Legislative Assembly for the ACT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Review of Auditor-General's Report No 10 of 2003

Financial Audits with Years Ending to 30 June 2003

AUGUST 2004

REPORT 14

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Resolution of appointment

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 11 December 2001 to:

(i) examine:

(A) the accounts of the receipts and expenditure of the Australian Capital Territory;

(B) the financial affairs of authorities of the Australian Capital Territory; and

(C) all reports of the Auditor-General which have been presented to the Assembly;

(ii) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(iii) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(iv) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue and sustainability.

Terms of reference

To examine Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003 and report to the Legislative Assembly.

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Recommendations

The Committee recommends that:

Recommendation 1

The Government inform the Assembly of what it has done to address the trend of under spending of capital works funding.

Recommendation 2

The Government critically evaluate the Territory's model of financial management including the conceptual basis for these arrangements.

Recommendation 3

The Government undertake a comprehensive review of key performance measures through consultation with the Legislative Assembly and the ACT Community.

Recommendation 4

The audited financial statements of entities in which the Territory has a controlling interest be legally required to be published in the relevant agency annual report.

Recommendation 5

The ACTION Authority Act 2001 is amended so that the ACTION Authority's objectives are consistent with its actual operations.

Recommendation 6

The Government inform the Assembly of what it has done to address the failure of the Canberra Hospital to manage its operations to budget, and the delays in capital works spending.

Recommendation 7

The Legislative Assembly note the findings of Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003, particularly in relation to: agencies non-management of financial operations to budget and incursion of loss, and non-compliance with the *Financial Management Act 1996*.

1. Introduction

1.1. Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003 (Audit report) was presented to the Legislative Assembly on 9 December 2003 and consequently referred to the Committee for inquiry.[1]

1.2. The Audit report examines the Australian Capital Territory's financial statements for the year ended 30 June 2003 and the financial statements of Territory agencies for years ended between 31 December 2002 and 30 June 2003.[2]

1.3. The audit report draws attention to the qualified audit report issued on the financial statements of the Territory, the General Government Sector and the Public Trading Enterprise Sector.[3]

1.4. The Audit report provides comment on: the Territory's financial reporting and audit requirements; presentation of agencies' financial statements; agencies' performance against budget; the Territory's model for financial administration; compliance with the *Financial Management Act 1996*; an update of agencies' performance and reporting of outputs; update on the timing of the public reporting of the financial results of the Territory and its agencies; an update on agencies' Management Discussion and Analysis reporting; and the identification of agencies not required to have their audited financial statements presented to the Legislative Assembly.[4]

1.5. The Audit report also provides analysis and comment about audits relating to specific Territory agencies. Comment is provided on those agencies to which particular attention is drawn in relation to the incurring of losses, the non management of financial operations to budget, and/or non compliance with the *Financial Management Act 1996* (FMA). Comment is also provided on those agencies where the findings are not as significant as for those included in the first category. Those agencies included in the Audit are listed at Appendix A.

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[1] Legislative Assembly for the ACT, Fifth Assembly, Minutes of Proceedings No 84, Tuesday, 9 December 2003, p 1060.
[2] Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003, p 1.
[3] ibid.
[4] ibid., pp 1-2.

1.6. The Auditor-General made a number of recommendations throughout the audit report in relation to findings made, which are summarised into nine main recommendations.[5] These recommendations appear at Appendix B.

1.7. The Committee sought and received a Government submission in relation to the findings of the audit report.

1.8. This report focuses on a selection of the significant issues raised by the audit report and also provides a summary, where available, of the Government's comments in relation to these issues.

1.9. This focus includes: the Territory's consolidated financial statements and accompanying audit opinions; Agencies' performance against their Budgets; expenditure on the capital works program; the Territory's model for financial administration; compliance with the *Financial Management Act 1996* (FMA); output and performance measures; financial and annual report timing; the tabling of audited financial statements; and, the audit results of agencies to which the Auditor-General has drawn specific attention.

[5] The recommendations appear on pages 3 – 5 of Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003.

2. Audit report findings

The Territory's consolidated financial statements and accompanying audit opinion

2.1. On 31 October 2003, the Auditor-General issued a qualified audit opinion on the Territory's consolidated financial statements for 2002-2003. This was also the case for the Territory's 2001-2002 consolidated financial statements.[6] The 2002-2003 financial statements and accompanying audit opinion were later tabled in the Legislative Assembly on 20 November 2003.[7]

2.2. In relation to the qualified audit opinions[8] issued for the Territory's financial statements and those of the General Government Sector, the Auditor-General reported that the audit opinions were issued due to

> …the incorrect recognition of an 'Unrealised Gain from Actuarial Review of Employee Superannuation Benefits' as a liability and for the incorrect recording of the superannuation expense in these financial statements.[9]

2.3. The Auditor-General found that if the Territory's financial statements had reflected the correct superannuation expense that a $195 million surplus would have resulted, instead of the reported operating surplus of $230 million.[10]

2.4. The Auditor-General made a similar finding for the financial statements of the General Government Sector. Namely, that had the financial statements of the General Government Sector correctly reflected the superannuation expense, then an operating surplus of $120 million would have resulted instead of the reported surplus of $155 million.[11]

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[6] The Auditor-General reported on this issue in Auditor-General's Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002.

[7] Paper titled: *Consolidated Annual Financial Statements for the 2002-2003 financial year*, presented by the Treasurer pursuant to Section 25 of the Financial Management Act, Legislative Assembly for the ACT, Fifth Assembly, Minutes of Proceedings No 80, Thursday, 20 November 2003, p 1021.

[8] The qualified audit opinions issued were 'except for' opinions, Auditor-General's Report No 10 of 2003, p 27.

[9] Auditor-General's Report No 10 of 2004, p 69.

[10] ibid.

[11] ibid.

