results of the survey are shown below.

Rating	No. of Responses	%
Very Good	3	13
Good	11	45
Satisfactory	7	29
	21	87
Poor	3	13
Very Poor	-	-
Total	24	100

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

The **percentage of Chief Executives satisfied with performance audits** (87%) was lower than the target (95%) with 58% of the Chief Executives rating the Office's performance as 'good' or 'very good'.

The three 'poor' ratings provided were for the following performance audits:

Collection of Fees and Fines

The Chief Executive of the Department of Territory and Municipal Services expressed concern about the auditor's understanding of the matters raised by the business units, and the need to ensure these matters were adequately addressed when compiling the report.

The Chief Executive of the Department of Treasury expressed concern that the communication between the auditor and Treasury was not effective and the scope of the audit was not clearly defined and communicated upfront.

Agency Implementation of Audit Recommendations

The Chief Executive of the Chief Minister's Department felt that audits with whole-of-Government implications could be undertaken more efficiently and that insufficient time was provided to comment on the audit findings.

Audit Office Comments

Although the Audit Office is satisfied that the audits were conducted in a professional and competent manner, the broader issues raised by these Chief Executives will be considered in the context of 'continuous improvement'.

Communications between the Audit Office and auditees can be improved, particularly in the early stages of an audit, when it is important to ensure all parties have a clear understanding of the scope and focus of the audit, and the intended methodology (including audit criteria).

- 8 Percentage of recommendations accepted in financial audits** is calculated as the number of recommendations accepted by the auditee divided by the number of recommendations made in audit management reports relating to financial audits.

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

315 (87%) of the 363 recommendations made in 2006-07 were accepted.

This lower result was affected by the Legal Aid Commission's responses to the 2005-06 audit management report. The Office was unable to determine, from the Commission's responses, whether 19 of the report's 30 recommendations were agreed with and therefore did not count them as having been 'accepted' in the results. If these recommendations had been accepted, then a result of 92% would have been recorded. The Commission has since advised the Office that the recommendations made in this audit management report would receive proper attention.

- 9 Percentage of financial audits completed within the required timetable.** The 'required timetable' refers to the timetable agreed between the Office and Treasury to meet legislative requirements, or, where there is no legislative timeframe, the time agreed between the Office and the agency.

The result of 75 (91%) of the 82 audit opinions issued within the required timetable was below the target of 100%.

Seven audits were not completed by the due date because of circumstances beyond the Audit Office's control. The financial audits of the Superannuation Unit, Rhodium Asset Solutions Ltd, Totalcare Industries Ltd, Community Housing Canberra Ltd, Commonwealth Funding under the *AusLink (National Land Transport) Act 2005*, Harcourt Hill Estate and Harcourt Hill Estate Pty Ltd were not completed on time because these auditees did not comply with the timetable for the provision of financial reports to the Office.

- 10 Average period of completion of performance audits (months)** covers the performance audits completed and reported in 2006-07.

This measure reports the average duration of a performance audit, from commencement to completion. A performance audit is taken to have commenced when an engagement letter is sent to the relevant Chief Executive (or equivalent). Typically, some planning activity is undertaken prior to the commencement of the audit. Completion date is taken to be the date the formal report is presented to the Speaker of the Legislative Assembly for tabling.

The target of 9 months was achieved as performance audits were completed in an average period of 6 months.

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

FINANCIAL AUDITS COMPLETED IN 2006-07⁶

		Audit Opinion on the Financial Report	Report of Factual Findings on the Statement of Performance
	Territory Financial Report		
1	Consolidated Annual Financial Report	Unqualified	Not Applicable
	Departments		
2	Central Financing Unit	Unqualified	Unqualified
3	Chief Minister's Department	Unqualified	Unqualified
4	Disability, Housing and Community Services	Unqualified	Unqualified
5	Economic Development	Unqualified	Unqualified
6	Education and Training	Unqualified	Unqualified
7	Emergency Services Authority	Unqualified	Unqualified
8	Executive	Unqualified	Not Applicable
9	Forests	Unqualified	Qualified
10	Health	Unqualified	Qualified
11	Home Loan Portfolio	Unqualified	Unqualified
12	Housing ACT	Unqualified	Unqualified
13	InTACT	Unqualified	Unqualified
14	Justice and Community Safety	Unqualified	Qualified
15	Legislative Assembly Secretariat	Unqualified	Not Applicable
16	Office for Children, Youth and Family Support	Unqualified	Unqualified
17	Planning and Land Authority	Unqualified	Unqualified

⁶ These audits represent the financial audits that were completed and audit opinions issued in the period from 1 July 2006 to 30 June 2007. This list includes audits for years ending 30 June 2006 and 31 December 2006.

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

FINANCIAL AUDITS COMPLETED IN 2006-07 (CONTINUED)

		Audit Opinion on the Financial Report	Report of Factual Findings on the Statement of Performance
18	Superannuation Unit	Unqualified	Unqualified
19	Treasury	Unqualified	Unqualified
20	Urban Services	Unqualified	Qualified
21	Workcover	Unqualified	Unqualified
	Statutory Authorities		
22	ACTION	Unqualified	Unqualified
23	Australian Capital Tourism Corporation	Unqualified	Unqualified
24	Australian International Hotel School	Unqualified	Unqualified
25	Building and Construction Industry Training Fund Authority	Unqualified	Unqualified
26	Canberra Institute of Technology	Unqualified	Unqualified
27	Canberra Public Cemeteries Authority	Unqualified	Unqualified
28	Cleaning Industry Long Service Leave Authority	Qualified	Qualified
29	Construction Industry Long Service Leave Authority	Qualified	Qualified
30	Cultural Facilities Corporation	Unqualified	Unqualified
31	Gambling and Racing Commission	Unqualified	Unqualified
32	HealthPACT	Unqualified	Unqualified
33	Independent Competition and Regulatory Commission	Unqualified	Unqualified
34	Insurance Authority	Unqualified	Unqualified
35	Land Development Agency	Unqualified	Unqualified
36	Legal Aid Commission	Unqualified	Unqualified

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

FINANCIAL AUDITS COMPLETED IN 2006-07 (CONTINUED)

		Audit Opinion on the Financial Report	Report of Factual Findings on the Statement of Performance
37	National Exhibition Centre Trust	Unqualified	Unqualified
38	Public Trustee Office Account	Unqualified	Unqualified
39	Stadiums Authority	Unqualified	Unqualified
40	University of Canberra	Unqualified	Not Applicable
41	Worker's Compensation Supplementation Fund	Unqualified	Qualified
	Territory Owned Corporations and Other Companies		
42	ACTEW China Pty Ltd	Unqualified	Not Applicable
43	ACTEW Corporation Ltd	Qualified	Not Applicable
44	ACTEW Distribution Ltd	Unqualified	Not Applicable
45	ACTEW Retail Ltd	Unqualified	Not Applicable
46	ACTTAB Ltd	Unqualified	Not Applicable
47	CIT Solutions Pty Ltd	Unqualified	Not Applicable
48	Community Housing Canberra Ltd	Unqualified	Not Applicable
49	ECOWISE Environmental Pty Ltd	Unqualified	Not Applicable
50	ECOWISE Environmental (Vic) Pty Ltd	Unqualified	Not Applicable
51	Water Quality Centres Pty Ltd	Unqualified	Not Applicable
52	Water ECOscience Pty Ltd	Unqualified	Not Applicable
53	WSL Consultants Pty Ltd	Qualified	Not Applicable
54	Rhodium Asset Solutions Ltd	Unqualified	Not Applicable
55	Totalcare Industries Ltd	Unqualified	Not Applicable
56	UCU Ltd (University of Canberra Union)	Unqualified	Not Applicable
57	University of Canberra College Pty Ltd	Unqualified	Not Applicable

