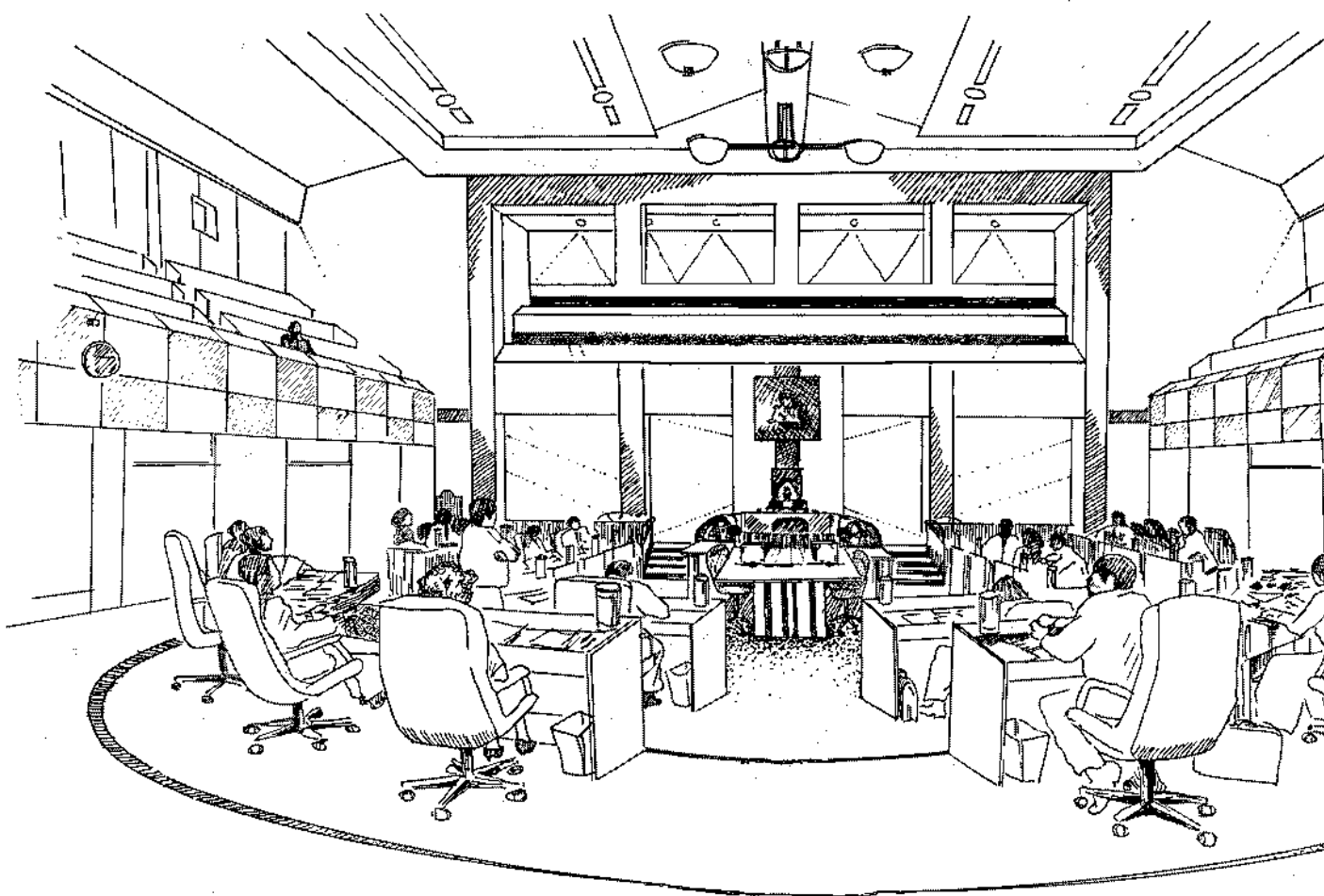




**AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY**

FEBRUARY 2000 REPORT

TO THE LEGISLATIVE ASSEMBLY



**Auditing for Parliament and People ...
Providing independent analysis**

Auditing for Parliament and people...
Providing independent analysis

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.

ORDERED TO BE
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.

ISSN 1323-7128

FEBRUARY 2000 REPORT

Contents

	Page
Transmittal letter to the Speaker	3
Major findings	4-5
Entities referred to in this Report	6
Index of matters reported	7
Reporting on audits conducted in the six months ended 31 December 1999	8
Matters arising from auditing the Public Account and other accounts	9-47
Matters arising from performance management system audits	49-82
Topical issues	83-86
Update of other matters reported previously	87-90
<i>Appendix 1 - Audit opinion reports issued since 30 June 1999</i>	<i>91-93</i>
<i>Appendix 2 - Status of audits which were identified to be conducted in the six months to 31 December 1999</i>	<i>94-95</i>
<i>Appendix 3 - Proposed audit activity in the six months to 30 June 2000</i>	<i>96-97</i>
<i>Appendix 4 - The approach to the audit of the Public Account and other accounts</i>	<i>98-99</i>
<i>Appendix 5 - The approach to the audit of performance management systems</i>	<i>100</i>



G.P.O. Box 4594
Darwin N.T. 0801

Level 12
Northern Territory House
22 Mitchell Street
Darwin N.T. 0800

Telephone: (08) 8999 7155
Facsimile: (08) 8999 7144
Email: nt.audit@nt.gov.au

The Honourable The Speaker of the Legislative
Assembly of the Northern Territory
Parliament House
DARWIN NT 0800

24 February 2000

Sir,

I request that you table today in the Legislative Assembly this report on matters arising from audits undertaken in the six months to 31 December 1999.

Once again, I focus my reporting on analysis of the financial and performance information which is produced by the Government for presentation to the Parliament. The quality and integrity of performance information provided by a Government is fundamental to maintaining public trust.

I reported my analysis of the Treasurer's 1998/99 Annual Financial Statement on 23 November 1999, to allow Members more timely access to that information.

I provide specific comments on performance information in Annual Reports of those agencies for which I conducted performance management system audits in 1999. I have provided similar comments for Territory Health Services and the Department of Transport and Works because of their significance in the use of the Government's financial resources. In providing this analysis, I highlight that in the June 1999 Budget debate in the Legislative Assembly the Government confirmed that Annual Reports are where good quality performance information should be available.

Yours sincerely

Iain Summers
Auditor-General for the Northern Territory

MAJOR FINDINGS

Analysis of the Financial Statements of Government Business Divisions for the year ended 30 June 1999:

- **GBD reforms have so far satisfied National Competition Agreement requirements.**
- **External reporting of good quality performance information can still be enhanced.**
- **A consistent dividend policy was applied by GBDs this year.**
- **Valuation of capital infrastructure in “for profit” entities may not be relevant for Whole of Government financial reporting purposes.**
- **Disclosure of Community Service Obligation (CSO) funding can still be improved.**

Refer pages 13 to 17 for further comments

MAJOR FINDINGS

Common issues identified during audits of performance information in Agency Annual Reports for 1998/99:

- **There was no consistent effort across Agencies to report performance achieved in the year using the same terms as presented in outcome and output descriptions in Budget Papers.**
- **No Agency audited had provided information on all the performance intentions outlined in the Budget Papers for the year.**
- **Reporting should comment on reasons why, when achieving the outcomes and outputs for the year, the actual use of financial resources varied from the budget approved by the Legislative Assembly. This linkage was not evident in the Annual Reports examined.**
- **The impetus to improve Annual Reporting should come from the Legislative Assembly, and in particular its Public Accounts Committee, since this is the body which needs to signal to the Government of the day the Parliament's requirements for accountability.**
- **Governments with an appreciation of the need to maintain public trust through open accountability should also see benefits in improving performance information at key opportunities such as that presented by Annual Reports.**

Refer pages 50 to 52 for further comments

ENTITIES REFERRED TO IN THIS REPORT

By Ministerial portfolio:

	Page
Chief Minister; Attorney-General	
Courts Administration, Office of	75
Hidden Valley Promotions Pty Ltd	46-47
Treasurer, Minister for Police, Fire and Emergency Services, Minister for Parks and Wildlife	
Northern Territory Treasury Corporation	10-12
Northern Territory Treasury	68-70
Northern Territory Police, Fire and Emergency Services	61-62; 88
Territory Wildlife Park	27-28
Minister for Industries and Business; Minister for Racing, Gaming and Licensing; Minister for Lands, Planning and Environment	
Industries and Business, Department of	88
Racing and Gaming Authority; Racing Commission; TAB	25-26
Lands, Planning and Environment, Department of	76-80
Minister for Asian, Relations and Trade; Minister for Territory Insurance; Minister for Correctional Services	
International Project Management Unit	29-30
Territory Insurance Office	42-43
Northern Territory Correctional Services	71-72
Minister for Transport & Infrastructure; Minister for Territory Ports; Minister for Primary Industry and Fisheries	
Darwin Bus Service	31-32
NT Fleet	33
Construction Agency	34-35
Transport & Works, Department of	47; 58-59; 89
Darwin Port Corporation	16-17; 23-24; 60
Primary Industry and Fisheries, Department of	76-80
Minister for Health; Minister for Essential Services	
Territory Health Services	51; 53-54; 76-80
Power and Water Authority	16-17; 18-20; 47; 55-57
Minister for School Education; Minister for Tertiary Education and Training	
Minister for Sport & Recreation	
Education, Department of	52; 76-80
Northern Territory Employment & Training Authority	66-67
Sport and Recreation, Department of	51; 73-74
Minister for Corporate and Information Services	
Department of Corporate and Information Services	81-82
Information Technology Management Services	36-37
Government Printing Office	38
Northern Territory Government and Public Authorities Superannuation Scheme	39-40
Legislative Assembly Members' Superannuation Trust	41
Minister for Housing; Minister for Local Government	
Territory Housing	63-65; 76-80
NT Housing (now Territory Housing Business Services)	16-17; 21-22
Jabiru Town Development Authority	44-45