2.5. Further, the Auditor-General found that due to the incorrect recognition of an 'Unrealised Gain from Actuarial Review of Employee Superannuation Benefits' as a liability that

> …total liabilities reported in the Territory's statement of financial position [and those of the General Government Sector] were overstated by $112m and net assets understated by the same amount.[12]

2.6. The reason for the qualified audit opinions is outlined in Auditor-General's Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002. Namely, that the accounting policy used by the Superannuation Unit to measure superannuation liability and associated expenses does not comply with Australian Accounting Standard AAS 31 'Financial Reporting by Governments'.

2.7. In the Independent Audit Report of the Territory's consolidated financial statements, the Auditor-General made the following comment about the Territory's non compliance with Australian Accounting Standard AAS31.

> Under Australian Accounting Standard AAS 31 *Financial Reporting by Governments* (AAS 31) a liability should only be recognised when it is probable that the future sacrifice of economic benefits will be required, and the amount of the liability can be measured reliably. The amount reported as an *Unrealised Gain from Actuarial Review of Employee Superannuation Benefits* is not a liability under AAS 31, as future sacrifices of economic benefits will not be required to meet this reported amount. As the *Unrealised Gain from Actuarial Review of Employee Superannuation Benefits* is not a liability it should not be reported as such in the Consolidated Statement of Financial Position of the Australian Capital Territory or the Consolidated Statement of Financial Position by Sector – General Government Sector.[13]

2.8. The Territory's financial statements and those of the General Government Sector were arrived at using the same accounting policy and the same measure of superannuation liability and associated expenses as that of the Superannuation Unit. The qualified audit opinion issued on the financial statements of the Superannuation Unit resulted in a flow on effect of a

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[12] ibid., pp 69-70.

[13] ACT Auditor-General, Independent Audit Report: Australian Capital Territory, 31 October 2003, pp 2-3.

qualified audit opinion being issued on the Territory's financial statements and that of the General Government Sector.[14]

2.9. The Government maintains that the

> …Territory's operating surplus for 2002-03 was $230m, which was an improvement of $202m on the budgeted result of $28m.[15]

2.10. The Auditor-General issued a further qualified audit opinion on the recoverable amount of the Territory's investment in TransACT. The Auditor-General stated that

> The audit opinion on the financial statements of the Territory and the Public Trading Enterprises Sector was qualified because there was insufficient evidence available to enable the Audit to reliably assess whether the $40m net carrying value of the TransACT investment recorded in the Statement of Financial Position of the Territory and the Public Trading Enterprises Sector exceeded this investment's recoverable amount.

2.11. This issue is discussed further in the chapter titled Audit results of other agencies to which the Auditor-General has drawn attention.

Agencies' performance against their Budgets

2.12. The Auditor-General found that most agencies managed their financial operations to budget with the exception of ACT Health, the Department of Justice and Community Safety, the Superannuation Unit and the Canberra Hospital.[16] Issues relating to these agencies are addressed in Chapter 3 of this report.

Under expenditure of Capital Works funding

2.13. The Auditor-General found that there was significant under expenditure of Capital Works allocations due to specific project delays.[17] The under expenditure on the 2002-2003 Capital Works funding was $58 million or 37% less than the amount allocated. The figure of $58 million is the same as the amount under expended on Capital Works in the 2001-2002 financial year.[18]

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[14] Auditor-General's Report No 7 of 2002, p 74.
[15] Government submission, dated March 2004, p 2.
[16] Auditor-General's Report No 10 of 2003, pp 22 & 23.
[17] ibid., pp 23 & 24.
[18] ibid., p 109.

2.14. The Auditor-General has commented that

> This year's [2002-2003] under expenditure of the capital works funding represents a continuation of the trend of significant under expenditure in recent years.[19]

2.15. The under expenditure of Capital Works funding is attributed mainly to under expenditure by the Department of Urban Services of $27 million; the Department of Education, Youth and Family Services of $12 million; the Department of Justice and Community Safety of $8 million and ACT Health of $6 million.[20]

2.16. The Government did not provide comment in its submission about this issue.

2.17. Further details of delayed projects relating to each Department follow in Table 1.1: Under expenditure of Capital Works Funding in ACT Government Departments.

Table 1.1: Under expenditure of Capital Works Funding in ACT Government Departments[21]

Department	Projects delayed	Amount under expended on Capital Works
Department of Urban Services	• Belconnen Pool • Horsepark Drive • Glass Centre	$27 million
Department of Education, Youth and Family Services	• Gungahlin Primary School • Older schools refurbishment • O'Connell Centre Relocation • Child care parenting infrastructure	$12 million
Department of Justice and Community Safety	• Design and capacity requirements of Woden Police Station	$8 million
ACT Health	• Security system replacement • Emergency Department refurbishment	$6 million

[19] ibid., p 107
[20] ibid., p 108.
[21] ibid., pp 108 &109.

2.18. The Committee is concerned that the Government has not chosen to comment on this matter. The Committee recommends that:

Recommendation 1

The Government inform the Assembly of what it has done to address the trend of under spending of capital works funding.

The Territory's model of financial administration

2.19. In relation to the Territory's model of financial administration, the Auditor-General found that

> The Territory's conceptual model for financial management has not been critically reviewed since its introduction in 1996.[22]

2.20. Subsequently, the Auditor-General recommended the evaluation of the Territory's conceptual model for financial management.[23]

2.21. The Government has noted the Auditor-General's recommendation and stated

> The Territory continually monitors developments in other jurisdictions with improvements to financial models. As there are no identified major problems with the operation of the Territory's current financial model, the present incremental approach to change is considered less risky and less costly than a larger scale approach to review.[24]

2.22. The Auditor-General was not in favour of the incremental review as such an approach would make it

> …unlikely that major issues will be identified or addressed on a timely basis unless either a significant problem arises or a critical evaluation of the model is performed.[25]

2.23. The Committee agrees with the Auditor-General that

> …a critical evaluation of the conceptual [financial] model is needed to provide reasonable assurance to the Legislative Assembly and the public that the Territory's financial

[22] ibid., p 31

[23] ibid., p 32.

[24] Government submission, p 3.

