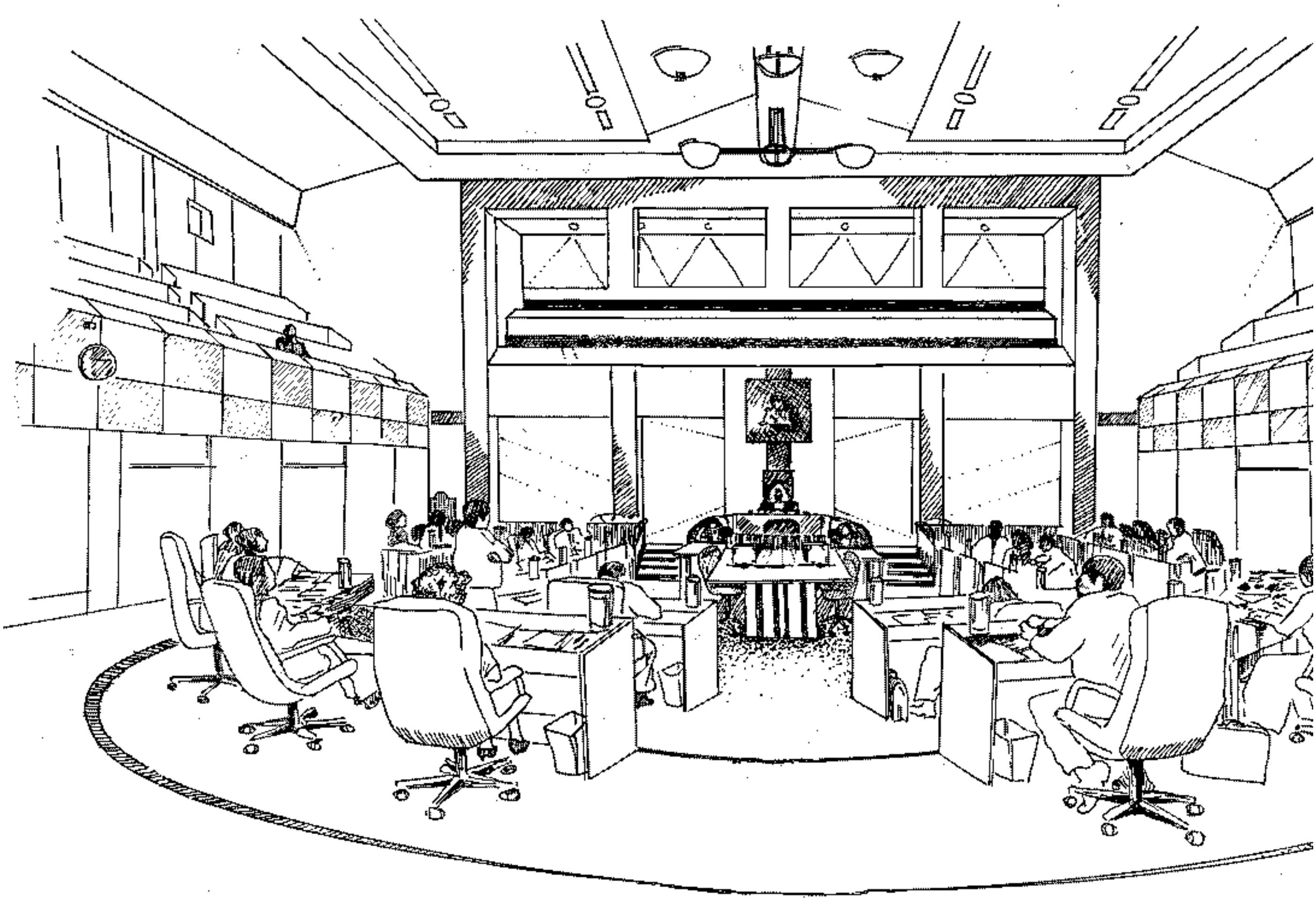
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

AUGUST 2000 REPORT

TO THE LEGISLATIVE ASSEMBLY



Auditing for Parliament and People ...
Providing independent analysis

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The Auditor-General’s powers and responsibilities are established by the Northern Territory's Parliament, the Legislative Assembly, in the Audit Act. The Auditor-General is required to report to the Legislative Assembly at least once per year on any matters arising from the exercise of the auditing powers established in that Act.

In doing so, the Auditor-General is providing information to the Parliament to assist its review of the performance of the Executive Government, particularly the Government’s responsibility for the actions of the public sector entities which administer its financial management and performance management directives. The Parliament has a responsibility to conduct this review as the representative of the people of the Northern Territory.

The Auditor-General is also able to report to management of public sector entities on matters arising from the conduct of audits.

Reports provided to Parliament and public sector managers should be recognised as a useful source of independent analysis of Government information, and of the systems and controls underpinning the delivery of that information.

The Auditor-General is assisted by personnel of the Northern Territory Auditor-General’s Office who plan projects for conduct by private sector authorised auditors.

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PRINTED BY THE
LEGISLATIVE ASSEMBLY
OF THE
NORTHERN TERRITORY

The cover of the Report depicts an artist’s impression of sittings of the Northern Territory Legislative Assembly. In that forum, information provided by the Auditor-General can be used to support questions and debates.

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Contents

The Honourable The Speaker of the Legislative Assembly
Parliament House
Darwin NT 0800

17 August 2000

Sir,

I provide to you for tabling today in the Legislative Assembly my report on matters arising from audits undertaken in the six months ended 30 June 2000.

In this period, audits are conducted to assess how well controls over the proper administration of public monies are functioning. Audits are also conducted of the systems which public sector entities use to manage the delivery of Government policies, and to report financial and non-financial information about the Government's performance to the Legislative Assembly.

I have provided a focus in my reporting to "triple bottom line" concepts, that is, the performance information the Government provides about:

- managing financial resources;
- managing natural resources; and
- managing social policy delivery.

My report provides an independent source of information which Members can use when conducting their important role of analysing, questioning and debating the Government's performance.

Yours sincerely

Iain Summers

Iain Summers
Auditor-General for the Northern Territory

Major Findings

Managing financial resources

- **The Government's net debt management now appears to be based on maintaining debt servicing capacity, for which a benchmark measure referred to by the Government is the ratio of interest expense to total revenues.**
- **This ratio highlights the impact of future interest rate variations, and of the Government's revenue collection policies and results, on debt servicing capacity.**

Refer pages 10 to 15 for further comments

- **Roles, responsibilities and systems as between the Department of Corporate and Information Services and Agencies have now substantially been stabilised, and the risks to the accounting control environment which were considered to exist in 1999 have receded.**

Refer pages 16 to 18 for further comments

- **Most Agencies did not maintain an adequate internal audit capacity as required by the Financial Management Act.**

Refer pages 21 to 22 for further comments

- **The Government's GST implementation project is a good practice example of how to manage a significant whole of government project within a short time frame.**

Refer pages 23 to 24 for further comments

Major Findings

Managing financial resources (continued)

- **Parties entering agreements with the Government which apply Commercial in Confidence provisions should be advised that these restrictions do not prevent access by the Auditor-General. Once that access is obtained, the information may be included in Reports to the Legislative Assembly, so the Commercial in Confidence protection may ultimately not be sustainable.**

Refer pages 110 to 111 for further comments

Performance reporting generally

- **The Government's key performance measures of its fiscal management policies are the five elements of its core fiscal strategies. There are instances where the Government's reporting on these is not sufficient, and should be supplemented with additional performance measures.**
- **There is generally a lack of information reported by Government Agencies to allow Parliamentarians to assess Government performance in the two other elements in the "triple bottom line" of sustainable community development – natural resources and social justice policies.**
- **While it is appreciated that measuring outcomes of policies is in some cases a difficult conceptual task, this remains a core professional responsibility of public administrators.**

Refer pages 54 to 56 for further comments

Reporting on outcomes of the audit program in the half year ended 30 June 2000

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

Records of Parliamentary debates, interviews with Members by the Auditor-General and public interest in issues, influence the selection of audit topics, and matters to be reported. Matters in the Report include compliance by public sector managers with legislative requirements for financial and performance management; analysis of financial and other performance information; as well as general comments on matters arising from audits conducted.

Members have the opportunity to use the information in reviewing the performance of public sector administration, for which the Executive Government is responsible to the Parliament.

What other reporting arises from audits?

More detailed findings from audits are included in reports issued to the entity's Chief Executive Officer after each audit.

How is this Report to the Legislative Assembly structured?

This Report presents findings in relation to the audit mandate provided by the Audit Act, that is:

- audits of the Public Account and other accounts; and
- audits of performance management systems.

Reporting on Government performance is then classified using "Triple Bottom Line" concepts of:

- managing financial resources;
- managing natural resources; and
- managing social policy delivery.

Topical issues are also included, being matters drawn from, or explaining the context in which, the planning and conduct of audit work occurs.

Where appropriate, this Report updates the status of audit findings included in previous Reports to the Legislative Assembly.

Are entities able to include their responses in the Report?

The Audit Act enables entities referred to in the Report to provide comments for publication. These comments, or an agreed summary, must be included in this Report. Where no comment is shown in this Report, the relevant Agency has decided not to provide a response for publication.

Entities Referred to in this Report

Auditing the Public Account and other accounts

Auditing the Public Account and other accounts

Analysis of the Government's fiscal management performance information

KEY ISSUES

- **The Government's net debt management now appears to be based on maintaining debt servicing capacity, for which a benchmark measure referred to by the Government is the ratio of interest expense to total revenues. This ratio highlights the impact of future interest rate variations, and of the Government's revenue collection policies and results on debt servicing capacity.**
- **Other performance measures should also be used when evaluating the Government's achievement of its core fiscal strategies.**

Background

Net debt is the difference between the Government's liabilities from borrowings, and its stock of financial assets. Financial assets are primarily cash balances and amounts receivable by the Government from loans it has made, for example through its Territory Housing Business Division.

Movements in net debt each year reflect the difference between the Northern Territory's outlays for capital and recurrent purposes, and the total of revenue from both Territory and Commonwealth sources. This is also described as the "net financing requirement", and can be a requirement for financing - if a deficit, or a contribution to financial assets - if a surplus.

The Government had announced in the Budget speech for 1999/2000 that:

"Gross debt will be further reduced by $10 million in both this year and the next and a further $20 million the following year".

This policy was not maintained when the Government announced the 2000/01 Budget. This announced new borrowings of $90 million in 1999/2000, and $35 million in 2000/01.

Audit analysis

Overview

Net debt management is still a key focus of Government, but this is no longer being conducted within a policy of gross debt reductions and budgeting for a nil net financing requirement, to result in net debt reductions.

Instead, debt management is being seen as the ability to meet debt servicing requirements at similar levels to previous years.

Audit Analysis (Continued)

Maintaining interest expense to total Territory revenues at 9% was identified by the Government in the Treasurer's 2000/01 Budget speech as illustrative of the Government maintaining its debt servicing capacity. This allows increases to occur in gross and net debt, in proportion to total revenue increases, constrained only by the impact of any increases in interest rates.

The risk in this strategy is that, when interest rates rise, revenue increases may not be achievable, and so the ratio worsens. However, an interest rate swap arrangement has been established where debts over approximately $200 million are scheduled to be refinanced in any one year.

The Government's core fiscal strategies

The Government's key performance measures of its fiscal management policies are the five elements of its core fiscal strategies. These are regularly reported upon in Budget documents, and were for the first time reported upon in the Treasurer's Annual Financial Report for 1998/99 using final actual results. Budget Papers use estimated actuals.

My analysis of this performance information indicates that there are instances where the reporting is not sufficient, and needs to be supplemented with additional performance measures. For example:

Element No. 1, current expenditure per capita will not increase in real terms, mixes budget predictions into results "achieved". The current expenditure growth of 6.9% has exceeded the 4.3% fiscal target, yet in the 2000/01 Budget speech the Government has included the budgeted expectation for 2000/01, to claim a "rolling three year" achievement of the target.

Element No. 2, infrastructure maintained at levels sufficient to meet the Territory's economic and social needs, has no measurable targets, and uses a surrogate measure of whole of government expenditure, which does not assess whether needs are satisfied.

Element No. 4, Debt as a proportion of economic output will decline, uses a target of a decline in the ratio of gross debt to gross state product, but this is too easily achieved.

Element No. 5, Debt servicing ratio of interest to total revenue broadly comparable to the States, shifts the benchmarks. The performance information reported in the Government's 2000/01 Budget papers emphasises the ratio for the Territory this year to last year, over the comparison to the 6 states, claiming the Territory's performance is not readily comparable to the States.

Only the performance information for Element No.3 - the Territory's own-source revenue effort is broadly comparable with the six States - appears technically sufficient.

Specifically,

Element No. 1 - current expenditure per capita will not increase in real terms - shows for 1999/2000 that growth in current expenditure at 6.9% is above the fiscal target of 4.3%. This contributes to the Budget deficit (net financing requirement) expected in 1999/2000, of $121 million. This is identified in the Treasurer's 2000/01 Budget Speech as being caused by increases in spending on Education ($21 million); additional superannuation ($6.5 million); gas related costs in PAWA ($13 million), and for GST implementation ($2 million).

Auditing the Public Account and other accounts
Analysis of the Government's Fiscal Management performance information

Audit Analysis (Continued)

Element No. 2 - infrastructure maintained at levels sufficient to meet the Territory's economic and social needs - Using the Government's surrogate measure of combined capital outlays and repair and maintenance costs identifies a decline from $354 million in 1997/98 to $343 million in 1998/99. However, for 1999/2000, a large capital outlay of $33 million for a new generator for the Channel Island Power Station is contributing to an expected total of $397 million.

This PAWA capital outlay is contributing to the larger than expected net financing requirement in 1999/2000, as are other major unexpected capital expenditures identified by the Government in the Budget speech, being flood repairs ($11 million) and a new police aircraft ($4 million).

If capital expenditure is to be used to illustrate the Government's performance in maintaining infrastructure to meet the Territory' needs, a more informative measure would be the carrying value of assets by portfolio. This is reported as an unaudited amount in the Treasurer's Annual Financial Report for 1998/99 in section 6.

This showed that the value of physical assets in total fell by $35 million. This was a result of the downward revaluation of Power and Water Authority assets by $211 million and sales of Housing Commission assets at a value of $75 million offset by increases in other asset categories for Education, Police and Health.

Similarly, repair and maintenance expenditure, which is the second element of this measure, should be shown by portfolio.

Such information would provide more useful reporting about where the Government's priorities have been placed in maintaining public infrastructure, and so provide a better basis to analyse whether these priorities are meeting economic and social needs.

Element No. 3 - The Territory's own-source revenue effort is broadly comparable to the States - uses Commonwealth Grants Commission data, and confirms that the margin between the 6 States average and the Territory is being maintained at less than $20 on a per capita basis. The total effort per capita for the Northern Territory for 1999/2000 was estimated in the Government’s Budget Paper No. 3 to be $2,266.

Element No. 4 - Debt as a proportion of economic output will decline - shows that the measure of economic output, Gross State Product (GSP), increasing at rates of 5% and 8% in the 1998/99, and 1999/2000 years, (using Treasury estimates). To threaten the achievement of the Government's target, gross debt would have to increase from its $2 billion base by factors of $100 million annually.

Since gross debt reductions can be financed from financial asset stocks, and gross debt increases can add to financial asset stocks, the net position is a better basis for analysing movements in debt levels, since this better reflects the underlying financial trend.

Treasury's own debt analysis in section 10 of the Treasurer's Annual Financial Report identifies net debt to GSP, rather than gross debt, as one of the two appropriate surrogate measures to use in assessing the debt burden of a jurisdiction. The other is net debt per capita.

Auditing the Public Account and other accounts
Analysis of the Government's Fiscal Management performance information

Audit Analysis (Continued)

The Treasurer's 1998/99 Annual Financial Report Part 10 shows that the Territory's net debt to GSP is just over 20%, much higher than the 6 State average of 5%. Net debt per capita, the other surrogate measure referred to in section 10, continues to show a trend of a fall in the NT ratio, but at a much lower rate than the six states.

Another measure of debt burden which could be used is the ratio of interest expense to total outlays. The Treasurer's Annual Financial Report identifies that at just under 10% in 1998/99, the NT was above the 6 state average of approx 7.5%.

However, these ratios need to be assessed in light of the current Commonwealth Grants Commission's finding that the NT needs to expend 2.3 times per capita the National average to provide similar level of services as the States. This includes an allowance for debt servicing.

Element No. 5 - Debt servicing as a proportion of total Territory revenue and Commonwealth grants will be broadly comparable to the States - refers to an actual measure of debt servicing capacity. However, with the Territory's ratio at 9.1% for 1999/2000, this element is not achieved, since the 6 State ratio is 6.1%. The Budget papers claim that such results are "not strictly comparable", yet this is how the fiscal strategy is worded.

The Government in the Budget speech emphasised a different benchmark, that being a comparison between years, when projecting the impact on debt servicing capacity of the new borrowings for the net financing requirement in 1999/2000. The Government identified that it was remaining at approximately 9% between 1999/2000 and 2000/01. The Treasurer's Annual Financial Reports and the Government's Budget Papers show the trend over the years 1997/98 to 1999/2000 as 10.2%, 9.0%, and 9.1%. The 2000/01 Budget projection is 9.2%. Each 0.1% movement is $2 million in a revenue base of $2 billion.

A benchmark of the NT's trend over past years, as well as that of the 6 state average, should be reported.

The fiscal strategies have 3 "provisos". These are parameters which, if not achieved, can be used to justify non-achievement of core fiscal strategies.

Proviso No. 1 - In any given year, the percentage change in Commonwealth Grants to the Northern Territory should not be significantly different to the change for the States. - This reflects on the dependency of the Territory on the Commonwealth Grants Commission recommendations as to the Territory's expenditure needs, and the associated funding levels from Commonwealth revenues. Budget Paper No. 3 shows that the Territory's increases in Commonwealth revenues under the GST distribution arrangements will be higher than the 6 State average increases (4.9% for the NT compared to 4.2% for the 6 State average).

Auditing the Public Account and other accounts
Analysis of the Government's Fiscal Management performance information

Audit Analysis (Continued)

Proviso No. 2 - The Territory should receive adequate discretion in the application of funds to priorities determined by Territorians - This refers to the ratio of special purpose payments (SPPs) to general purpose (untied) funding. It continues to show that the proportion of SPPs continues to fall, and that the Territory has enjoyed greater discretion in the application of its total Commonwealth funding in recent years. The proportion in 1997/98 was 22.9%, but this has fallen in 1999/00 to 18.3%, and 2000/01 estimates are 17.7%.

Proviso No. 3 refers to natural disaster funding, and is not applicable for 1999-00 assessments.

In summary, analysis of the Government's fiscal management performance information shows:

1. Net debt management now appears to be based on maintaining debt servicing capacity, for which the Government's apparent preferred benchmark measure is the ratio of interest expense to total revenues. This should be monitored in assessing the Government's fiscal management performance. It brings into consideration interest rate variations, and revenue collection policies and results.

2. Other performance measures or measurements could be used in considering the Government's achievement of its core fiscal strategies, including:

Element No. 1 - this should use actual figures in a "3 year rolling" calculation, as well as the budget projection.

Element No. 2 - asset values, and repair and maintenance expenditures, by portfolio classification, with at least a one year (but preferably up to 5 year) comparison.

Element No. 4 - use net debt to GSP, compared with prior years, and with the 6 State average. Also report net debt per capita. Identify performance in the context of the CGC 2.3 times per capita spending assessment.

Element No. 5 - express this element in the same way that reporting on debt servicing capacity is occurring, that is in Territory trend terms, if the 6 State comparison is considered inappropriate.

The fiscal management of the Northern Territory Government continues to be underpinned by:

- the continuation of similar per capita funding arrangements with the Commonwealth;
- increasing levels of discretion in the expenditure of Commonwealth funding;
- prospects for growth in Territory sourced revenue;
- an available facility to minimise interest rate exposures on gross debt levels; and
- a continuing, although changed, focus on managing the net debt position.

Auditing the Public Account and other accounts
Analysis of the Government's Fiscal Management performance information

Northern Territory Treasury has commented:

Contrary to the Auditor General's conclusion that "net debt management now appears to be based on maintaining debt servicing capacity", there has been no change in the Government's focus on managing debt and other fiscal policy issues. All elements of the Fiscal Strategy are employed to develop and monitor the Budget, including but not only with regard to debt servicing capacity.

Accounting and payroll processing - Department of Corporate and Information Services (DCIS)

KEY FINDINGS

- **Roles, responsibilities and systems as between the Department of Corporate and Information Services and Agencies have now substantially been stabilised, and the risks to the accounting control environment which were considered to exist in 1999 have receded.**
- **Processing efficiencies from the centralisation of corporate services are being achieved.**

Background

In my August 1999 Report to the Legislative Assembly I commented on the impact of the Planning for Growth review on the overall accounting control environment as follows:

- "*The creation of the Department of Corporate and Information Services opened opportunities for greater whole-of-Government efficiencies, but also the more immediate risk that internal controls would be weakened.*
- *Personnel both in the new Department and in other Agencies expressed, and displayed, uncertainty over roles, responsibilities and systems during the implementation of the changes required by the Planning for Growth review.*
- *the implications have been an increased risk of inefficiencies, errors and omissions occurring*"

I commented that to limit the extent of these risks, I would be wanting to see the relationships between DCIS and its client Agencies operating efficiently when I conducted audits in the period commencing February 2000.