ACT AUDITOR-GENERAL'S OFFICE

STATEMENT OF PERFORMANCE

YEAR ENDED 30 JUNE 2007

Explanations (Continued)

FINANCIAL AUDITS COMPLETED IN 2006-07 (CONTINUED)

		Audit Opinion on the Financial Report	Report of Factual Findings on the Statement of Performance
	Land Joint Ventures and Partnerships		
58	ActewAGL Concise Report	Unqualified	Not Applicable
59	ActewAGL Distribution Partnership	Unqualified	Not Applicable
60	ActewAGL Joint Venture Financial Report	Unqualified	Not Applicable
61	ActewAGL Retail Partnership	Unqualified	Not Applicable
62	Amaroo 3 Joint Venture	Unqualified	Not Applicable
63	Amaroo 3 Joint Venture Pty Ltd	Unqualified	Not Applicable
64	Gold Creek Country Club	Unqualified	Not Applicable
65	Harcourt Hill Estate	Unqualified	Not Applicable
66	Harcourt Hill Estate Pty Ltd	Unqualified	Not Applicable
67	Forde Joint Venture – December 2005	Unqualified	Not Applicable
68	Forde Joint Venture – June 2006	Unqualified	Not Applicable
69	Kingston Stage 1A Joint Venture	Unqualified	Not Applicable
	Other Audits		
70	Canberra Business Development Fund	Unqualified	Not Applicable
71	Capital Region Community Foundation Open Fund	Unqualified	Not Applicable
72	Capital Region Community Foundation Gift Fund	Unqualified	Not Applicable
73	Commonwealth Funding under <i>Interstate Road Transport Act 1985</i>	Unqualified	Not Applicable
74	Commonwealth Funding under AusLink (<i>National Land Transport Act 2005</i>)	Unqualified	Not Applicable
75	Commonwealth State Housing Agreement 2006	Unqualified	Not Applicable
76	DEST Grant Acquittal Audit	Unqualified	Not Applicable

ACT AUDITOR-GENERAL'S OFFICE
STATEMENT OF PERFORMANCE
YEAR ENDED 30 JUNE 2007

Explanations (Continued)

FINANCIAL AUDITS COMPLETED IN 2006-07 (CONTINUED)

		Audit Opinion on the Financial Report	Report of Factual Findings on the Statement of Performance
77	Gungahlin Cemetery Perpetual Care Trust	Unqualified	Not Applicable
78	Hall Cemetery Perpetual Care Trust	Unqualified	Not Applicable
79	Nicholls Primary School Joint Facilities	Unqualified	Not Applicable
80	Nominal Insurer	Unqualified	Not Applicable
81	Public Trustee Trust Account	Unqualified	Not Applicable
82	Woden Cemetery Perpetual Care Trust	Unqualified	Not Applicable

INDEPENDENT AUDIT REPORT

Di Bartolo Diamond & Mihailaros

An Australian Capital Territory Partnership



Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT ACT AUDITOR GENERAL'S OFFICE

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

Scope

The Annual Financial Report and ACT Auditor General's Responsibilities

The annual financial report of the ACT Auditor General's Office for the year ended 30 June 2007 comprises the Statement of Responsibility by the ACT Auditor General, Operating Statement, Balance Sheet, Cash Flow Statement, Statement of Appropriations and the accompanying notes.

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

Audit Approach

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

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

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

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

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

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approved under the Professional Standards Act 1994 (NSW)

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

A Member Firm of PKF International

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

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

Independence

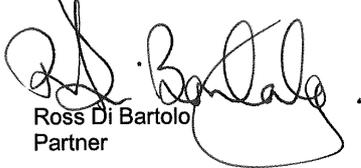
In conducting our audit, we followed applicable independence requirements of the Australian professional ethical pronouncements.

Audit Opinion

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

- Gives a true and fair view of the financial position of the ACT Auditor General's Office as at 30 June 2007 and of its performance for the financial year ended on that date; and
- Is presented in accordance with the Financial Management Act 1996, Accounting Standards and other mandatory professional reporting requirements.

PKF - Di Bartolo Diamond & Mihailaros



Ross Di Bartolo
Partner

Canberra
31 August 2007

REPORT OF FACTUAL FINDINGS

Di Bartolo Diamond & Mihailaros

An Australian Capital Territory Partnership



Chartered Accountants
& Business Advisers

REPORT OF FACTUAL FINDINGS ACT AUDITOR GENERAL'S OFFICE

To the Members of the ACT Legislative Assembly

Findings

Based on our procedures, no matters have come to our attention which indicate the Statement of Performance of the ACT Auditor General's Office for the year ended 30 June 2007 does not fairly present the performance of the Department in accordance with the *Financial Management Act 1996*.

Responsibility for the Statement of Performance

The ACT Auditor General is responsible for the Statement of Performance. This includes responsibility for the maintenance of adequate supporting records and internal controls that are designed to prevent and detect fraud and error, and for the measurement policies and estimates used in the preparation of the Statement of Performance.

The Auditor's Responsibility

In accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2005*, our responsibility is to provide a report of factual findings on the performance measures included in the ACT Auditor General's Office Statement of Performance.

Scope

We have reviewed the Statement of Performance of the ACT Auditor General's Office for the year ended 30 June 2007, in order to report on whether any matters have come to our attention that would indicate that the Statement of Performance is not fairly presented in accordance with the *Financial Management Act 1996*.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is primarily limited to inquiries of the ACT Auditor General's Office representatives, analytical procedures and the examination of other available evidence. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Statement of Performance. Our procedures also did not include an assessment of the relevance or appropriateness of the measures contained within the Statement of Performance. We have not expressed an opinion on the accuracy of explanations provided for variations between actual and budgeted performance due to the essential subjectivity of these explanations.

Independence

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

PKF - Di Bartolo Diamond & Mihailaros

Ross Di Bartolo
Partner

Canberra 31 August 2007

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

PARTNERS:
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FINANCIAL AUDIT FEES

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

Agencies are charged a fee for financial audits undertaken by the Office. Audit fees are estimated for each financial audit, broadly based on the estimated time needed to complete the audit.

The Office prepares these time estimates using information on the actual time taken to complete these audits in previous years and takes into account any major factors that would cause significant changes to the resources needed to complete the audit. Major factors that tend to affect the time needed to complete an audit include changes to information systems used by the agency, variations to the number and type of performance measures, new audit or accounting issues and the effects of administrative restructures. In 2006-07, changes to auditing standards, the implementation of a new financial audit methodology and the greater consideration given to computer information systems significantly increased the time and the associated costs of completing financial audits.

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

Overall audit fees also contribute to meeting the costs of other general financial audit activities, including the completion of the annual report on financial audits to the Legislative Assembly, maintaining and upgrading the Office's financial audit methodology and liaison with agencies on emerging audit and accounting issues.

Agencies, on average, were paying in the range of \$90 to \$110 per hour for the completion of their financial audits in 2004-05 and 2005-06. This compares favourably to the most recent rates typically quoted by private audit firms for financial audit work outsourced by the Office for 2006-07 of around \$160 per hour.