FEBRUARY 2000 REPORT

INDEX OF MATTERS REPORTED

	Page
Analysis of the 1998/99 Financial Statements of	
• Northern Territory Treasury Corporation	10-12
• Government Business Divisions	13-38
• Superannuation Funds	39-41
• Territory Insurance Office	42-43
• Jabiru Town Development Authority	44-45
• Hidden Valley Promotions Pty Ltd	46-47
Performance information in Agency Annual Reports for 1998/99	
• Common Issues	50-52
• Individual Agency comments	53-75
How well does program evaluation support organisational performance?	76-80
Outsourcing of information technology services	81-82
Reporting performance in terms of sustainable development	84-85
Good reporting of performance information	
- The New South Wales Council on Cost of Government	86
Update on other matters reported previously	
• Firearms buy-back scheme	88
• Taxi licence compensation scheme	89
• Year 2000 date problem	90

***REPORTING ON AUDITS CONDUCTED IN THE SIX MONTHS ENDED
31 DECEMBER 1999***

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 applicable 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.

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.

**MATTERS ARISING FROM AUDITING THE PUBLIC ACCOUNT AND
OTHER ACCOUNTS**

Index

	Page
Analysis of the 1998-99 Financial Statements of:	
<i>Entities within the Public Account</i>	
• Northern Territory Treasury Corporation	10-12
• Government Business Divisions	
• General overview	13-17
• Power and Water Authority	18-20
• NT Housing (now Territory Housing Business Services)	21-22
• Darwin Port Authority (now Darwin Port Corporation)	23-24
• TAB	25-26
• Territory Wildlife Park	27-28
• International Project Management Unit	29-30
• Darwin Bus Service	31-32
• NT Fleet	33
• Construction Agency	34-35
• Information Technology Management Services	36-37
• Government Printing Office	38
• Superannuation Funds	
• NTGPASS	39-40
• Legislative Assembly Members' Superannuation Trust	41
<i>Other accounts</i>	
• Territory Insurance Office	42-43
• Jabiru Town Development Authority	44-45
• Hidden Valley Promotions Pty Ltd	46-47

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Northern Territory Treasury Corporation

KEY FINDINGS

- **The Corporation is achieving its role of minimising the cost of borrowings to the NT Government.**
- **An increase in its operating surplus to \$20.6 million this year, from \$13.5 million last year, was achieved. This was primarily achieved through lower costs from declining average interest rates applying to a reducing gross debt level, while maintaining interest rate levels charged on its lendings to NT Government entities. The surplus was returned to Government as a dividend.**

The Northern Territory Treasury Corporation manages the Northern Territory Government's borrowings, and the placement of those borrowings, in a manner consistent with the Government's financial framework and strategies. The Corporation is also responsible for the investment of the cash balances of the Northern Territory, on behalf of the Government.

It prepares financial statements in accordance with Australian Accounting Standards applicable to profit making entities.

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	2,082.7	2,103.2
Total Liabilities	<u>2,049.1</u>	<u>2,069.6</u>
Accumulated Funds and Reserves	<u>33.6</u>	<u>33.6</u>
Operating Revenue	193.0	199.2
Net (Deficit)/Surplus after income tax	20.6	13.5
Dividend	20.6	13.5

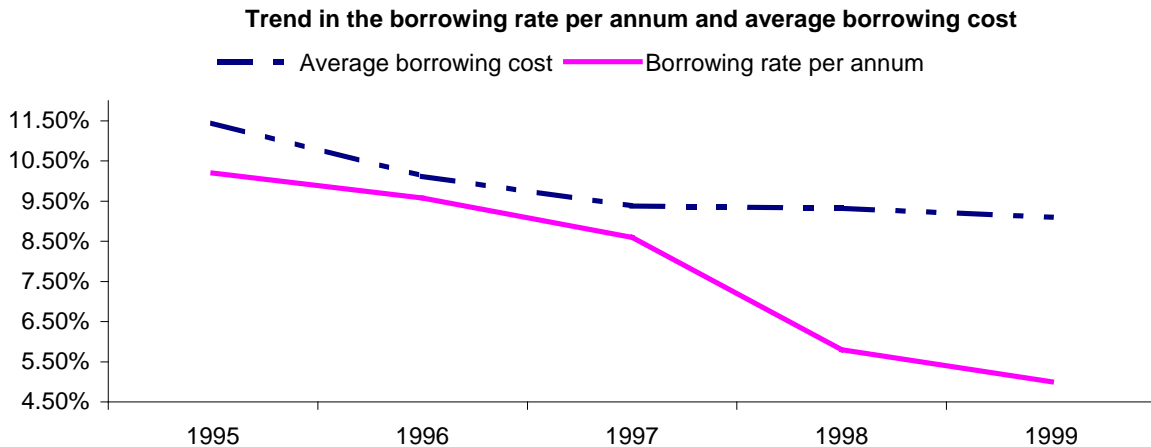
The Corporation is achieving its role of minimising the cost of borrowings to the NT Government.

A primary performance target of the Corporation is to minimise its (and therefore the Government's) cost of borrowings for the year, and consequently the total cost of borrowed funds.

The Corporation's average interest rate on new borrowings during the year was 5.0%, as compared to 5.8% the previous year, and the average interest rate for all its borrowings was reduced to 9.1%, down from 9.3% in the previous year. The interest rate trend in recent years is shown in the following chart.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Northern Territory Treasury Corporation



Source: NT Treasury Corporation Annual Reports

The chart shows a less than proportional fall in the last two years in the average interest rate for all borrowings, when compared with the rate on new borrowings. This reflects the relatively small amount of new borrowings of \$63 million in 1997/98, and \$130 million 1998/99, when compared with total borrowings of just under \$2 billion.

In comparison with the New South Wales Treasury Corporation long term bond rate, which is a benchmark used by the Corporation, the Corporation's borrowing rate showed an increase of 0.07% in the margin since the previous year. The previous year recorded a fall of 0.1% in the margin, which brought the NT's borrowing rate very close to the NSW benchmark at that time. The increase this year in the benchmark is small, and the future trend will provide a more useful analysis.

An additional performance measure of the Corporation is the return achieved from its investment of the cash balances of the Northern Territory. The Corporation identified that the earnings rate achieved was 5.0%, which dropped from 5.8% in the previous year. For 1998/99 the earnings rate equalled the benchmark, compared to exceeding the benchmark by 0.55% in the previous year.

Interest earned was \$17.3 million, although these are earnings of the NT Government, not of the Corporation. For budgetary purposes, the Corporation retained these funds. This reduced the amount of funds needed from the Government's Consolidated Revenue Account to pay the interest of \$122.5 million earned by the Corporation on the \$1.25 billion of general Government borrowings which are included in the asset base of the Corporation.

These are measures which reflect on the core purpose for creating the Corporation, that is, the ability to borrow on behalf of the Government at a favourable interest rate cost, while managing the placement of available cash balances to maximise the Government's earnings.

In each case, the measures illustrate the continuing effectiveness of the Corporation.

These performance indicators, however, fall outside the scope of the external audit certification, since the external audit refers only to the annual financial statements which are included in the Annual Report of the Corporation.

FEBRUARY 2000 REPORT

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Northern Territory Treasury Corporation

An increase in its operating surplus to \$20.6 million this year, from \$13.5 million last year, was achieved.

The improved result was primarily achieved through lower costs from declining average interest rates applying to a reducing gross debt level, while maintaining interest rate levels charged on its lendings to NT Government entities.

The Corporation is able to generate its operating surpluses from the margin it achieves on interest revenue as compared to interest expense. The increase in the surplus from \$13.5 million to \$20.6 million was due primarily to the improvement in this margin. The new borrowings in the year of \$130 million, which replaced maturing debt, were made at the lower prevailing market rates available, as highlighted above. However, rates on lendings to specific entities, such as the Government Business Divisions of Darwin Port Authority, Power and Water Authority and NT Housing, remained at the levels in place when the loan arrangements were made in times of higher prevailing market rates. This has helped the Corporation achieve the better margin.

While the surplus has been returned to Government, an effect has been that more favourable borrowing rates available to the Corporation, and therefore the Government, have not been passed onto the Government Business Divisions, with the GBDs then unable to reduce their cost of borrowings despite the falling market rates available to the Corporation. This reduces the commercial responses otherwise available to the Government Business Divisions in a competitive market setting.

The Corporation has not adopted market valuation accounting for its assets and liabilities. Such accounting is used by State Treasury Corporations. So the Corporation's profit result should not be compared to these entities.

Total borrowing costs continue to fall.