In November 1999 the Management Board of DCIS commissioned an external review of DCIS to:

- Examine perceptions about the progress of DCIS towards achieving the Government's objectives;
- Explore the perceived gaps in the provision of corporate and information services; and
- Identify specific issues adversely impacting on the delivery of DCIS services.

Auditing the Public Account and other accounts
Processes conducted by DCIS

Background (continued)

In February 2000 the Chief Executive Officer of DCIS wrote to all Agencies to advise of the results of the review and specifically to bring the following two recommendations arising from the report to the attention of Agency Chief Executive Officers:

> " *Firstly, that all Agencies review their own processes and interfaces to work more efficiently with the centralised model.*
>
> *Secondly, the Board strongly supported the need for standardised service delivery across government. DCIS will be working toward this over the coming months and my staff will consult with yours where changes are necessary.* "

On 9 May 2000, the Minister for Corporate and Information Services made a statement to the Legislative Assembly on 'Government Administration into the Future - Department of Corporate and Information Services'. In that statement the Minister made the following comments of relevance to the overall accounting control environment.

"First attempts at drafting Service Level Agreements are fraught with distrust and difficulty in definition because it is the first time the processes have ever been documented."

"The Department is not yet seen as delivering a broader range and higher quality of services to all agencies."

"The current assessment is that, overall, the quality of service is equal to or better than that previously enjoyed by Agencies but there is now far greater potential for improvement given the centralisation of expertise within DCIS."

"Standardisation across Agencies is essential if we are to achieve real efficiencies in this area. Consultants have looked at the whole accounting process. In essence, the emphasis of the recommendations was on standardisation across government."

Audit findings

Audits commencing February 2000 identified that roles, responsibilities and systems as between the Department of Corporate and Information Services and Agencies have now substantially been stabilised, and the risks to the accounting control environment which were considered to exist in 1999 have receded.

The centralisation of the processing of transactions using the Government Accounting System, and salaries processing using PIPS, has assisted the achievement of this stabilisation. Audits did identify and report to management some routine areas of administrative procedure where further attention is required by DCIS and the Agencies, but these were not assessed as contributing significantly to the risk of errors or omissions occurring in either record keeping or reporting.

Audit work identified that in the standardisation and streamlining of DCIS services there is the risk that Agencies previously relying on a certain control procedure being completed will be unaware that DCIS no longer provides this function. An example of this was that for one Agency there was some confusion as to which Agency was responsible for the maintaining the register of losses and the register of contingent liabilities.

Auditing the Public Account and other accounts
Status of DCIS arrangements

Audit findings (continued)

However, opportunities to achieve processing efficiencies through the centralisation of corporate services are being obtained. In particular:

- The contribution by DCIS to the Government's GST implementation project.
- The creation of a common vendor masterfile with the opportunity to rationalise the number of vendors listed.
- The ability to strengthen internal controls such as segregating the accounts payable function from the maintenance of the vendor masterfile.

These efficiencies are being obtained, while personnel numbers continue to fall. After adjusting for the transfer in 1999/2000 of 26 personnel from Human Resource Development areas to the Office of the Commissioner for Public Employment, Budget Papers for 2000/01 show personnel numbers in the Finance and Payroll/personnel areas are expected to reduce from 715 for the 1999/2000 year to 603 in the 2000/01 year.

Auditing the Public Account and other accounts

Accounting and Property Manuals, and Service Level Agreements

KEY FINDINGS

- **Most, but not all, Agencies had substantially updated their Accounting and Property Manuals.**
- **Some smaller Agencies in particular were waiting to follow the format of the Department of Corporate and Information Services (DCIS) Manual.**
- **Service Level Agreements for financial and human resource management services between Agencies and DCIS were either completed at the time of audit, or were substantially complete.**

Background

I included in my August 1999 Report to the Legislative Assembly the following comments:

- *significant sections of Accounting and Property Manuals had been rendered obsolete once a number of common operational support functions had been transferred from individual Agencies to the Department of Corporate and Information Services (DCIS) during 1998/99. Transferred functions included accounting, payroll, and information technology functions; and*
- *a key component of the Planning for Growth arrangements was the preparation of Agency Service Level Agreements (SLAs), but that these were mostly not finalised by 30 June 1999. SLAs were intended to define in writing, and in reasonable detail, the responsibilities of both DCIS and the client Agency in attending to their respective components of accounting and payroll functions and transactions.*

The status of these matters were reviewed during audits in the six months ended 30 June 2000.

Audit findings

Accounting and Property Manuals

Chief Executive Officer approval for Agency Accounting and Property Manuals had not been provided in most instances at the time of audit. However, in most Agencies the Accounting and Property Manuals had been updated, or had been substantially updated, including amendment to incorporate the more important changes in procedures caused by the transfer of functions to DCIS. Also DCIS had substantially completed its Accounting and Property Manual prior to June 2000. This was awaited by some smaller Agencies, in particular, so that they could model sections of their Manuals on the DCIS format.

Auditing the Public Account and other accounts
Accounting and Property Manuals and Service Level Agreements

Audit findings (continued)

Documentation of control procedures is not only a response to the requirements of Chief Executive Officers under the Financial Management Act, but also a key element of communicating and maintaining proper internal controls over public monies into and out of the Public Account. That is why it receives legislative direction. However the incomplete status of some Accounting and Property Manuals did not appear to be contributing significant errors or omissions in the management of funds or assets.

Service Level Agreements

Service Level Agreements between DCIS and Agencies should form an important component of each Agency's Accounting and Property Manual.

Service Levels Agreements for financial and human resource management services provided to Agencies by DCIS were noted to be either completed or substantially complete, and were accepted by Agencies as a workable record of the service relationships.

In one instance the finalisation of the Service Level Agreement had been delayed by the need to resolve at senior management level the assignment of responsibility for particular functions and processes to either DCIS or the Agency. Negotiation on such matters may be necessary where an Agency has non-standard needs. However, this should be balanced against the needs recognised by DCIS for standardised service delivery across government to achieve the intended levels of efficiency; and the need for Agencies to review their own process and interfaces to work more efficiently with the centralised model.

In accordance with the requirements of Service Level Agreements, there is now regular and appropriate reporting to Agencies in respect of the functions performed for them by DCIS.

Auditing the Public Account and other accounts

Internal audit capacity

KEY FINDINGS

- **Most Agencies did not maintain an adequate internal audit capacity as required by the Financial Management Act.**
- **Access to professional internal audit services at levels provided by Government in 1998/99 was not maintained during the 1999/2000 year.**
- **For Agencies which did not maintain an adequate internal audit capacity in the 1999/2000 year, the Chief Executive Officer should make reference to that exception when submitting the Representation letter to his or her Minister as required by Treasurer's Direction 2.5.10, for inclusion in the Agency's Annual Report.**

Background

Section 15 of the Financial Management Act requires that an Accountable Officer ensure that the agency has an adequate internal audit capacity to assist the Accountable Officer in the performance of his or her functions under the Act.

For an adequate internal audit capacity to exist, I expect there will be:

- a program of internal audit coverage developed from a risk based assessment;
- the achievement of the internal audit program will be monitored and managed;
- management respond to internal audit recommendations, and
- the competencies of those persons conducting internal audits will be adequate.

The internal audit capacity for most agencies is wholly or primarily provided by the Strategic and Audit Services unit located within the Department of the Chief Minister.

Audit findings

I advised Chief Executive Officers in the majority of Agencies examined during the year that their internal audit capacity was inadequate. In a number of instances, the Agency response referred to the Agency awaiting the provision of services by Strategic and Audit Services.

Auditing the Public Account and other accounts
Internal audit capacity

Audit findings (continued)

I included in my August 1999 Report to the Legislative Assembly that Strategic and Audit Services was providing internal audit services in a professional and competent manner. For the 1998/99 year, an adequate internal audit capacity was being demonstrated by Agencies. However, access to professional internal audit services at the level provided in 1998/99 was not maintained during the 1999/2000 year.

Previous Reports of the Auditor-General to the Legislative Assembly have at times also commented on internal audit service levels available from within the Government not meeting the needs of Agencies. Comments in the August 1994 and August 1996 Reports of the Auditor-General reflect on similar situations. For a function as important to sound public administration as internal audit, the Government should be ensuring that a reliable service responsiveness is being maintained.

Ultimately, however, maintaining an adequate internal audit capacity in each Agency is the responsibility of its Chief Executive Officer, as the Accountable Officer under the Financial Management Act.

For Agencies which did not maintain an adequate internal audit capacity in the 1999/2000 year, the Chief Executive Officer should make reference to that exception when submitting to his or her Minister the Representation letter as required by Treasurer's Direction 2.5.10, for inclusion in the Agency's Annual Report.

The Department of the Chief Minister has commented:

> *Strategic and Audit Services (SAAS) has been restructured to provide a greater level of service to agencies for 2000/01.*

Auditing the Public Account and other accounts

Goods and Services Tax (GST) implementation

KEY FINDINGS

- **The NT Government's GST implementation project is a good practice example of how to manage a significant whole of government project within a short time frame.**
- **$2 million of additional funding was provided to the project to meet expected costs of GST implementation.**
- **A number of ancillary benefits should flow from the GST implementation project.**

Background

With the passing of the Commonwealth's *A New Tax System (Goods and Services Tax) Act 1999*, GST will apply to Governments in substantially the same way as to the private sector. State and Territory Governments were previously exempted from the wholesale sales tax regime.

From 1 July 2000 Governments will have to pay GST on the price of goods and services they acquire and, when they make taxable supplies, charge GST.

This has required a significant investment of resources by the Northern Territory Government to ensure that Agencies, Government Business Divisions and Government owned entities were ready for the introduction of GST.

Roles and responsibilities allocated in the Government's GST implementation project were:

- Northern Territory Treasury - responsible for whole of government policy development, advice, communication and coordination of the GST Implementation Project for the Territory.
- Department of Corporate and Information Services - responsible for modifications to corporate systems (e.g. the Government Accounting System - GAS) and related business processes; preparation and lodgment of the NTG Business Activity Statement (BAS); and the provision of assistance to Agencies through its contract services (CAPS) and information technology (ITMS) areas.
- Agencies and Government Business Divisions - responsible for GST implementation at the Agency/GBD level including managing the effect of GST on business practices; transactions; Agency specific information technology systems; and modifying business arrangements, processes and systems (including interfaces into GAS) necessary to ensure GST compliance. GBDs, as commercial enterprises, will be separately registered for GST purposes and will have additional responsibilities for BAS lodgment and meeting record keeping requirements.

Background (continued)

The project was monitored and observed by the Auditor-General's Office, both as an entity required to respond to the administrative changes identified by the project, and in forming an opinion on how well the project was planned and implemented on a whole of Government basis.

Audit findings

The Government's GST implementation project is a good practice example of how to manage a significant whole of government project within a short time frame.

In particular, the Northern Territory Treasury team, drawn mostly from existing personnel from within Treasury, should be commended for the professional approach they have shown to the task in providing guidance to agency GST project teams through project manager forums, various published guides and individual briefings. The reliance on NT Treasury personnel, rather than an over-reliance on contractors, has allowed skills in GST policy to be established and retained within Government.

As well, the centralising of corporate service functions within the Department of Corporate and Information Services enabled that Agency to coordinate the modifications to GAS and related business processes. Initial indications are that the adoption of GST related procedures and systems from 1 July 2000 has proceeded well, with only minor issues reported. The success of these procedures will be next tested by the preparation and lodgment of the Government's first Business Activity Statement due on 21 August 2000.

Preparation for the introduction of the GST has necessitated a significant workload for Agencies in understanding the impact of GST on the Agencies' business, modifying practices and systems where necessary and managing the project at the Agency level. Agency project teams, with guidance and assistance from NT Treasury and DCIS, have needed to provide support to personnel within their Agencies.

$2 million of additional funding was provided in 1999/2000 to Treasury and DCIS to meet costs expected in the GST implementation, with some of those costs still to be incurred in the 2000/01 year.

In preparing the Government for GST, a number of ancillary benefits are flowing from the implementation project. For example:

- Replacement of small receipting systems at some Agencies;
- Standardisation of official receipting procedures;
- Review and standardisation of travel allowance, employee and housing benefits;
- A proposal to centralise administration of housing and tenancy arrangements;
- Review of payments to "contractors"; and
- Review and greater understanding by agencies of their business processes.

Auditing the Public Account and other accounts

Procurement audits – summary of findings

KEY FINDINGS

- **The controls and procedures within Government Agencies for procurement were generally in accordance with the prescribed procedures.**
- **A common procedure that continues to be overlooked in many Agencies is the gazetting of all procurements greater than $5,000.**
- **For one Agency, the procurement policies and strategies were not being applied to the renewal of pre-existing contracts.**

Background

A theme adopted for compliance audits completed in the six months to 30 June 2000 has been Agency compliance with the Northern Territory Government's policies for procurement, including the Procurement Act and Regulations and Procurement Board Guidelines.

Procurement procedures apply to the outlays of public funds by the Northern Territory Government both for operational procurements, estimated by the Government for 1999/2000 in gross outlay terms to be $912 million, and for capital expenditure, estimated to be $354 million.

Audit findings

The controls and procedures within Agencies for procurement were generally in accordance with the prescribed procedures. No instances of malfeasance or deliberate circumventing of prescribed procedures were identified from the transactions reviewed within the audit scope.

However, a common procedure overlooked in many Agencies continues to be the gazetting of all procurements greater than $5,000. I previously identified a similar finding in my August 1998 Report to the Legislative Assembly. This usually occurred for procurements less than $10,000. Where this occurred for procurements greater than $10,000 a common response from Agencies was there had been a misunderstanding with the Contract and Procurement Services (CAPS) branch within DCIS, who assist Agencies with their larger procurements. The Agency personnel incorrectly assumed that CAPS would arrange the gazettal.

For one Agency, Territory Health Services, I noted that the procurement policies and strategies were not being applied by the Agency to the renewal of pre-existing contracts. The Agency had viewed the roll-over of these contracts as the obtaining of supplies under an existing contract with no need to apply the procurement directions in regard to seeking quotes and/or tenders and advertising the contracts. The renewal of an expiring contract creates a new contract and as such should be subject to the full procurement process. Otherwise the Agency is not allowing for open and effective competition and is not testing whether it is achieving value for money.

The Department of Corporate and Information Services has commented:

In all cases where tenders have been managed by the Contracts and Procurement Service of DCIS, CAPS arranges gazettal of contracts awarded, this is usually procurement greater than $10,000. CAPS arranges period contracts on behalf of THS and there is often an option to extend included in the contract. If this is so, there is no requirement to re-tender or seek PRB approval as the action was contemplated in the original PRB business paper.

Territory Health Services has commented:

Territory Health Services considers the claim in relation to THS to be factually incorrect. The matter relates to a very specialised item of equipment, the hyperbaric chamber, for which multiple suppliers do not exist. In exercising the options available within the contract, THS and DCIS are careful to ensure that value for money is obtained.

Auditing the Public Account and other accounts

Public Property write off procedures

KEY FINDINGS

- **Disposals of assets by sale or trade-in are not accounted for in Government reporting in a consistent manner with disposals by way of scrapping.**
- **There seems to be no reason why information about the original cost of publicly funded assets, when disposed of by cash accounting Agencies by sale, should entail a lower level of accountability than disposals by scrapping.**
- **If the Government in the future adopts accrual accounting at Agency level, this anomaly should be overcome.**

Background

The value of public property written off is reported in Schedule 3.4 of the audited Treasurer's Annual Financial Statement.

The Financial Management Act provides that the Treasurer may write off the value of lost, deficient, condemned, unserviceable, abandoned or obsolete property. The Treasurer's Directions provides for write off for:

- unacceptable causes (such as inadequate procedures or implementation thereof, theft); and
- acceptable causes (such as fair wear and tear, reasonable obsolescence within predetermined tolerance).

An audit was conducted to identify whether public property loss identification and write off procedures in selected larger Agencies were consistently applied and in accordance with Government requirements.

The scope of this audit was limited to examination of the procedures of the selected general Government Agencies with cash accounting procedures, for the identification, reporting, and write off of losses. It was not intended in the audit to review the adequacy of arrangements and procedures for the prevention of losses.

Agencies examined in the audit are identified in bold in the following table. The table was developed from Annual Reports of most of the larger Agencies, and records provided to Treasury for TAFS Schedule 3.4 for 1998/99 for Education and Territory Health Services.

Background (continued)

It shows that Territory Health Services, Department of Education, and Power & Water Authority have been the major sources of property write-off. For 1997/98 and 1998/99 the Department of Primary Industry and Fisheries and the Department of Lands Planning & Environment for 1997/98 also identified substantial write-offs, primarily as a consequence of the Katherine region floods.

	95/96 $'000	96/97 $'000	97/98 $'000	98/99 $'000
Territory Health Services	730	1,047	1,071	651 **(a)**
Department of Education	440	513	700	841
Power & Water Authority	121	140	225	121
Department of Primary Industry and Fisheries	7	37	186	189
Police, Fire & Emergency Services		2	2	-
Department of Transport & Works	2	0.1	34	9
Former Department of Housing & Local Government	-	1	1	n/a
Department of Lands, Planning & Environment	-	-	96	1

(a) ***Agreed to records provided to Treasury for TAFS Schedule 3.4, although Annual Report for 1998/99 shows "$0".***

Audit findings

Assets sold or traded-in do not require to be written off

A major factor in the apparent differences between amounts written off as between larger Agencies is that assets sold or traded-in do not require to be written off, notwithstanding that only minimal amounts may be received.

Contributing to the very low write off statistics for Police, Fire and Emergency Services is that this Agency endeavours to sell an asset once it has reached the end of its economic or useful life. Territory Health Services, by contrast, is constrained for public health reasons from selling surplus medical equipment, and destroys other assets as well, so discloses more value written off.

This highlights that the disposals of assets by sale or trade-in are not accounted for in Government reporting in a consistent manner with disposals by way of scrapping. While proceeds from disposals by sale are reported as capital receipts by general Government Agencies in their Annual Report, and in the gross outlays statements for Agencies in the Treasurer's Annual Financial Statement, the cost of the assets disposed is not reported.

Audit findings (continued)

By contrast, where Agencies which dispose of assets by scrapping, the original cost of the asset is included in their Annual Report, and in aggregate in the audited Treasurer's Annual Financial Statement.

There seems to be no reason why information about the original cost of publicly funded assets, when disposed of by cash accounting Agencies by sale, should entail a lower level of accountability than disposals by scrapping.

If the Government in the future adopts accrual accounting at Agency level, this anomaly should be overcome. All general Government Agencies would then adopt the same level of accountability for asset purchase and disposal decisions as is now required of Government Business Divisions, which already are using accrual accounting procedures.

Northern Territory Treasury has commented:

> *The asset write-off guidelines in the Financial Management Act and Treasurer's Directions provide Agencies with an accountability mechanism to write-off and report assets in situations where other accountability mechanisms do not apply. As no revenue is received when the asset is written off, the financial statements of agencies reporting on a cash basis are not affected whereas when secondhand assets are sold, the revenue is recorded appropriately. It is not considered that assets require write-off approval and subsequent reporting when sold or traded in as other accountability mechanisms are in place for such processes.*

Sale of land for development - Department of Lands, Planning and Environment

KEY FINDINGS

- **For Lot B at Myilly Point, one bidder had prior knowledge, and so an unfair advantage, in comparison with other potential bidders.**
- **For the bid process to be fair, equal time should have been provided to each of the parties expressing interest in developing the site.**

Background

The audit objectives were to establish whether there were satisfactory internal controls over the release of Crown Land for development. Particular reference was made to some recent major developments in the Palmerston area, and to aspects of the process for the registrations of interest for the purchase and development of sites at Myilly Point.

Audit findings

- **Myilly Point**

1996 Land Use Objectives for the Darwin Central Area, in respect of Myilly Point, included facilitating the development of tourist related resort, hotel and apartment style accommodation, and to provide a level of infrastructure consistent with the development needs of tourists.

Consequently, and after a public consultation process, the land was rezoned in 1997 to B5 (Tourist Business) to facilitate developments primarily for tourist purposes, but also other related residential uses.

The release of land for the Myilly Point development was initiated through public invitations for expressions of interest which were advertised in the Northern Territory print media on 17 December 1998. This required payment of $1,000 to the Department to obtain the Expressions of Interest documentation.

The closing date for submissions was 25 January 1999.

The public invitation included five separate lots (designated Lots A-E).