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

Financial Audit Fees⁷

Agency	2005-06 Audit Fees \$⁸	2004-05 Audit Fees \$	2003-04 Audit Fees \$	2002-03 Audit Fees \$
Territory Financial Statements				
Consolidated Annual Financial Report	70 100	68 000	62 000	58 900
	70 100	68 000	62 000	58 900
Departmental Financial Audits				
Central Financing Unit	34 200	33 200	30 135	28 700
Chief Minister's Department	87 600	85 000	84 300	80 200
Disability, Housing and Community Services	47 600	46 200	42 000	40 000
Economic Development	47 900	46 500	Nil	Nil
Education and Training	90 700	88 000	79 000	84 600
Emergency Services Authority	47 400	46 000	Nil	Nil
Executive	7 000	6 800	5 636	5 900
Forests	45 100	43 700	35 500	33 500
Health	130 900	127 000	140 545	110 000
Home Loan Portfolio	11 400	11 000	10 000	9 500
Housing ACT	72 100	70 000	64 000	60 350
InTACT	54 600	53 000	48 000	45 700
Justice and Community Safety	82 400	80 000	91 200	86 700
Legislative Assembly Secretariat	22 600	17 000	17 000	14 000
Office for Children, Youth and Family Support	47 400	46 000	10 000	Nil
Planning and Land Authority	51 500	50 000	47 000	Nil
Superannuation Unit	36 100	35 000	32 600	30 000
Treasury	101 200	98 200	89 250	85,000
Urban Services	206 400	200 300	182 500	173 400
Workcover	22 900	22 200	20 300	19 250
	1 247 000	1 205 100	1 028 966	906 800
Statutory Authorities				
ACTION Authority	65 500	63 500	58 000	55 000
Agents Board of the ACT – 30 June 2003	Nil	Nil	Nil	8 900
Agents Board of the ACT – 31 October 2003	Nil	Nil	Nil	9 500
Australian Capital Tourism Corporation	22 900	17 300	19 300	15 000
Australian International Hotel School	34 250	24 000	18 900	18 000
Building Industry Training Fund Authority	5 900	5 700	5 200	4 900
Canberra Institute of Technology	120 000	65 500	62 400	59 400
Canberra Public Cemeteries Authority	17 600	17 000	20 000	13 950
Cleaning Industry Long Service Leave Authority	13 636	13 200	12 090	11 500
Community Care	Nil	Nil	Nil	30 500
Construction Industry Long Service Leave Authority	18 545	18 000	15 182	14 400
Cultural Facilities Corporation	21 500	20 800	18 900	18 000
Gambling and Racing Commission	19 800	19 200	17 500	16 650

7 The audit fees shown for 2005-06 represent 31 December 2005 and 30 June 2006 financial year ends.

8 The financial audit fees shown in this table represent the audit fees charged to auditees. The fees presented in the table vary from that reported in the annual financial report due to accrual information being included in the audited financial report.

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

Agency	2005-06 Audit Fees \$⁸	2004-05 Audit Fees \$	2003-04 Audit Fees \$	2002-03 Audit Fees \$
Gungahlin Development Authority	Nil	Nil	Nil	12 000
HealthPACT	7 800	7 500	6 818	6 500
Independent Competition and Regulatory Commission	6 500	6 300	6 000	5 400
Insurance Authority	41 200	40 000	36 700	34 000
Kingston Foreshore Development Authority	Nil	Nil	Nil	8 500
Land Development Agency	103 000	100 000	90 000	65 300 ⁹
Legal Aid Commission	22 300	21 600	19 700	18 700
Exhibition Park Corporation	10 300	10 000	9 300	8 800
Public Trustee Office Account	14 200	13 700	12 000	11 850
Public Trustee Trust Account	15 500	15 000	13 600	12 900
Stadiums Authority	40 000	37 200	33 818	32 200
The Canberra Hospital	Nil	Nil	Nil	68 000
University of Canberra	109 454	104 273	99 300	94 500
Workers' Compensation Supplementation Fund	15 400	14 950	6 200	5 900
	725 285	634 723	580 908	660 250
Territory Owned Corporations and Other Companies				
ACTEW China Pty Ltd	4 500	4 250	3 750	4 575
ACTEW Corporation Ltd	121 000	111 300	103 200	101 145
ACTEW Distribution Ltd	10 000	8 150	7 600	9 190
ACTEW Retail Ltd	10 000	8 150	7 600	8 730
ACTTAB Ltd	46 700	39 500	36 000	34 250
CIT Solutions Pty Ltd	23 000	20 600	19 600	18 600
Community Housing Canberra Ltd	9 300	9 000	8 200	7 800
ECOWISE Environmental Pty Ltd	133 000	50 000	50 900	16 500
ECOWISE Environmental (Victoria) Pty Ltd	103 000	61 000	Nil	Nil
Rhodium Asset Solutions Ltd	160 000	50 400	Nil	Nil
Totalcare Industries Ltd	17 500	64 765	175 068	145 000
University of Canberra College Pty Ltd	28 100	11 445	10 900	10 300
Water ECOscience Pty Ltd	75 000	8 000	Nil	Nil
Water Quality Centres Pty Ltd	42 000	66 000	Nil	Nil
WSL Consultants Pty Ltd	44 000	Nil	Nil	Nil
	827 100	512 560	422 818	356 090
Joint Ventures and Partnerships				
ActewAGL Joint Venture	189 719	147 600	148 800	119 500
Amaroo 3 Joint Venture	500	4 000	6 000	7 000
Dunlop 1 – Jarramlee Park	Nil	Nil	Nil	1 909
Forde Joint Venture	8 000	Nil	Nil	Nil
Gold Creek Country Club Pty Ltd	18 000	18 000	15 000	14 000
Gordon 1 / Gordon 9 Southside Estates	Nil	2 600	2 700	3 000
Harcourt Hill Estate	8 500	5 000	19 800	22 550

⁹ This fee represents the amount charged to the former Land Group only. The Land Development Agency is the amalgamation of the former Land Group, Kingston Foreshore Development Authority and the Gungahlin Development Authority.

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

Kingston Stage 1A Joint Venture	3 000	5 000	5 000	3 000
Nicholls Lakeside Estate	Nil	Nil	2 150	1 950
Palmerston 4 Joint Venture	Nil	Nil	Nil	1 500
	227 719	182 200	199 450	174 409
Other Audits				
Australian National Training Authority – AVETMISS	5 227	2 500	2 100	2 000
Australian National Training Authority – Baseline Funding	2 000	2 500	2 100	2 000
Australian National Training Authority – Recurrent Funding	1 000	5 250	2 100	2 000
Canberra Business Development Fund – December 2004	5 500	4 600	4 200	4 000
City Edge Joint Venture	Nil	Nil	Nil	3 500
Commonwealth Funding Roads Acquittal	9 250	7 500	3 990	3 800
Commonwealth State Housing Agreement Acquittals	9 100	8 500	15 000	6 900
University of Canberra Grant Acquittal	3 150	3 300	3 000	2 845
Natural Disaster Relief Arrangements	Nil	7 273	2 720	22 230
Nicholls Primary School Joint Facilities	900	900	840	800
Nominal Insurer	2 500	2 400	2 300	2 080
Acquittal of Networking the Nation Grant	Nil	Nil	3 182	Nil
Acquittal of Bushfire Mitigation Program	Nil	8 000	Nil	Nil
ACT Health Simplified Billing Acquittal	2 800	20 000	24 373	Nil
Television Black Spots Acquittal	Nil	2 500	Nil	Nil
Capital Region Foundation Gift Fund ¹⁰	Nil	Nil	Nil	Nil
Capital Region Foundation Open Fund ¹¹	Nil	Nil	Nil	Nil
	41 427	75 223	65 905	52 155
Total Fees	3 138 631	2 677 806	2 360 047	2 208 604

10 This audit was performed free of charge.

11 This audit was performed free of charge.

MANAGEMENT OF THE OFFICE

FRAUD PREVENTION

The 'Financial Instructions' issued by the Auditor-General set out the financial management rules for the Office. The purpose of these Instructions is to establish adequate internal control processes in order to minimise the risk of fraud, theft, inefficiency and waste. The Instructions refer to the Public Sector Management Standards on Fraud and Ethics and identify the responsibility of staff to report any deficiency or failure in the internal control procedures.