Total borrowings managed by the Corporation fell by \$7.8 million to \$1.961 billion. Interest costs incurred fell to \$167.9 million compared to \$180.9 million in the previous year. Debt extinguishment costs, a measure of interest prepaid on early matured debt, were an additional \$2.5 million, compared with \$3.6 million in the previous year.

No "swap" costs have yet been incurred.

To limit risk on future maturities of its borrowings, the Corporation entered an interest rate "swap" arrangement in 1998/99. This is triggered for maturities in any one year which exceed \$200 million. No such amount of maturities is due until 2001/02.

Northern Territory Treasury has commented:

Most GBD loans are made on a fixed term, fixed interest rate basis and are not eligible for a review of the interest rate until the fixed rate period is completed. In the event that a GBD applies for a new loan, it can be taken out at a lower rate. This is normal commercial practice.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

**Analysis of financial statements of Government Business Divisions (GBDs)
– General overview:**

KEY ISSUES

- **GBD reforms have so far satisfied National Competition Agreement requirements.**
- **External reporting of good quality performance information can still be enhanced.**
- **A consistent dividend policy was applied by GBDs this year.**
- **Valuation of capital infrastructure in “for profit” entities may not be relevant for Whole of Government financial reporting purposes.**
- **Disclosure of Community Service Obligation (CSO) funding can still be improved.**

GBD reforms have so far satisfied National Competition Agreement requirements.

The Commonwealth, State and Territory Governments signed three intergovernmental competition policy agreements at the Council of Australian Governments (COAG) meeting in April 1995. The agreements committed governments to a range of reforms aimed at improving outcomes for the community by removing unjustified barriers to competition. The agreements confer substantial discretion on governments in relation to the policy development processes, review and reform priorities, and the pace and timing of reform implementation.

Under the agreements, governments undertook to share the benefits of reform across Australia through National Competition Policy (NCP) payments made by the Commonwealth to the States and Territories. These payments, totalling around \$16 billion over the period 1997-98 to 2005-06, reflect the benefits estimated to arise from full implementation of the NCP program. The National Competition Council (NCC) advises on reform progress, and in June 1997 (for the first tranche), June 1999 (second tranche) and June 2001 (third tranche), made or will make recommendations to the Commonwealth Treasurer as to whether the States and Territories have met the agreed conditions for payments. Payments in each tranche are in two parts – a per capita growth in the Financial Assistance Grants pool, and a specific competition payment.

Government Business Divisions were established to respond to the Northern Territory’s responsibilities under the National Competition Agreements (NCA). The Northern Territory Government’s progress with the reforms expected by the NCA have so far met the expectations of the NCC, and first tranche payments of \$11 million in total were received in 1997/98 and 1998/99.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

In its Second Tranche Assessment Report, when NCC recommended payment of the first part of the second tranche amount estimated at \$10 million and due for payment in 1999-2000, it concluded that:

“The Northern Territory has made good progress on its regulation review agenda. Virtually all reviews scheduled for the second tranche period have been undertaken or commenced. Reform implementation has been completed for about 20 percent of these, including leading reform outcomes in important review areas.

The Northern Territory is commended for its reforms to taxi licensing arrangements, introducing competition in taxi services for the first time and eradicating speculation on license plate values. The Territory is examining the public benefit of a new regulation specifying minimum fleet size.

The Grain Marketing Act has been repealed, dissolving the Northern Territory’s Grain Marketing Board.

The Northern Territory has made significant progress with implementing competitive neutrality reforms. This has involved applying tax and debt equivalents to Government Business Divisions (GBDs), ensuring GBDs pay for all inputs used in providing services and ensuring that prices charged by GBDs fully reflect costs. The Northern Territory has also reviewed the capital structure and dividend policies of GBDs against private sector benchmarks and established monitoring arrangements for GBD performance through a range of financial and non-financial indicators.

Gas reform legislation has been enacted, with no transitional arrangements or derogation. The Northern Territory has reviewed or is reviewing all identified restrictions on gas trade; no restrictions on gas exploitation, development or transportation have been identified. The Territory has also met all structural reform obligations under the national gas code.

The Territory has recently undertaken a major review of the structure of its Power and Water Authority (PAWA).

The Northern Territory has fully implemented all but one of the agreed road transport agenda for the second tranche assessment. The Government is yet to decide whether it will implement the demerit points element of the reform introducing nationally uniform driver licensing or seek an exemption through COAG. The Council will revisit this reform area in a supplementary assessment by 31 March 2000.

The Council will be working closely with the Northern Territory over the coming months to progress consideration and application of the agreed water reform framework. Outstanding reform areas include cost recovery and rates of return in urban services, cross-subsidies, separation of all regulatory and service provision functions, separation of water property rights from land, bulk water pricing and economic viability assessment processes. The Council will revisit this reform area in a supplementary assessment by 31 December 2000.”

A satisfactory assessment of these supplementary matters would see the NCC recommending payment to the Government of the second part of the second tranche, estimated to be \$4.6 million.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

External reporting of good quality performance information can still be enhanced.

While the NCC has a largely positive analysis of the Northern Territory's progress, I have been commenting in my Reports to the Legislative Assembly that more needs to be done to achieve the changes in organisational culture and psychology that are necessary before the intended improvements in efficiencies become sustainable. The essence of this is for management and staff to have a clear understanding of the financial and non-financial performance expected of their GBD, and the operational independence to pursue those goals.

My February 1999 Report highlighted that performance monitoring, both by management and the Legislative Assembly, was hampered by non-commercial influences on reported GBD financial performance. My August 1999 Report confirmed that Community Service Obligation (CSO) funding to GBDs by Government was not consistently calculated, and not adequately reported so that the impact of CSOs on reported results could be properly understood.

The second stage of GBD reforms introduced by the Government, responding to policy issues in the NCC's Second Tranche requirements, were outlined in Budget Paper No. 3 of 1999/2000. This identifies that the Government would address such issues with its policies on CSO calculation, dividend payments and capital structures, and performance monitoring.

However, specifically for performance monitoring, I note that the Government, while requiring better performance information about GBDs to be provided to it by Treasury, has not committed to providing this to the Legislative Assembly. Instead, its policy is that GBDs have autonomy as to what performance information is to be disclosed in their Annual Reports. The performance information prepared for Government, including the analysis prepared by Treasury independently of the GBD, should be provided to the Legislative Assembly.

A consistent dividend policy was applied by GBDs this year.

In my February 1999 Report to the Legislative Assembly, I highlighted that a commercial dividend policy was not being applied to GBDs, so dividends paid were not being based on profits earned. This was not assisting GBDs adopt the commercial attitudes intended by the National Competition Council reforms.

Subsequently, the Government's dividend policy was announced in Budget Paper No.3 for 1999/2000, and applied to dividend payments applicable to the 1998/99 year.

FEBRUARY 2000 REPORT

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Analysis of the financial statements of Government Business Divisions

The following table outlines the history over the last two years of dividends declared to Government, or other distributions made to Government, which were sourced from operating surpluses by GBDs. The more consistent policy is apparent in 1998/99.

	Operating profit (loss) \$ millions		Dividends/ Distributions \$ millions	
	97/98	98/99	97/98	98/99
Power and Water Authority	6.8	26.9	14.8	12.8
NT Housing	(34.4)	(27.6)	9.30	-
Darwin Port Authority	2.7	(0.8)	1.06	1.37
TAB	5.5	6.1	2.39	3.054
Territory Wildlife Park	(0.07)	(0.03)	-	-
IPMU	(0.3)	(0.2)	-	-
Darwin Bus Service	0.12	0.43	.087	.256
NT Fleet	2.5	(0.05)	-	1.26
Construction Agency	0.3	(1.0)	-	0.14
ITMS	0.8	0.5	-	.60
Government Printing Office	0.46	0.38	-	.41

Valuation of capital infrastructure in “for profit” entities may not be relevant for Whole of Government financial reporting purposes.

Government Business Divisions are required by Treasurer’s Direction to prepare their annual financial statements “on commercial principles”. Commercial principles require the adoption of Australian Accounting Standards when preparing general purpose financial statements.

The requirements of the Accounting Standard for valuing capital infrastructure has had particular impact on the large asset carrying GBDs of Power & Water Authority, and the Darwin Port Authority (now Darwin Port Corporation), and will do so in 1999/2000 on NT Housing.

Entities with profit making as one of their objectives are required by Australian Accounting Standard 10 to value capital infrastructure assets at recoverable amounts. This is the amount of cash expected to be generated by the continued use and subsequent disposal of the asset, less cash expenses used in operating and disposing of the asset. This stream of net cash flows is usually subject to a discount rate reflecting what the risk based cost of capital would be for the business. An example of a recoverable amount valuation is the Stokes Hill Wharf facility of the Darwin Port Corporation, which is carried at nil value in the Corporation’s balance sheet, because the costs of maintaining the wharf exceed revenues earned from it.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

The recoverable amounts valuation presumes that, from a commercial viewpoint, assets have no value to an entity if their cash flow is not profitable. While this is valid when assessing the commercial performance of GBDs, when viewed at a Whole of Government level, this basis is not so applicable.