"Lot B" totalled 2.68 hectares, comprising Town of Darwin, Myilly Point Lots 4868, 2420, 3141, 3740, 3743, 3758, 5792, and part of 5791. Although not specifically identified in the public notice on 17 December 1998, the Expressions of Interest documentation for Lot B showed that Government was encouraging an aged care facility on the site. The following extracts refer:

Auditing the Public Account and other accounts
Sale of land for development

- *Although Government is keen to receive a full range of development proposals it recognises its commitment to encourage the development of an increased range of facilities for Territorians. Favourable consideration will therefore be given to a proposal for the development of an aged care facility on this site.* (Paragraph 1.1)
- *The site is currently zoned B5 (Tourist/Business) under the Darwin Town Plan. However it may be necessary for the successful developer to seek rezoning consent from the Northern Territory Planning Authority to accommodate an aged care facility.* (Paragraph 2.4).

After the close of Expressions of Interest, four registrations of interest for Lot B had been received. Only one was specifically for an aged care facility.

On 2 February 1999, one week after the close of the period for expressions of interest, Government accepted "in principle" the development proposal for the aged care facility.

The Departmental assessment of submissions identified that the successful applicant, Moran Health Care Group, provided the only detailed proposal, and that none of the unsuccessful submissions had been able to provide details of scope and design, or the proposed value of their development.

The Departmental analysis shows that two submissions were holding proposals which identified that there had been insufficient time to prepare a detailed proposal in the period between 17 December 1998 and 25 January 1999. Consequently, they had not been able to provide details of scope and design, or the value of their development. Those interested parties were not then provided with additional time to prepare more detailed submissions. A third submission for a holiday and hotel apartment complex was assessed as "lacking considerable detail".

By way of contrast, the detailed submission from Moran Health Care Group was dated 12 January 1999, less than four weeks after the expressions of interest had been called, and two weeks earlier than the closing date. It was assessed as an "excellent submission".

However, documentation held by the Department indicates that Moran Health Care Group had prior knowledge of the Government's intention to promote an aged care facility on the site.

A letter dated 17 November 1998 from the Moran Health Care Group to the Chief Minister's Office included the following advice:

"We are currently working through the issues raised during our meetings and presentations on our recent visit with a view to, in the next few weeks, putting a comprehensive proposal to Government for an integrated long term residential care development on Myilly Point."

It seems reasonable to conclude that the Moran Health Care Group had prior knowledge, and so an unfair advantage, having regard to the timing in which to develop proposals, in comparison with other potential bidders. For the bid process to be fair, equal time should have been provided to each of the parties expressing interest in developing the site.

Without completed bids from all parties, the Government has not established whether it has maximised the value to the Public Account from the sale of this land.

Audit findings (continued)

On 20 November 1998, a few days after the letter from Moran Health Care Group to the Chief Minister's office, the Department sent letters to relevant government and semi-government organisations that needed to be contacted in respect of services for the land, or which might have interests in the proposed release of the land. These letters identified that an intended use for Lot B was for aged/pensioner accommodation.

In response, the Darwin City Council noted that the intended use of Lot B did not meld with the current zoning of the land nor with the key objectives identified for the Myilly Point precinct within the Central Darwin Land Use objectives.

The Land Use Objectives were formally changed on 15 December 1999 to include an Aged Care facility, following the period of public exhibition in 1999. The re-zoning of the site from B5 (Tourist Business) to R4 (Residential) was underway as at 30 June 2000.

- **Palmerston area land**

Farrar, Rosebery/Bakewell and Yarrawonga stage 6 were the major developments reviewed for the comment in this section.

It was found that procedures in place could be relied upon and were performed within the requirements of the Crown Lands Act, and that there was demonstration of fairness and equity in the process of awarding tenders for development.

A sample of prior releases of land indicated that where land is released on the basis that conditions of ownership/tenure are to apply, there is an effective process to ensure that compliance with those conditions is monitored.

The Department of Lands, Planning and Environment has commented:

> *The audit objective was to establish whether there were satisfactory internal controls over the release of Crown Land for development.*
>
> *A developer who approaches Government with an already formulated proposal, and is (properly) sent away to compete through a subsequent expressions of interest process, will always have an edge in terms of eventually being able to present a fully developed proposal - whatever the timing.*
>
> *Any advantage would be a result of the initiative of the developer and not the result of any perceived procedural disadvantage caused to competitors by Government processes. Seeking other innovative ideas, even if not fully developed, is just one of the reasons that an "expressions of interest" process, as opposed to a "tender", is used in such circumstances. In this case, the Government had clearly indicated a preference for an aged care facility development. The unsuccessful bids had not indicated an intention to develop an aged care facility. It would appear that the primary determinant factor in Government's decision was the type of facility proposed rather than the detail of the proposal.*

Auditing the Public Account and other accounts
Sale of land for development

The Department of Lands, Planning and Environment has commented (continued):

> *In relation to maximising the return to the Public Account, the primary purpose of the release of Crown land may be benefit to the community rather than maximising the sale price through public auction; at any rate, the price achieved was in accord with estimates of market value.*

Auditing the Public Account and other accounts

Banking services tender - Northern Territory Treasury

KEY FINDINGS

- **The tender process was conducted in accordance with Northern Territory Government procurement requirements.**
- **However, good public administration practice would see Government decision-making being supported by the advice of relevant specialist bodies, such as the Procurement Review Board.**

Background

Government approved the calling of tenders in 1999 for a new banking services contract, which was to commence from 1 January 2000.

Westpac Banking Corporation was the Territory's banker at that time, and ultimately was awarded the new contract, following evaluation of tenders.

The Northern Territory Government Gazette of 29 September 1999 identified the estimated value of the contract as $3 million over three years, which was similar to the current contract value.

An audit was conducted with the objective of assessing whether the process for the whole of government banking services tender was conducted in accordance with Northern Territory Government procurement requirements, so as demonstrate accountability and ethical practice.

Audit findings

The tender process was conducted in accordance with Northern Territory Government procurement requirements.

However, the sequence in the tender approval process saw Cabinet approving the tender outcome two days before the Procurement Review Board met to consider whether the Government's principles for the procurement process had been applied. In my opinion, the approval from the Procurement Review Board should have preceded the Cabinet decision, and been available at the Cabinet meeting.

The Procurement Review Board's function is to assess Agencies' application of the principles of the Northern Territory Government Procurement Policy. This includes reviewing all recommendations and where appropriate approving the Agency officer's acceptance of tenders for supplies valued at $50,000 and above.

Audit findings (continued)

The appropriate sequence for approvals is not covered in procurement instructions or guidelines. However, good public administration practice would see Government decision-making being supported by the advice of relevant specialist bodies, such as the Procurement Review Board.

An approval by the Cabinet prior to a meeting of the Procurement Review Board also may establish a perception that the impartiality and independence of the subsequent decision by the Procurement Review Board was reduced.

Northern Territory Treasury has commented:

> *Procurement Review Board endorsement and other specialist advice was obtained at appropriate stages in the process and in accordance with established procurement directions.*

Auditing the Public Account and other accounts

Internet gaming - Department of Industries and Business

KEY FINDINGS

- **Procedures and controls within the Department were generally sufficient to ensure compliance by licensees with the applicable Regulations and license conditions.**
- **The procedures for the tracking of tax and fee income due to the Northern Territory through the licensee returns were also considered to be satisfactory.**
- **However, controls to verify the accuracy and completeness of the returns from sports bookmakers could be improved.**

Background

In my August 1996 and August 1999 Reports to the Legislative Assembly I have commented on the procedures and controls to ensure completeness of gaming income and compliance with Regulations.

The objective of the recent audit was to assess in relation to Internet gambling, how well the Department ensures:

- completeness of fees and taxes due under the relevant Acts and Regulations; and
- compliance by licensees with the applicable Regulations and license conditions.

This was a compliance audit with emphasis on the requirements of Division 5 of the Gaming Control Act and Part IV of the Racing and Betting Act, and other relevant Acts and Regulations.

The audit examined two different types of Internet gaming:

- a virtual casino where clients play simulated casino and gaming machines over the Internet and make payment also over the Internet; and
- sports bookmakers who are licensed to offer and take bets over the Internet, including payment by credit card over the Internet.

Auditing the Public Account and other accounts
Internet gaming

Audit findings

Summary of findings

The procedures and controls in place within the Department were generally sufficient to ensure compliance by licensees with the applicable Regulations and license conditions. However, it was noted that the Department generally lacked documented guidance for employees on the procedures required to be completed, although draft documentation for the Lasseter’s online casino had been prepared.

The procedures for the tracking of tax and fee income due to the Northern Territory through the licensee returns were considered satisfactory. These are weekly for the bookmakers and monthly for the online casino. However, the controls to verify the accuracy and completeness of the returns for the sports bookmakers could be improved.

For the online casino, a requirement to provide an annual audit certification comes into effect from 1 July 2000.

In recognition of the different risks and licensing regimes, the Department’s approach differed between the online casino and the Internet sports bookmakers.

The assessments of risk for the online casino and the sports bookmakers had been on a case by case basis developed around the systems proposed by the Licensees. This was in part due to gaming on the Internet being a new and developing industry. The Department had retained consultants to conduct a risk analysis for the system requirements for gambling on the Internet and from this review a generic guide for existing or new online casinos or sports bookmakers was to be developed.

Lasseter's Online Casino

A license to conduct Internet gaming business was issued by the Minister for Racing, Gaming and Licensing pursuant to section 47D of the Gaming Control Act. The risks associated with this form of gambling differ to those for a physical casino as the games played are simulated in a virtual casino based on computer programs developed and maintained by the license holder. As a consequence the level of regulation and supervision of this type of gaming is more extensive.

Before an online Casino operator can obtain a license and commence business they are required to have their control systems including the underlying IT systems approved by the Director of Gaming. The maintenance of the systems particularly the security requirements are subject to continual scrutiny. To this end the Department had commissioned auditors and consultants to conduct pre and post implementation reviews to provide assurance about the integrity of the systems.

As part of the development of Lasseter's Online, risk reviews were conducted by a number of consultants in conjunction with the Department. The Department and Lasseter's reviewed the risk analyses, with the Department providing further direction where appropriate. The resultant implementation of countermeasures to these identified risks was audited by external consultants.

Audit findings (continued)

Lasseter's Online Casino (continued)

The level of review and scrutiny of the Licensee was able to be confirmed from reference to the Department's files and discussion with Department staff. IT personal also maintained work request logs, which tracked all IT issues raised with the Licensee. At the time of my review a number of issues raised by the external auditors remained outstanding. It is understood that these issues, although warranting reporting and eventual clearance by Lasseter's Online, did not cause a significant control or security risk.

The casino operator is required to report each month's trading results and pay to the Territory the fee calculated on those results. The license agreement also requires that the casino operator provide to the Department an independent auditor's certificate of the gross profit of the casino and the total license fee payable for the year. The first annual certification is due after 1 July 2000.

Internet Sports Bookmakers

In relation to the sports bookmakers the level of systems surveillance is significantly less than for the online casino, however, this is proportional to the lesser risk involved.

A license to conduct the business of a Sports Bookmaker is issued by the Chairman of the Racing Commission under section 90 of the Racing and Betting Act. Conducting business over the Internet is an extension of the existing methods of conducting bookmaking in person over the counter, by telephone or by fax. There are no substantial changes to the risks associated with issuing this type of license.

It was noted that whilst there was an analytical review of the turnover figures reported by the bookmaker and the tax calculation thereon, there was no external verification of these figures. Also there was no evidence that the Department conducted spot checks of the internal controls and operating systems of the bookmaker to confirm the accuracy of the weekly returns. Nor was there an annual comparison of total turnover reported in the weekly returns to that shown in the annual audited financial statements.

The Department advised at the completion of the audit that it was in the process of amending legislation to enable greater scrutiny of Internet Wagering operations that will enable the Department to ensure appropriate controls are in place, thus increasing confidence in the accuracy of weekly returns. The Department also undertook to compare reported turnover in audited annual statements with weekly reports provided to the Department.

The Department of Industries and Business has commented:

> *Procedures and controls - comprehensive procedure manuals for use by employees are being prepared.*
>
> *Internet sports bookmakers - A "risk management" strategy is in an advanced stage of preparation and is currently under discussion with the sports bookmakers.*

Northern Territory University – an analysis based on its 1999 financial statements

KEY FINDINGS

- **The change from an operating profit for 1998 of $5.3 million to an operating loss before abnormals for 1999 of $1.1 million was attributable primarily to a reduction in Commonwealth funding of $4.8 million. This included a reduction in capital funding of $3.6 million**.
- **The Northern Territory Government has committed to provide additional financial support of $7 million over three years for operational services, including salary increases. However, the Government has made this funding conditional upon the University returning to it, at no cost, the land at the former Tiwi Primary School.**

Key Financial statistics

	1999 $million	*1998* *$million*
Total public investment in assets	161.5	*165.0*
Total liabilities	21.2	*23.2*
Net investment of public funds in the entity	140.3	*141.8*
Operating revenue	83.7	*89.4*
Net (deficit)/surplus after extraordinary items	(1.5)	*5.3*

Background

The University provides both Higher Education and Vocational Education and Training. It produces its annual financial statements as at 31 December. These are required to be audited by the Auditor-General, and included in the University's Annual Report.

Audit analysis

The change from an operating profit for 1998 of $5.3 million to an operating loss before abnormals for 1999 of $1.1 million was attributable primarily to a reduction in Commonwealth funding of $4.8 million. This included a reduction in capital funding of $3.6 million.

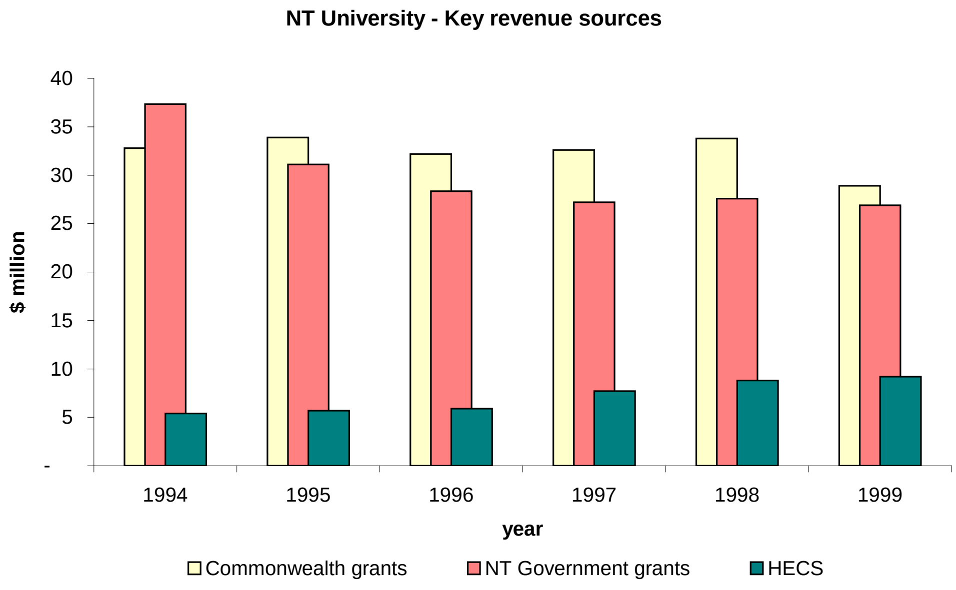
Auditing the Public Account and other accounts
Financial statement analysis – NT University

Audit analysis (continued)

There was also an increase in overall academic activity expenses which were largely related to employment costs, reflecting higher salaries and redundancy commitments.

A decrease of $2.8 million in the balance of cash and investment as at 31 December 1999, as compared to 1998 was influenced not only by the operating loss for the year, but also by earlier than usual payments being made in December 1999. This was a precaution against any problems arising from Year 2000 computer issues.

In reviewing its future funding needs, the University had identified that ongoing funding was insufficient to allow for services to be maintained at their existing levels. Of particular concern was the flattening and then reduction of Commonwealth government assistance in recent years, while underlying cost structures were increasing. In response the Northern Territory Government has committed to provide additional financial support of $7 million over three years for operational services, including salary increases. However, the Government has made this funding conditional upon the return to it by the University, at no cost, the land at the former Tiwi Primary School.



A dual audit opinion was provided on the financial statements.

The dual opinion format arose from the accounting treatment required by DETYA guidelines differing from the Australian Accounting Standards in relation to operational grant monies received in 1999 for the 2000 year. The University prepared its financial statements in accordance with the DETYA guidelines, which required the funding of $4.3 million to be recorded as a liability as at 31 December 1999, pending the transfer of that amount to revenue in the new year.

Dual audit opinion (continued)

Application of Australian Accounting Standards would require the funding to be treated as revenue in the year it is received and available to the University, so the impact on the operating results of the University, if the Standard was adopted, would be quite significant in the year that the accounting change was adopted. The accounting policy adopted by the University has been consistently applied in past years, so trend comparisons of reported results are based on similar measurements.

Benchmarking NT University with some other universities in Australia

The following statistics indicate the scale of NT University's financial structure and operating revenues in comparison to readily available information for other regional and metropolitan Universities for the 1999 calender year:

University		Assets		Revenue		
		Investments and Working Capital $ million	Land & Buildings $ million	From Government (excluding HECS) $ million	HECS $ million	From other sources $ million
Northern Territory University	NT	**8**	**136**	**56**	**9**	**19**
Murdoch University, Perth	WA	6	239	65	24	34
Charles Sturt University, Bathurst	NSW	25	197	65	44	44
Curtin University of Technology, Perth	WA	94	399	129	52	106
University of WA, Perth	WA	499	511	129	38	140
University of NSW, Sydney	NSW	309	745	298	60	234

This illustrates the relative scale of the NT University in an Australia wide context, and its dependency on Government sources for its revenues.

Auditing the Public Account and other accounts

Batchelor Institute of Indigenous Tertiary Education – an analysis based on its 1999 financial statements

KEY FINDING

- **The better financial result for 1999, and increase in the cash balance, was largely derived from receiving additional Commonwealth and Northern Territory Government recurrent and specific purpose funding, some of which remained unexpended at the year end**.
- **So while the revenues were included this year as income, some expenditure will be recorded in the following year ending 31 December 2000, and impact on the financial results for that year.**

Key Financial statistics

	1999	*1998*
	$million	*$million*
Total public investment in assets	5.8	*3.5*
Total liabilities	4.3	*3.9*
Net investment (liabilities) of public funds in the entity	1.5	*(0.4)*
Operating revenue	24.4	*20.7*
Net surplus/(deficit) after extraordinary items	1.9	*(0.7)*

Background

Batchelor Institute of Indigenous Tertiary Education was established under its own Act from 1 July 1999. It was formerly Batchelor College, which had been formed in 1989 under the Education Act. The Institute provides both higher education and vocational education and training.

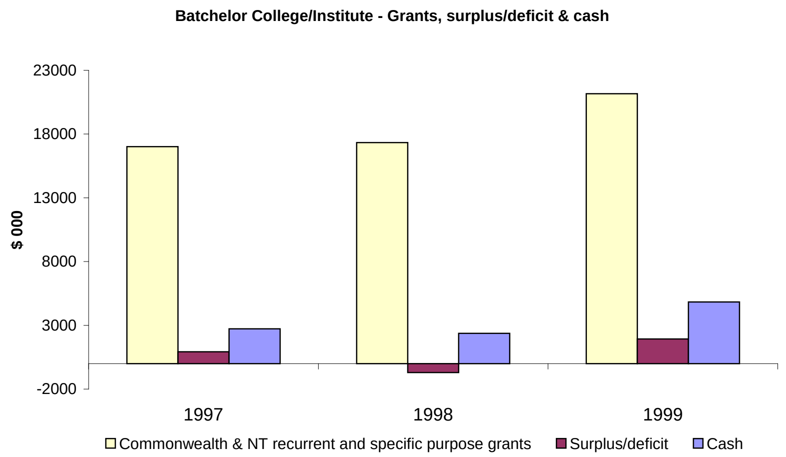
The former College was not required under Northern Territory legislation to produce accrual financial statements. However it was required to do so under guidelines for the preparation of annual financial reports issued by the Commonwealth Department of Education, Training and Youth Affairs (DETYA), and had provided accrual financial statements to the Commonwealth for prior calendar years. As the Commonwealth would expect to receive accrual financial statements for the whole of 1999, notwithstanding responsibility was shared between the Institute and the College, the financial statements provided for audit were for the whole of the 1999 calendar year.

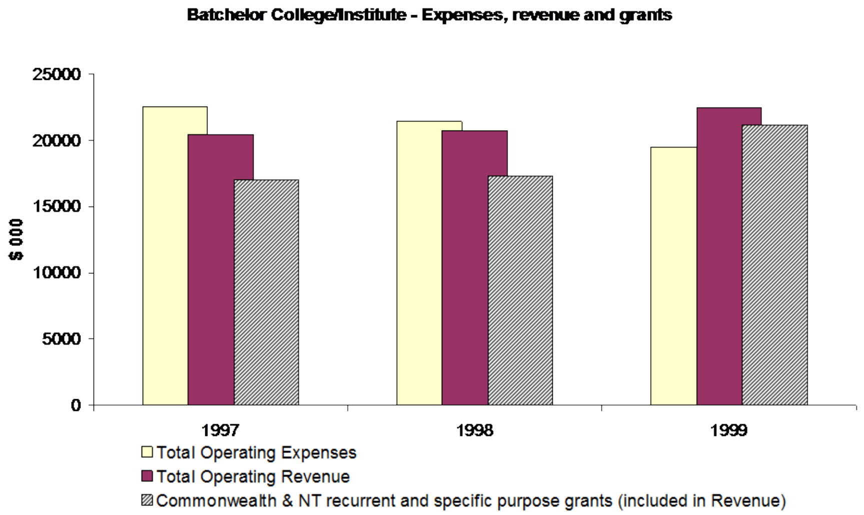
Auditing the Public Account and other accounts
Financial statement analysis – Batchelor Institute

Audit analysis

The Institute recorded an operating surplus for the year of $1.9 million, to produce a financial position in which the Institute's assets exceeded its liabilities by $1.5 million at 31 December 1999. This recovered the position created at 31 December 1998, when liabilities exceeded assets by almost $400,000, following a loss in that year of almost $700,000. The 1999 operating surplus contributed directly to the increase of $2.4 million in cash held by the Institute at 31 December 1999.