[25] ibid., p 33.

> management arrangements (including the conceptual basis for those arrangements) are effective.[26]

2.24. The Committee recommends that:

Recommendation 2

The Government critically evaluate the Territory's model of financial management including the conceptual basis for these arrangements.

Territory compliance with the *Financial Management Act 1996* (FMA)

2.25. In relation to compliance with the FMA, the Auditor-General made two findings. The first relates to the use of the Treasurer's Advance and the second relates to breaches by the Central Financing Unit regarding the use of its Departmental banking account.

2.26. In relation to the Treasurer's Advance the Auditor-General found that

> No amendment to the FMA was made to address the significant audit finding reported in Report No 7 of 2002 that the $10m paid to Housing in 2001-2002 was a misuse of the Treasurer's Advance and its legality could also be questioned.[27]

2.27. The Auditor-General recommended that

> Amendments be made to the FMA and suitable guidelines and processes be developed as a matter of priority to ensure that the Treasurer's Advance provisions in the FMA are clear and fully complied with. These amendments and guidelines need to be consistent with the purpose of the Treasurer's Advance which is to enable unforeseen urgent payments in excess of amounts appropriated to be made.[28]

2.28. The Government agreed with the recommendation and stated

> Clarification of issues relating to the use of the Treasurer's Advance is occurring through amendment of the Financial Management Act and issuing of administrative guidelines.

2.29. At the time of receiving the Government's submission to this inquiry, the Committee was inquiring into the Financial Management Amendment Bill

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[26] ibid.
[27] ibid., p 34.
[28] ibid., p 36.

2003 (No 3), which included the general questions of the requirements, purpose, structure, limitations, Ministerial and associated obligations relating to the Treasurer's Advance provisions of the FMA.[29]

2.30. At the time of that inquiry, the Treasurer stated that the Government would be seeking to amend the FMA in relation to the Treasurer's Advance.

2.31. On 14 May 2004, the Treasurer presented the Financial Management Amendment Bill 2004 (No 2)[30] to the Legislative Assembly, which would amend section 18 of the FMA relating to the Treasurer's Advance.[31]

2.32. The Bill would amend the FMA by

- restricting use of the Treasurer's Advance to urgent expenditure;
- clarifying the term 'expenditure'; and
- improving the timeliness for reporting Treasurer's Advance approvals.[32]

2.33. The Committee believes that the amendments to section 18 of the FMA in relation to the Treasurer's Advance have solved the issues that arose in relation to the use of the Treasurer's Advance for fire safety and building code compliance for ACT Housing's multi unit complexes.[33]

2.34. The Committee also recommended that guidelines by way of regulations be created for the use of the Treasurer's Advance.

2.35. The Government in its response to the Committee's Report on the Financial Management Amendment Bill 2003 (No 3), stated that

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[29] Standing Committee on Public Accounts, Financial Management Amendment Bill 2003 (No 3), Report No 10, Fifth Assembly, March 2004, p iii.
[30] Legislative Assembly for the ACT, Fifth Assembly Minutes of Proceedings No 102, Friday, 14 May 2004, p 1350.
[31] The Financial Management Amendment Bill 2004 (No 2) was passed on 24 June 2004, Legislative Assembly for the ACT, Fifth Assembly Minutes of Proceedings No 106, Thursday, 24 June 2004, p 1460.
[32] ACT Government, Explanatory Statement to the Financial Management Amendment Bill 2004 (No 2), presented 14 May 2004, p
[33] Auditor-General's Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002, p 38.

> The Government is preparing administrative guidelines for the use of the Treasurer's Advance, which is considered the appropriate mechanism for detailing procedural matters.[34]

2.36. The Committee is still awaiting the Government to develop guidelines for the use of the Treasurer's Advance.

2.37. In relation to the Central Financing Unit's compliance with the FMA, the Auditor-General found that

> Possible breaches by the Central Financing Unit in relation to the use of its Department banking account were not addressed in 2001-2002 and 2002-2003 even though these possible breaches were disclosed in the Central Financing Unit's 2000-2001 financial statements. The financial statements of the Central Financing Unit and the Territory disclose that corrective action has since been taken to address the issue.[35]

2.38. This matter was also reported in Auditor-General's Report No 7 of 2002 and Auditor-General's Report No 11 of 2001. The Auditor-General further stated that the note disclosure provided in relation to the possible breach of sections 38 and 45 of the FMA, advised that corrective action was being taken to address the issue.[36]

2.39. The Government confirmed that corrective action had been taken to address the issue.[37]

Output and performance measures

2.40. In relation to output and performance measures, the Auditor-General found that

> …there has been a significant reduction in the number of performance measures reported by agencies and that this is a positive development. However, scope exists to further reduce the number of reported measures without sacrificing the information needs of the Legislative Assembly and the community. The issues raised in Report No 7 of 2002 regarding

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[34] Government response to the Standing Committee on Public Accounts: Report No 10 – Financial Management Amendment Bill 2003 (No 3), Tabling Statement made in the Legislative Assembly on Friday, 14 May 2004.

[35] Auditor-General's Report No 10 of 2003, p 34.

[36] ibid., p 37.

[37] Government submission, p 10.

> the relevance and usefulness of performance measures have largely not been addressed.[38]

2.41. The Auditor-General recommended that

> Treasury complete its review of performance measures and that this review focus on the needs of the Legislative Assembly and of the community. This review should be completed in time for the 2004-2005 budget so that reporting against a more useful and relevant set of performance measures can occur as soon as possible.[39]

2.42. The Government noted the recommendation and made the point that

> The need for changes should be balanced against the desire to have information in budgets that is comparable from year to year; this could be difficult if broad change occurs in one year.[40]

2.43. In response, the Auditor-General stated

> The Audit considers that the need for useful and relevant performance measures outweighs the desirability to have information in budgets that is comparable year to year. Changes to performance measures, even wide ranging changes, should be made as needed as there is little point in reporting performance information that is comparable from year to year if that information is not useful or relevant.[41]

2.44. The Committee agrees with the Auditor-General and believes that a comprehensive review of performance measures is necessary and should take into account the needs of the Legislative Assembly and the community, in particular, in relation to improving the accountability, transparency and usefulness of key performance measures. The Committee also agrees that the need for useful and relevant performance measures outweighs the desirability to have information in budgets that is comparable year to year.