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

No fraudulent activity or unethical behaviour was identified during 2006-07.

RISK MANAGEMENT AND INTERNAL AUDIT

The Audit Office first developed a Risk Management Framework and a Risk Management Plan during 2004-05, which was consistent with the ACT Government's 'Risk Management Policy' released in early 2004. The Risk Management Plan is reviewed on a regular basis and progress against the plan monitored through the Management Committee (which meets fortnightly).

In June 2006, the Office formed an Internal Audit and Review Committee, which has three members, including an independent Chair. The Committee convened three meetings during 2006-07. Details of the membership of the Committee and meetings attended by its members are provided in the following table:

Table 6: Internal Audit Committee

Name	Agency	Position	No. of Meetings Held	No. of Meetings Attended
Mr Will Laurie	External	Chair	3	3
Mr Rod Nicholas	Auditor-General's Office	Member	3	2
Mr Ajay Sharma	Auditor-General's Office	Member	3	3

The Committee developed a charter to provide a framework for the Office's internal audit arrangements. In particular, the charter identifies the responsibilities of the Committee in terms of addressing risk management and internal control; external

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

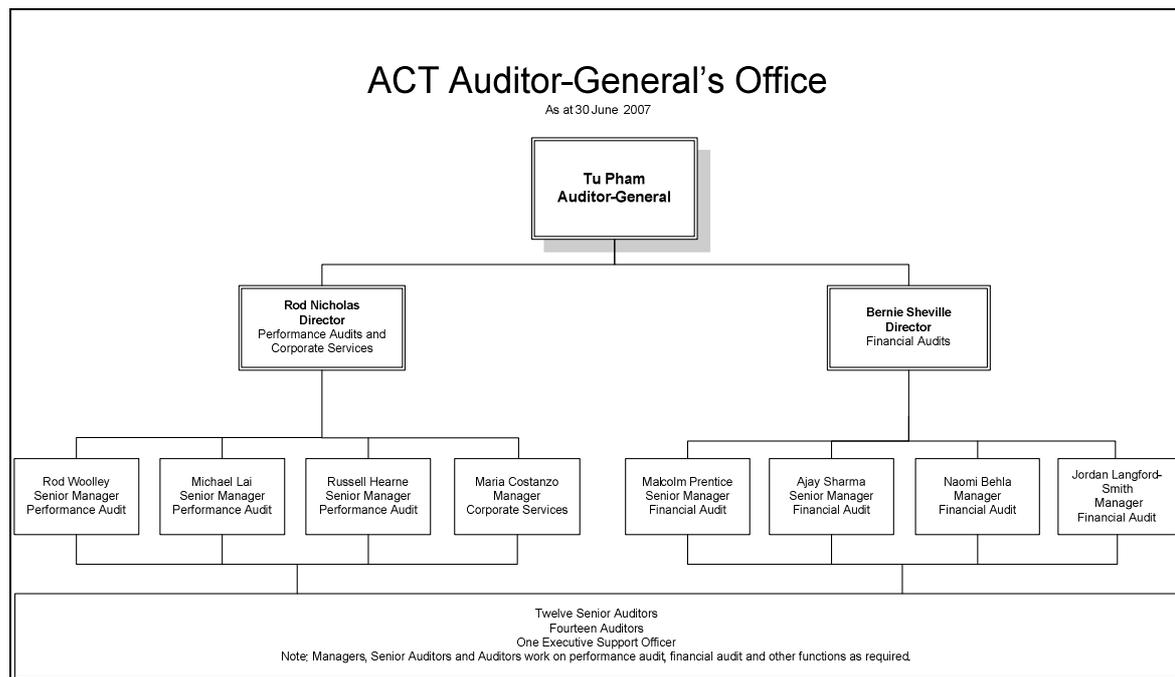
accountability; ethics; internal and external audit and related external scrutiny; compliance with laws and regulations and monitoring Committee performance.

To achieve its objectives, a two-year Internal Audit Program has been developed by the Committee, based on the risks identified in the Office's Risk Management Plan.

INTERNAL ACCOUNTABILITY

MANAGEMENT AND ORGANISATIONAL STRUCTURE

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



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

The Executive Committee, comprising the Auditor-General and the two Directors, meets weekly to discuss Office policies, set strategic direction, monitor the Office's overall performance, and determine strategic and operational priorities for the Office.

The Management Committee, comprising the Auditor-General, Directors, and Managers, meets fortnightly to discuss the Office's activities, report on progress against targets and raise audit and corporate issues requiring attention. A staff representative attends the Management Committee meetings.

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

Senior Executive Remuneration

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

HUMAN RESOURCE PERFORMANCE

At 30 June 2007, the Audit Office’s small workforce consisted of 38 staff from a diversity of backgrounds.

The small size of the workforce, however, means that changes to staffing levels can have a significant effect on the Office’s operations. Despite the measures put in place in recent years to improve retention, the staff turnover rate remains high. The Office is not in a position to compete with many larger organisations such as private sector audit and accounting firms, and ACT and Commonwealth public sector agencies, which often have more capacity to offer better salaries and opportunities for advancement.

The Office’s 2006-07 staff turnover rate was 23.7%, a slight improvement over the 2005-06 figures. Most of the turnover was at the Senior Auditor level, who have (on average) around three years service with the Office. Ideally, turnover should be around 15%, and distributed more evenly among the various job levels.

Table 7: Staff Movements

Staff Movements	2003-04	2004-05	2005-06	2006-07
Recruitment	9	7	10	17
Attrition	7	6	8	9
Number of Staff (FTE at 30 June)	27 (26.2)	28 (27.3)	30 (29.4)	38 (34.6)
Turnover	25.9%	21.4%	26.7%	23.7%

WORKFORCE PLANNING

Workforce planning occurs through frequent assessments of the resources needed to complete the Office’s annual program of financial audits, performance audits, and other activities. These assessments have regard for planned absences (such as annual leave), staff training, secondment opportunities, and the involvement of staff on other administrative activities. It is clearly important for the Office to meet the high demands of the peak financial audit period, which extends from around March to October each year.

As part of its succession planning, the Office creates on-the-job development opportunities for senior auditors to perform functions of managers, where possible.

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

A primary concern in the Office's workforce planning is also to minimise the use of external audit contractors when completing the financial audit program. Audits are outsourced to external contractors where the Office considers the audit requires specialised skills such as information technology and taxation skills not available within the Office.

Some audit staff will work on both financial and performance audits, and will be engaged to assist in specific corporate tasks. Outside the peak financial audit period, available staff are assigned to performance audits or major corporate projects.

STAFFING PROFILE

There were 38 staff employed in the Office (including the Auditor-General) as at 30 June 2007 (Full-time equivalents 34.6). The Auditor-General is appointed for a term of seven years as a full time statutory office holder under the *Auditor-General Act 1996*. All other staff are employed under the *Public Sector Management Act 1994*.

The following tables provide further detail on the staffing profile. Please note that staffing information was provided by the Shared Services Centre, and represents the *paid headcount as at 30 June 2007*. The figures do not include staff who commenced before 30 June 2007 but were not paid in the last pay for 2007. The data is reconciled to *actual staff* employed by the Office as at 30 June 2007.