This is because the GBDs are using the assets to deliver essential services to the community, and these would be expected to be maintained and replaced when necessary. This is certainly the case for assets of the Power & Water Authority, Darwin Port Corporation and NT Housing. In these situations, a more applicable value for Government as a whole to report is the replacement cost of the assets in their current condition. The replacement cost, after depreciation charges, can be used to approximate the value of an asset in its current condition.

In these situations, the two values – the commercial value, and the value as an essential service - should be disclosed in the financial statements, since each represents a different viewpoint relevant to the entity. The depreciated replacement cost can be disclosed by way of supplementary note in the financial statements. This is the approach adopted by the Power and Water Authority for its 1998/99 financial statements. This will require that separate valuation records are also maintained, and updated every few years.

However, the Stokes Hill Wharf facility and its attached infrastructure would not be replaced by the Darwin Port Corporation, because the new East Arm Port is already the replacement. The Stokes Hill Wharf facility is costly to maintain, and generates revenues well below its costs. The Wharf and its associated infrastructure, including the \$1.5 million Passenger Terminal constructed in the 1998/99 year, is therefore carried at a nil value in the financial statements of the Darwin Port Corporation, and also in the Treasurer's Annual Financial Report. However the depreciated replacement value should be considered and disclosed at the Whole of Government level, where its replaceable value as a community facility is relevant information when assessing the value of the public benefit it contributes.

Disclosure of Community Service Obligation (CSO) funding can still be improved.

In my August 1999 Report to the Legislative Assembly, I highlighted that improvement was warranted in GBD financial statement disclosures about how CSO funding and expenditures impact on the reported operating results and financial position. In particular, I was highlighting that any miscalculation of CSO funding would mask the true profitability of a GBD.

I was pleased to see that the Darwin Port Authority (now Corporation) provided disclosure in its annual financial statements about the level of under-funding of CSOs in the year, and this could be used to gain a better understanding of the profitability of the GBD for the year. This should also assist in negotiating future CSO funding requirements. I encourage this form of disclosure by other GBDs who receive CSO funding.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

Power and Water Authority

KEY FINDINGS

- **Increased prices and increased electricity usage contributed to the higher operating surplus for the year of \$26.9 million.**
- **\$732 million is the commercial value disclosed in the Authority's balance sheet for its power, water and sewerage infrastructure assets. The replacement value of those assets at their 30 June 1999 condition was \$1.2 billion.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	875.5	1089.0
Total Liabilities	<u>312.0</u>	<u>328.5</u>
Accumulated Funds and Reserves	<u>563.5</u>	<u>760.5</u>
Operating Revenue	381.3	354.7
Net (Deficit)/Surplus after income tax	26.9	6.8
Dividend	12.8	14.8

Increased prices and increased electricity usage contributed to the higher operating surplus for the year of \$26.9 million.

The major impact on the improved operating result in the year was the growth of revenues by \$26.6 million to \$381.3 million.

\$15.1 million of that revenue growth was from the Authority's electricity and water sales, and the provision of sewerage services. This growth was assisted by the electricity, water and sewerage price increases announced by the Government in its 1998/99 Budget, which became effective from 1 July 1998. In particular, domestic electricity tariffs increased by 7.2 % and water charges by 13.2% from that date. However, as part of the competition reforms of the Authority, a demand electricity tariff more in line with production costs was subsequently offered to high usage commercial customers from 1 April 1999. This lowered unit prices available to these customers, because it removed elements of the subsidisation to domestic customers which had previously been in the commercial prices.

Information provided by the Authority in the statistical summary in its 1998/99 Annual Report identifies that the electricity revenues increases of 5.5% were earned on volume increases of 2.8%, although this was a decline in volume growth from the previous year's 9.5%. Water revenues increased by 13.7% despite the decline of 8.6% in water volumes sold.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Power and Water Authority

In addition, the operating result for the year benefited from abnormal revenue of a further \$12.3 million. This was the value of developer and customer contributions of infrastructure and gifted assets. This occurs from power, water and sewerage infrastructure in new residential and commercial developments, which the developers have undertaken to construct, and gift to the Government.

The most significant operating expense is the purchase of gas supplies. In 1998/99 this cost was \$132.1 million.

Consulting fees incurred were \$2.5 million, an increase on the \$1.28 million incurred in the previous year, due largely to the cost of the Merrill Lynch/Fay, Richwhite organisational review in 1998.

In a year of highly publicised litigation brought by a potential competitor, and referred to in Note 18 of the Authority's financial statements, legal expenses directly incurred by the authority were \$506,000 in comparison to \$79,000 in the previous year.

Cash inflows during the year, mainly from the higher operational revenues, outweighed the increases in operating costs, capital purchases and borrowing repayments to contribute an additional \$11.6 million in cash balances for the Authority as at 30 June 1999.

\$732 million is the commercial value disclosed in the Authority's balance sheet for its power, water and sewerage infrastructure assets. The replacement value of those assets at their 30 June 1999 condition was \$1.2 billion.

I highlighted in my analysis of the Authority's financial statements in my February 1999 Report that a valuation of its infrastructure assets was overdue. I am pleased to report that the Authority did arrange a valuation process during the 1998/99 year. This valuation applied Australian Accounting Standards and adopted a recoverable amount valuation of \$732 million for the infrastructure assets. This valuation is calculated on the basis that assets which do not produce a commercial return are of no value to the Authority, and ultimately, the Government.

However, it will be apparent that while the Authority remains a Government owned entity, the Government has a social responsibility to continue providing the essential services of electricity, water and sewerage, irrespective of the Authority's commercial results. So information about the replacement value of its infrastructure assets should be relevant to users interested in the financial position of the Authority as a provider of these essential services. The community's investment in the level of assets needed to maintain the essential service is revealed by this alternative disclosure.

The financial statements of the Authority did disclose the replacement value of the infrastructure assets, in their condition as at 30 June 1999, as \$1.2 billion.

I referred to this difference in the valuation bases in my audit opinion on the Authority's annual financial statements. I did so because I saw that it was necessary on this occasion to highlight the very different values derived depending on how a reader viewed the Authority – that is, as a commercial operation, or as a provider of essential services.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Power and Water Authority

It is then important to understand when to use each value. For example, the Treasurer's Annual Financial Report for 1998/99 has disclosed the Authority's assets at the commercial value of \$732 million in the unaudited Schedule 6.3. However, at the whole of government level, these assets would be better disclosed at their written-down replacement value of \$1.2 billion. The Government as a whole is not a commercial activity, and replacement valuations should be more relevant for decision making and accountability.

There is also the potential relevance of the written-down replacement cost of urban water and sewerage assets for pricing decisions. The Council of Australian Governments (COAG) framework for water reform requires States and Territories to adopt pricing regimes based on the principles of consumption-based pricing, full-cost recovery and desirably the removal of cross-subsidies which are not consistent with efficient and effective service use and provision. In the case of water and sewerage services to urban users, the COAG framework supports publicly owned supply organisations aiming to earn a real rate of return on the written-down replacement cost of the assets employed.

FEBRUARY 2000 REPORT

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS **Analysis of the financial statements of Government Business Divisions**

NT Housing (now Territory Housing Business Services)

KEY FINDINGS

- **The operating loss for the year of \$27.6 million reflects inadequate Community Service Obligation funding, and a high debt burden.**
- **The net asset position was \$636 million at 30 June 1999, and remains strong as a result of asset revaluations, and retention of equity from housing stock sales.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	1110.1	1147.1
Total Liabilities	<u>473.3</u>	<u>481.0</u>
Accumulated Funds and Reserves	<u>636.8</u>	<u>666.1</u>
Operating Revenue	72.5	72.0
Net (Deficit)/Surplus after abnormal items and income tax	(27.6)	(34.4)
Dividend	nil	9.3

For 1998/99 the former Housing and Lending GBDs were merged into the one GBD "NT Housing". The GBD operations therefore include both the activities of finance provider to homebuyers, and of landlord for the Government's public housing stocks.

For comparative purposes, the above statistical information shows the comparative information for 1997/98 as though the operations of the former Housing and Lending GBDs were also combined.

The operating loss for the year of \$27.6 million reflects inadequate Community Service Obligation funding, and a high debt burden.

The operating loss for the year of \$27.6 million compares to a combined operating loss in the previous year of \$22.3 million, before abnormal and extraordinary items.

CSO funding was still insufficient to meet the shortfall in rents received, compared to market rents. CSO funding received totalling \$19.862 million included \$11.901 million contribution for the market rent shortfall. However, NT Housing assessed the actual shortfall for that year as \$29.7 million.

The debt burden on NT Housing was \$466 million at 30 June 1999, on which interest paid to the Northern Territory Treasury Corporation was \$39.5 million. This debt originally financed the construction of the rental housing stocks and home loan purchase assistance.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of NT Housing

Revenue from rents and CSO funding for the housing was \$57.6 million in the year, and interest earned on loans to home buyers was \$13.4 million. Expenditure on rates, repairs and other direct landlord costs was \$34.3 million. The resulting margin available of \$36.7 million is then insufficient to cover the \$39.5 million interest cost, as well as other applicable expenses such as personnel and administration.

To assist the GBD in functioning as a commercially structured entity, conversion of some debt to equity was being considered by the Government for the 1999/2000 year, together with a more commercially derived level of CSO.