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[38] Auditor-General's Report No 10 of 2003, p 42.
[39] ibid.
[40] Government submission, p 4.
[41] Auditor-General's Report No 10 of 2003, p 41.

2.45. The Committee recommends that

Recommendation 3

The Government undertake a comprehensive review of key performance measures through consultation with the Legislative Assembly and the ACT Community.

Timing of the Territory's financial statements and annual reports

Territory's financial statements

2.46. The Auditor-General has recommended that the tabling of audited financial statements and accompanying audit opinion occur at the same time in a non-election year as in an election year. That is within three months of the end of the financial year.

2.47. The change would provide that the Legislative Assembly receives the Territory's financial statements earlier in the year without regard to the Assembly sitting pattern.

2.48. Currently in an election year, the Auditor-General is required to provide the Treasurer with an audit opinion on the Territory's financial statements no later than 30 September (pursuant to the FMA). The Treasurer is then required to provide the Members of the Legislative Assembly (MLAs) with these financial statements and accompanying audit opinion within 7 days of receiving the audit opinion.[42]

2.49. Currently in a non-election year, the Treasurer must receive the audit opinion on the Territory's financial statements by 31 October and then has three sitting days after receiving the audit opinion to provide MLAs with these financial statements and accompanying audit opinion. Depending on the sitting pattern, the timing of tabling can be significantly extended in a non-election year.

2.50. Regarding the recommendation relating to the timing of financial statements, the Government has stated that it will investigate the issue further after the outcome of the audit of the 2003-2004 financial statements.[43]

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[42] ibid., p 45.
[43] Government submission, p 4.

Annual Reports

2.51. The Auditor-General has recommended that annual reports be tabled before the Legislative Assembly within 12 weeks of the end of the reporting period. This timetable would allow annual reports to be tabled in the Legislative Assembly in an election year.

2.52. At the time the Auditor-General's report was released, annual reports were required to be given to the relevant Minister within 10 weeks of the end of the reporting period. The Minister then had six sitting days to present the report to the Legislative Assembly.[44]

2.53. The *Annual Reports (Government Agencies) Act 2004*[45] now requires that annual reports be tabled in the Legislative Assembly within three months of the end of the reporting period.

The tabling of audited financial statements

2.54. The Auditor-General found that there is no requirement for the financial statements of several entities to be tabled in the Legislative Assembly.

2.55. The Auditor-General also found that there is no requirement for agencies to include in their annual reports, the audited financial statements of bodies in which they have a controlling interest. These bodies include subsidiaries, joint ventures and the like.[46]

2.56. A list of these bodies follows:

- ActewAGL Joint Venture
- Amaroo 3 (formerly Dunlop 4) Joint venture
- Canberra Business Development Fund
- CIT Solutions Pty Limited
- Condor 1/Gordon 9 Southside Estates Joint Venture
- Dunlop 1 Joint Venture

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[44] Auditor-General's Report No 10 of 2003, p 48.
[45] The Annual Reports (Government Agencies) Bill 2003 was presented by the Chief Minister, Mr Jon Stanhope, MLA on 11 December 2003 and passed with amendment on 9 March 2004.
[46] Auditor-General's Report No 10 of 2003, p 60.

- ECOWISE Environmental Pty Limited
- Gold Creek Country Club Pty Limited
- Harcourt Hill Joint Venture
- Kingston Stage 1A Joint Venture
- Nicholls Lakeside Estate Joint Venture
- Nicholls Primary School Shared Facilities
- TransACT Communications Pty Limited[47]

2.57. The Auditor-General found that the audited financial statements of the ActewAGL Joint Venture and the Kingston Stage 1A Joint Venture were included in the 2002-2003 ACTEW Corporation Limited and Kingston Foreshore Development Authority annual reports. As a result these financial statements were tabled in the Assembly. The Auditor-General made the point that there is no requirement to include the financial statements of these bodies in future annual reports. This was the case with the financial statements of the Williamsdale Quarry Joint Venture. The financial statements of the Williamsdale Quarry Joint Venture were included in the 2000-2001 Totalcare annual report, but did not appear in the following year's annual report.

2.58. The Auditor-General has recommended that:

> the Annual Reports of Territory entities be legally required to include the audited financial statements of all entities in which the Territory has a *controlling interest*; and
>
> as a matter of standard practice, joint venture agreements include provisions which require the provision of audited financial statements of the Joint Venture and their inclusion in the Annual Report of the Territory agency that has the *controlling interest* in the Joint Venture.

2.59. The Government disagreed with both recommendations and stated

> Australian Accounting standards already have certain mandatory reporting requirements where an entity has a controlling interest in another entity and the Territory is fully compliant with these requirements. A significant portion of Annual Reports is already devoted to the annual financial statements. No evidence is provided within the recommendation to demonstrate that

[47] ibid, p 61.

> inclusion of the recommended additional financial statements would be beneficial.[48]

2.60. As previously stated by the Committee in relation to the Williamsdale Quarry Joint Venture[49], the Committee reiterates the point reached by the Auditor-General in Report No 7 of 2002 on this matter: that is that for the purposes of transparency and accountability that the audited financial statements of all Territory entities should be required to be published.

2.61. The Committee recommends that:

Recommendation 4

The audited financial statements of entities in which the Territory has a controlling interest be legally required to be published in the relevant agency annual report.

[48] Government submission, p 5.
[49] Standing Committee on Public Accounts, Report No 6, Review of Auditor-General's Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002, September 2003, p 21.