Table 8: Staffing Profile – Employment Classification

Classification	Men	Women	Total	Permanent Part Time M/W	Permanent Full-time M/W	Temporary Full-time M/W	Temporary Part Time M/W
Auditor-General	0	1	1	0/0	0/0	0/1	0/0
Directors	2	0	2	0/0	0/0	2/0	0/0
Senior Managers	5	0	5	0/0	5/0	0/0	0/0
Managers	2	2	4	0/1	2/1	0/0	0/0
Senior Auditors	8	4	12	0/1	5/3	3/0	0/0
Auditors	8	6	14	0/1	7/3	0/0	1/2
Administrative Officers	0	1	1	0/0	0/1	0/0	0/0
TOTAL	25	14	39	0/3	19/8	5/1	1/2
Reconciliation to actual employees at 30 June 2007							
Staff – paid headcount				39			
Less: Adjustments to data in Pay 26				1	(Manager, M, Permanent Full-time)		
Actual staff employed by Audit Office at 30 June 2007				38	(Full-time-equivalents 34.6 staff)		

Table 9: Staffing Profile – Age

Age	Men	Women	Total	Percentage
20 to 24	4	2	6	15%
25 to 29	5	5	10	26%
30 to 34	3	3	6	15%
35 to 39	1	2	3	8%
40 to 44	2	0	2	5%
45 to 49	2	1	3	8%
50 to 54	3	1	4	10%
55 to 59	4	0	4	10%
60 to 64	0	0	0	0%
65+	1	0	1	3%
TOTAL	25	14	39	
Reconciliation to actual employees at 30 June 2007				
Total employees	24	14	38	

Several of the Audit Office's management team will reach retirement age within the next few years. This cohort has considerable experience within the Office and the public sector generally. Recruitment and performance management has regard for 'succession planning' where possible, but specific action is constrained by the Office's high staff turnover and a staff profile that shows, at 30 June 2007, that 62% of staff had been with the Office for less than three years.

Senior Managers, Directors and the Auditor-General have considerable technical and management experience in public and/or private sector organisations (usually 10 to 20 years experience). There is much less experience below these levels, with roughly two thirds of the Office's staff having less than five years experience.

This brings special challenges for the Office, particularly in ensuring audit staff have the work experience and skills necessary to fulfil their professional role. This also highlights the importance of the Office's investment in its learning and development program, and the need for the Office to pay attractive remunerations to recruit and (in particular) retain experienced and qualified accountants and auditors.

Table 10: Staffing Profile – Average length of service in the Public Sector

Service	Men	Women	Total	Percentage
Less than 1 year	7	3	10	25%
1-3 years	8	6	14	36%
3-6 years	5	1	6	15%
6-9 years	1	2	3	8%
9-12 years	1	0	1	3%
12+ years	3	2	5	13%
TOTAL	25	14	39	100%
Reconciliation to actual employees at 30 June 2007				
Total employees	24	14	38	

CULTURE AND VALUES

The Audit Office's 'Integrity Code' reinforces the values, principles, and employment obligations of public sector employees under the Public Sector Management Act. Together, the Public Sector Management Act and the Integrity Code provide staff a sound framework to support behavioural and decision-making activities.

Further, most staff are members of professional bodies and receive ethical training as part of their professional qualifications. This training also provides specific guidance on matters of particular relevance to auditors.

The culture and values of the Office, and expectations of stakeholders, are key matters discussed during the Office's annual planning days, and regularly reinforced at staff meetings. These occasions provide a further opportunity for staff to agree on the shared values that should be exhibited in the performance of their work, both at the Office and at the workplace of audited agencies.

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

WORKPLACE HEALTH AND SAFETY

The Office's 'Occupational Health and Safety (OH&S) Guidelines' are accessible to all staff, and are provided to new staff on commencement. The guidelines encourage management and staff to take a proactive approach to their health and safety within the workplace environment through actions such as:

- communication to foster a proactive approach (e.g. the value and investment in workstation assessments for staff);
- the provision of professional rehabilitation case management services; and
- prompt and positive consideration of OH&S issues raised by staff.

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

- (i) A staff member has been appointed as the OH&S officer, responsible for facilitating a safe working environment.
- (ii) Staff may have their individual workstations professionally assessed at any time. Where staff have sustained injuries or have other specific requirements, individual workstations will be professionally assessed taking into account the specific medical needs of the individual.
- (iii) Workforce and operational planning pays careful attention to the workplace commitments of staff, and monitors hours being worked by staff, particularly during peak workload periods. Planning decisions seek to share the workload amongst staff, as far as reasonably practicable, to avoid excessive periods of long hours. This planning facilitates a whole-of-Office approach to planning for leave, study, family, and other commitments, and staff are encouraged to take their leave entitlements each year.
- (iv) Staff are offered the option of having injections against influenza.
- (v) Stress is managed through ongoing coaching and supervision of staff, and supporting staff through difficulties they may experience in their personal and professional life. The Office also has a zero tolerance policy towards workplace discrimination, harassment and bullying.

There were no workplace accidents or injuries sustained by staff during 2006-07, and there were no accidents or dangerous occurrences that required the giving of notices under Section 204 of the *Occupational Health and Safety Act 1989*. No investigations were conducted during the year and there were no improvement notices, prohibition notices and notices of non-compliance given to the Office under sections 146, 155 or 212 of the OH&S Act.

LEARNING AND DEVELOPMENT

The Audit Office's learning and development program continues to focus on ensuring the Office has the capacity to meet its audit responsibilities. Consistent with the needs of a professional Office, all staff with audit responsibilities have tertiary qualifications and most are either members of a professional body (such as the Institute of Chartered Accountants in Australia or CPA Australia) or are undertaking programs of study to become eligible to join a relevant body.

Coaching of staff on audits, and technical training remain an integral part of the learning and development of staff. The program also gives attention to the development of the broader needs of staff such as report writing, communication and coaching skills, presentation skills, IT skills and time management.

The Office encourages all staff to work towards obtaining professional status relevant to the operations of the Office. The Office provided support to two staff members to undertake a Master of Professional Accounting program, two staff members to undertake undergraduate courses in Accounting and Law, and provided financial support to eight staff completing professional membership programs run by CPA Australia and the Institute of Chartered Accountants in Australia.

The Office also provides study leave and examination leave and the activities of the Office are planned so staff have access to this leave when needed.

Training provided during 2006-07 included training on the Office's new financial audit methodology, performance auditing, coaching skills and performance appraisal techniques and new Auditing Standards. Staff also attended various professional and business forums.

In 2006-07, expenditure on external training courses was around \$91 600 (2005-06 \$63 300). The cost to the Office of learning and development activities, including internal costs and time allowed for study leave, totalled over \$310 000. Time spent on training averaged nine days per staff member.

WORKPLACE RELATIONS

The Audit Office's Certified Agreement (2004-07) applies to all staff other than the Auditor-General and Executives. The Agreement, which has a nominal termination date in February 2007, has regard for the Office's specific working environment, while reflecting the ACT Public Sector Template Agreement.

The Office commenced discussions and negotiations with staff in October 2006 regarding negotiations for a new Agreement. The new Agreement is being developed in the context of whole-of-government negotiations, and this has led to delays in finalising the Agreement. Staff have been involved in the process through a Staff Negotiation Committee, and have been kept informed of progress in developing the new Agreement.

At 30 June 2007, the Office did not have any employees that were covered by an Australian Workplace Agreement or Special Employment Arrangement.

STRATEGIC ASSET MANAGEMENT

ASSETS MANAGED

The Audit Office's plant and equipment assets are largely comprised of the Office's fit-out and the other equipment and furniture normally associated with a small professional Office such as computer equipment, desks and chairs etc. As shown in the Office's financial report, the book value of these assets at 30 June 2007 was around \$566 000.