However, the GBD will need to revalue its assets in 1999/2000 if it is re-structured in a way which allows it to generate a profit. Although this GBD does value the majority of its housing stock on a commercial basis, it will need to value the balance of its housing assets, which are primarily located in remote communities, with reference to the level of cash flow from their use.

The net asset position was \$636 million at 30 June 1999, and remains strong as a result of asset revaluations, and retention of equity from housing stock sales.

Net assets were reduced from \$666.1 million to \$636.8 million during the year, but this still represents a strong net asset position.

This position has been achieved over the years by the policy of revaluing urban properties to market values every three years. As a consequence of the increasing value of urban real estate over time, housing stock values have increased. The revaluation increments are transferred directly to Reserves, rather than being included in the operating surplus of the GBD. This is in accordance with Australian Accounting Standards.

By 30 June 1999, Reserves in respect of property revaluations totalled \$440.7 million. This represents 53% of the \$830 million of housing stock value in the balance sheet of the GBD.

Additionally, when properties are sold, the revaluation component is transferred to a separate Reserve. This held a balance of \$206.7 million at 30 June 1999. This represents the gain to the GBD, and to the Government, which has accumulated over time on the disposal of housing assets. Its retention by the GBD represents an equity investment by the Government.

The value of housing stock fell, asset realisation proceeds increased significantly, and mortgage asset holdings also increased as a consequence of the sales of houses encouraged by the Government's Housing 2003 policy.

With incentives in the Housing 2003 policy for tenants to purchase housing stocks, the value of completed housing stocks held by the GBD has fallen to \$830 million from \$916 million in the previous year.

Conversely, since the majority of these sales are financed by mortgages from the GBD, the value of mortgage loan assets has increased to \$192 million from \$157 million in the previous year. The Asset Realisation Reserve had \$ 53.4 million added to it for gains realised on housing stock sold, in contrast to \$9.7 million in the previous year.

Territory Housing has commented:

The shortfall in CSO for subsidised rent has been addressed for 1999-2000. A conversion of some debt to equity was approved in the 1999-2000 budget which has significantly enhanced the commercial viability of the GBD.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

Darwin Port Authority (now the Darwin Port Corporation)

KEY FINDINGS

- **The Stokes Hill Wharf facility contributed a significant negative impact on the commercial operating results of the Authority.**
- **An additional \$608,000 could have been included in the reported operating surplus for the year if Community Service Obligation (CSO) funding had fully met the required expenditure, or if the CSO funded activities had in fact not been conducted.**
- **No East Arm Port rectification costs are included in the financial statements.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	135.6	135.0
Total Liabilities	<u>61.7</u>	<u>61.5</u>
Accumulated Funds and Reserves	<u>73.9</u>	<u>73.5</u>
Operating Revenue	17.1	15.9
Net (Deficit)/Surplus after income tax	(0.8)	2.7
Dividend	1.37	1.06
Net increase in equity contribution	2.48	20.93
Return of equity	nil	2.20

The Stokes Hill Wharf facility contributed a significant negative impact on the commercial operating results of the Authority.

The financial statements highlight the impact that the Stokes Hill Wharf facility has on the commercial operating results of the Authority (now the Corporation). Operating surplus before abnormal items decreased by \$1.3 million in comparison to the previous year, with the additional repair and maintenance requirements at Stokes Hill Wharf substantially contributing to that result. The additional expense of \$2.2 million which is then recorded as an abnormal item was substantially the writing off of capital works at Stokes Hill Wharf, particularly the \$1.5 million cost of the Cruise Ship Terminal.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Darwin Port Authority

The write-down of the Stokes Hill Wharf to nil value, and the associated write off of any capital works, reflects the commercial valuation derived from revenues earned from the facility being less than expenses incurred. The high repair costs incurred in the 1998/99 year confirm the appropriateness of this valuation. Currently, the Corporation also would not replace the facility if it was damaged or destroyed, so its replacement value to the Corporation is also nil.

The valuation of Stokes Hill Wharf and the other Wharf facilities should be re-visited during the 1999/2000 year. Assumptions made in 1997 when the valuation was last conducted, particularly those relating to the transfer of facilities to the East Arm Port, may no longer be valid. As with the Power and Water Authority, the depreciated replacement cost of any assets carried at nil commercial value, but likely to be replaced, should also be calculated and disclosed. This information is more applicable to asset valuation information required for whole of Government financial reporting.

An additional \$608,000 could have been included in the reported operating surplus for the year if Community Service Obligation (CSO) funding had fully met the required expenditure, or if the CSO funded activities had in fact not been conducted.

Additional disclosure in the notes to the financial statements this year highlighted the extent of under-funding from CSOs was \$608,000. This provides useful information when assessing the commercial results of the Corporation.

The disclosure did highlight that the CSO funding received this year met the interest cost borne by the GBD on borrowings for the East Arm Port construction, so this did not effect the reported operating results.

No East Arm Port rectification costs are included in the financial statements.

At the time of signing the audit opinion on 9 November 1999, a recent legal opinion had been issued to the Corporation indicating that the Authority was unlikely to be responsible for costs of the rectification works still in progress as at 30 June 1999. Accordingly, no actual or contingent liability value was recorded in the Authority's financial statements.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

TAB

KEY FINDING

- **Revenues and profit showed very small increases, so the financial performance of the TAB now shows a flatter trend line.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	5.6	5.3
Total Liabilities	<u>2.9</u>	<u>1.8</u>
Accumulated Funds and Reserves	<u>2.7</u>	<u>3.5</u>
Operating Revenue	14.9	14.4
Net Surplus	6.1	5.5
Distributions	7.0	5.6

The TAB is a Government Business Division of the Racing and Gaming Authority, which is administered by the Department of Industries and Business.

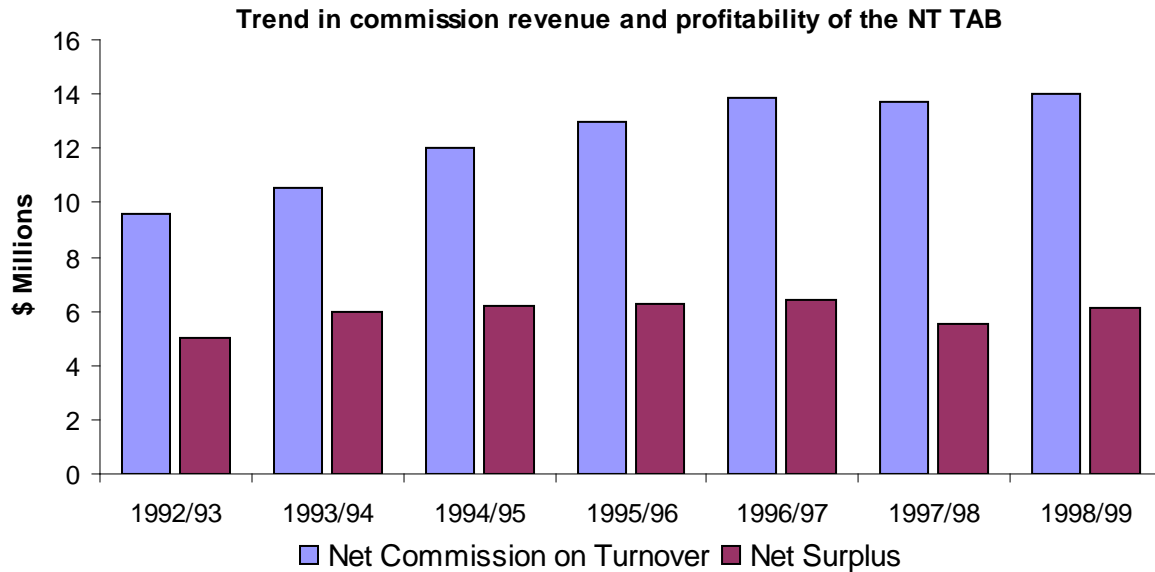
Revenues and profit showed small increases, so the financial performance of the TAB now shows a flatter trend line.

The strong growth in sales, commission income and profitability experienced through to the 1996/97 year is now showing a levelling off in the past two years. Profit did improve since last year, but did not achieve the level of the 1996/97 year.

The improvement this year reflects management strategies to increase race coverage and customer access, while restraining expenditure. Marketing costs in particular fell by \$121,000 with reduction of the image campaigns in the media. However, occupancy costs rose by \$62,000 because the TAB, for the first time, was required to pay rent to the Darwin Turf Club Inc. for use of its premises at Fannie Bay racetrack.

The following chart highlights the revenue and profitability trend.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of the TAB



Source: Racing and Gaming Authority Annual Reports; Department of Industries and Business 98/99 Annual Report

\$304,000 of this year's profit of \$6.140 million was retained by the TAB for future capital equipment purchases. The balance of the profit, together with \$1.14 million drawn from reserves of the TAB at the Minister's approval, provided a pool of \$6.976 million for distribution in accordance with the requirements of its enabling legislation, as follows:

	1999 \$million	1998 \$million
<i>Distributions to the industry:</i>		
Racecourse Development Fund	0.868	0.864
Industry Assistance Fund	3.054	2.390
<i>Distribution to the Northern Territory Government</i>	3.054	2.390

After transfers to Reserves and the Racecourse Development Fund, the TAB distributes all remaining surplus funds equally to the Industry Assistance Fund and the Consolidated Fund, that is, the Government's Consolidated Revenue Account, this effectively being the general dividend back to Government. The TAB does not pay tax to the Government on its income.