3. The audit results of other agencies to which the Auditor-General has drawn attention

3.1. The Auditor-General in examining the financial statements of Territory agencies and entities in which the Territory has a controlling interest, highlighted the results of particular agencies and entities. Comments were made on a number of agencies including: ACT Health; ACTEW Corporation Limited (Including TransACT); the ACTION Authority; the Australian International Hotel School; the Canberra Business Development Fund; the Central Financing Unit; the Insurance Authority; the Department of Justice and Community Safety; the Stadiums Authority; the Superannuation Unit; and the Canberra Hospital. The sections following outline the Auditor-General's analysis of various agencies, the Government's comments and where made, the Committee's comments and recommendations.

ACT Health

3.2. In relation to ACT Health, the Auditor-General found that:

> The Financial Management Act 1996 does not permit ACT Health's budget to be amended to reflect the restructured operations of ACT Health.
>
> The usefulness of the reported budget information included in ACT Health's financial statements for meaningfully assessing ACT Health's performance against budget was limited even though the reported budget information complied with the requirements of the Financial Management Act 1996.
>
> ACT Health, in exceeding its budget Net cost of outputs by $13.2m, did not manage its operations to budget. While the Audit has concluded that ACT Health did not manage its operations to budget, it is doubtful that ACT Health could be reasonably expected to achieve a budget that reflected its operations prior to the restructure of the Health portfolio.
>
> ACT Health's current assets are not sufficient to meet its current liabilities. ACT Health will need to manage its expenditure very carefully to avoid unexpected cash injections being required from the Government over the next 12 months.[50]

[50] Auditor-General's Report No 10 of 2003, p 114.

3.3. In relation to the findings the Government stated that

> It is recognised that the requirements in the Financial Management Act 1996, with regard to budget data included in financial statements, did not cater for the very unusual circumstances within the Health portfolio. These circumstances related to the mid year wind up of the Health statutory authority, however, this restriction did not prevent the reporting of performance for Health for the financial year.
>
> With regard to the monitoring of the Department's cash requirements, ongoing cash flow monitoring is undertaken to minimise the possibility of needing unexpected cash injections from Government.[51]

3.4. As a result of the findings made, the Auditor-General recommended that

> The FMA be amended to cater for the amendment of the budgets of Departments and Authorities when the restructuring of their operations involves the transfer of functions regardless of whether the restructuring of operations involves a change to appropriation or involves a Territory Authority and/or a Territory Owned Corporation.[52]

3.5. The Government disagreed with the Auditor-General's recommendation and stated that amendment of the FMA had previously been reviewed. Amendment to the FMA had been considered inappropriate, as other avenues already exist to discuss any unique occurrences, such as the management discussion and reporting analysis.

3.6. The Government is also of the view that there is a possibility that addressing the issue through legislative change could clutter the FMA and make it overly prescriptive.[53]

Committee comment

3.7. The Committee finds that it is unacceptable that ACT Health could not immediately reflect its restructure in its budget due to FMA requirements. The implication as found by the Auditor-General was that this provided difficulty in assessing whether ACT Health adequately performed against budget.

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[51] Government submission, p 7.
[52] Auditor-General's Report No 10 of 2003, p 115.
[53] Government submission, p 6.

3.8. The Committee is also concerned that ACT Health did not manage its operations to budget. Given that ACT Health's current assets are not sufficient to meet its current liabilities, the Committee agrees with the Auditor-General that ACT Health will need to manage its expenditure more carefully over the next 12 months.

3.9. The Committee also agrees with and endorses the Auditor-General's recommendation in relation to amendment of the FMA.

ACTEW Corporation Limited (including TransACT)

3.10. As reported in Auditor-General's Report No 7 of 2002 and similarly in Auditor-General's Report No 10 of 2003, the qualified audit opinion issued on ACTEW's financial statements was issued due to non-compliance with AASB 1016 (Australian Accounting Standard 1016: Accounting for Investments in Associates).

3.11. The Auditor-General found that as ACTEW continues to have significant influence over TransACT that under AASB 1016, ACTEW is required to account for its investment in TransACT using the equity method.

3.12. The Auditor-General provides an explanation of the equity method.

> The *equity method* is considered to fairly represent the nature of ACTEW's relationship with TransACT. Under this accounting method, ACTEW would include its share of TransACT's financial results in its own results. The major implication of using this method is that ACTEW's share of the financial losses incurred by TransACT to date would be immediately reflected in ACTEW's results.[54]

3.13. Further, the Auditor-General found that if ACTEW had complied with AASB 1016 and accounted for its investment in TransACT then

> …the net profit after tax of ACTEW for the year ended 30 June 2003 would have been $54m and not the reported net profit after tax of $43m.[55]

3.14. In relation to ACTEW Corporation Limited (including TransACT), the Auditor-General made the following findings.

- The audit opinion on ACTEW's financial statements was qualified:

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[54] Auditor-General's Report No 10 of 2003, p 123.
[55] ibid.

  - Because ACTEW's accounting for its investment in TransACT did not comply with Australian Accounting Standard AASB 1016 Accounting for Investments in Associates;

  - Because there was insufficient evidence available to enable the Audit to reliably assess whether the $40m net carrying value of the TransACT investment recorded in ACTEW's Statement of Financial Position exceeded this investment's 'recoverable amount'; and

  - in relation to additional disclosures made by the ACTEW Board in the Directors' Declaration and in the notes to the financial statements on ACTEW's accounting for assets that were received by ACTEW free of charge.

- Audited financial results of TransACT for the year ended 30 June 2003 were not available at the time the audit opinion on ACTEW's financial statements were signed. The Audit therefore used unaudited and therefore less reliable financial information from TransACT's management financial statements to quantify the financial effects of ACTEW's departure from AASB 1016.

- ACTEW's operating profit after tax of $54m was significantly higher than last year's operating profit after tax of $36m. The main reason for the improved operating result was the reduction in ACTEW's share of losses from its investment in TransACT, a reduction in the assessed income tax equivalents expense and increases in water and sewerage revenue partially offset by a fall in the sale of assets.