The better financial result was largely derived from receiving additional Commonwealth and Northern Territory Government recurrent and specific purpose funding, some of which remained unexpended by the year end. So while the revenues were included this year as income, some expenditure will be recorded in the year ending 31 December 2000, and impact on the financial results for that year. A similar timing impact occurred in the 1999 year, where some minor new works were completed with funding from 1998.





Dual opinion provided on the financial statements

The dual opinion format arose from the accounting treatment required by DETYA guidelines differing from the Australian Accounting Standards in relation to operational grant monies received in 1999 for the 2000 year. The Institute prepared its financial statements in accordance with the DETYA guidelines, which required the funding of $750,000 to be recorded as a liability as at 31 December 1999, pending the transfer of that amount to revenue in the new year.

Application of Australian Accounting Standards would require the funding to be treated as revenue in the year it is received and available to the Institute, so the impact on the operating results of the Institute, if the Standard was adopted, would be quite significant in the year that the accounting change was adopted.

Auditing the Public Account and other accounts

Northern Territory Legal Aid Commission - an analysis based on its 1998/99 financial statements

KEY FINDINGS

- **Overall income of the Commission decreased in 1998/99 over the prior year by 7.8% due to a reduction in contributions and costs recovered from clients, and the elimination of the Commonwealth's Expensive Cases Reimbursement Scheme.**
- **The Commission's reported financial results are impacted by the practice of recording all the expected costs of current cases before all the work has been conducted.**

Brief financial statistics	1999	*1998*
	$million	*$million*
Total public investment in assets	3.6	*3.2*
Total liabilities	1.1	*1.3*
Net investment of public funds in the entity	2.5	*2.0*
Operating revenue	4.5	*4.9*
Net surplus	0.5	*1.1*

Background

The Northern Territory Legal Aid Commission was established on 11 June 1990 by the Legal Aid Act 1990. The Commission commenced its activities on 1 July 1990. The Commission, in accordance with the then Financial Administration and Audit Act, was required to table audited accrual based financial statements.

From 1 April 1995 on the commencement of the Financial Management Act, through to 31 December 1998 with the subsequent amendment to the Legal Aid Act, the Commission was not required to table audited accrual based financial statements. During this period the Commission was identified as a general Government Agency and as such was required to report on a cash basis. There was also no requirement to have these cash financial statements audited, although the Commission did elect for an audit to satisfy Commonwealth funding commitments.

With the passing of the Legal Aid Amendment Act 1998 on 21 October 1998, the Commission ceased to be a government Agency from 1 January 1999. The Commission was once again required to prepare and table annual audited accrual based financial statements.

Auditing the Public Account and other accounts
Financial statement analysis - Legal Aid Commission

Audit analysis

Overall income of the Commission decreased in 1999 over the prior year by 7.8% due to a reduction in contributions and costs recovered from clients, and the elimination of the Commonwealth's Expensive Cases Reimbursement Scheme. While expenditure during the same period showed a moderate increase the Commission was still able to generate a $520,000 surplus for the year. The current surplus together with past surpluses has enabled the Commission to build up accumulated reserves of $2.5 million with a cash position at 30 June 1999 of $2.89 million. The majority of these funds are held in reserve to fund high cost cases, as and when they occur.

A qualified Audit Report was issued

The Commission’s reported financial results are impacted by the practice of recording all the expected costs of current cases before all the work has been conducted.

I issued a qualified audit opinion on the Commission’s 1999 financial statements. The qualification was in two parts:

1. Grants in aid

The Commission continued its accounting policy that recognised a provision for grants in aid. The provision represented the Commission’s commitment for work performed but not billed at 30 June 1999 by solicitors, together with an estimate of the cost to complete all outstanding cases as at 30 June 1999. I considered this policy to be a departure from generally accepted accounting practices. The effect of the policy is that all or part of the $711,164 of the grant in aid provision may be overstating the expenses and liabilities of the Commission, because the Commission’s policy requires costs yet to be incurred from future transactions and events to be recognised. Accounting concepts require only liabilities arising from past transactions and events to be recorded. As no records were maintained for unbilled work as at 30 June 1999, I was unable to quantify the effect on the operating surplus or the grants in aid provision.

Also the costs to complete all outstanding cases should not be recognised as an expense of the period. The costs to complete should be disclosed in the financial statements in the Notes, but not included as a provision.

2. Prior year’s financial statements

Because the Northern Territory Legal Aid Commission’s accrual financial report as at 30 June 1998 was not audited, I was unable to satisfy myself as to the accuracy of the grants in aid provision of $870,275 at 30 June 1998, and to identify the amount in that provision relating to future transactions and events. This represented 69% of the entity’s recorded liabilities at that date. Any error in the grants in aid provision as at 30 June 1998 would effect the statement of financial position as at 30 June 1998 and the results for the year ended 30 June 1999.

Auditing the Public Account and other accounts
Financial statement analysis - Legal Aid Commission

The Northern Territory Legal Aid Commission has commented:

> *The Commission's accounting treatment for grants of aid is to create a provision for the value of grants outstanding with private practitioners at the end of the financial year. That is, the provision brings to account work undertaken but not billed plus work yet to be performed on behalf of the clients that the Commission has referred to private practitioners. The recognition of this liability, whilst being a departure from generally accepted accounting practices, is considered to be prudent financial reporting and management.*

Hidden Valley Promotions Pty Ltd - an analysis based on its 1999 financial statements

KEY FINDINGS

- **Substantial financial support continued to be provided by Government to allow the event to be staged to the expected national standard.**
- **An economic impact assessment may be warranted.**
- **Administrative controls over issuing of tickets have improved.**

Brief financial statistics	1999	*1998*
	$'000	*$'000*
Public funds invested in assets	104	*45*
Total liabilities	58	*37*
Net investment of public funds	46	*8*
Operating revenue	1,320	*971*
Operating deficit before government grants	(697)	*(1,513)*
Government grants	735	*1,520*

Background

Hidden Valley Promotions Pty Ltd (the Company) was established by the Department of Sport and Recreation on 28 November 1997 to promote and facilitate the running of a national Touring Car race at the Hidden Valley Circuit in Darwin.

The first race was staged in July 1998. Further race meetings were held in June 1999 and May 2000. The company's agreement with the national race organisers to hold the event annually at Hidden Valley has been extended to 2005.

I have now audited the financial report of the company for the second year of its operations which ended on 31 December 1999.

Administrative controls over issuing of tickets have improved.

I am pleased to report for its second year of operation the ticketing processes were significantly improved over the previous year's event. Procedures could still be improved with an overall reconciliation of tickets issued. Some concerns in regard to gate concession tickets were being addressed for the 2000 event.

Auditing the Public Account and other accounts
Financial statement analysis - Hidden Valley Promotions Pty Ltd

Audit analysis

Substantial financial support continued to be provided by Government to allow the event to be staged to the expected national standard.

The company recorded an operating surplus of $38,000 for the year ended 31 December 1999.

In achieving that surplus, financial support to the company was provided by the Government through the Department of the Chief Minister, by way of direct funding and other support, as follows:

General funding	$595,000
Funding for the free public bus, and for power costs	$140,000
Supply of generators and power cables	$ 45,000
Other expenses paid on behalf of the company	$ 11,669
TOTAL	$791,669

The following associated outlay also used public resources:

Purchase of the Chief Minister's corporate marquee	$110,290

Comparable activities in the first year of the event required funding by Government totalling $1.78 million.

The Department of the Chief Minister also pays the salaries of the four employees, including the Chairman, of the Major Events Company Pty Ltd, who provide their services in the production of the event. These costs, and the equivalent funding support, were not separately calculated for inclusion into the financial report.

Following the $5.85 million Government funded track upgrade in 1998, a further $2 million was allocated by Government for additional drainage works, improvement of spectator facilities, pit garage buildings and additional safety upgrades and resurfacing of the track prior to the 1999 event. Further improvements of almost $500,000 were due for completion prior to the 2000 event.

In light of the substantial public funding being allocated to this event, an economic impact assessment may be warranted. This would assess the extent of additional economic benefits which the event brings into the Northern Territory. It would provide a level of accountability for the public funding involved.

The Government estimates attendance numbers over the three day event are in the order of 30,000. As a benchmark of this level of public funding support by the Government, the IndyCar event in Queensland received direct Queensland Government support of $8.3 million in 1999, with attendance numbers estimated at 250,000. The Queensland Government assessed that the 1999 IndyCar event generated $42.1 million in economic benefits to the State in that year.

***The Department of the Chief Minister has commented** – refer page 50*

Auditing the Public Account and other accounts
Financial statement analysis - Hidden Valley Promotions Pty Ltd

The Department of the Chief Minister has commented:

In terms of an economic impact study, two small studies were undertaken in 1998 and 1999 respectively. The 1999 study indicated a positive economic impact of around $2 million.

The word "accountability" in relation to the economic impact study should be "justification". Accountability is already achieved by the capacity for yourself to report publicly on the event.

Auditing the Public Account and other accounts

Katherine District Business Re-establishment Trust Fund

KEY FINDINGS

- **Disbursement of the balance of the Fund has now occurred.**
- **The Trust is now awaiting the final Parliamentary reporting process.**

Background

In February 1998, following the Australia Day floods of the Katherine region, the Chief Minister of Northern Territory and the Prime Minister of Australia jointly announced the formation of a business re-establishment fund to help the business community of the Katherine district recover. This was in addition to other substantial assistance to the region. The fund's target was $10 million. The Northern Territory and the Commonwealth would each contribute a third, with the balance to be sought from business in the region. A Trust was established to oversee the fund and I was subsequently appointed as the auditor.

Funds received totalled $6.9 million. The Commonwealth and the Northern Territory each contributed $3.3 million. Business donations were $275,000 and interest earned contributed a further $23,500.

I included comments on the status of the financial position of the Trust in my August 1999 Report to the Legislative Assembly. At that time, an unexpended balance of $89,580 was held, pending agreement with the Commonwealth Government on how this could be disbursed in accordance with the Trust Deed. Interest received at that time was only $169.

Audit analysis

Disbursement of the remaining balance of the Fund has now occurred.

Following negotiation with the Commonwealth Government, and with the addition of the further interest, the following payments were made:

Katherine Region Economic Development Organisation Inc.	$4,605
Northern Territory Chamber of Commerce and Industry	$104,890
Power & Water Authority	$3,409

The amounts and purposes for the payments to these organisations were:

- $4,605: to subsidise the cost of staging a business development function *Katherine Business-Today and Tomorrow* in September 1999;
- $104,890: for a business "Expo" in Katherine in June 2000, and for the production of a Katherine Region Business Directory for 2000/01 and for 20001/02; and
- $3,409: for waiver of electricity charges for a Katherine business.

Audit analysis (continued)

The transactions of the Trust were administered in accordance with the requirements of the Trust Deed and have been fairly presented in the Trust's final financial statement. My unqualified opinion on the financial statement of the Trust was provided to the trustees and to the Treasurer on 26 June 2000.

The Trust Deed also provides for the trustees to prepare a final report to the Treasurer, who is required to table the report in the Legislative Assembly as soon as practicable after receiving it. This final report had not been tabled as at 30 June 2000.

Matters Arising from Performance Management System Audits

Performance management system audits

Matching performance information to policy outcomes

KEY FINDINGS

- **There is generally a lack of performance information reported by Government Agencies to allow Parliamentarians to assess how well Government policies are being delivered.**
- **While it is appreciated that measuring outcomes of policies is in some cases a difficult conceptual task, this remains a core professional responsibility of public administrators.**

Background

The profession of public administration has two broad roles. The first is to provide to the elected Government of the day expert and impartial advice on policy responses appropriate to meet emerging community needs. Once the Government has determined its preferred policy direction, the next role of public administration is the development and implementation of strategies to deliver the policy of the Government to its citizens.

Public funds are allocated to Government Departments by the Parliament to achieve the Government's intended policy outcomes. In our system of Parliamentary democracy, the Parliament is entitled, on behalf of its constituents, to scrutinise the Government's performance in the use of public funds. The effectiveness of this scrutiny relies on the calibre of performance information provided by the Government. The primary mechanisms for presentation of performance information are Ministerial Statements; Question time in the Parliament; Estimates Committees, or as in the Northern Territory, the Appropriation Bill Committee stage; and in Annual Reports of Agencies.

Performance information supplied by Agencies in Annual Reports to the Parliament should be reliable, impartial, and professionally compiled.

Parliamentarians are seeking a high standard of professionalism by public administrators when establishing expectations for performance information. On 11 May 2000 in the Northern Territory Legislative Assembly, in commenting on the expectations of Parliamentarians for Government Agencies when defining their objectives, the Chief Minister stated:

> *"My opinion of objectives is that they need to be easily understood, achievable and time constrained. When I see objectives that I can't understand in that way, I immediately say to myself it is very difficult for an Agency to report meaningfully against that particular objective, and equally it is easy for an agency to escape its obligations if the objectives aren't set very clearly."*

Performance management system audits
Matching performance information to policy outcomes

Background (continued)

The Chief Minister's comments are seeking a high standard of transparency about the application of public monies to the achievement of Government policies.

In performance management system audits conducted recently, transparency in the management of policy outcomes is defined to entail the following criteria:

- Establish expectations for the outcomes, in measurable terms.
- Build systems to measure and monitor the extent of achievement of those expectations.
- Report performance information about the extent of the achievement.

Expectations for outcomes is established by Agencies in their Outcomes statements in the Government's Budget Papers. The role of Government Agencies is then to build systems to measure and monitor the extent of achievement of those expectations, and to include relevant performance information about the extent of that achievement in their Annual Reports.

Performance is best understood when results are compared with intended results, or previous results, or results similarly measured by a comparable entity. This gives the performance information a context in the following ways:

Comparisons of actual results to budget, and/or to pre-determined performance outcome goals provide the clearest measures of performance. This is because a specific intended result has been clearly identified and if systems to measure the results are devised and implemented, accountability for the extent of achievement can be readily reported.

Comparisons to previous results, preferably over more than one year so that trend information is available, offer an alternative when performance is expressed in less measured terms such as: "increase", "improve", "reduce", "maintain". The trend analysis will show whether the performance trendline is reflecting the direction expressed in the performance aspirations.

Benchmarking, that is, comparisons with results similarly measured by a comparable entity, allows performance information to be derived. Trend analysis can be combined with benchmarking to overcome objections to use of benchmarked information. These objections usually arise when the entities or jurisdictions are not considered to be sufficiently comparable. However, trending the performance of two or more entity's or jurisdictions over time can reveal whether one or more is moving in a different way than the direction of the others.

In my February 2000 Report to the Legislative Assembly, I highlighted the worldwide trend to reporting performance in sustainable development – or "triple bottom line" – terms. This refers to reporting an entity's performance in the areas of financial management, natural resources management, and social policy delivery. These three elements are identified to give stronger recognition in private and public sector entities as to the areas which need consideration and management if our generation is to pursue sustainable community development policies. The 1987 Report by the World Commission of Environment and Development reported: "*Sustainable development meets the needs of the present world without compromising the ability of future generations to meet their own needs.*"

Performance management system audits
Matching performance information to policy outcomes

Audit findings

The Government's key performance measures of its fiscal management policies are the five elements of its core fiscal strategies. These are regularly reported upon in Budget documents, and were for the first time reported upon in the Treasurer's Annual Financial Report for 1998/99 using final actual results. My comments on the fiscal strategies are provided on pages 10 to 15, and on other specific aspects of managing financial resources on pages 63 to 76.

However, there is generally a lack of performance information reported by Government Agencies which allows Parliamentarians to assess how well Government policies are being delivered, particularly in the areas of managing natural resources and social policy delivery. More specific comments are provided at pages 77 to 100.

Outcomes defined in Budget papers are at best supported by reports about the achievement of outputs, such as projects and tasks undertaken. But outputs only reflect the implementation of strategies, not whether the strategy succeeded in making the impact intended to deliver the policy outcome.

While it is appreciated that measuring outcomes of policies is in some cases a difficult conceptual task, this remains a core professional responsibility of public administrators. A sense of "what success would look like" is likely to exist when policy advice is created, and when policy choices are made by the Government. Professional public administration practice expects this vision to be translated into measurable terms, so that achievement can be evaluated and reported, and if necessary, strategy interventions modified. Future policy and strategy design can also benefit from such an evaluation culture. As I outlined in my February 2000 Report to the Legislative Assembly, the concepts of performance measurement and the "learning organisation" are the purposes intended for program evaluation techniques used in public policy management.

The Commonwealth Government Productivity Commission, in its annual Report on Government Service Provision, provides examples of inter-jurisdictional benchmarking. Comments are also included by some Northern Territory entities cautioning why their information is not readily comparable in some instances.

That information is available at:

http://www.pc.gov.au

A best practice example of performance information clearly reporting on expectations established by Government, using comparisons with intended results, previous results and comparable benchmarks, is the provincial Government of Alberta in Canada, in their annual document entitled "Measuring Up". It reports performance information classified in the "triple bottom line" terms of People, Prosperity and Preservation. "Measuring Up" is accessible at:

http://www.treas.gov.ab.ca/publications/measuring/measup00/intro.html

Performance management system audits

Setting information technology policies for the public sector – an update

KEY FINDINGS

- **Information technology policies governing public sector operations have still not been released.**
- **These are needed to support the current outsourcing of Government information technology services.**

Background

In my August 1999 Report to the Legislative Assembly I highlighted that the Government's strategic policies for how Information Technology is to be used to support its operational needs were not clear. I identified that I had first reported on the subject in August 1997.

I outlined that the Government was moving to an outsourcing to private sector providers of its Information Technology requirements, and the design and management of that procurement should be done with reference to a well recognised and integrated policy framework, to safeguard the Government's and the public's interests.

Audit findings

Generally, the issues raised during the 1999 audit have still not been adequately addressed. Information technology policies governing public sector operations have still not been released. A policy model, and the Information Technology & Telecommunications (IT&T) Standards policy, were approved by Cabinet in September 1999. A number of policies were drafted based on this model. However, in April 2000, the policy model was revised, which has provided the basis for the policies currently being drafted.

To support the current initiatives of progressive outsourcing of Government Information Technology services, it is important that a process for the development, approval and dissemination of whole of Government IT policies be formalised and agreed by all parties concerned within Government.

A number of concerns were raised during the audit in March 1999 regarding the lack of process definition for the development, approval and dissemination of policies. These concerns have not been adequately addressed.

The policy framework endorsed by Cabinet in September 1999 consisted of only a list of policies for development. This framework did not provide a strategy for the development, authorisation and dissemination of the policies.

Performance management system audits
IT policies for the public sector

The IT&T Policy endorsed in September 1999 defines government mandated software and hardware.

In March 2000, Cabinet considered and approved the "Effective Keeping of Government Records" policy.

In April 2000, the policy model was restructured to distinguish between user policies, technical policies and contract policies. A broader strategic focus was also incorporated into the policies. Since the introduction of the new model, no further development has been performed on the previous framework. The new policy model had not yet been endorsed by Government.

The new policy model consisted of a user policy and a series of technical policies. The user policy was due to be issued in draft to stakeholders for comment during June 2000.

Other selected policies within the new model had been issued for stakeholder comment. These policies included Disaster Recovery; Internet Services; E-Commerce; General Security; Electronic Messaging; WAN Access and legislation considerations.

The Department expected that a new Cabinet Submission would be drafted by July 2000 that contained the new policy model, the user policy and the new technical policies.

The following issues were identified and discussed with the Department of Corporate and Information Services (DCIS).

- There was a variety of views as to how the policies should be formatted and the level of detail that they should contain.

- There was no unified strategy for the development, maintenance, approval and dissemination of whole of Government policies.

  The Agency advised that the development and maintenance of whole of government IT policies has been allocated by Government to the Strategic Advice group within DCIS and, where appropriate to the Office of Communications, Science and Advanced Technology and the Department of Lands, Planning and Environment. The approving body for the policies is Cabinet. In the case of DCIS policies, dissemination will be via Agency-based DCIS staff and Chief Executive Officers.

- It was also unclear as to how Agencies will adopt the policies and integrate them into Agency level policy development frameworks.

  DCIS advised that like other Whole-of-Government policies the integration of IT policies into Agency frameworks would rest with the Chief Executive Officer. Advice and assistance would be available from DCIS staff.