The assets added to the Office's asset register in 2006-07 were motor vehicles. This reflects the accounting treatment for the finance leasing arrangements for Executive vehicles. There were no significant asset disposals in 2006-07.

The Office conducted stocktakes of its portable and attractive assets (mainly computer assets) to ensure these assets were properly accounted for. At 30 June 2007, assets managed by the Office were in working order and there were no assets considered to be potentially surplus to Office needs or not used.

ASSETS MAINTENANCE AND UPGRADE

There were no major asset upgrades completed during 2006-07.

OFFICE ACCOMMODATION

At 30 June 2007, the Office occupied 500 square metres at one location and employed 38 (34.6 full time equivalent) staff. This equates to 13.2 square metres per employee, lower than the ACT Government target of 15 square metres per employee.

CAPITAL WORKS

CAPITAL WORKS INFORMATION

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

Table 11: Reconciliation of Financing Expenditure and the Financial Report

	Actual 2006-07 \$'000	Actual 2005-06 \$'000	Actual 2004-05 \$'000
Balance at the beginning of the financial year	38	105	-
Capital injection received	-	-	650
Amount spent as disclosed in Note 14 to the Office's financial report	6	67	545
Balance at the end of the financial year	32	38	105

A small amount of expenditure may be needed to complete this fit-out, including work for a few items of additional joinery, and shelving. Any unspent balance will be returned to the ACT Government following the completion of this work.

GOVERNMENT CONTRACTING

PROCUREMENT PRINCIPLES AND PROCESSES

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

The selection and management of audit contractors was consistent with the *Government Procurement Act 2001* and subordinate guidelines and circulars guidelines.

In particular, prior to market testing and selection of audit contractors, the Office's procurement plans for significant contracts are reviewed and approved by an Approved Procurement Unit (i.e. Procurement Solutions) and the Procurement Board as required by the *Government Procurement (Approved Procurement Units) Guideline 2002*.

EXTERNAL SOURCES OF LABOUR AND SERVICES

Details of the expenses incurred under contracts and of the services supplied are provided below. The expenses disclosed do not represent the value of contracts, since the contracts often cover more than one financial year and the work performed does not necessarily coincide with the financial year.

Table 12: External Sources of Labour and Services (2006-07)

Firm	Date Contract Let	Financial Audits \$ Note 1	Other Services \$ Note 2	Total \$
Deloitte Touche Tohmatsu	10 April 2003	16 814		16 814
KPMG	1 December 2005	486 589		486 589
Duesburys	30 June 2006	9 000		9 000
PricewaterhouseCoopers	1 December 2005	291 490		291 490
Ernst & Young	1 December 2005	247 926		247 926
Cumpston Truslove	31 March 2005	24 116		24 116
Opteon Valuers Pty Ltd	16 October 2006		18 182	18 182
Minter Ellison	20 December 2006		3 644	3 644
Landlink Property Advisory Pty Ltd	12 December 2006		1 500	1 500
Acumen Alliance	11 December 2006		5 790	5 790
Bellewarra Investments	30 June 2006		3 330	3 330
Victorian Auditor-General's Office	12 January 2007		614	614
Other	8 August 2006		529	529
Total		1 075 935	33 589	1 109 524

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

Note 2 – Opteon Valuers Pty Ltd, Minter Ellison and Landlink Property Advisory Pty Ltd all provided advice in relation to Audit Report 9/2006, Sale of Block 8, Section 48, Fyshwick.

Acumen Alliance and Bellewarra Investments provided internal audit services to the Office.

The Victorian Auditor-General's Office was reimbursed the costs of conducting a review of a sample of 2005-06 financial audits completed by the Office.

COMMUNITY GRANTS/ASSISTANCE/SPONSORSHIP

In 2006-07, the Office donated two prizes of \$250 each to the Canberra Institute of Technology, Faculty of Business and Information Technology. The prizes were awarded as follows:

Award	Award Details
External Audit Prize	\$250 to the most meritorious graduating student in External Audit Procedures
Internal Control Procedures Sponsorship	\$250 to the most meritorious student in Internal Control Procedures.

The prizes are to assist current students to complete their studies and are awarded mainly to graduating students of the Faculty of Business and IT. These prizes increase the awareness of CIT students of the employment opportunities provided by the Audit Office.

TERRITORY RECORDS

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

The Auditor-General has approved a Records Management Policy and Records Management Procedures, and these documents are available to all staff. The Director of Territory Records has approved a Records Disposal Schedules for Audit Services records; this Notifiable Instrument (NI2006-26) can be viewed on the ACT Government's legislation website (<http://www.legislation.act.gov.au/>).

In developing these documents, the Office examined its activities and legal, professional, and administrative requirements, to determine which records need to be captured into record keeping systems, and how long those records need to be kept in order to satisfy operational needs and meet accountability requirements. Records management practices will ensure the Office can effectively:

- provide evidence of decisions, communications and activities;
- demonstrate that accountability requirements have been met; and
- support business activities through the creation of useable and reliable records, contributing to business efficiency and effectiveness.

Records management training is available to all staff, and many have attended programs presented by the Territory Records Office ('Introduction to Record-Keeping' and 'Understanding and Using a Thesaurus'). New staff are introduced to record-keeping essentials as part of the Office's induction program. Standards, guidelines and advice issued by the Territory Records Office are available to all staff.

The Office's Records Management Procedures cover issues of public access to and use of Audit Office records which are more than 20 years old. The Office is currently finalising the review of its records for sentencing, destruction and archival. As part of this review, those Audit Office records which are identified for archival will be assessed with an appropriate access direction to establish the terms and conditions for public access 20 years after the records are non-current. Records to be exempted from public access under the provisions set out in section 28 of the Territory Records Act, will also be identified. The Office does not currently hold any records more than 20 years old.

SECTION B

CONSULTATION AND SCRUTINY REPORTING

COMMUNITY ENGAGEMENT

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

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

Where appropriate, the Office consults representatives of relevant interest and community groups when planning and conducting performance audits. Individuals or community groups may also initiate contact with the Office in relation to audits.

The Audit Office frequently receives representations from various sources, such as Members of the Legislative Assembly, ACT public sector agencies, public servants and the wider community, to undertake some audit activity on a variety of matters.

The information provided by way of such representations is examined to determine whether further investigation is warranted, taking into account the significance of the issues raised, the Office's available resources, and other priorities.

Although it is not possible to investigate in detail all of the matters referred to the Office, the information often provides input into the planning of future audits.

INTERNAL AND EXTERNAL SCRUTINY

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

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

The Auditor-General Act provides for an annual examination of the Office's financial report and statement of performance by an auditor selected by the relevant Minister.

In 2006-07, a private sector firm, PKF Chartered Accountants and Business Advisers, was selected as the independent auditor. PKF provided an unqualified audit opinion on the Office's financial report and statement of performance with no significant matters being identified from the audit process.

LEGISLATIVE ASSEMBLY COMMITTEE INQUIRIES AND REPORTS

There were no Legislative Assembly Committee inquiries directed specifically at the operations of the Office during 2006-07.

All reports of the Auditor-General that have been presented to the Legislative Assembly are referred to the Standing Committee on Public Accounts (the PAC). The PAC examines all reports or any circumstances connected to them, and may hold a public inquiry into any Auditor-General report and report on its inquiries to the Legislative Assembly. The Office provides a briefing to the PAC on all Auditor-General reports, and will give evidence to a public inquiry at the request of the PAC.