- ACTEW significantly increased the provision for diminution against the $60m investment in TransACT by $14m to $20m following the Board's assessment of TransACT's recoverable amount. This provision indicates that ACTEW considers there is a significant risk that ACTEW will not recover at least $20m of the $60m that ACTEW has invested in TransACT.

- The Audit view is that a downturn in TransACT's predicted results would decrease the value of the investment to an amount less than the net carrying amount of $40m reported in ACTEW's financial statements as 30 June 2003.

- TransACT has accumulated losses of $77m at 30 June 2003. ACTEW's share of these losses is $19m. This is represented by ACTEW's share of TransACT's losses for 2002-2003 of $3m, 2001-2002 of $11m and 2002-2001 of $6m.

- ACTEW's current ratio is healthy and has improved since last year.[56]

3.7. In response the Government commented that

> At this point in time, it is difficult to make a market assessment of the value of TransACT given the organisation is still in its development phase. Therefore, the determination of a "recoverable amount" for TransACT is currently a matter of considerable judgement.
>
> It should be noted that ACTEW's Annual Report discloses that legal advice was obtained on its accounting for its investment in TransACT and this legal advice strongly supported ACTEW's accounting treatment.
>
> In relation to the disclosures, ACTEW's Annual Report notes that the additional disclosures are provided by ACTEW's directors to ensure that the directors meet their duty under the Corporations Act…to provide additional explanations as necessary to ensure that the financial statements present a true and fair view.
>
> This treatment…will be reviewed again in the context of the 2003-04 outcome.[57]

3.15. In relation to TransACT's financial statements, the Government stated

> Unaudited information from TransACT was used in the preparation of statements for the Territory as TransACT has until the end of October to finalise its annual statements. As the Whole of Government accounts are prepared before this date, audited statements were therefore unavailable. It is also noted that TransACT's audited results did not vary significantly from the unaudited financial results.
>
> The reduction in the value of the investment in TransACT has been reflected in the Financial Statements of the Territory.[58]

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[56] Auditor-General's Report No 10 of 2003, pp 121-122.
[57] Government submission, p 9.
[58] ibid.

Committee comment

3.16. The issue of ACTEW's non compliance with AASB 1016 has continued into 2002-2003. The Committee reiterates what it stated on this matter in its Report 6, September 2003 that

> The Committee observes that the relevant [Australian] Accounting Standard seeks to reflect the reality of commercial experience where one entity can influence the activities of another entity. The Committee agrees with the Auditor-General… that the situation of ACTEW relative to TransACT appeared to be such that ACTEW could be able to exert 'significant influence' over the activities of TransACT. Conequently, the Committee [still] agrees with the [Auditor-General]…that ACTEW should account for its investment in TransACT using the 'equity method'. The Committee [again] notes that adopting this accounting treatment might have associated implications for ACTEW and for the Territory's financial position, given the dividend that is due to be paid by ACTEW each year to the ACT Government.[59]

ACTION (ACT Internal Omnibus Network) Authority

3.17. In relation to ACTION, the Auditor-General issued an emphasis of matter in the audit opinion relating to the legislative requirement of ACTION to generate a profit. The Auditor-General has pointed out that this requirement contradicts ACTION's actual and intended operations, which are not for profit.

3.18. Further the Auditor-General found that ACTION's current assets (excluding cash intended to fund the acquisition of assets) are not sufficient to meet it current liabilities.[60]

3.19. As a result the Auditor-General recommended that

> the ACTION Authority Act 2001 be amended to remove the inconsistent legislative function requiring ACTION to seek to generate a profit so that this Act is consistent with ACTION's intended and actual operations.[61]

3.20. The Government has stated that it is undertaking a review of the matter.

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[59] paragraph 6.7, p 15.
[60] Auditor-General's Report No 10 of 2003, p 136.
[61] ibid., p137.

Committee comment

3.21. The Committee commented on this issue when it inquired into Auditor-General's Report No 7 of 2002 and agreed with the Auditor-General that the ACTION Authority Act should be amended so that the Authority's objectives are consistent with its actual operations.

3.22. The Committee recommends that

Recommendation 5

The ACTION Authority Act 2001 is amended so that the ACTION Authority's objectives are consistent with its actual operations.

Australian International Hotel School

3.23. In relation to the Australian International Hotel School (AIHS), the Auditor-General found that

> AIHS's $1.2m loss from trading in 2002-2003 is similar to the trading loss incurred in 2001-2002.
>
> AIHS received subsidy payments from the Government of $1.5m to meet operational costs.
>
> The Government is exploring options for the sale or disposal of the AIHS. The Government has committed funding to the AIHS until 2006-2007.[62]

3.24. Further the Auditor-General found that the AIHS's current ratio has improved since last year, but its current assets are still insufficient to meet its current liabilities.[63]

3.25. The Government did not provide comment on the AIHS in its submission.

Canberra Business Development Fund

3.26. The Canberra Business Development Fund is a joint venture between the ACT Government and Australian Capital Ventures Pty Limited. The purpose of the fund is to provide funding to existing businesses to develop and implement innovation, help expand and or diversify business, provide

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[62] ibid., p 140.
[63] ibid., p 143.

loans or invest in business and, earn a commercial rate of return on investment funds.[64]

3.27. In relation to the Canberra Business Development Fund, the Auditor-General found that

> The Fund has not achieved all of its objectives.
>
> The Fund has not achieved its objective of providing funds to businesses because the Fund has only supported four businesses in the six years of the Fund's operations.
>
> The Fund has not achieved its objective of earning a commercial rate of return from investing in businesses. The Fund continues to earn most of its income from bank interest rather than from its investments.
>
> The Manager of the Fund did not submit the certified financial statements of the Fund for the six months ended 30 June 2002, 31 December 2002 and 30 June 2003 within two months of the end of the financial period in contravention of the Fund's Deed of Trust.[65]

3.28. The Government responded to the Auditor-General's findings and stated that the Fund takes a qualitative rather than a quantitative approach to providing funds to businesses.