- The development of these policies lacked a project management framework. There were no clearly identified deliverables (apart from the actual policies), milestones, target dates or a project plan. There was also a relatively low level of executive management ownership of the project.

Performance management system audits
IT policies for the public sector

- A review of the current policy drafts identified that they did not contain statements of endorsement by the Government, nor contact details for queries or suggested updates.

  DCIS advised that under existing arrangements policies would be approved by Cabinet. Endorsement across Government will be achieved via the preparation and distribution of Cabinet Submissions and by consultation with stakeholders.

- The ongoing uncertainty of the policy development project and the incomplete nature of the policies impose a risk to the strategy for whole of government outsourcing. There were very few endorsed policies to provide outsourced vendors with policy guidance for the operation and support of information systems.

- Current outsourcing arrangements were operating without an effective policy framework. While there was no evidence to suggest that individual parties were not operating professionally, these parties were unable to consider a “Whole of NT Government” perspective. Instances had occurred where an outsourced vendor had requested further information regarding the Government’s security policies. Replies to these queries were provided with reference to unendorsed policy drafts.

The Department of Corporate and Information Services has commented:

> *The audit overlooks the fact that existing information technology policies continue to operate until such time as they are replaced by updated versions in the new policy framework. One of the most critical policies in the context of the government’s outsourcing agenda, the definition of mandatory software and hardware standards, was approved by Cabinet in September 1999, and a high level of consistency is already being achieved across agencies.*
>
> *Comprehensive information for outsourced service providers in the operation and support of information technology systems is provided through the respective tender and contract documents and it is not accepted that the incomplete policy framework presents a risk. Executive management clearly recognises the importance of the project and is working towards achieving the best outcomes from the revised framework.*

Performance management system audits
Managing financial resources

Lease versus Buy assessments in the procurement process

KEY FINDINGS

- **There are no policies promulgated by Government requiring Agencies to conduct lease versus buy analyses. Nor was their any formal assistance issued to Agencies as to how to conduct such analyses.**
- **Without the appropriate decision support processes to assess lease versus buy options, the risk remains that the most economical use of government resources will not be achieved.**

Background

On 14 October 1998, the Treasurer advised in a Ministerial Statement:

> *"Treasury is to undertake a 6 month trial of operating leased computer equipment, rather than direct purchasing or finance leasing, to assess the balance between lower leasing costs and the risks of higher management costs. If, as expected, the benefits outweigh the costs, all Agencies will be given the opportunity to participate in a service-wide leasing/tender arrangement."*

A performance management system audit was completed with the objective to determine whether Agencies had systems in place to assess the benefits and costs of the lease versus buy options in the procurement of assets, when making resource allocation decisions in support of their business needs.

The audit considered whether any whole of Government policy directives, prescribed procedures and practices or central agency support mechanisms were in place, and inquired into guidance and assistance currently available to Agencies from Northern Territory Treasury and the Department of Industry and Business, through the Procurement Review Board.

Audit findings

The audit confirmed that financing policy advice is a function of Treasury, while procurement policy is a function of the Procurement Review Board of the Department of Industries and Business.

The conduct of procurement procedures are the responsibility of individual Agencies, assisted for larger transactions by the Contracts and Procurement Branch of the Department of Corporate and Information Services (DCIS).

Audit findings (continued)

However, there are no policies promulgated by Treasury, on behalf of the Government, requiring agencies to conduct lease versus buy analyses. Nor was their any formal assistance issued to Agencies as to how to conduct such analyses. It was noted that for larger acquisitions, such as the replacement Police aircraft, Treasury had requested a review of the financing options.

No results were published by Treasury of the trial of operating leases for computer equipment which was announced by the Treasurer in October 1998.

The decision by an Agency whether to lease or buy was not necessarily based on consideration of the most cost effective alternative. Following an Agency request to arrange a finance lease, mostly for Information Technology equipment, the Department of Corporate and Information services (DCIS), would seek quotes from the two preferred lease companies. However, there was no evidence that the rates offered by these long-standing suppliers were periodically tested against the market by Treasury or by DCIS, other than comparisons as between these two suppliers.

The audit did not find a consistent approach by Agencies to the analysis of lease versus buy options for procurement. Doubts were expressed as to the skills in some Agencies to perform this analysis.

A general view identified was that the leasing of an asset was chosen as a procurement method over outright purchase when capital funding was not available or budgeted for. If an asset was leased the cost was met from the operating budget over a number of years. However, whilst this enabled the Agency to fund the asset acquisition within its existing budget, on a whole of government basis leasing may not have been the most cost effective option.

Without the appropriate decision support processes to assess lease versus buy options, the risk remains that the most economical use of government resources will not be achieved.

For the analysis to occur on a consistent basis there needs to be a positive direction to agencies that they should as a matter of course conduct this analysis. In 1999, Guideline No.G7 ‘Procurement Planning’ was redrafted to include a requirement for agencies to consider whether to lease a good or to buy it. The revised drafts had not been released at the time of the audit. It was understood that there needed to be a complimentary change in the Treasurer’s Directions before the procurement guideline changes could proceed.

Until these changes to the Procurement Guidelines and Treasurer’s Directions are formalised, Agencies remain unclear as to their obligations when deciding between purchasing options. As such, leases continue to be used as a means of acquiring assets when funds are not otherwise available, which may not be the most cost effective procurement option.

The audit also identified a training need for Agency procurement staff to assist them in deciding between the lease versus buy finance options through the application of a consistent methodology.

Performance management system audits
Lease vs Buy assessments

Audit findings (continued)

The lessons learnt from Treasury's trial of operating leases and the subsequent report by the NT Treasury Corporation could be used to help frame guidance and training to Agencies.

Discussions with staff within a selection of Agencies identified differences of interpretation of the requirement for the approval of finance leases. Section 32 of the Financial Management Act requires that monies shall not be raised except under the Act. This requires that only the Treasurer is able to raise debt for the Territory, which means the Treasurer or his delegate must approve all finance leases, as leasing is a form of raising debt.

Differences in interpretation present a risk that Agencies may not be obtaining approval from the Treasurer through his delegated authority to enter into finance leases. Agencies needed to be made aware of their obligation to comply with the Financial Management Act and have finance leases approved by the Treasurer through his delegated authority. It was recommended that this requirement be included within training to be provided to Agency procurement staff.

It was noted that in February 2000, Treasury circulated a proposal to have the Treasurer further delegate his authority to Agencies for finance leases approval within certain limits. At the time of the audit this proposal had not been finalised.

Northern Territory Treasury has commented:

> *Treasury is working towards providing additional information and guidance to Agencies in relation to leases and the lease versus buy decision. As part of this process, Treasury is preparing a new Treasurer's Direction on leases and revised delegations to Agencies for the approval of finance leases. Complementary changes to the Procurement Guidelines will be facilitated through the Procurement Review Board as required. The results of Treasury's trial use of operating leases will be incorporated into the development of guidance provided to Agencies.*

Performance management system audits
Managing Financial Resources

Works Information Management System (WIMS) - Power and Water Authority

KEY FINDINGS

- **A number of significant business objectives expected from WIMS have still not been met.**
- **Until these are resolved, risks remain that maintenance planning and scheduling will not be attaining the desired efficiency levels to support achievement of the Authority's customer service standards.**

Background

In my August 1999 Report to the Legislative Assembly, I presented a summary of my findings from a performance management system audit at the Power and Water Authority (PAWA) on its repairs and maintenance planning and programming. The Authority's response was that the audit findings would be addressed by the introduction of the Works Information Management System (WIMS) which would record in-house labour, and plant and equipment costs.

To assess the Authority's response, a specific audit of WIMS was completed with the objective to obtain an understanding of WIMS, and in particular to identify how the system supports the business needs of PAWA.

WIMS is used for maintenance planning and scheduling. It is used to manage all maintenance and repair work on distributed or fixed assets, whether routine or unplanned. It facilitates the recording of costs.

The intended benefits from WIMS were defined to be:

- achieve performance improvements through appropriate scheduling of human and material resources;
- meet business needs for planning, scheduling and maintaining historical records for minor/recoverable works, preventative maintenance and emergency repairs and activities, as performed on the electricity, water, and sewerage systems, fixed plant and reticulation systems;
- integrate with existing PAWA systems;
- promote optimal use of resources;
- improve the timeliness and quality of services provided to PAWA customers;
- increase the control over costs of services; and
- support the application of the Government's Total Asset Management philosophy.

Performance management system audits - WIMS

Background (continued)

The annual operating costs for WIMS have been estimated by PAWA to be $858,000.

Audit findings

The implementation of WIMS has addressed a number of the original system objectives, however the following significant issues were identified during my review:

- Until recently, there had been user resistance to WIMS. Users had high expectations of the system and a large number of users were using purely manual systems prior to the implementation of WIMS. Therefore training had to incorporate IT skills and WIMS application training, but a number of personnel were still not using WIMS to schedule work and record costs. A further program of workshop training and user groups was developed in response.

- WIMS reporting was considered inadequate by management. As a result business performance was not being adequately monitored in some business areas.

- Preventative maintenance routines, to ensure timely scheduling of routine maintenance and inspection work, were still being developed and implemented within WIMS.
- Procedures for recording contractor costs were still being developed, and interfaces between WIMS and Asset Information System (AIS) to facilitate this had not been fully implemented. Contractor requisitions were raised directly on AIS and contractor costs manually input to AIS and WIMS.

- WIMS application security was considered inadequate, including procedures over the maintenance of users and password controls.

Until these issues are resolved, risks remain that maintenance planning and scheduling will not be attaining the desired efficiency levels to support achievement of the Authority's customer service standards.

Power and Water Authority has commented:

> *There has been considerable progress in the implementation of WIMS across the Authority since the Auditor-General undertook this audit and as such, many of the audit findings have now been addressed.*

Performance management system audits
Managing financial resources

Achievement of performance improvement targets - Power and Water Authority

KEY FINDINGS

- **Whilst Ministerial statements refer to $30 million of maintainable savings and efficiencies within three years, the policy direction received by PAWA from Government requires a $26 million business improvement program, achieving $21 million of operational savings and $5 million of additional revenue.**
- **When they are reported to the Government, the values of savings and revenue improvements are not identified as whether they represent estimates or actual values.**
- **Costs incurred to generate identified savings or additional revenue are not reported to the Government.**
- **Any impact on customer service standards resulting from the cost reduction program is not reported within the periodic submissions to the Government.**

Background

An audit was conducted to determine whether the Power and Water Authority (PAWA) has a performance management system which may reasonably be considered to enable it to assess its performance in achieving the cost reductions and other targets required by government.

The Treasurer first identified in his Planning for Growth speech on 1 December 1998 the requirement for PAWA to realise commercial improvements. He said:

> *"It has been estimated that efficiencies amounting to almost $30 million per year will have to be realised if the Power and Water Authority is to become truly competitive and able to reduce electricity charges to the consumer."*

This estimated amount had been derived from the Merrill Lynch/Fay, Richwhite review conducted in late 1998.

Performance management system audits
Performance improvement targets - PAWA

The Minister for Essential Services in his speech of 1 June 1999 on 'PAWA Reform - Six Months On' re-emphasised the Governments requirement for cost reduction when he said:

> *"The government targeted savings from these decisions of $30 million a year within 3 years, with these savings being directed to reductions in tariffs."*

In his speech the Minister also identified a number of other targets ancillary to the achievement of the cost reductions; such as, reduction in staff numbers, greater efficiencies in logistics management and reduction in information technology costs. The Minister also identified revenue improvement for PAWA's attention.

> *"I now address revenue improvement. The brief to the Authority was not just to make cuts, but also to look to all opportunities for financial improvement."*

The impact of the savings program was further emphasised by the Minister for Essential Services on 2 March 2000 when he stated:

> *"The most important internal measure was the decision by the government that the Authority would save around $30 million over 3 years, with $30 million annual savings to be at least maintained after that point. This posed an imminent challenge for the Authority."*

The Minister for Essential Services identified in a May 2000 address to the Legislative Assembly that progress against the efficiency improvement target was expected to rise to $20 million in the 1999/2000 year.

It was from the background of these various Ministerial Statements about the performance expectations being asked of PAWA that the audit was conducted.

Audit Findings

Whilst the ministerial statements refer to $30 million of "savings" and "efficiencies" the policy direction received by PAWA from Government requires a $26 million business improvement program, achieving $21 million of operational savings and $5 million of additional revenue within three years.

The values of identified savings and revenue improvements are not identified whether they represent estimates or actual values when they are reported to the Government.

Costs incurred to generate identified savings or additional revenue are not reported to the Government. For example, the costs incurred in the process of identifying the viability of projects, or in procurement to achieve improvements, are not reported. An illustration of this was the evaluation of fleet costs conducted by consultants. The costs of this review are not reported against the anticipated savings.

The impact on customer service standards within the cost reduction program is not reported within the periodic submissions to the Government. Whilst customer service standards have been documented and the data measured, any impact of savings on these customer standards are not addressed within the reporting to Government.

Performance management system audits
Performance improvement targets - PAWA

Audit Findings (continued)

PAWA's business improvement program, providing both qualitative and quantitative improvements, has been adopted within PAWA on both a corporate and business unit level. Business Unit managers have accepted responsibility and identified initiatives within their Units to gain efficiencies, or to initiate potential quantitative improvements. Each business unit reports monthly to senior management. To implement the business improvement program PAWA established Reform Implementation Working Groups to review and identify potential savings and efficiencies for reporting to management.

Status of the Savings Program

The savings and revenue increases identified within the January 2000 submission by PAWA to the Government totalled $12.4 million.

Savings and revenue opportunities are being identified within electricity, water, sewerage and across PAWA as a whole. The savings and revenue identified by PAWA as at January 2000, and their source, are illustrated as follows:

Source	**Identified Savings $**	**Identified Revenue $**
Electricity	1,000,000	800,000
Water/sewerage	-	49,000
Gas	2,500,000	-
PAWA generally	7,360,000	25,000
Total	10,860,000	1,540,000
Total Savings & Revenue	**$12,400,000**	

Power and Water Authority has commented:

The development of the Authority's reporting format to Government on achievements against the Business Improvement Program has been an iterative process based on feedback received. The Auditor-General's findings in relation to reporting mechanisms will be incorporated into future reports.

It is important to note in relation to customer performance standards that the Authority is now subject to independent regulatory oversight in relation to the 'power' side of its business. The regulator (the Utilities Commission), as a condition of the Authority's retail licence, will set minimum standards of service and safety that the Authority is required to adhere to. The Authority is currently developing a comprehensive compliance regime in support of its regulatory obligations. Once established, compliance reporting will become a standard feature in the Authority's reporting to Government

Advisory services - Office of the Commissioner for Public Employment

KEY FINDINGS

- **Professional advice on redundancies, early terminations and retrenchments is being provided.**
- **The top down approach and timeframes in Planning for Growth did not facilitate consultation, development and application by the OCPE of proven organisational change models, nor the ability for the OCPE to vary the end structure.**
- **There is no comprehensive listing of the productivity measures, quantitative and qualitative, formally taken into account in the Enterprise Bargaining Agreement (EBA) negotiation process, which can be referred to when explaining the additional levels of public monies required to fund the EBA commitments.**

Background

The Office of the Commissioner for Public Employment has a key role in the provision of human resource management and human resource development consultancy services, assistance and support to agencies within the NTPS.

The objective of this audit was to examine the performance management systems in use by the OCPE to manage effectively the following specific aspects of its role:

1. HRM aspects of early terminations and retrenchments, including Chief Executive Officers and other Executive Contract Officers, and assistance provided to agencies at the separation of employees where redundancy packages are offered
2. Assisting the 1998/99 Planning for Growth strategy of the Government, and with other organisational change strategies when required
3. Conduct of the 1999 Enterprise Bargaining Agreement process.

Performance management system audits
OCPE Advisory Services

Audit findings

In regard to HRM aspects of early terminations and retrenchments

In accordance with the Public Sector Employment and Management Act, the Commissioner for Public Employment is the nominee employer of all Northern Territory public sector (NTPS) employees, including Chief Executive Officers (CEOs), and Executive Contract Officers (ECOs).

Professional advice on redundancy and early terminations and retrenchments is being provided by the Office of the Commissioner for Public Employment (OCPE).

For early terminations of Chief Executive Officers (CEOs), interviews are usually conducted by the Chief Minister. For Executive Contract Officers (ECOs), the termination interview is conducted by their CEO. A right of appeal exists for ECOs with the Commissioner for Public Employment, but this has rarely been used.

Variations to the standard contract terms for CEOs and ECOs terminating early were observed in each case examined. All variations appear to be as a result of negotiations involving the Commissioner for Public Employment and the host Agency, and were approved appropriately. However, for the sample of terminations examined, no formal exit interview documentation was generally held on files maintained by the OCPE, and there is little, if any, record of particular discussions retained on the file. The OCPE undertook to complete the documentation for those instances identified by the audit.

For retrenchments of other than CEOs and ECOs, the OCPE is fulfilling the role as a source of advice and information to the case managers in Agencies. The level of understanding in Agencies about retrenchment procedures is supported and enhanced by their interactions with the OCPE. There is the added check that an officer from the OCPE speaks directly with each employee who is to exit through a retrenchment process.

Current efforts should continue to focus on reducing any perception of easy exit via retrenchment. The OCPE has a role in distributing accurate information and advice about this.

The Government’s policy that employees exiting via redundancy arrangements are not to be re-employed for two years was not evident in the Redeployment Procedures and Award document. It should be promulgated in an administrative procedures or recruitment handbook.

Detailed calculations of entitlements are the responsibility of the Human Resources Division in the Department of Corporate and Information Services (DCIS). The OCPE has no role in verification of the accuracy of payments. This is the responsibility of DCIS. The sample of retrenchments that were reviewed had accurate calculations of retrenchment entitlements.

Performance management system audits
OCPE Advisory Services

Audit findings (continued)

In regard to assisting the 1998/99 Planning for Growth strategy of the Government, and future organisational change strategies.

The Government announced in April 1998 that it intended to review organisational arrangements within the Northern Territory public sector. The results of that review were announced in October 1998, and required a number of common operational support functions to be transferred from individual Agencies to a new Department of Corporate and Information Services (DCIS).

The announcement identified that the Government sought to achieve greater efficiencies from pooling common resource requirements which support Government service delivery, and from introducing a more competitive environment for service delivery. An estimated 205 less administrative positions were foreseen, with a consequential saving of $15 million to be reallocated as general funding for Government programs.

The changes had significant impact on personnel in the administrative streams of finance, human resources, and information technology. Fewer of these positions were retained in Government; former workgroups were dismantled and replaced with new and unfamiliar circumstances; career and training opportunities needed to be re-evaluated; and unsettled systems and procedures and controls need to be stabilised.

The change management issues of communication, team building, employee involvement, stabilisation of roles and maintenance of operational focus, required considerable management attention. However, change management techniques are well documented in management literature, and are included in management training support available to middle and senior managers in the Northern Territory public sector.

The role of the OCPE and in particular the Commissioner was one of implementation management. Clearly defined objectives had been established by Government in announcing its strategy to the NTPS. The OCPE had a role to manage employees who were affected by the change, to fine tune change activities, as well as an ongoing role of post implementation reviews.

The devolved management model which prevails in the NTPS as a result of the Public Sector Employment and Management Act impacts on the extent of the OCPE role in supporting significant change management strategies. The key aspects are:

- devolution of operational responsibility and accountability in full for the management of human resource issues to CEOs.
- clear delineation of the respective roles of CEOs and the Commissioner

Traditionally, in any large and rapid organisational change there is an element of inability to cope effectively with change. The resolution or reduction of an inability to cope effectively with change can often be facilitated by well proven Human Resource Development (HRD) intervention techniques at both the organisational and the operational levels.

Audit findings (continued)

Organisational change strategies (continued)

Again the devolved management framework combined with tight timeframes and the levels of skills expected to be held by CEOs in change management would have made support of this kind less likely to have been sought from the OCPE. In fact, the assistance sought was mostly in the implementation phase.

The top down approach and timeframes in Planning for Growth did not facilitate consultation, development and application by the OCPE of proven organisational change models, such as involvement by the personnel directly involved in, and knowledgable of, the tasks and systems to be changed, nor an ability for the OCPE to vary the end structure.

However, there is an ongoing role for the OCPE to provide professional HRD advice, support and consultancy to agencies within the NTPS agencies during organisational change phases.

The OCPE has identified its HRD capability as requiring enhancement. At present, through its Learning Centre initiative, the OCPE is developing the capacity to provide professional HRD expertise which will be available to agencies to assist them to achieve more recent initiatives through their capability plans. This is necessary to enhance the capability for professional HRD advice and assistance to support the implementation of the Government's Foundations for the Future strategies.

In regard to the 1999 Enterprise Bargaining Agreement

Enterprise Bargaining Agreements (EBAs) are negotiated by the Commissioner for Public Employment with Union representatives, and in direct consultation with NTPS officers, in accordance with the Commonwealth Government's Workplace Relations Act. The principle behind EBA negotiations is that productivity improvements can be shared financially between employees and the employer. While productivity gains in private sector profit seeking entities can be measured with reference to commercial results achieved, productivity improvements in public service delivery entities are less measurable.