The Racing Commission manages disbursements from the Racecourse Development Fund and the Industry Assistance Fund.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

Territory Wildlife Park

KEY FINDINGS

- **This GBD continues to derive a substantial amount of its revenue from Community Service Obligation funding from Government.**
- **The financial results are not a relevant indicator of its operational objectives.**

Brief financial statistics	1999 \$million	1998 \$million
Total Assets	6.7	6.8
Total Liabilities	<u>0.5</u>	<u>0.5</u>
Accumulated Funds and Reserves	<u>6.2</u>	<u>6.3</u>
Operating Revenue	4.0	3.8
Net (Deficit)/Surplus after abnormal items and income tax	(0.03)	(0.07)
Dividend	nil	nil

This GBD continues to derive a substantial amount of its revenue from Community Service Obligation funding from Government.

Community Service Obligation (CSO) funding was \$2.8 million in the year, and an additional \$316,000 of capital and operational expenditure was paid directly by the Government in the year on behalf of the Park. These funding sources represented 78% of total revenues of the Park for the year. This continues the trend of high dependency on direct Government support since the Park was established as a GBD in 1995.

Despite this level of funding, a trading deficit of \$119,500 resulted, before abnormal items, which exceeded the trading deficit of \$75,000 for the previous year.

The financial results are not a relevant indicator of its operational objectives.

Revenues derived from gate takings and other sales dropped 5% in the year to \$848,000 in line with the fall in visitors in the year. This represented only 21% of total revenues, and contributed only 20% towards total costs. Meanwhile, in that year, personnel costs increased by \$111,000.

The Park's financial structure and performance indicates that it is not able to function as a profit-seeking commercial enterprise. Instead the objectives of the Park, disclosed in the Parks and Wildlife Annual Report for 1998/99, are to:

- increase local community and visitor appreciation, understanding and enjoyment of the Territory's natural environment by providing a major attraction in Darwin; and
- ensure that community service obligations funded by Government are delivered efficiently and represent value for money. (However no measurement or direct assessment of the achievement of this objective is provided in the Annual Report.)

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Territory Wildlife Park

The Government's Budget Paper No. 2 identifies that an additional role is to research the Park's flora and fauna.

The Park is unlikely to be able to act commercially when it retains a high dependency on Government support, and does not have the achievement of a profit as a goal. Trends in expenditure on research and education, which are primary performance objectives of the Park, could provide more relevant financial performance information about the GBD's environmental and social value adding roles.

The Parks and Wildlife Commission has commented:

The Auditor-General's February 2000 report on the Territory Wildlife Park's performance and reporting indicates a need for a better alignment between business planning and reporting. This difficulty has been recognised and was the subject of a recent consultancy. The consultant's recommendations are being implemented and it is anticipated that future reporting will better reflect the stated objectives of the Territory Wildlife Park.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

International Project Management Unit (IPMU)

KEY FINDINGS

- **IPMU ceased to be a Government Business Division as at 30 June 1999.**
- **IPMU commenced operation as a GBD with effect 1 July 1994. The opening cash balance at that time, together with profitable commercial operations in 1994/95, have funded the annual operating losses for each of the subsequent years to 30 June 1999.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	1.9	2.3
Total Liabilities	<u>0.1</u>	<u>0.3</u>
Accumulated Funds and Reserves	<u>1.8</u>	<u>2.0</u>
Operating Revenue	0.44	0.96
Net (Deficit)/Surplus after income tax	(0.2)	(0.3)
Dividend	nil	nil

IPMU ceased to be a government business division as at 30 June 1999.

By determination of the Treasurer, IPMU ceased to be a Government Business Division as at 30 June 1999, although its functions continue within the project responsibilities of the Consultancy Management Group of the Department of Asian Relations and Trade.

This means that financial transactions in respect of the former IPMU assets and liabilities would, from 1 July 1999, be accounted for within the financial reporting of the Department of Asian Relations and Trade, in accordance with the requirements of the Treasurer's Directions for agencies.

Although the GBD's budget for 1998/99 predicted a cash surplus of \$99,000, a cash deficiency of \$461,000 resulted. This reflected the decision during the year to integrate the GBD's functions into the project responsibilities of the Department, rather than retaining a more independent commercial focus.

IPMU commenced operation as a GBD with effect from 1 July 1994. The opening cash balance at that time together with profitable commercial operations in 1994/95 have funded the annual operating losses for each of the subsequent years to 30 June 1999.

The net assets of IPMU at 30 June 1999 were \$1.8 million. This included a cash balance of some \$1.5 million. The cash balance had been carried forward from prior years' operations, both before IPMU was classified as a Government Business Division in 1995, and from its profitable operations during 1994/95.

FEBRUARY 2000 REPORT

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS **Analysis of the financial statements of IPMU**

The opening cash balance of IPMU with effect 1 July 1994 was \$2.75 million, which had increased to \$3.8 million by 30 June 1995. This funded operating losses in the following years.

The following table records this trend:

Year	Revenue	Surplus/ (Deficit)	Closing cash balance
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
1994/95	4,406	323	3,783
1995/96	363	(512)	3,178
1996/97	640	(665)	2,369
1997/98	960	(305)	1,956
1998/99	442	(232)	1,495

The GBD required no direct Government subsidy or Community Service Obligation funding during its term as a Government Business Division.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

Darwin Bus Service

KEY FINDINGS

- **This GBD is achieving operational efficiencies with a consequential favourable impact on profit, and on dividends returned to Government.**
- **The GBD derives its revenue and profits from hiring its buses to the Government, not from the receipt of fares from passengers.**
- **The total annual cost to Government of bus operations in the Darwin and Palmerston regions is not reflected in these financial statements. The cost incurred by Government in the year to maintain bus services in the Darwin and Palmerston regions was \$7.2 million in 1998/99, an increase from \$7 million in 1997/98.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	9.1	8.6
Total Liabilities	<u>1.4</u>	<u>1.1</u>
Accumulated Funds and Reserves	<u>7.7</u>	<u>7.5</u>
Operating Revenue	5.8	5.6
Net (Deficit)/Surplus after income tax and extraordinary items	0.43	0.12
Dividend	0.256	0.087

This GBD is achieving operational efficiencies, with a consequential favourable impact on profit and on dividends returned to Government.

The improved financial performance for the year has been achieved though efficiency improvements. The performance section of the Department of Transport & Works 1998/99 Annual Report is where this is best described. Key factors include achieving more kilometres travelled and remunerated by the Government, while utilising less manpower and equipment.

Performance reporting is generally good.

Performance information about this GBD in the Annual Report of the Department of Transport & Works is generally good. It was pleasing to see that comments on the extent of achievement of the GBD's planned outcomes, which had been identified in Budget Paper No. 2 for 1998/99, were evident in its performance reporting in the Department's Annual Report. However, analysis could be assisted if profitability and dividend trends were better featured.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Darwin Bus Service

Variations which occur in these commercial performance measures can then be explained with reference to the impact of operational decisions.

The total annual cost to Government of bus operations in the Darwin and Palmerston regions is not reflected in these financial statements.

The GBD derives its revenue and profits from hiring its buses to the Government, not from the receipt of fares from passengers.

The Department of Transport & Works 1998/99 Annual Report identifies that the subsidy required from Government in the year to maintain bus services in the Darwin and Palmerston regions increased to \$7.2 million in 1998/99 from \$7 million in 1997/98. This is the net result after deducting bus fare revenue collected from the costs incurred by the Public Transport Branch in hiring buses from Darwin Bus Service and private sector contractors.

Because bus fares are set at non-commercial levels for social policy reasons, the greater the range of services provided by Government, the greater the subsidy required.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

NT Fleet

KEY FINDING

- **The significant decline in vehicle resale values during the year offset efficiencies achieved by this GBD, and resulted in it recording a small loss for the first time.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	65.6	66.3
Total Liabilities	<u>12.4</u>	<u>11.8</u>
Accumulated Funds and Reserves	<u>53.2</u>	<u>54.5</u>
Operating Revenue	22.2	20.9
Net (Deficit)/Surplus after income tax	(0.05)	2.5
Dividend	1.26	nil

The significant decline in vehicle resale values during the year offset efficiencies achieved by this GBD, and resulted in it recording a small loss for the first time.

The financial statements identify that the cost reductions flowing from lowering personnel numbers and trimming operational costs were overtaken by the decline in vehicle resale values. The almost \$6.5 million of losses and write-downs recorded in the year represented 11% of the carrying cost of the light vehicle fleet. The overall result was a small loss for the year. This is the first loss sustained by NT Fleet since its establishment in 1995.

The faster than predicted decline in motor vehicle disposal values has been similarly reported throughout the fleet management industry in Australia. This experience can be used to review the rates set for vehicle hire, and to review other fleet management policies when setting the profitability goals for the GBD.

Performance reporting could be improved.