3.29. Further the Government stated

> The fund was established to earn a commercial rate of return by investing in companies in the ACT. The CBDF has made distributions to unit holders totalling $452,113.
>
> The total value of the fund used as the basis of the Auditor-General's conclusion holds listed investments at cost ($138,000). The value of these investments at 30 June 2003 was $171,000 (as stated at Note 5 (a) within the financial statements). It should be noted that all other investments are held at cost and are not revalued until a significant transaction involving an independent third party acting at arms-length values the investment at a materially different value, therefore the total value of the fund cannot rise while the investments are valued at cost.[66]

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[64] ibid.
[65] ibid., p 144.
[66] Government submission, p 10.

The Canberra Hospital

3.30. In relation to the Canberra Hospital, the Auditor-General found that the Hospital did not manage its operations to budget.

3.31. Further, that $2.6 million of the $4.5 million capital works funding had not been drawn down in the first six months of the financial year as a result of delays in capital works projects.[67]

3.32. The Government did not provide comment about this issue in its submission.

3.33. The Committee recommends that:

Recommendation 6

The Government inform the Assembly of what it has done to address the failure of the Canberra Hospital to manage its operations to budget, and the delays in capital works spending.

Insurance Authority

3.34. In relation to the Insurance Authority, the Auditor-General found that

> The net insurance loss to the Authority and the Territory resulting from the January 2003 bushfires was $9.0m in 2002-2003.
>
> The Authority's reserves are insufficient to meet significant unexpected losses that may occur in the future.[68]

3.35. The Government commented that the maximum exposure of the Authority in any one year is $33 million, with the largest portion of this dedicated to medical indemnity claims. Medical indemnity claims usually have long periods between the occurrence and settlement of claims, which gives the Authority room to adjust premiums over a number of years to cover losses if the inflation on claims is higher than expected.[69]

[67] Auditor-General's Report No 10 of 2003, p 173.
[68] Auditor-General's Report No 10 of 2003, p 150.
[69] Government submission, p 11.

Department of Justice and Community Safety

3.36. In relation to the Department of Justice and Community Safety, the Auditor-General found that

> The Department in exceeding its budget for Net cost of services did not fully manage its operations to budget.
>
> The Department's current assets are not sufficient to meet its current liabilities. The Department will need to manage its expenditure very carefully to avoid unexpected cash injections being required from the Government over the next 12 months.[70]

3.37. The Government responded to the findings stating that the Department exceeded its budget by $0.411 million, which represents 0.33% of the total actual expenditure of the Department, making the point that this is not a large deficit.[71]

3.38. Further, the Government stated that the Department would need to manage its expenditure over the next 12 months carefully to avoid any need for cash injections from the Government.[72]

Stadiums Authority

3.39. In relation to the Stadiums Authority, the Auditor-General found that the Authority incurred an operating loss of $3.7 million, which follows the trend of operating losses in recent years.[73]

3.40. The Auditor-General also found that the Authority would continue to be reliant in the short run on the Government's financial support to meet its financial obligations.[74]

3.41. The Government responded by stating that the Stadiums Authority has budgeted to generate operating surpluses from 2003-2004 to 2006-2007 even though there will be a significant reduction in government funding to the Authority in 2004-2005 after which, funding will cease. The 2003-2004 Budget papers indicate that the net asset and working capital position of the Authority will continue to grow each year across the budget cycle.[75]

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[70] Auditor-General's Report No 10 of 2003, p 154.
[71] Government submission, p 11.
[72] ibid.
[73] Auditor-General's Report No 10 of 2003., p 162.
[74] ibid.
[75] Government submission, p 12.

Superannuation Unit

3.42. Issues relating to the qualified audit opinion issued on the Superannuation Unit's 2002-2003 financial statements were briefly discussed in Chapter 2 of this report.

3.43. The Auditor-General made the following findings in relation to the Superannuation Unit.

> A qualified audit opinion was issued on the Superannuation Unit's financial statements due to the incorrect recognition of an 'Unrealised Gain from Actuarial Review' as a liability and for inaccurately recording the superannuation expense.
>
> Had the Superannuation Unit correctly reported the superannuation expense it would have reported an operating deficit of $168.8m compared to a budget deficit of $86.5m and prior year deficit of $238.9m.
>
> The Superannuation Unit incurred a loss of $41.2m in the net market value of investments set aside to meet the superannuation liability. The largest losses occurred in overseas equities.
>
> The Superannuation Unit's operating deficit of $168.8m was significantly worse than the budget deficit of $86.5m due to another year of volatility in the global equity market resulting in the loss of $41.2m in the net market value of investments and higher than expected increases in superannuation expenses.
>
> Unfunded superannuation liabilities increased substantially by $99m (20%) from $507m in 2002 to $606m in 2003.[76]

3.44. In relation to the Auditor-General's findings, the Government stated

> The [Auditor-General's] report advises that the accounting treatment adopted by the Territory for recognition of the superannuation liability was not in accordance with the requirements of Australian Accounting Standard AAS 29 'Financial Reporting by Departments'. This incorrectly implies that AAS 29 has specific requirements in regard to the recognitition of superannuation liabilities.
>
> Australian Accounting Standards, including AAS 29, do not presently address the issue of recognition of superannuation liabilities. The treatment used by the Superannuation Unit is

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[76] Auditor-General's Report No 10 of 2003, p 166.

based on a hybrid of an International Accounting Standard and is consistent with the practice adopted by the Auditor-General in previous years.

Advice received from a leading accounting firm regarding the validity of the adopted accounting treatment, confirms that the Superannuation Unit is complying with Australian Accounting Standards in relation to the measurement of the superannuation liability. Various treatments will exist in regard to the reporting of superannuation liabilities until a Standard is introduced which specifically addresses the issue.

However, the Government notes the recent developments by the Australian Accounting Standards Board regarding convergence with developments in International Accounting Standards by 2005 on the reporting of superannuation liabilities, and considers that it would be appropriate for this issue to be addressed.[77]

Committee comment

3.45. The Committee finds that in this case the issue of non-compliance with the relevant accounting standard is a continued cause of concern. Particularly, given that the Government and the Auditor-General have differing interpretations of accounting standards and the impact these differences have on the Territory's financial statements.