In discussing how to measure gains in NTPS productivity, it was highlighted that despite population increases, NTPS personnel numbers are being contained, and the NTPS is providing equal or improved levels of service with fewer resources. However, assessment of the quality of service levels was more intuitive than based on evidence. There was no evidence of benchmarking across other administrations to assess whether other administrations are outperforming the NTPS.

Audit findings (continued)

The 1999 Enterprise Bargaining Agreement (continued)

In setting wage increment offers, the OCPE viewed success as being achieved through:

- the current level of industrial relations stability;
- market rates not being exceeded;
- no forced losses;
- acceptance of the voluntary redundancy arrangement;
- acceptance of new technology;
- an acceptance of ongoing change generally; and
- all gains remaining within the Government's budget parameters.

Though productivity was explained in these ways, it remains that there is no comprehensive listing of the productivity measures, quantitative and qualitative, formally taken into account in the negotiation process, which can be referred to when explaining the additional levels of public monies required to fund the EBA commitments.

In my November 1999 Report to the Legislative Assembly on the Treasurer's Annual Financial Statement for 1998/99, I included an analysis of the growth trends in personnel costs over a five-year period. This highlighted that wage increases following previous EBA agreements, combined with increases in personnel numbers then occurring particularly in Territory Health Services and the Department of Education, had contributed to increases in annual personnel costs of 10% and 8% in the 1996/97 and 1997/98 years respectively, in years when EBA increments were 4% and 3%.

Although the 4% increase in personnel costs in 1998/99 more closely matched the 3% EBA increment in that year, the trend data illustrates the risks to achievement of the Government's budget if wage increases are not being directly linked to data on personnel productivity levels, and associated forecasts of personnel numbers required, and to more specific instances of efficiencies obtained.

The Office of the Commissioner for Public Employment has commented:

> *In regard to HRM aspects of early terminations and retrenchments –*
>
> *The OCPE has already agreed to promulgate the 2 year rule in Employment Instruction No. 1 and action to do so is underway.*
>
> *In regard to the Enterprise Bargaining Agreement –*
>
> *The matter of qualitative and quantitative measures of productivity will be addressed in the next round of negotiations although, given the outcomes to date, the value of doing so remains to be demonstrated.*

Performance management system audits
Managing Financial Resources

Whole of Government Budget development and management - Northern Territory Treasury

KEY FINDINGS

- **Treasury's key performance information about its Budget development and management programs is based on some of the outputs of its processes.**
- **Performance information, which clearly addresses the outcomes identified by Treasury for its Budget programs, is not compiled and reported.**

Background

Budget policy, development and management are key responsibilities of Northern Territory Treasury, and in 1999/2000 were resourced from the Budget Development and Management Programs. While expenditure of $2.7 million was expected by that program in 1999/2000, it managed the preparation and monitoring of the Territory's total budget, with outlays expected for 1999/2000 of $3.08 billion.

Expectations for outcomes in 1999/2000 for the program areas examined were identified as follows in Budget Paper No. 2 for 1999/2000:

- **Improved advice and information to facilitate Government and Agency resource allocation decision making**
- **Enhanced budget and financial management procedures and systems to facilitate improved budget outcomes.**

Audit findings

Considerable procedural, organisational, managerial and review effort is invested each year by Treasury in the Budget development and management processes. There is a genuine effort to improve the processes each year, and to provide a professional service to the Treasurer and to Budget Cabinet.

The introduction of the Umbrella Cabinet Submissions, together with Treasury comments which give some priority to Agency requests, appear to have been appreciated by the Government.

Business Plans have been prepared for both Budget Development and Budget Management, which align with Treasury's goals. Performance indicators have been identified in each business plan, and Personnel Development Plans document the linkage between the performance expectations in the business plans, and development requirements for Treasury personnel.

Performance management system audits
Whole of Government Budget development and management

Audit findings (continued)

Recommendations for budget system improvements identified in an evaluation by external consultants in 1998 are still being assessed, and timelines for implementation are being extended.

While a key outcome of the **Budget Development** process, as set out in Budget Paper No. 2, is "Improved advice and information to facilitate Government and Agency resource allocation decision making", currently there is no formal system to measure and report on the achievement of this outcome.

Performance indicators established for the Budget Development process as identified in the 1999/00 Budget Development Business Plan are:

1. Turn around times on Cabinet submissions comments and Ministerial briefings
2. Internal deadlines
3. Accuracy and quality of advice and briefings

Performance reporting in the 1998/99 Annual Report of Treasury for Budget Development and Monitoring identified performance indicators in slightly different terms of "quality and timeliness" for Budget information, advice to Agencies, and analysis. Performance information reported involved three specific matters - timing of the 1999/00 Budget; adoption of the Umbrella Cabinet submission approach; and new works programming procedures. This performance information dealt with processes, rather than with how the outcomes and impacts of Treasury advice, analysis and processes contributed to Government and Agency resource allocation and decision-making.

In reporting performance information for the desired outcome of "provide improved advice and information to facilitate Government resource allocation decision making", the impact of Treasury’s advisory role should be assessed.

For example, the Government's transition from the debt reduction policy to the growth in debt policy between 1999/2000 and 2000/20001 budgets would have been made within the context of this advisory role. This sets the basis for a comment in the 1999/2000 Annual Report of Treasury on the decision support provided to Government to make that policy change, so that the quality of that advice can be evaluated.

The debt management discussion in the unaudited Treasurer's Annual Financial Report, and the fiscal strategies analysis in Budget Paper No. 3, are examples of Treasury’s policy advice to Government. References to these could be included in Treasury’s Annual Report as indications of how the outcome of "improved advice and information to Government" is delivered.

Performance management system audits
Whole of Government Budget development and management

Audit findings (continued)

The other key customer group identified in the outcome statement is the Agencies. At the time of compiling this report, no feedback had been obtained from the Agencies on whether they felt they received "improved advice and information to facilitate resource allocation decision making" when preparing their papers for the Umbrella Cabinet submission. Feedback could be developed into a client service charter, or service level agreement, setting out roles and responsibilities as between Treasury and Agencies in developing, and monitoring, the Budget each year.

While a key outcome of the **Budget Management** process, as set out in Budget Paper No. 2 is "Enhanced budget and financial management procedures and systems to facilitate improved budget outcomes", currently there is no formal system to measure and report on the achievement of this outcome.

Performance indicators established for the Budget Management process are:

1. Accurate and comprehensive whole of Government Reports
2. Appropriate and timely reporting of budget outcomes data

Performance information in the 1998/99 Annual Report of Treasury for Budget Management also identified those two performance indicators.

The performance reporting in the Annual Report commented on processes for improvements in systems, and the status of the accrual budgeting and reporting projects, rather than how these or other actions of Budget management had impacted on "improved budget outcomes".

A further stage in development of the performance management systems of the Budget management processes would see performance measures for the desired outcome of "enhanced budget and financial management procedures and systems to facilitate improved budget outcomes." With "improved budget outcomes" as the intended impact, a definition of this would provide the basis for performance measures to be devised.

The reference in the performance indicator to "comprehensive" whole of Government Reports should also be defined, for ease of subsequent assessment of its achievement.

For example, "comprehensive" could mean:

♦ not only financial numbers, but also a Management Discussion and Analysis, using principles established for good corporate governance reporting practices;

♦ use of comparative reference points, such as intended results (the budget), prior year results, and/or comparable results in other jurisdictions, to give the performance reporting an understandable context when published.

Performance management system audits
Whole of Government Budget development and management

Northern Territory Treasury has commented:

It is not appropriate that advice provided to Government, in confidence, is assessed by any party other than Government. The analysis of Government decisions is subject to the usual Parliamentary and public scrutiny processes.

The concept of a provider/client charter would not reflect the relationship between Treasury and agencies. Respective roles and responsibilities have been established for a long time, are well understood by all parties involved, are continually refined as circumstances require and are regularly promulgated to Agencies in Circulars and briefings throughout the year.

Performance management system audits - Managing natural resources

Environment protection – Department of Lands, Planning and Environment

KEY FINDING

- **Performance information about Environmental Protection in the Agency's 1998/99 Annual Report comments on processes, projects and some outputs, but performance reporting does not identify how these have impacted on delivering the intended outcomes.**

Background

Environment protection is one of the key responsibilities of the Agency, and is resourced within the Environment Protection Program. Expenditure of $2.3 million is expected by that program in 1999/2000.

Expectations for outcomes in 1999/2000 for this program area were identified as follows in Budget Paper No. 2 for 1999/2000:

- **Minimising the environmental impact of major developments**
- **Improving waste management practices and minimising impacts from pollution**

This latter outcome responds to the Government's 1995 Strategy for Waste Management and Pollution Control in the Northern Territory, which outlines a key on-going environmental protection policy of the Government.

Audit findings

Key performance information reported by the Agency about the Environmental Protection program is based on some of the outputs of its processes. Performance information is not compiled and reported to address the outcomes identified for the Environmental Protection Program.

The Agency identifies that its primary role is to maintain a quality Territory lifestyle through planned development, responsible management and sustainable use of our land, our water and our environment.

This role and the part played by the Environmental Protection Program in contributing to this goal is identified and followed through in planning documents. Outcomes, Key Result Areas and strategies have been established in alignment with the Agency's role. Training needs appear to align with the objectives of the program, and personnel performance reviews assist in maintaining focus on the objectives.

Performance management system audits
Environmental protection

Audit findings (continued)

A regime to report progress of strategy implementation to management is in use, and program evaluations have occurred and are reported in the Agency's Annual Report. Progress reporting to the Legislative Assembly on the Waste Management and Pollution Strategy has also occurred.

However, while performance information about Environmental Protection in the Agency's 1998/99 Annual Report comments on processes, projects and some outputs, performance reporting does not identify how these have impacted on delivering the intended outcomes, which are expressed in the trend terms of "minimising" and "improving".

Trend data should be compiled to address these outcomes, or the outcomes should be defined in more measurable terms.

The Department of Lands, Planning and Environment has commented:

> *The recommendation to compile trend data involves complex measurement activities which are not at this stage within the scope of program responsibilities. Planned outcomes in the future will be developed taking into account the capacity for performance measurement.*

**Performance management system audits
Managing natural resources**

Conservation management – Parks & Wildlife Commission

KEY FINDING

- **Key performance information reported by the Agency about the conservation management program is based primarily on the outputs of its processes. However performance information on some threatened species is reported, contributing performance information about the intended outcomes.**

Background

Conservation Management is one of the key programs of the Parks & Wildlife Commission, and was resourced within the Scientific Services Activity. Expected expenditure for the program in 1999/2000 was $3.2 million.

The Conservation Management Program objective was identified in Budget Paper No. 2, 1999/2000 as:

To ensure the conservation of indigenous species of flora and fauna of the Territory across all regions, and land tenures through the implementation of programs on sustainable use of wildlife, threatened species, Bushcare, invasive species and marine and coastal conservation.

Expectations for outcomes in 1999/2000 for this program area were identified as follows in Budget Paper No. 2:

- **Conservation of the indigenous species of wildlife of the Territory**

- **Control of the introduced species of flora and fauna in the Territory**

These outcomes align with Government’s 1998 'Strategy for the conservation of threatened species and ecological communities in the Northern Territory of Australia'.

Audit findings

Key performance information reported by the Agency about the conservation management program is based primarily on the outputs of its processes. However performance information on some threatened species is reported, contributing to performance information about the intended outcomes.

At the time of the audit the Commission was in the process of adopting a new performance management system, based on the results of a performance evaluation in 2000. Accordingly key performance information is yet to be reported on from the new system.

Performance management system audits
Conservation Management

Audit findings (continued)

The Commission has identified as one of its main objectives the conservation of indigenous species of flora and fauna across all regions of the Territory. Its key result areas are linked to the Government's "Foundation for the Future" vision statements.

The Commission is in the process of developing a new Oracle database to better monitor projects and outcomes. This database effectively uses project statements to monitor all aspects of particular conservation projects.

Whilst the new system is not fully operational, procedures have been adopted to assess the success, and to monitor, the various conservation management programs in place, and those expected to commence in the year 2000/01.

The Commission has indicated a difficulty in measuring effectiveness in its updated Corporate Plan:

> *"…the Parks and Wildlife Commission is still not yet in a position to conclusively assess its overall effectiveness in achieving conservation objectives, including the management of the Territory's parks and reserves. Increasing attention to performance management will be required to place it in a better position to measure progress and effectiveness."*

However, limited performance reporting on the conservation of threatened species was provided in the 1998/99 Annual Report. This included comment on the status of the Howard River population of Darwin Palm, the bilby on Aboriginal land managed for bilby conservation, and the Gouldian Finch, as well as other flora and fauna.

Trend information on population numbers and species provides good indications of the extent of achievement of the intended policy outcomes.

Performance management system audits
Managing natural resources

Office of Resource Development (ORD) – Department of Mines and Energy

KEY FINDINGS

- **Many of the seven outcomes identified for the ORD in Budget Paper No. 2 are expressed in terms of action words such as "increase" and "improve", which suggests that compilation of appropriate measures in trend terms should be possible.**
- **However, measures have not been identified against which achievement of the outcomes can be assessed.**

Background

The primary functions of the Office of Resource Development are to identify, promote and facilitate opportunities to maximise investment in the resource industries to the benefit of all Territorians. In this regard it has a significant role in advising on, and managing, sustainable development within the Northern Territory.

The Office of Resource Development was expecting to expend $3.4 million in 1999/2000.

In Budget Paper No. 2 for 1999/2000, ORD identified the following seven intended outcomes:

- **Increased economic development and employment from oil and gas related business.**
- **Increased economic development and employment from new and expanded mineral developments, including industrial minerals.**
- **Advancement of major agribusiness projects and identification of new agribusiness opportunities.**
- **Benefits to the Territory from the primary resources sector are better understood and maximised.**
- **Coordinated, Whole of Government approach to the promotion of the Territory's resource potential and opportunities.**
- **Improved access to, and dissemination of, information particularly through electronic applications such as web sites.**
- **Increased awareness, understanding and profile of the Territory's resource potential and more investors considering exploration or primary resource development projects in the Territory.**

Performance management system audits
Office of Resource Development

Audit findings

The ORD's Corporate and Business plans appropriately reflect the objectives and outcomes identified in Budget Paper No. 2. Many of the seven outcomes identified for ORD in Budget Paper No. 2 are expressed in terms of action words such as "increase" and "improve", which suggests that compilation of appropriate measures in trend terms should be possible.

However, measures have not been identified against which achievement of the outcomes can be assessed. A program evaluation conducted during the year may provide a better understanding of how performance measures can be identified.

Strategies in the Corporate Plan in some instances are not linked to the Business Plans. Whilst the Agribusiness and Resource Economics business plan documents the corporate plan objective to which the project relates, the business plans for Petroleum and Minerals Developments, and Petroleum and Mining Supply and Service did not provide such a link.

As well, whilst the majority of strategies and actions are allocated to specific personnel, some Key Result Areas and Key Performance Indicators had not been allocated.

These are necessary features in the system to manage the ORD's performance in achieving its intended outcomes.

The Government's Foundations for the Future requirements have been addressed in the planning documents of the ORD. The initiatives outlined within Foundation Two: Build on a Successful Resource-Based Economy, and Foundation Three: Become the Supply, Service and Distribution Centre for the Region have been incorporated into the Business Plans of the ORD.

The Department of Mines and Energy has commented:

> *In terms of Petroleum and Mining Supply and Service activities undertaken by ORD, some of their achievements are readily measurable in terms of new businesses establishing in the Territory. This information has been provided to the Minister and a copy of which was provided to the auditors.*
>
> *In terms of the larger Agribusiness, Petroleum and Mining developments a number of significant results have been achieved, and this information is in the public domain. However, there are numerous activities, which ORD staff is engaged which are highly confidential and some of these projects have very long lead times – for instance the Sunrise Gas Fields were discovered some 25 years ago. To fit a trend line to such activities would be difficult.*
>
> *The identification of performance measures for the achievements of ORD will be considered.*

Performance management system audits
Managing natural resources

Aboriginal Areas Protection Authority

KEY FINDING

- **The Agency's performance management system does not clearly document the link of its output achievements to its stated outcomes.**

Background

The Authority expected to expend $2.4 million in 1999/2000.

In Budget Paper No. 2 1999/2000 for the Aboriginal Areas Protection Authority, its outcomes are stated as:

- **Minimised opportunity for socially divisive controversies over the existence of sacred sites.**
- **Lower potential for harm to relations between Aboriginal custodians and the wider Territory population**
- **Increased level of certainty when identifying the constraints (if any) on land-use proposals arising from the existence of sacred sites.**

Audit findings

The Agency's objectives and outputs are clearly articulated in its Annual Report. Its principal management system, the Administration Research & Management System (ARMS), forms the basis of its management and reporting processes. It is a sophisticated system that, amongst other things, monitors the quality and quantity of the Agency's outputs. This system appears to provide a strong tool for the effective management and monitoring of the Agency's stated outputs. It also produces the statistical information that is reported in its Annual Reports.

However, the Agency's performance management system does not clearly link its output achievements to achievement of its stated outcomes.

As well, the use of financial information as a feature of the performance management system is limited.

The Agency's financial disclosures detailed in its Annual Report are:

- Annual Financial Statements;
- A summary of the staff training expenditure; and
- Financial disclosure of the fines imposed on parties convicted under the Sacred Sites Act.

Performance management system audits
Aboriginal Areas Protection Authority

These disclosures do not provide sufficient information to assess whether management is achieving its stated objectives, or outcomes, any more efficiently or economically from one year to the next.

The type of financial information that may lead to improved performance disclosure includes:

- Presentation of comparative financial disclosures. That is a comparison of current year information to previous year's results, accompanied by some commentary to explain fluctuations.
- The inclusion of commentary that explains the financial results from the perspective of the Agency achieving a stated output or outcome for a particular unit or divisional cost.
- A comparison of financial statistical results, if possible, to similar agencies in other jurisdictions.

The Aboriginal Areas Protection Authority has commented:

> *The Authority's Performance Management system has been updated in accordance with the audit recommendations so that performance statistics are now clearly linked to stated outcomes.*

Performance management system audits
Managing social policy delivery

Women's policy – Department of the Chief Minister

KEY FINDINGS

- **Assessments of the extent of achievement of the Women's Policy, or progress towards achievement, is focussed on outputs, that is, projects and tasks. Reporting on the extent of achievement of the policy is in terms of these program outputs, with no clear linkage on how successful these outputs had been in achieving the policy objectives.**
- **The Women's policy does identify seven key result areas and objectives, written in ways which could be measurable in trend terms**
- **Clear and specific performance information about the extent of achievement of the policy objectives, as identified by the seven key result areas and objectives, is not being collated and consistently reported in the Agency's Annual Report, so that an understanding is available of how well the policy is being achieved.**

Background

Women's policy is the responsibility of the Office of Women's Policy, which expects to expend $1.162 million in 1999/2000.

In Budget Paper No. 2 1999/2000 of the Office of Women's Policy the stated objective is:

- **to advance women in the Territory, focusing on enhancing women's status in society and women's economic security and independence.**

The policy statement published by the Northern Territory Government elaborates on this general statement by identifying two program areas, Advancing Women and Elimination of Violence against Women. The Advancing Women program has four key result areas, and the Elimination of Violence program has three primary objectives. The key result areas and primary objectives are written in ways which are measurable in trend terms.

Audit findings

The Office of Women's Policy has clearly identified its role in implementing the Government's policy expectations, and has many elements of a satisfactory performance management system.

Performance management system audits
Women's Policy

Audit findings (continued)

The public document, "Looking Ahead: Plan of Action for Women in the Northern Territory to the Year 2000" identifies the major goals, the objectives sought within each of those goals, and strategies to achieve the objectives

A Business Plan for 1999-2000 had been prepared, which was consistent with objectives identified in the "Looking Ahead" and its linkage to "Foundations for Our Future". Reporting on the progress to the Management Board of the projects identified for 1999/2000, as well as the Government's election commitments, and other Government directions was occurring.

However assessments of successful achievement of the Women's Policy, or progress towards successful achievement, is focussed on outputs, that is, projects and tasks. While the Annual Report provides some information on program outputs, there was no explanation on how successful these outputs had been in achieving objectives.

For example, in the policy document "Looking Ahead: Plan of Action for Women in the Northern Territory to the Year 2000" the following objective has been included:

"To ensure women are not financially disadvantaged and are well informed on financial matters".

The Annual Report provides some information on the outputs of activities such as the circulation of over 750 Financial Planning Kits for Women throughout the Territory. However there was no explanation on how successful this activity had been in achieving the objective, or how this has contributed to the key result area of Women's Economic Security and Independence.

Some base data has already been collected. Research has been finalised on the wealth status of Territory women, and a program evaluation on Domestic violence strategy – "Be cool…not cruel" has been conducted which produced information suitable to use in reporting performance trends. While the program evaluation in respect of the "Be cool……not cruel" campaign, which was completed in May 1999, was noted in the relevant section of the Department's 1998/99 Annual Report, the findings of the evaluation were not reported upon. There was also no mention of any actions which the Office is to undertake in respect of any issues identified in the evaluation.