During 2005-06, the PAC completed the following inquiries regarding Auditor-General reports:

- Review of Auditor-General's Report April 2005: Matters relevant to the Office of the Special Adviser, Council of Australian Governments and Inter-governmental Relations (completed 24 August 2006);
- Review of Auditor-General's Report No. 2 of 2005: Development Application and Approval Process (completed 21 September 2006);
- Review of Auditor-General's Report No. 5 of 2004: Leave Management (completed 14 December 2006); and
- Review of Auditor-General's Report No. 7 of 2005: 2004-05 Financial Audits (completed 14 December 2006).

The following inquiries regarding Auditor-General reports were commenced by the PAC during 2006-07, but still in progress as at 30 June 2006:

- Review of Auditor-General's Report No. 8 of 2004: Waiting lists for Elective Surgery and Medical Treatment;
- Review of Auditor-General's Report No. 4 of 2005: Courts Administration;
- Review of Auditor-General's Report No. 1 of 2006: Regulation of Charitable Collections and Incorporated Associations;
- Review of Auditor-General's Report No. 4 of 2006: Road Safety;
- Review of Auditor-General's Report No. 5 of 2006: Rhodium Asset Solutions Ltd; and
- Review of Auditor-General's Report No. 6 of 2006: Vocational Education and Training.

LEGISLATIVE REPORT

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

Relevant legislation is discussed on pages 7 to 9.

SECTION C
OTHER REPORTING

PUBLIC INTEREST DISCLOSURES

PROPER AUTHORITY

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

PROCEDURES

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

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

Table 13: Statistics Relating to the Reporting Year

Disclosure Requirement	Details
The number of disclosures received.	One
Type of disclosures under Section 4(2) of the PID Act.	Each disclosure alleged conduct that could, if substantiated, amount to ‘disclosable conduct’ under Section 4(2)(a) and (b) of the PID Act.
The number of disclosures referred by other agencies.	One – referred by the ACT Ombudsman.
The number of public interest disclosures investigated.	One - the investigation is continuing.
The number of disclosures referred to other government agencies for investigation.	Nil
The number of disclosures on which the Office has declined to act under Section 17 of the PID Act.	Nil
The number of disclosures substantiated by investigation.	Nil

DETAILS ON REMEDIAL ACTION ON EACH SUBSTANTIATED DISCLOSURE

The investigation relating to the one disclosure referred to this office by the ACT Ombudsman has not been completed.

Other Representations

The Audit Office received 13 representations from various persons (Members of the Legislative Assembly, and members of the public) requesting the Auditor-General to undertake some audit activity on a variety of matters. Such representations do not meet the definition of public interest disclosure within Section 3 of the *Public Interest Disclosure Act 1994*. Rather, they tend to reflect areas of interest or concern to the individual, and are considered by the Auditor-General under the provisions of the *Auditor-General Act 1996*.

The Office examines the information provided in relation to the representation to determine whether further investigation is warranted. Often, additional information is obtained from the relevant government agency to assist in making any decision on the matter. In some cases, the correspondent is encouraged, in the first instance, to refer the matter directly to the responsible agency.

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

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

DETAILS OF REMEDIAL ACTION TAKEN ON OMBUDSMAN RECOMMENDATIONS

The ACT Ombudsman made no recommendations regarding the Office.

FREEDOM OF INFORMATION

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

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

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

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

Publication of documents and information (Section 7 Statement)

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

The usual method used by members of the public to participate in the work of the Office is through making of representations directly to the Office or by making representations to their elected representatives in the Legislative Assembly who may, in turn, decide to make representations to the Office. For most performance audits, the Office will directly consult selected stakeholders, to obtain their views of activities under audit, and suggestions for improvement.

Categories of documents in the possession of the Office

The Office holds the following categories of documents:

- (i) *Documents freely available on request and without charge.* Documents in this category include audit reports produced by the Office. These documents are available from the Office's website (<http://www.audit.act.gov.au>) or on request from the Office, and are also available from libraries throughout the Territory.
- (ii) *Other kinds of documents that may be available under the FoI Act.* A wide range of documents, held in the Office, may be available under the Act.

SECTION C: OTHER REPORTING

These documents may include general administrative files including internal, interagency and public documents, minutes of meetings of management and other committees, agendas and background papers, policies, diaries, work sheets (computer or paper) in connection with Office administrative functions, photographs, financial and accounting records, leases and deeds of agreement.

- (iii) *Documents obtained in the exercise of a function of the Auditor-General Act 1996.* These documents cannot be disclosed under Section 34(1) of the *Auditor-General Act 1996* and include all documents and materials relating to audits of government agencies as well as other reviews and investigations.

The Office provides facilities enabling members of the public to obtain physical access to the documents.

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

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

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

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

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

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

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

The Office received one FoI request to access documents during 2006-07. Access to the documents was refused as the request was for documents held by the ACT Audit Office regarding an investigation conducted under the *Auditor-General Act 1996*. The Office is unable to release any information or documentation obtained during the exercise of a function of the Auditor-General, under an FoI application.

SECTION C: OTHER REPORTING

No applications were received for the review of decisions under section 59. However, the applicant of the FoI request did seek clarification of the decision.

The Office did not collect any fees in relation to the processing of requests.

There were no applications for the amendment of records under Section 48.

HUMAN RIGHTS ACT 2004

The Government introduced the *Human Rights Act 2004* as the first bill of rights in Australia. The Audit Office's operating practices and policies are consistent with the aims of the Act and the Office has ensured that human rights principles are integrated into its operations.

Examples of how the Office has achieved this are as follows:

- (i) The Office ensures procedural fairness is maintained and natural justice is afforded to those affected by the reporting of audit findings and recommendations. Those affected by these reports are provided with the opportunity to provide comments on the reports and these comments are carefully considered before reports are finalised.
- (ii) The Office is a proper authority for the receipt of disclosures under the *Public Interest Disclosure Act 1994*. Disclosures received by the Office may identify human rights concerns. Details of the Office's procedures for handling these disclosures and statistical information on disclosures made to the Office in 2006-07 are provided in Section C Public Interest Disclosure.
- (iii) Management has promoted an organisational culture that is inclusive, respectful and responsive to staff and auditees. Regularly held staff and audit team meetings provide the opportunity for staff to raise any issues or concerns regarding the operations of the Office including human rights matters. Staff may also raise concerns directly with the Auditor-General or other senior executives, or with a staff representative, or may provide information and suggestions through the Office's annual staff survey, or anonymously. Management responds openly to all staff suggestions and concerns.
- (iv) The 'ACT Auditor-General's Office Certified Agreement 2004-2007', and the proposed replacement Agreement currently being finalised, incorporate ACT public sector wide conditions of employment. These Agreements promote diversity in the workplace, require prompt responses to any discrimination or harassment, and provide personal, maternity, bereavement and other leave that recognises the broad cultural and other needs of staff. The Agreements recognise the need to balance work and life responsibilities and provide a safe and healthy working environment.

- (v) The Office has 'Equity and Diversity Guidelines' in place and a 'Workplace Discrimination, Harassment and Bullying' policy to support a diverse and non discriminatory workplace where different cultures and talents of staff are recognised and valued.

COMMISSIONER FOR THE ENVIRONMENT REPORTING

The Commissioner for the Environment Office did not request information from the Office in the preparation of the 'State of the Environment Report', nor carry out any investigation of the Office's operations during 2006-07.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT

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

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

- (i) minimising the number of hardcopy publications of audit reports. Reports are distributed electronically where practical, and can be accessed on the Office's website;
- (ii) maximising the use of electronic work papers, messaging and on-line technical and information services;
- (iii) recycling paper and using equipment with electricity saving features where possible. Staff are encouraged to recycle plastic, glass, paper, and toner; recycling bins are provided for this purpose; and
- (iv) providing office-based staff with energy efficient, low radiation emitting LCD monitors.