The needs of external users could be assisted if profitability and dividend trends were better featured for NT Fleet in the Annual Report for the Agency. Variations which occur, as with the 1998/99 year, can then be explained with reference to the impact of operational decisions such as personnel, pricing, repairs and asset value issues.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

Construction Agency

KEY FINDING

- **This GBD's financial results still do not reflect a commercial position, since there are still non-commercial constraints affecting its reported results.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	10.7	11.3
Total Liabilities	<u>10.4</u>	<u>9.9</u>
Accumulated Funds and Reserves	<u>0.3</u>	<u>1.4</u>
Operating Revenue	33.6	26.5
Net (Deficit)/Surplus after income tax	(1.0)	0.3
Dividend	0.14	nil

This GBD's financial results still do not reflect a commercial position, since there are still non-commercial constraints affecting its reported results.

Professional services entities operating in the Building and Construction industry usually operate on a fee offer system. This system places pressure on the entity to maintain efficiencies to retain costs within the fee range. A fee offer system has yet to be implemented in the Construction Agency. In the meantime, it bills on the basis of time incurred.

A comparison of financial results between this year and last year can be made, because similar billing systems were in use. The financial statements indicate that after allowing for the effect on revenue and expenses of paying and on-charging sub-contractor costs this year, the transition from a small operating profit last year to an operating loss this year is the result of additional personnel costs. These are substantially leave entitlements and redundancy costs for former employees.

However, the method required by Government for funding and accounting for these employee costs has delivered a higher loss than would have occurred from applying a suitable alternative method. Funding of the long service leave and annual leave entitlements was by drawing on Construction Agency's entitlement identified in the Recoverable Establishment Fund, which was created for this purpose. The Recoverable Establishment Fund is not a pool of cash, but rather an entitlement to draw additional funds from Treasury to meet the annual leave and long service leave entitlements inherited at the time this GBD was created in 1995.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Construction Agency

However the Government also directed that its separate funding of redundancy payments of \$753,000 was to be deducted from that Fund balance. Since the Fund was not established to meet redundancy payments, an alternative treatment would have been to disclose that funding as revenues from Government, rather than a reduction of the asset. This would have increased revenues and reduced the operating loss by \$753,000.

The original balance in the Fund was \$6.091 million. Some drawings for leave entitlements have since occurred, and the balance, before the redundancy amounts, would have been \$5.37 million. After deduction of the redundancy payments this is now \$4.617 million. Funding of future redundancy payments should preferably be classified as revenue.

Performance information could be improved.

Performance information in the Annual Report of the Agency could better comment on the extent of achievement of the planned performance outcomes presented to the Legislative Assembly in the GBD's Budget Paper No. 2. While comments on some of the planned outcomes for 1998/99 can be identified in the Annual Report, no conclusive comments were evident on, in particular, the "improved level of client satisfaction", and "improved client reporting processes".

FEBRUARY 2000 REPORT

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS **Analysis of the financial statements of Government Business Divisions**

Information Technology Management Services

KEY FINDINGS

- **The financial statements reflect the GBD's transition from being a provider of IT equipment to being a consultant and facilitator for the IT needs of Agencies.**
- **There has been a reduction in debts outstanding over 30 days.**
- **Some agencies are still paying funds to the GBD well in advance of required services.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	15.9	19.0
Total Liabilities	<u>14.3</u>	<u>17.3</u>
Accumulated Funds and Reserves	<u>1.6</u>	<u>1.7</u>
Operating Revenue	58.7	57.4
Net (Deficit)/Surplus after abnormal items and income tax	0.5	0.8
Dividend	.6	nil

The financial statements reflect the GBD's transition from being a provider of IT equipment to a consultant and facilitator on the IT needs of Agencies.

The financial statements illustrate that while operational cost increases have largely matched the revenue increases in the year, the \$1 million lower depreciation charge was a major contribution to the \$1.1 million increase in operating profit before abnormal items. The lower depreciation reflects the full year effect of the substantial reductions in IT equipment held by the GBD, as it transitioned from being a provider of IT equipment to a consultant and facilitator on the IT needs of Agencies.

Although revenue increases in the year were matched by cost increases, revenues from consulting and facilities fees in total grew sufficiently to replace the hire of equipment revenue earned by the GBD in previous years.

Dividend policy was changed during the year so as to require a payment of \$378,000 in respect of the previous year's surplus. In addition, a provision was made for a dividend of \$235,000 from the 1998/99 surplus. This GBD has not previously paid a dividend.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of ITMS

There has been a reduction in debts outstanding over 30 days.

In previous reports I have commented on the unsatisfactory level of accounts receivable remaining outstanding more than 30 days, while acknowledging the GBD did not have commercial debt collection powers. In my February 1999 Report I noted that accounts receivable outstanding more than 30 days had increased from \$1.96 million at the start of that financial year to \$3 million at 30 June 1998. Accounts receivable outstanding over 30 days at 30 June 1999 had been reduced to \$1.6 million.

However further improvement could be made, and there were also weaknesses with the billing system which should be addressed, to prevent inaccurate billings being prepared.

Some agencies are still paying funds to the GBD well in advance of required services.

I noted in my February 1999 Report that over \$363,000 received in previous years had not been required during 1997/98, and that such amounts should be returned to their originating agencies so that accounting records are correctly reporting the agencies responsible for these funds.

Once again at 30 June 1999, there was approximately \$378,000 in prepayment balances received from other agencies prior to the commencement of the financial year that had not moved during the financial year, so this matter has not been adequately addressed.

Performance information could be improved.

Performance information in the Annual Report of the Agency could better comment on the extent of achievement of the planned performance outcomes presented to the Legislative Assembly in the GBD's Budget Paper No. 2. While comments on some of the planned outputs and outcomes for 1998/99 of the former Department of Communications and Advanced Technology: Commercial Services can be identified in the Department of Corporate and Information Services' Annual Report, no conclusive comments were evident on, in particular, the "high level of client satisfaction", and "establishment of industry benchmarking".

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Analysis of the financial statements of Government Business Divisions

Government Printing Office

KEY FINDINGS

- **The financial statements illustrate a continuing trend of a small decline in sales, with profitability reducing accordingly.**
- **Performance reporting about this GBD in the Agency's Annual Report was generally good.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	4.4	4.7
Total Liabilities	<u>1.8</u>	<u>2.0</u>
Accumulated Funds and Reserves	<u>2.6</u>	<u>2.7</u>
Operating Revenue	7.3	7.5
Net Surplus	0.38	0.46
Dividend	0.41	nil

The financial statements illustrate a continuing trend of a small decline in sales, with profitability reducing accordingly.

The financial statements illustrate a small decline in sales revenue, continuing a trend from the previous year. One key contributing factor is that customers have lower cost printing options available at the Government Printing Office, which reduces revenues to the GBD, but is a benefit to Government as a whole.

Profitability has also reduced slightly however. Efficiencies available from the new Heidelberg press were offset by the higher depreciation cost of the equipment. Salary increases flowing from the Government's 1998 Enterprise Bargaining Agreement offset the impact of the lower numbers of personnel.

Performance reporting about this GBD in the Agency's Annual Report was generally good.

It was pleasing to see that profitability and dividend trend information for this GBD are featured in the Annual Report of its host Agency, the Department of Corporate and Information Services, in the Financial Statements Overview section.

It was also pleasing to see that comments on the GBD's planned outcomes, which had been identified in Budget Paper No. 2 for 1998/99, were evident in its performance reporting in the Agency's Annual Report. However, the comments about the planned outcome of "greater efficiency and enhanced service to customers" dealt with strategies to implement this outcome, rather than with the extent of the achievement of the outcome.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS)

KEY FINDINGS

- **Retrenchment programs again entailed higher benefit costs than estimated.**
- **The Scheme was closed to new entrants on 9 August 1999.**
- **The next triennial actuarial review is due at 30 June 2001.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	260.8	227.6
Total Liabilities	<u>16.3</u>	<u>13.5</u>
Net Assets	<u>244.5</u>	<u>214.1</u>
Change in Net Assets	30.4	47.3
Liability for Accrued Benefits	Not available	521.3
(Accrued benefits are determined on the basis of the present value of expected future payments which arise from membership of the plan up to the measurement date. The liability for Accrued Benefits is not included in the calculation of net assets. The Actuarial Review was as at 30 June 1998.)		
Vested Benefits	558.3	490.3
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

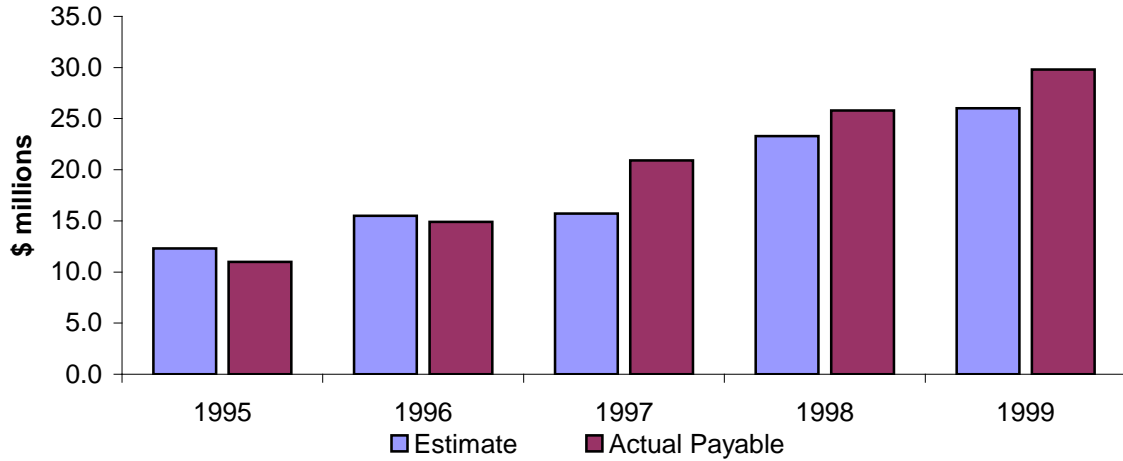
Emerging cost projections compared to actual payable.