3.46. The issue of non-compliance with the relevant accounting standard has persisted since reported in Auditor-General's Report No 7 of 2002.

3.47. The Committee notes that the Government has accepted the Auditor-General's opinion in relation to the use of certain accounting standards used and has made allowance to cover the liability in the end of year result for 2003-2004.

[77] Government submission, p 12.

4. Conclusion

4.1. The Committee acknowledges the views presented and findings made in Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003.

4.2. The Committee notes the ongoing differing interpretations of accounting standards used by various agencies and the resulting differences in the Territory's financial statements.

4.3. The Auditor-General has again drawn particular attention to the non-compliance with various accounting standards by ACTEW Corporation Limited (including TransACT) and the Superannuation Unit.

4.4. As stated in its Report 6, September 2003, the Committee believes that use of the same accounting treatment across consecutive years will allow for easier comparison of agency performance between years and create a basis on which to determine performance between agencies, ensuring accountability.[78]

4.5. The Committee is concerned that there are a number of agencies that are not managing their financial operations to budget. Namely: ACT Health; the Canberra Hospital; the Insurance Authority; the Department of Justice and Community Safety; and the Stadiums Authority.

4.6. The Committee recommends that:

Recommendation 7

The Legislative Assembly note the findings of Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003, particularly in relation to: agencies non-management of financial operations to budget and incursion of loss, and non-compliance with the *Financial Management Act 1996.*

[78] Paragraph 7.3, p 23.

Brendan Smyth, MLA
Chair

24 August 2004

Appendix A – Territory departments and agencies included in the Audit[79]

ACTEWAGL Joint Venture

ACTEW China Pty Limited

ACTEW Corporation Limited

ACTEW Distribution Limited

ACTEW Retail Limited

ACTION (ACT Internal Omnibus Network) Authority

ACTTAB Limited

Agents Board of the ACT

Australian International Hotel School

Building and Construction Industry Training Fund Board

Canberra Business Development Fund

(The) Canberra Hospital

Canberra Institute of Technology

Canberra Public Cemeteries

Canberra Tourism and Events Corporation

Central Financing Unit (Department of Treasury)

Chief Minister's Department

CIT Solutions Pty Limited

Cleaning Industry Long Service Leave Board

(ACT) Community Care

Community Housing Canberra Limited

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[79] Auditor-General's Report No 10 of 2003, pp 111 – 279.

Construction Industry Long Service Leave Board

Cultural Facilities Corporation

(Department of) Disability, Housing and Community Services

Ecowise Environmental Pty Limited

(Department of) Education, Youth and Family Services

(The ACT) Executive

Exhibition Park in Canberra

(ACT) Forests

(ACT) Gambling and Racing Commission

Gold Creek Country Club

Gungahlin Development Authority

(ACT) Health

(ACT) Health and Community Care Service

HealthPact

Home Loan Portfolio (Department of Treasury)

Housing ACT

Independent Competition and Regulatory Commission

(ACT) Insurance Authority

InTACT

(Department of) Justice and Community Safety

Kingston Foreshore Development Authority

Land Group (Department of Urban Services)

(ACT) Legal Aid Commission

(ACT) Legislative Assembly Secretariat

Nicholls Primary School Shared Facilities

Nominal Insurer for the ACT

Public Trustee for the ACT (including the Canberra Bushfire Recovery Appeal Fund)

Stadiums Authority

Superannuation Unit

Totalcare Industries Limited

(Department of) Treasury

University of Canberra

University of Canberra College

(Department of) Urban Services

(ACT) Workcover

Workers' Compensation Supplementation Fund

Appendix B – Summary of recommendations made in Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003[80]

The Auditor-General summarised the recommendations made in relation to the Australian Capital Territory's financial statements for the year ended 30 June 2003 and the financial statements of Territory agencies for the years ended between 31 December 2002 and 30 June 2003. The summarised recommendations follow.

1. The effectiveness of the Territory's conceptual model for financial management, which was introduced eight years ago, be critically evaluated.

2. Amendments be made to the FMA and suitable guidelines and processes be developed as a matter of priority to ensure that the Treasurer's Advance provisions in the FMA are clear and fully complied with. These amendments and guidelines need to be consistent with the purpose of the Treasurer's Advance which is to enable unforeseen urgent payments in excess of amounts appropriated to be made.

3. Treasury complete its review of the performance measures and that this review focus on the needs of the Legislative Assembly and of the community. This review should be completed in time for the 2004-2005 budget so that reporting against a more useful and relevant set of performance measures can occur as soon as possible.

4. The legal timetable for the provision of the Territory's audited financial statements and the related audit opinion to the Legislative Assembly in election years be applied to non-election years to ensure that these statements are provided to the Legislative Assembly in a timely fashion every year and not just in election years.

5. The Government's proposed amendments to the Annual Reports Act that would require the tabling of annual reports in the Legislative Assembly within 12 weeks of the end of the reporting period be implemented as soon as possible.

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[80] Auditor-General's Report No 10 of 2003, pp 3-5.

6. The Annual Reports of Territory entities be legally required to include the audited financial statements of all entities in which the Territory has a *controlling interest*.

7. As a matter of standard practice, joint venture agreements include provisions which require the provision of audited financial statements of the Joint Venture and their inclusion in the Annual Report of the Territory agency that has the *controlling interest* in the Joint Venture.

8. The FMA be amended to cater for the amendment of the budgets of Departments and Authorities when the restructuring of their operations involves the transfer of functions regardless of whether the restructuring of operations involves a change to appropriation or involves a Territory Authority and/or a Territory Owned Corporation.

9. The *ACTION Authority Act 2001* be amended to remove the inconsistent legislative function requiring ACTION to seek to generate a profit so that this Act is consistent with ACTION's intended and actual operations.