The Office had three executive vehicles, which are available for use for official purposes. Office staff regularly use these cars to visit audited agencies. During 2006-07, the vehicles travelled around 70 000 kilometres, and used 7 842 litres of fuel. This is a slight decrease compared to fuel used in 2005-06. The vehicles produced approximately 18.8 tonnes of CO₂ equivalent compared to 21.1 tonnes in 2005-06.

Table 14: Vehicle Use - 2006-07

	2005-06	2006-07
Kilometres driven	69 923	70 501
Fuel used (litres)	8 442	7 842
Average fuel consumption (l/100 km)	12.1	11.12
CO ₂ e (Tonnes) ⁽¹⁾	21.1	18.8
Notes: (1) CO ₂ e is calculated based on 2.4kg of emissions per litre of petrol consumed. Actual emissions will vary according to driving conditions.		
*These statistics were provided by Rhodium Asset Solutions Ltd, (Office's Fleet Manager).		

The Office shares its current premises at 11 Moore Street with other departments, and leases about half a floor of the eight-floor building. The accommodation offers several energy reduction measures, including more efficient heating and cooling systems, and sensor-activated lighting. Practically, however, the Office is limited in the measures it can take to minimise energy consumption.

A comparison of the electricity consumption figures for 2005-06 with 2006-07 indicates that the Office increased its use of electricity. It is unlikely that electricity usage increased but rather reflected the *actual* figures being available, for the first time, for the 2006-07 usage. As actual figures were not available for 2005-06 electricity usage for the Office was estimated by applying the proportion of area occupied by the Audit Office (5.80%) to the total building usage of electricity.

Table 15: Consumption of Resources 2005-06 to 2006-07

Resources	2005-06 ⁽¹⁾	2006-07
Total electricity use (KW hours)	32 086 ⁽¹⁾	47 779 ⁽²⁾
Electricity use per employee (KW hours)	1 070 ⁽¹⁾	1 257
Renewable electricity purchased	Nil	4 896
Total gas use (MJ)	Not Available	Not Available
Total water consumed	Not Available	Not Available
Waste paper recycled (240L containers)	33	42
Paper usage (reams)	381	489
Notes: (1) Electricity charges are not separately metered. Figures are estimated, based on total building use and proportionate to the area leased by the Office (i.e. 5.80%) of total net lettable area. Reliable data on gas, water and waste are not available as these are landlord costs, and are not separately billed to the Office.		
(2) Of the 47 779kwh consumed during the 2006-07 year, 4 896kwh was green (renewable) energy.		

SECTION C: OTHER REPORTING

Paper use within the Office has increased by 7.8% since 2005-06, which is most likely due to the increase in staff numbers and workload. However, the increase in paper usage has been offset by an almost equal increase in paper recycling by 7.9%. The use of an efficient photocopier and economical printers, which readily produces duplex and multi-page printing, allows the Office to economise on the amount of paper consumed. This is reinforced throughout the Office by encouraging staff to change work practices by minimising printing of unnecessary drafts of documents.

CONTACT INFORMATION AND AVAILABILITY OF REPORTS

The list of Audit Reports in the last three years are attached.

Details of reports published prior to 2004-2005 can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: www.audit.act.gov.au.

Copies of reports issued by the ACT Auditor-General's Office are available from:

**ACT Auditor-General's Office
Level 4, 11 Moore Street,
CANBERRA CITY ACT 2601**

or

**PO Box 275
CIVIC SQUARE ACT 2608**

Phone (02) 62070833 / Fax (02) 62070826

Business Hours: 9:00am to 5:00pm Monday to Friday

www.audit.act.gov.au

Reports Published in 2006-2007

Report No. 4 / 2007	Regulation of ACT Liquor Licences
Report No. 3 / 2007	Collection of Fees and Fines
Report No. 2 / 2007	Agency Implementation of Audit Recommendations
Report No. 1 / 2007	Credit Card Use, Hospitality and Sponsorship
Report No. 9 / 2006	Sale of Block 8, Section 48, Fyshwick
Report No. 8 / 2006	2005-06 Financial Audits
Report No. 7 / 2006	Annual Report 2005-2006
Report No. 6 / 2006	Vocational Education and Training
Report No. 5 / 2006	Rhodium Asset Solutions Limited

Reports Published in 2005-2006

Report No. 4 / 2006	Road Safety
Report No. 3 / 2006	Management of Trust Moneys and Other Non-Public Moneys
Report No. 2 / 2006	Public Housing
Report No. 1 / 2006	Regulation of Charitable Collections and Incorporated Associations
Report No. 7 / 2005	2004-05 Financial Audits
Report No. 6 / 2005	Government Procurement
Report No. 5 / 2005	Annual Management Report for the Year Ended 30 June 2005
Report No. 4 / 2005	Courts Administration
Report No. 3 / 2005	Reporting on Ecologically Sustainable Development

Reports Published in 2004-2005

Report No. 2 / 2005	Development Application and Approval Process
Report No. 1 / 2005	Management of Government Grants to the ACT Multicultural Council Inc.
Report No. 10 / 2004	2003-04 Financial Audits
Report No. 9 / 2004	Administration and Monitoring of Youth Service Contracts
Report No. 8 / 2004	Waiting Lists for Elective Surgery and Medical Treatment
Report No. 7 / 2004	Annual Report 2003-2004
Report No. 6 / 2004	Workers' Compensation Supplementation Fund
Report No. 5 / 2004	Leave Management
Report No. 4 / 2004	Data Reliability for Reporting on the ACT 'No Waste by 2010' Strategy
Review Report	Matters Relevant to the Office of the Special Advisor, Council of Australian Governments and Inter-Governmental Relations

COMPLIANCE INDEX FOR THE 2006-07 REPORT

	Contents	Page No.
SECTION A	PERFORMANCE & FINANCIAL MANAGEMENT REPORTING	
	The Organisation	5
	Overview	7
	Highlights	10
	Outlook	12
	Office Performance	13
	Management Discussion & Analysis	13
	Analysis of Performance	17
	Financial Report	30
	Statement of Performance	78
	Independent Audit Report	93
	Report of Factual Findings	95
	Management of the Office	101
	Fraud Prevention	101
	Risk Management and Internal Audit	101
	Internal Accountability	102
	HR Performance	103
	Staffing Profile	104
	Workplace Health and Safety	107
	Learning and Development	108
	Workplace Relations	108
	Strategic Asset Management	109
	Capital Works	109
Government Contracting	110	
Community Grants/Assistance/Sponsorships	111	
Territory Records	112	
SECTION B	CONSULTATION & SCRUTINY REPORTING	
	Community Engagement	115
	Internal & External Scrutiny	115
	Legislative Assembly Committee Inquiries and Reports	116
	Legislative Report	117

	Contents	Page No.
SECTION C	OTHER REPORTING	
	Strategic Bushfire Management Plan	Not Applicable ¹
	Public Interest Disclosure	121
	Freedom of Information	123
	Human Rights Act 2004	125
	Commissioner for the Environment	126
	ACT Multicultural Strategy 2006-09	Not Applicable ¹
	Aboriginal and Torres Strait Islander	Not Applicable ¹
	Ecologically Sustainable Development	126
	ACT Women's Plan	Not Applicable ¹
	Contact Information	128
	Compliance Index	130

Note 1: Due to the nature of the Audit work, the Office does not provide services to the ACT community that meet the specific Government objectives under the Strategic Bushfire Management Plan; ACT Multicultural Strategy 2006-09; Aboriginal and Torres Strait Islander and ACT Women's Plan.