Trend information is either not recorded, or if recorded, not collated for inclusion the Agency's Annual Report, for the following four measurable key areas of the Advancing Women program:

- Women's Status in Society,
- Women's Economic Security and Independence,
- Elimination of Violence against women (more specifically addressed in the Elimination of Violence program),
- Health and Well-Being of Territory Women,

Performance management system audits
Women's Policy

Audit findings (continued)

Trend information is either not recorded, or if recorded, not collated for inclusion in the Agency’s Annual Report**,** for the following three measurable objectives of the Elimination of Violence program:

- reduce the incidence of domestic violence in the Northern Territory
- raise community awareness about domestic violence
- work towards the elimination of violence against women

Clear and specific performance information about the extent of achievement of the policy outcomes, as identified by the seven key result areas and objectives, is not being collated and consistently reported in the Agency’s Annual Report, so that an understanding is available of how well the policy objective is being achieved.

The Department of the Chief Minister has commented:

> *The primary role of the Office of Women's Policy is to monitor and report on whole-of-Government policies for women. Summary reporting is through the Department's Annual Report. Comprehensive reporting is through key documents that have a similar status to that of Annual Reports to provide program, budget and statistical reporting.*
>
> *Pivotal are the supplementary budget paper Women in the Budget which is tabled by the Treasurer during Budget Sittings each year; and the Status Reports provided to Government to report on the Domestic Violence Strategy. These documents include program and statistical information and data that is unique across Australia. The Office has initiated an occasional papers series to publish in-depth information on research and innovation.*
>
> *The Office is recording and accumulating base data from which benchmarks and trends can be identified over time.*

Performance management system audits
Managing social policy delivery

Youth Affairs policy – Department of the Chief Minister

KEY FINDINGS

- **The Youth policy and its objectives are stated in terms of strategies, without identification of a measurable overall objective. Reporting on achievement is in terms of the outputs delivered in response to the strategies.**
- **The Youth policy does identify five key action areas, written in ways which could be measurable in trend terms.**
- **Clear and specific performance information about the extent of achievement of the policy objectives, as identified by the five key action areas, is not being collated and reported in the Agency's Annual Report, so that a better understanding is conveyed about how well the policy is being achieved.**

Background

Youth policy is the responsibility of the Office of Youth Affairs within the Department of the Chief Minister. The Office expected to expend $664,000 in 1999/2000.

In Budget Paper No. 2 1999/2000 of the Office of Youth Affairs, its objectives are stated as:

- **to provide a whole of government approach to policy priorities for young people aged from twelve to twenty-five, and focus on developing effective communication mechanisms between young people, Government and the wider community.**

The public document, "Northern Territory Youth Policy" issued by the Government in November 1998 elaborates on this policy, and identifies the principles underpinning the listed strategies and projects.

Audit findings

The Office of Youth Affairs has clearly identified principles underpinning its programs and projects in implementing the Government's performance expectations, and has many elements of a performance management system to address them.

A Business Plan had been prepared for the 1999/2000 year, which was consistent with the youth policy document and which has identified success factors for the listed strategies and projects. Reporting on progress to the Management Board was occurring for the projects identified for 1999/2000, as well as for the Government's election commitments, and other Government directions.

Performance management system audits
Youth Affairs Policy

Audit findings (continued)

However the policy and the objectives are stated in terms of strategies, without identification of a measurable overall objective. Reporting on achievement is therefore in terms of the outputs delivered in response to the strategies.

The Youth policy published by the Northern Territory Government in 1998 identifies five key action areas, written in ways which could be measurable in trend terms.

Trend information is not either recorded, or if recorded, not collated for inclusion the Agency's Annual Report, for these five measurable key action areas:

- Promoting positive achievement
- Involvement in decision making
- Health and well being
- Opportunities and assistance
- Community involvement

Clear and specific performance information about the extent of achievement of the policy outcome, as identified by the five key action areas, is not being collated and reported in the Agency's Annual Report, so that an understanding is conveyed about how well the policy is being achieved.

The Department of the Chief Minister has commented:

> *The report states that "Youth Policy is the responsibility of the Office of Youth Affairs". Whilst the Office is responsible for the coordination of the Youth Policy within Government (facilitated through the mechanism of the Youth Affairs Inter-Departmental Committee), the development and implementation of portfolio policies and initiatives relating to youth are in fact the responsibility of a range of Government agencies identified in the Policy, including Territory Housing, Territory Health Services and the Department of Industries and Business. Thus, the Office will only report on a part of the overall Youth Policy.*
>
> *Youth Policy commitments for which the Office of Youth Affairs has responsibility are reported on in the Annual Report against Budget Paper No. 2 outputs.*

Performance management system audits
Managing social policy delivery

Seniors’ policy – Territory Health Services

KEY FINDINGS

- **The Seniors’ policy has not been translated into clearly defined and measurable terms. This prevents systems being established to manage achievement of the policy outcomes expected by the Government.**

Background

Seniors’ policy is the responsibility of the Office of Senior Territorians (OST) within Territory Health Services. The Office’s budget in 1999/2000 was $427,000 for operational and personnel requirements with a further $500,000 available for small grants funding.

The Office of Senior Territorians was formed in 1998 as the result of an election commitment for:

- **the provision of an integrated approach to the needs of aging Territorians, and to implement the Seniors Card to assist in reduction of the cost of living for seniors.**

The OST identifies its primary role is to recognise and promote the contribution made by senior Territorians, and to enhance the lifestyle of seniors.

Audit findings

Although the OST identifies its primary role is to recognise and promote the contribution made by senior Territorians, and to enhance the lifestyle of seniors, this role is not expressed in terms which are measurable. This prevents systems being established by the OST to manage achievement of that role.

Although the election commitment identifies one measurable output to reduce the cost of living of Senior Territorians, it does not define reductions in the cost of living more broadly as a policy goal, and the “integrated approach to needs” is not defined in measurable terms. Performance information reflecting these commitments of Government could be defined, and systems established to produce such information.

The OST has conducted its mandated tasks to implement the Seniors Card; to develop healthy aging initiatives, and to manage International Year of the Older Person programs. However whilst achievements are reported to the Executive, they are not linked to performance targets in the business plan, to enable assessment of the degree of success in achieving those targets.

Performance management system audits
Seniors' Policy

Audit findings (continued)

The OST implemented a business plan for 1999/2000 that reflected applicable Territory Health Services' objectives, and allocated results and performance targets to specific personnel.

The OST has successfully implemented the Seniors Card strategy and documented a directory of businesses that provide a discount to holders of the card. The efforts of the OST for 1999/2000 were focussed on implementing the Seniors Card and establishing a profile for both the Card and the OST. As such, outputs were adopted as performance targets.

Performance management system audits
Managing social policy delivery

Secondary Schools policy – Department of Education

KEY FINDINGS

- **Systems currently produce performance information which substantially enables the Department to assess whether or not the intended outcomes are being achieved.**
- **But reporting of this performance information needs to be improved in the Department's Annual Report.**

Background

Secondary Schools policy is funded from the Secondary Schools Activity within the Department of Education. The Activity was expected to expend $47.1 million in 1999/2000.

The policy objective shown in 1999/2000 Budget Paper No. 2 was:

the delivery of quality education, and promotion and enhancement of the intellectual, personal and social developments of students in high schools.

The outcomes expected from the program, as contained in Budget Paper No. 2, were:

- **improved student retention rates to Year twelve;**
- **a rationalised range of secondary courses including Vocational Education and Training;**
- **increased achievement of learning outcomes as defined in Board of Studies approved curricula; and**
- **increased percentage of student graduates able to participate successfully in further education or employment**.

Audit findings

The Department's systems currently produce performance information which substantially enables the Department to assess whether or not the intended outcomes are being achieved, but reporting of this performance information needs to be improved in the Department's Annual Report.

The Department is in the process of developing a revised performance management system which will reflect the current direction and structure of the Department as determined by the "Schools – Our Focus" review. As a result of the review, the Department has developed "Strategic Directions" for the 2000 year, which includes the priorities of the Department for the current year. Strategies are being developed to implement high level objectives of the Department.

Audit findings (continued)

Performance information in the Agency's 1999 Annual Report lacks adequate analysis in many instances. Not all outcomes identified in the Budget Papers have been reported on. For example, there is no performance reporting on achievement of rationalisation of the range of secondary courses.

The value of reported information in demonstrating accountability could be enhanced by increased use of narrative interpretation of actual results. This would introduce an analysis of the various factors that contributed to the result reported. Narrative analysis of trend charts is particularly useful where the trend is moving in a direction opposite to the performance expectation.

The following are examples of reporting in the Department's 1999 Annual Report where there is no analysis or explanation of the reported results:

– the number of female students issued with JSCC decreased in 1999;

– the yearly average attendance has been decreasing since 1995;

– student to teacher and cost per student ratios.

The Department of Education defines the Government's desired outcomes in measurable terms, and within the Department there is a recognition that student achievement is directly influenced by the professional and policy contributions of the Department.

The Department should be able to demonstrate leadership in how it reports performance information aligned to the Government's publicly funded outcome goals.

Further comments on the Department's 1999 Annual Report are on pages 99 to 100.

The Department of Education has commented:

> *The Department acknowledges the need for improved reporting of performance in the Annual Report.*

Performance management system audits
Managing social policy delivery

Aboriginal Health policy – Territory Health Services (THS)

KEY FINDINGS

- **The Aboriginal Health Policy is written in measurable trend terms.**
- **However, achievement of the Aboriginal Health Policy was not reported in a conclusive way in the 1998/99 Annual Report of THS.**
- **The 1996 Public Accounts Committee Report was considered during the strategy design of the Aboriginal Health Policy.**

Background

Aboriginal health policy is the responsibility of the Aboriginal and Community Health Policy Unit within Territory Health Services. The Unit provides policy advice to areas within Territory Health Services which provide service delivery to indigenous Territorians. Expenditure on Aboriginal Health care is not separately reported by the THS.

The Aboriginal Health Policy is written in the following measurable trend terms:

- **To reduce health differences between Aboriginal and non-Aboriginal Territorians by significant and sustainable improvements to the health of the Aboriginal population.**

The 1996 Northern Territory Public Accounts Committee (PAC) Report No. 28 established recommendations about ways the Government could improve its delivery of health care to indigenous Territorians.

Audit findings

The performance management system within Territory Health Services (THS) recognised Aboriginal Health Policy in the THS Strategy 21st Century corporate plan, and had established a system to monitor performance under that strategy, but had not been monitoring achievement of the 1999/2000 Business Plan for the Policy.

Aboriginal health is a key aspect of the Strategy 21st Century, and performance against the Strategy is to be required on a three monthly basis. This will monitor the progress of the core business focus and stretch goals, within which Aboriginal health is a key consideration.

Performance management system audits
Aboriginal health

Audit findings (continued)

Additionally, THS is required to prepare six monthly reporting against election commitments. The applicable commitments in relation to Aboriginal health are the improvement in clinical health, as well as a five-year program to prevent ill-health within specific targets areas, such as nutrition and smoking.

However, THS did not report on achievement of the Aboriginal Health Policy in a conclusive way in the 1998/99 Annual Report of THS. Comparisons of how health standards between Aboriginal and non-Aboriginal Territorians were trending were not included in the Annual Report, other than for infant mortality and, using Australia wide comparisons, for life expectancy.

A more specific recognition of measures to be used to assess and report on achievement of the policy objective should be identified, systems to compile the information established, and the information gathered then included both in Annual Reporting to the Legislative Assembly, and in regular internal management reporting.

The 1996 PAC Report had been considered in the strategy design of the Aboriginal Public Health Policy. The Policy addressed most of the issues and recommendations raised by the PAC.

Territory Health Services has commented:

THS reports on morbidity and mortality for Aboriginal and Non Aboriginal Territorians in great detail in other reports.

For example:
1). Condon, Plant Durling "1979 – 1991 Outcomes on Morbidity (200 page document dedicated to statistical information on morbidity and mortality in NT.
2). Karen Dempsy et al. Mortality in NT 1979 - 1997.
3). Trends in Health of Mothers & Babies NT 1986 - 1995.
4). Mortality and Morbidity Attributable to Smoking NT 1986 - 1995.
5). NT Mothers & Babies 1998 (from NT Midwives collection).
6). Aboriginal Health Performance Indicators Northern Territory 1998. (reported annually). Last year's annual report has (for the first time) a special feature on Aboriginal health.

Performance management system audits
Managing social policy delivery

Aboriginal Housing policy – Territory Housing

KEY FINDINGS

- **The Agency has not clearly determined how achievement of the Aboriginal Housing policy is to be measured.**
- **Territory Housing describes performance measures for outputs intended to deliver the policy outcome. However, those output measures do not by themselves present an understanding of how well the issues of housing "equity" and "appropriateness" are delivered to indigenous Territorians.**

Background

Expenditure for the Aboriginal Housing program of Territory Housing was estimated to be $24.6 million for 1999/2000.

The Agency identifies its Aboriginal Housing policy as:

- **equitable access to appropriate housing and infrastructure for the Territory's Indigenous population**

There are three separate entities that have carriage of the Aboriginal Housing program. These entities are:

- Territory Housing;
- The Department of Local Government; and
- The Indigenous Housing Authority of the Northern Territory ("IHANT").

The "Agreement for the Provision and Management of Housing and Related Infrastructure for Aboriginal and Torres Strait Islander People in the Northern Territory" was entered into by the Northern Territory Government ("NTG"), the Commonwealth Government and the Aboriginal and Torres Strait Islander Commission. The Agreement sets out the roles of the various parties with the NTG's major roles being to:

- Undertake the role of Program Manager;
- Provide representatives to IHANT;
- Provide funding; and
- Provide IHANT with information and recommendations.

Performance management system audits
Aboriginal housing

Background (continued)

The former Department of Housing and Local Government was split into Territory Housing and the Department of Local Government in 1999. As a result of this, Territory Housing assumed responsibility for advising IHANT and the Northern Territory Government on policy, and also for some secretarial functions on behalf of IHANT. The Department of Local Government assumed responsibility for program management, using the Community Information Access System ("CIAS") for the processing of all project funds. The Department of Local Government and Territory Housing identify the Department of Local Government's responsibility within a Service Level Agreement.

The restructure has resulted in the loss of direct control over performance, with regard to program management, by Territory Housing. The Service Level Agreement requires the Department of Local Government to report on specific program management performance targets previously set out by Territory Housing.

At the time of audit, operational issues were still being resolved, including the identification of appropriate performance indicators to measure equitable access to appropriate housing.

Audit findings

The Agency has not clearly determined how the Aboriginal Housing policy is to be measured. Thus the Department's performance management system was not producing performance information sufficient to enable it to assess its effectiveness in achieving this objective.

The performance management systems of Territory Housing describe performance measures for outputs intended to deliver the policy outcome. However, those output measures do not by themselves present an understanding of how well the issues of "equity" and "appropriateness" are delivered to indigenous Territorians through the policy advisory role of Territory Housing.

The policy outcome aspirations expressed by Territory Housing align with the policy of IHANT, which defines "appropriateness" in terms of cultural needs.

Measures of "equity" appear to include comparative levels of homelessness and overcrowding.

The Government's Foundations for the Future on "Fostering Partnerships in Aboriginal Development" supports the policy aspirations of Territory Housing, and includes reference to a further performance linkage, that of assisting environmental health standards through the provision of properly maintained housing facilities.

The Annual Report outcome of appropriate, affordable and well-managed housing as identified within the Aboriginal Housing Business Plan is assessed for effectiveness by:

- The sum of houses constructed and upgraded minus the number of houses replaced;
- Percentage of eligible organisations agreeing to adopt the IHANT housing management standard;
- Percentage of rent collected against target rent; and
- Percentage of houses maintained to the standard.

Performance management system audits
Aboriginal housing

Audit findings (continued)

These indicators do not clearly address the outcome of "equitable and appropriate" housing that was identified in Budget Paper No. 2 1999-00. The measures noted above inform IHANT, and therefore Territory Housing, of the numbers of houses built or upgraded – however they do not inform the reader whether the houses were built where there was the greatest need, or whether the houses built were appropriate to the needs of the intended occupants.

The eligible organisations agreeing to adopt IHANT housing management standards, and the amount of rent collected do not address the equitable and appropriate outcomes. Agreeing to adopt standards may not necessarily lead to the actual application of the standards, and an objective measure is needed to ensure that the standard itself is "equitable and appropriate".

There is no objective measure identified that indicates whether funding is being applied to where the greatest need is. For example, a large community with a high profile may receive an inordinate share of the funding unless there is an objective measure identified that assesses the "equitable and appropriate" issues.

Territory Housing has not, as yet, adopted the performance indicators identified within the 2000 report on Government Service Provision such as:

- Condition of housing stock;
- Extent of underuse and overuse;
- Administration costs per dwelling;
- Operating costs per dwelling; and
- Rate of return on assets and equity.

Territory Housing has also proceeded with the implementation of the "Housing – Environmental Health Survey" in conjunction with the Menzies School of Health Research. It is envisaged that the results of the first round of surveys will be used as a basis for the assessment of improvements in Aboriginal housing over a period of time. Objective measures to assess this data have not yet been fully developed.

Territory Housing has commented:

The performance indicators identified within the 2000 report on Government Service Provision have been superceded and in any event, they relate to general public housing, not indigenous housing.

Territory Housing is actively participating in a national forum to develop performance measures for indigenous housing. These performance measures will be adopted by Territory Housing as a means of measuring "how well the issues of housing equity and appropriateness are delivered to indigenous Territorians".

In addition, a post occupancy evaluation study is being conducted on behalf of IHANT and in conjunction with ATSIC. This study will investigate the "appropriateness" of indigenous housing design and construction.

Performance management system audits
Performance reporting in Annual Reports

Department of Education - performance information in its 1999 Annual Report

KEY FINDINGS

- **Lack of comparative data in performance reporting lessens the effectiveness of the information.**
- **More reporting on budget outcomes and performance indicators is required to make the report useful for stakeholders.**

Overview

The Department of Education is the second largest individual agency in the Northern Territory public sector.

In 1998/99, its gross outlays totaled $330 million, being 11% of total Northern Territory gross outlays for that year. $58 million was funded from Commonwealth Government sources, with the balance from Northern Territory Government funding and some self-generated sources.

The Agency reports performance on a calendar year basis, but continues to include financial statements for the previous financial year.

A commentary on the performance information in the Agency's 1999 Annual Report which was tabled in the May 2000 sittings of the Legislative Assembly follows:

Linking performance reporting to Budget Papers

Each of the nine Budget Activities identified in the 1990/2000 Budget Paper No. 2 listed a series of specific outcomes to be achieved. However, most are not reported on directly in the Annual Report for 1999. Comments on reporting for one of the Activities, Secondary Schooling are included earlier in my reporting, on pages 92-93.

Many of the outcomes included in Budget Paper No. 2 use expressions such as "improved" or "increased percentage" when stating the expected performance. The Agency's performance management system should establish procedures to measure performance information in those trend terms.

Reporting on student achievement, retention rates and enrolment are provided through the use of charts and graphs, however their usefulness is limited by the lack of narrative analysis and explanation, and comparisons against other States or the National average.

Performance management system audits
Department of Education

Linking performance reporting to Budget Papers (continued)

Performance information on targeted equity programs, specifically indigenous education, is not included within the Annual Report, yet can be found elsewhere in the *1999 National Report on Schooling in Australia*. These programs were administered at a cost of $21.5 million.

Linking performance reporting to Corporate goals

The Agency issued The Department's Plan 1997-1999 that was to be used as a framework for school, divisional and branch plans. It laid out 4 broad objectives for the department. These are not reported on, even though specific performance indicators listed within the document could have been reported.

The 1998 Education Review resulted in the *Schools… Our Focus* document. This document outlines 4 key result areas and numerous initiatives that should be reported on in the 2000 Annual Report.

Linking financial reporting to performance information

There is no narrative to the financial statements to help the reader interpret and apply them to the outcomes. The inclusion of the Authorised Variations table is useful in tracking the variations to the appropriations from Budget Paper No 2 1998/99, however, explanations for the variations would be appropriate.

Future audit coverage of the performance information

The Department's non-financial information should be based on verifiable sources, and if so, can be audited. Future performance management system audits at the Department are likely to include audit verification of the performance information which is linked to Budget outcomes.

The Department of Education has commented:

> *The Department acknowledges the need for improved reporting of performance in its Annual Report.*

Topical Issues
Issues impacting on the planning and conduct of audits

Topical Issues

Performance management system auditing – where to next?

KEY ISSUES

- **The performance management system audit mandate allows the Auditor-General to examine documents and procedures used by Agencies in managing their performance.**
- **It does not allow the Auditor-General to examine, or provide independent comment on, the effectiveness and efficiency of Agencies in achieving their intended outcomes**.
- **Performance management system audits can be expected to focus attention on whether performance information allows the extent of achievement of the Government's policy outcomes to be assessed.**
- **It will only allow audit assurance of the integrity of performance information if an Agency compiles that information in a way which can be verified**.
- **Where possible, my audits in future can include providing assurance on reported non-financial performance information.**

Performance management system auditing was introduced into the legislated mandate of the Northern Territory Auditor-General in the Audit Act 1995. This adopted the similar section included in the Financial Management and Audit Act of Queensland following the Fitzgerald Report into Government accountability, although the Queensland legislation did not adopt the Fitzgerald recommendation for a wider performance auditing mandate.

A performance management system is not defined in detail in the Northern Territory Audit Act, but section 15 identifies that: " *the object of an audit conducted under this section includes determining whether the performance management systems of an agency or organisation in respect of which the audit is being conducted enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively.*"

The Northern Territory Auditor-General's Office has developed a framework for its approach to the conduct of performance management system audits, which is based on our opinion that an effective performance management system would contain the following elements:

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity's corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;
- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress with that achievement;
- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

While the mandate allows the Auditor-General to examine documents and procedures used by Agencies in managing their performance, it does not allow the Auditor-General to examine, or provide independent comment on, the effectiveness and efficiency ("value for money") of Agencies in achieving their intended outcomes.

The Auditor-General of the Canadian Province of British Columbia in his Report No.4 for 1999/2000 highlighted the distinction in the following way:

> *"When undertaking performance audits, auditors can look either at results, to determine whether value for money is actually achieved, or at management processes, to determine whether those processes should ensure that value is received for money spent.*
>
> *Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds that value for money has not been achieved, the natural questions are "Why did this happen", and "How can we prevent it happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at process and finds weaknesses, the question that arises is "Do these weaknesses result in less than best value being achieved?". This can only be answered by looking at results."*

This latter position, as outlined in the quotation, is where the audit mandate under the Northern Territory Audit Act is insufficient to provide answers.

The mandate to assess effectiveness and efficiency is provided to Auditors-General in all other Australian jurisdictions, except Queensland. The Queensland Public Accounts Committee did recommend in 1998 that the audit mandate be widened to include the full scope of performance auditing, but the Government of the day has rejected that recommendation on the basis that performance auditing draws the auditor into policy debate. An auditor should, however, be able to distinguish policy objectives from actual policy delivery, and comment only on how well the delivery has occurred, rather than the merits of the policy itself. Commenting on policy in performance management system audits is already disallowed under the Audit Acts in both Queensland and the Northern Territory.

Topical issues
Performance management system auditing - where to next?

My approach in the Northern Territory has been to apply the mandate as set, and to explore its scope and ability to provide useful information to Parliamentarians and public administrators. Its major contribution to date has been to focus attention on the calibre of performance information being provided about the extent of achievement of the Government's policy outcomes.

By continuing to focus on policies of Government, within the framework of the Government's Foundations for the Future vision statements, performance management system audits can be expected to comment to Parliamentarians on how well performance information links to intended policy outcomes, but not on the appropriateness of that information. That assessment remains as a role of Parliamentarians in their questioning of the Government, and of other independent commentators, which, in the Northern Territory, is principally the media.

It will only allow audit assurance of the integrity of performance information if an Agency compiles that information in a way which can be verified. Where possible, my audits in future can include providing assurance on reported non-financial performance information.

I will continue to highlight examples where performance information reported does not adequately address the extent of achievement of the outcomes for which public funding was provided by the Legislative Assembly.

Performance management system audits will also continue to report to Agency managers on how well systems are established to implement and achieve policy outcomes, and to monitor and measure performance information about the extent of that achievement.

Topical Issues

Reasonable expectations for public reporting of Government performance – a Statehood issue?

KEY ISSUE

- ♦ **Allied to recent signals from Parliamentarians for better performance information, is the desirability for the Northern Territory to signal the maturity of its system of Parliamentary democracy, as it seeks support for its attainment of Statehood.**

Arising from the conduct of performance management system audits, I have been reporting to the Legislative Assembly for the past five years on the calibre of information being made available in Annual Reports of Government Departments about the achievement of policy outcomes.

While there has been some improvement in a few Agencies, I am not detecting a widespread commitment to clearer performance reporting.

The signal that high standards of performance reporting are expected should come from the Government. The following comments by the Chief Minister on 11 May 2000 in the Legislative Assembly, when referring to Government Departments identifying their objectives, does establish a valuable reference point:

"My opinion of objectives is that they need to be easily understood, achievable and time constrained. When I see objectives that I can't understand in that way, I immediately say to myself it is very difficult for an Agency to report meaningfully against that particular objective, and equally it is easy for an agency to escape its obligations if the objectives aren't set very clearly."

Questions asked of the Government by Parliamentarians in the 1999 and 2000 Appropriation Bill debates sought information about the performance levels being achieved or expected to be achieved in return for the funding being provided or requested from the Legislative Assembly. Government Departments should be readily able to provide information to the Government to fully respond to such questions.

Allied to these recent signals from Parliamentarians for better performance information is the desirability for the Northern Territory to signal the maturity of its system of Parliamentary democracy, especially the accountability of its Government, as it seeks support from Territorians, and from Governments in other jurisdictions, to attain Statehood.

Topical issues
Reasonable expectations for public reporting of Government performance

One possible contributor to the Territory positioning itself as a mature system of Parliamentary democracy could be the hosting of a public seminar, of perhaps one day's duration, on a topic such as:

"What are reasonable expectations for public reporting of Government performance?"

Speakers could be drawn from the various political parties, interested citizens' groups, and the media, as well as inviting interstate and international commentators from jurisdictions leading in their performance reporting.

The seminar could be hosted by the Northern Territory Public Accounts Committee, as a group comprised of citizen's representatives in the Legislative Assembly with a specific role in monitoring Government performance. The topic of performance information is of specific interest to Public Accounts Committees (PACs). It is listed on the agenda for the Biennial Conference in 2001 for the Australasian Council of Public Accounts Committees, comprising PACs of all Australian jurisdictions, as well as New Zealand.

It could be a useful contribution to a general series of debates and presentations about Statehood for the Northern Territory.

Topical Issues

Independent analysts of public sector performance information – who are they?

KEY ISSUES

- **The need for an independent analyst, particularly of financial performance information presented to the Parliament by the Government, should be recognised.**
- **The Auditor-General's role should be seen as one source for this independent, professional analysis.**
- **There may also be a need for independent assurance of other performance information provided by the Government**

Although Members of the Legislative Assembly are the primary users of Government's performance information in our system of Parliamentary democracy, they should not be expected to have specialist skills needed to analyse financial performance information, prepared in accordance with technical standards, which may be provided to them by the Government.

While Government Agencies do provide some performance information and analysis, this may not be seen to be free of Government influence. The need for an independent analyst, particularly of financial performance information, should be recognised.

The publication of financial information of the Whole of Government and individual entities is a requirement of the Financial Management Act. However, the information provided is not presented in ways which are easy for a non-specialist reader to analyse.

In the corporate sector, such information is also not easy to analyse, but there exists a body of independent professionals such as Investment Fund managers, stockbrokers, and financial journalists, who are trained in the analysis of such information. They apply the information in advising their investor or client constituency.

In the public sector there are fewer such independent, professional analysts acting on behalf of Parliamentarians, although this role can and should fall within the mandate of the Auditor-General. The Auditor-General's role should be seen as one source for this independent, professional analysis.

There may also be a need for independent assurance of non-financial performance information provided by government as to its accuracy, in the same way that financial information is reported upon by an auditor.

Currently, my approach has been to provide a follow up of performance management system audits by examining whether performance information included in Annual Reports reflects performance intentions as expressed in published corporate plans, and in the Budget Papers. Once performance information is published, there is scope under my performance management system audit mandate to examine and report on the integrity of how Agencies compile this information, and, if it is verifiable, to provide an independent audit assurance.

Status of Other Matters Previously Reported

Status of other matters previously reported

Commercial in Confidence

KEY ISSUES

- **Parties entering agreements with the Government which apply Commercial in Confidence provisions should be advised that these restrictions do not prevent access by the Auditor-General.**
- **Once that access is obtained, the information may be included in Reports to the Legislative Assembly, so the Commercial in Confidence protection may ultimately not be sustainable.**

In my August 1998 and February 1999 Reports to the Legislative Assembly, I commented on the observations of Auditors-General throughout Australia of the use by Governments of claims of "Commercial-in-confidence" to seek to limit the access by auditors to documentation which evidenced the expenditure of public monies.

This was seen to be an increasing problem as more Government services were being delivered by private sector contractors, using contracts entailing Commercial in Confidence clauses. Agreements reached by Governments to settle disputes and legal actions, using public monies, were also being protected by Confidentiality clauses.

I indicated in my earlier Reports that a substantial review on the topic of the use of Commercial in Confidence access restrictions was awaiting release by the Victorian Public Accounts and Estimates Committee.

The Report was tabled in the Victorian Parliament in March 2000.

It supports the general principles that:

- the Auditor-General must have right of access to all information relating to the cost of providing publicly funded services, and
- information generated within Government should not be classified as commercial in confidence, unless it can be demonstrated that disclosure will interfere with the proper and efficient performance of government functions to an extent that would outweigh the benefits of improved accountability. It suggests the Ombudsman would be a suitable independent arbitrator on such considerations.

The full Report is accessible at:

http://www.parliament.vic.gov.au/paec

Status of other matters previously reported
Commercial in Confidence

The Victorian Public Accounts and Estimates Committee also released in March 2000 its Report on Outsourcing of Government Services, setting out general principles for protecting the interests of the public in these arrangements. It is also accessible at the Internet site listed opposite.

I have been satisfied that my powers under the Audit Act allow my access to documents marked as Commercial in Confidence. I indicated in my earlier Reports that I had been able to use my powers under the Audit Act to access some information on the State Square contract finalisation which had been classified as Commercial in Confidence. I have recently also applied those powers to gain right of access to documentation involving settlements reached with litigants.

However, the second of the general principles outlined above remains as an issue for the Northern Territory Government to consider in its outsourcing and litigation settlement agreements.

At the very least, parties entering agreements with the Government which apply Commercial in Confidence provisions should be advised that these restrictions do not prevent access by the Auditor-General, and possibly Parliamentary Committees. Once that access is obtained, the information may be included in Reports to the Legislative Assembly, so the Commercial in Confidence protection may ultimately not be sustainable.

The Northern Territory Attorney-General's Department has commented:

> *It is noted that you have used your powers pursuant to the Audit Act to access Government documentation containing confidentiality clauses for audit purposes.*
>
> *However, it is clear that you must act reasonably in the course of your duties. In this regard, you should only disclose the contents of such documentation to the Legislative Assembly where it can fairly be said that in all the circumstances it is in the public interest to do so notwithstanding the terms of the confidentiality clause and the compliance of those terms that would be the expectation, indeed right, of the parties to any agreement.*
>
> *Your duty to act reasonably has particular relevance in relation to deeds of settlement where disclosure may encourage potential litigants with like claims to expect similar settlements.*

Appendix 1
Audit opinion reports issued since 31 December 1999

	Date 1999 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 1999	*Date of Audit Report year ended 31 December 1998*
Entities with specific Legislation or Trust Deeds			
Northern Territory University	Not yet tabled	19 June 2000	1 June 99
NT University Foundation (a company limited by guarantee)	N/A	19 April 2000	24 March 99
NT University Foundation Trust	N/A	19 April 2000	24 March 99
		Year ended 30 June 1999	***Year ended 30 June 1998***
NT Legal Aid Commission	22 June 2000	19 April 2000	N/A
Public Trustee	N/A	15 June 2000	2 February 99
Entities that Sec 10 Financial Management Act applies as though a GBD		**Year ended 30 June 1999**	***Year ended 30 June 1998***
Cobourg Peninsula Sanctuary Board	18 May 2000	4 May 2000	29 January 99
Nitmiluk (Katherine Gorge) National Park Board	22 June 2000	2 June 2000	29 January 99
Inter-Government Statements	**Deadline for submission of Audited Financial Statement**	**Date of Audit Report Year ended 30 June 1999**	***Date of Audit Report year ended 30 June 1998***
By Agreement			
Commonwealth - State Housing Agreement	31 December 99	7 June 2000	13 August 1999
		Year ended 31 December 1999	***Year ended 31 December 1998***
Northern Territory University Financial Research Data Collection Acquittal	31 August 2000	16 June 2000	20 May 1999

Appendix 2
Status of Audits which were identified to be conducted in the six months to 30 June 2000

In addition to the routine audits, the following audits were identified on pages 96-97 of the February 2000 Report as being scheduled for the period.

Aboriginal Areas Protection Authority	
General Performance Management System (PMS) audit	Refer pages 83-84
Department of Corporate and Information Services	
Lease versus Buy assessments	Refer pages 60-62
Receipts/Payments processing Katherine	Refer pages 16-18
How well does GAS support GST implementation?	Refer pages 23-24
Department of Education	
Secondary school program	Refer pages 92-93
Department of Housing	
Aboriginal Housing (PMS audit with IHANT compliance)	Refer pages 96-98
Department of Lands Planning and Environment	
General PMS with reference to Environment Protection	Refer pages 77-78
Sale of land for development	Refer pages 30-33
IT management with reference to the NT Land Information System	No matters warrant reporting to the Legislative Assembly
Department of Local Government	
Management of Community Government financial accountability	No matters warrant reporting to the Legislative Assembly
Department of Mines and Energy	
Office of Resource Development - PMS audit	Refer pages 81-82
Department of Primary Industry and Fisheries	
BTEC costs arising from litigation	Audit not completed as at 30 June 2000
Department of the Chief Minister	
Advertising and Research (involving polling)	Audit not completed as at 30 June 2000
Managing the implementation of selected policy	Refer pages 85-89

Appendix 2
Status of Audits which were identified to be conducted in the six months to 30 June 2000

Department of Transport and Works	
General PMS audit update	Refer general comments on pages 54-56
How well does IT support business needs?	No matters warrant reporting to the Legislative Assembly
Motor Vehicle Registry, Darwin and Alice Springs	Alice Springs - no matters warrant reporting to the Legislative Assembly. Darwin - deferred
Northern Territory Tourist Commission	
Procurement of marketing/advertising	Refer general comments page 25
Northern Territory Treasury	
Banking Services Tender	Refer pages 34-35
Budget Division PMS audit	Refer pages 73-76
Office of Communications, Science & Technology	
IT strategy follow up	Refer pages 57-59
Office of the Commissioner for Public Employment	
PMS audit of selected aspects of the Advisory Services Activity	Refer pages 68-72
Parks and Wildlife Commission	
PMS audit of conservation management	Refer pages 79-80
Power and Water Authority	
Contract procurement	Refer general comments page 25
Management of cost reductions & other targets	Refer pages 65-67
WIMS	Refer pages 63-64
Racing and Gaming Authority	
Internet Gaming – completeness of income	Refer pages 36-38
TAB	
Procedures to administer the sale of the TAB	Audit deferred
Territory Health Services	
Indigenous health & follow up on 1996 PAC Report	Refer pages 94-95
IT strategic plan & controls within Windows NT environment	No matters warrant reporting to the Legislative Assembly
Procurement - contract management	Refer general comments page 25
Senior Territorians - actioning policy directives	Refer pages 90-91

Appendix 2
Status of Audits which were identified to be conducted in the six months to 30 June 2000

The following audits were identified on pages 94 and 95 of the February 2000 Report as being "in progress".

Department of Education	
Review of School's IT upgrade project	Audit deferred
Northern Territory Attorney-General's Department	
General Performance Management System audit	No matters warrant reporting to the Legislative Assembly
1998/99 Annual Report – review of performance reporting	No matters warrant reporting to the Legislative Assembly
Selected Agencies	
Value of public property written off – comparison of recognition practices	Refer pages 27-29

Appendix 3
Proposed Audit Activity in the six months to 31 December 2000

In addition to the routine audits, primarily end of financial year audits and audits of financial statements, and follow up of outstanding issues in previous audits, the following audits have been scheduled for the period.

Aboriginal Areas Protection Authority Department of Corporate and Information Services Department of Lands, Planning and Environment Department of Local Government Department of Mines and Energy Department of the Chief Minister Department of Transport and Works Northern Territory Treasury Office of the Commissioner for Public Employment Parks and Wildlife Commission of the Northern Territory Power and Water Authority Territory Health Services Territory Housing	1999/2000 Annual Report - review of performance reporting
Department of Corporate and Information Services	Review of the managing of outsourcing of IT services
Department of Education	A compliance audit of the Indigenous Education Strategic Initiatives Program
Department of Transport and Works	An IT review of the MOVERS computer application. Procurement in Alice Springs
Northern Territory Police, Fire and Emergency Services	How well does IT fit the agency's needs?

Appendix 4
Agencies not audited in the year ending 30 June 2000

For activities relating to the financial year ended 30 June 2000, no audits have been, or are intended to be, conducted at the following Agencies:

- Anti-Discrimination Commission
- Department of Asian Relations and Trade
- The following Agencies which are now incorporated into the Department of Industries and Business
  - Northern Territory Liquor Commission
  - Work Health Authority
- NT Rural College
- Office of Aboriginal Development
- Office of Communications, Science and Advanced Technology
- Office of the Director of Public Prosecution
- Strehlow Centre Board
- Trade Development Zone Authority

These Agencies will be included in audit coverage by the Northern Territory Auditor-General's Office at least once within a three-year cycle.

An annual audit of the Auditor-General's Office is conducted by an independent auditor appointed under section 27 of the Audit Act.

This information is provided in accordance with section 13 (4) of the Audit Act.

Appendix 5
The approach to auditing the Public Account and other accounts

The requirements of the Audit Act in relation to auditing the Public Account are found in:

- Section 13, which requires the Auditor-General to audit the Public Account and other accounts, with regard to:
  - the character and effectiveness of internal control, and
  - professional standards and practices.
- Section 25, which requires the Auditor-General to issue a report to the Treasurer on the Treasurer's Annual Financial Statement.

What is the Public Account?

The Public Account is defined in the Financial Management Act as:

a) the Consolidated Revenue Account, and

b) Operating accounts of agencies and Government Business Divisions

Audit of the Public Account

Achievement of the requirements of section 13, including the reference to the character and - effectiveness of internal control, as defined, can occur through:

(1) annual financial statement audits of entities defined to be within the Public Account, in particular Government Business Divisions, which have a requirement for such audits under the Financial Management Act;

(2) an audit approach which the Northern Territory Auditor-General's Office terms the Agency Compliance Audit.

This links the existence of the required standards of internal control over the funds administered within the Public Account, to the responsibilities for compliance with required standards as defined for Accountable Officers.

Areas of internal control requiring a more indepth audit, because of materiality or risk, can also be addressed through:

(3) specific topic audits of the adequacy of compliance with prescribed internal control procedures. These can be initiated as a result of Agency Compliance Audits, or pre-selected because of the materiality or inherent risk of the activity; and

(4) reviews of the accounting processes used by selected agencies at the end of the financial year, to detect if any unusual or irregular processes were adopted at that time.

Appendix 5
The approach to auditing the Public Account and other accounts

Other accounts

Although not specifically defined in the legislation, these would include financial statements of public entities not defined to be within the Public Account, as well as the Trust Accounts maintained by agencies.

Audit of the Treasurer's Annual Financial Statement

Using information about the effectiveness of internal control identified in the overall control environment review, Agency Compliance Audits and financial statement audits, an audit approach is designed and implemented to substantiate that balances disclosed in the Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

The audit report on the Statement is issued to the Treasurer. The Treasurer then tables the audited Statement to the Parliament, as a key component of the accountability of the Government to the Parliament.

Appendix 6
Overview of auditing performance management systems

Legislative Framework

A Chief Executive Officer is responsible to the appropriate Minister under section 23 of the Public Sector Employment and Management Act for the proper, efficient and economic administration of his or her agency. Under section 13 (2)(b) of the Financial Management Act an Accountable Officer shall ensure that procedures "in the agency are such as will afford a proper internal control". Internal control is further defined in section 3 of the Act to include "the methods and procedures adopted within an agency to promote operational efficiency, effectiveness and economy".

Section 15 of the Audit Act complements the legislative requirements imposed on Chief Executive Officers by providing the Auditor-General with the power to audit performance management systems of any agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.

A performance management system is not defined in the legislation, but section 15 identifies that: " *the object of an audit conducted under this section includes determining whether the performance management systems of an agency or organisation in respect of which the audit is being conducted enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively.*"

Operational Framework

The Northern Territory Auditor-General's Office has developed a framework for its approach to the conduct of performance management system audits, which is based on our opinion that an effective performance management system would contain the following elements:

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity's corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;
- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress with that achievement;
- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

Performance management system audits can be conducted at a corporate level, a program level, or at a category of cost level, such as capital expenditure. All that is necessary is that there be a need to define objectives for intended or desired performance.

Index of Matters Reported

Index of Matters Reported

Further information

This Report, and further information about the Northern Territory Auditor-General's Office is available on our Homepage at:

http://www.nt.gov.au/ago

Further copies of the August 2000 Report are also available from the Northern Territory Auditor-General's Office.

The next Report by the Auditor-General to the Legislative Assembly is scheduled to be tabled in the November 2000 sittings.

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