Actual benefit costs payable in 1998/99 were \$29.8 million, which compares to the estimate made in 1998 that benefits payable in the next year would be \$26 million. In recent years payment estimates have tended to be too low, and accrued liability estimates have tended to be too high, due to employees exiting the scheme faster than anticipated. An important factor has been retrenchment programs. The following chart illustrates this trend.

**AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
NTGPASS**

Emerging cost projections compared to actual payable (cont'd)

NTGPASS Cost estimates compared to actual payable



Source: NT Budget Papers; Treasurer's Annual Financial Report

The Scheme was closed to new entrants on 9 August 1999. The next triennial actuarial review is due at 30 June 2001.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Legislative Assembly Members' Superannuation Trust

KEY FINDING

- **Government contributions of \$1.28 million were made this year, following the \$1.27 made last year.**

Brief financial statistics	1999	1998
	\$million	\$million
Total Assets	28.1	25.4
Total Liabilities	<u>0.2</u>	<u>0.2</u>
Net Assets	<u>27.9</u>	<u>25.2</u>
Change in Net Assets	2.7	2.6
Liability for Accrued Benefits	Not available	22.8
(Accrued benefits are determined on the basis of the present value of expected future payments which arise from membership of the plan up to the measurement date. The liability for Accrued Benefits is not included in the calculation of net assets. The Actuarial Review was as at 30 June 1998.)		
Vested Benefits	28.4	23.6
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Government contributions of \$1.28 million were made this year, following the \$1.27 made last year.

Contributions had not been required for a number of years previous to these because the earnings of the Fund were sufficient to meet emerging liabilities. However, following changes to the defined benefits which were legislated in August 1996, and then further amended in December 1998, together with reducing investment income earnings, additional contributions have re-commenced.

The fall in investment income which occurred was in line with market conditions in Australia. The 1998/99 investment income of \$1.81 million was only 53.7% of the earnings gained two years previously in 1996/97.

As no lump sum benefits were paid during the year the total of benefits paid reduced by \$0.48 million or 50.98% over the previous year. Pension benefits paid increased by 6.5%.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Territory Insurance Office

KEY FINDINGS

- **There has been a downward trend in operating results for TIO since 1995/96. If the trends were to continue, further equity contributions from Government may be needed.**
- **Premium increases stopped the erosion which had been occurring in the funds of the Motor Accidents Compensation Scheme.**

Brief financial overview:

While gross premium revenue in 1998/99 increased by \$2.7 million, this was offset by a \$1.2 million increase in reinsurance costs and a \$2.5 million increase in claims expense.

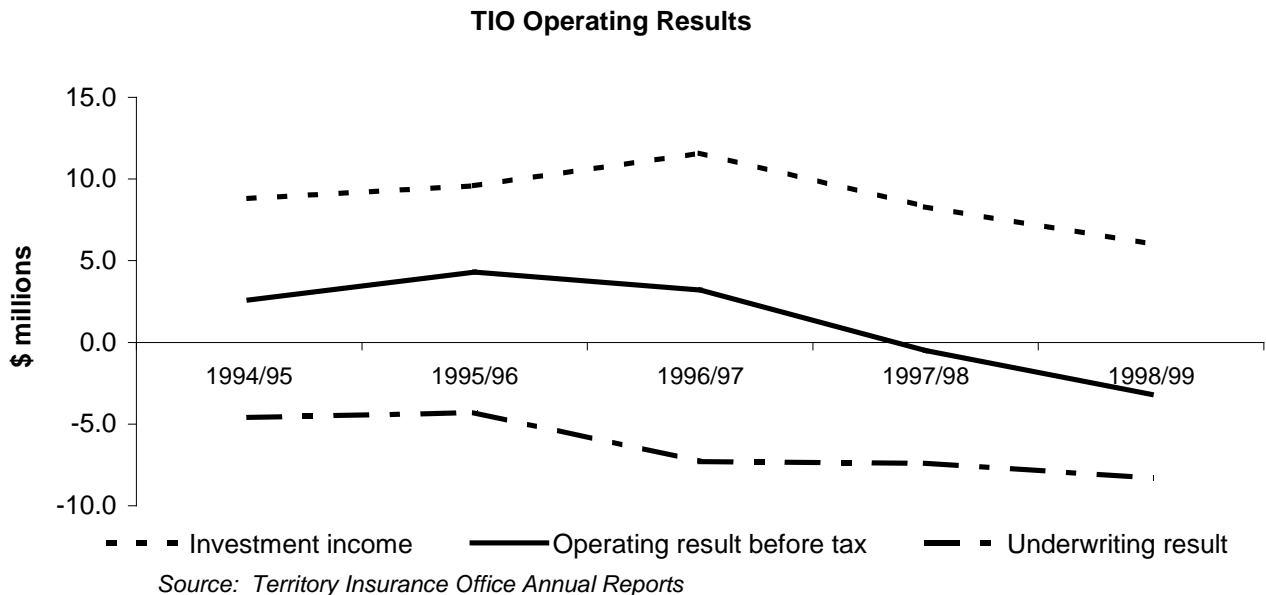
The result was an underwriting loss of \$8.29 million, an 11.6% increase on the previous year.

The underwriting loss coupled with a \$2.25 million fall in investment income has led to the \$3.19 million operating loss before income tax.

The operating loss after income tax for TIO amounted to \$3.68 million.

There has been a downward trend in operating results for TIO since 1995/96. If the trends were to continue, further equity contributions from Government may be needed.

There has been a noticeable downward trend in operating results since 1995/96. The following chart illustrates this:



AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS
Territory Insurance Office

The chart illustrates that, typical of insurance companies, investment income earned on policyholders funds contributes to offsetting the insurance business underwriting loss to provide the aggregate operating profit or loss.

However, investment returns have been generally lower in Australia in recent years. Underwriting results by insurance companies are also generally lower, as the result of larger than expected claims throughout Australia and internationally, affecting both direct written business and re-insurance business.

While publicly listed insurance companies can buffer these trends with additional investment earnings on shareholder capital, the TIO has minimal equity capital contributed by the Government with which to do this. Currently the Government provides equity of \$15 million by way of a subordinated loan to the TIO, and a "quasi-equity" contribution through the Self-Insurance Fund deposit which at 30 June 1999 was \$10.4 million. This fund has never been drawn upon for self-insurance needs of the NT Government, even as a consequence of losses incurred in the January 1998 Katherine floods. These deposits by the Government are interest bearing, and in 1998/99 these funds incurred an interest expense payable to the Government by TIO of \$1.46 million. However, this revenue is re-invested by the Government into the Self-Insurance Fund, thereby increasing the Government's "quasi-equity" in TIO during the year.

The current downward trends in the insurance and investment markets are placing pressure on the TIO's ability to return to profitability. This could be eased by the Northern Territory Government contributing non interest-bearing equity, on which TIO could earn investment income as a buffer against insurance market cycles.

Premium increases stopped the erosion which had been occurring in the funds of the Motor Accidents Compensation Scheme.

TIO is also responsible for the administration of the Motor Accidents Compensation Scheme. The 1998/99 result saw the arrest of the gradual erosion of the Scheme's accumulated funds over the last few years. The underwriting loss for the Scheme was reduced from \$10.48 million in 1997/98 to \$1 million in 1998/99. This was achieved through a \$6.1 million increase in premium revenue and a \$3.8 million reduction in claims expense.

The increase in premium revenue was due entirely to the 35% increase in rates that became effective from 1 July 1998. A further 5% increase in rates became effective from 1 August 1999 and should further improve the position of the scheme.

This significant reduction in the underwriting loss was to some extent offset by a \$2.6 million reduction in investment revenue, and a \$730,000 increase in general and administration expenses.

As a consequence the operating result of the Scheme showed a \$6.2 million turnaround, from a loss of \$1.3 million in 1997/98 to a profit of \$4.9 million in 1998/99.

Territory Insurance Office has commented:

The downturn in results is principally from the Work Health portfolio and is similar to other industry participants. The Department of Industries and Business has instituted a review as a result of industry concerns.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Jabiru Town Development Authority

KEY FINDINGS

- **The Authority's major asset is land held for sub-lease, at a value of \$3.3 million, but this value appears overstated in light of the limited remaining life of the Ranger Uranium mine, and no alternative economic activity of a similar scale yet identified.**
- **The Authority remains unable to repay its loan of \$8.8 million from the Northern Territory Government.**

The Authority has overall responsibility under the Jabiru Town Development Act for maintenance and development of the town, issue of sub-leases of land and to administer, manage and control the town. A Headlease Agreement between the Authority and the Commonwealth over the town is due to expire in 2021.

The Authority has delegated the local government functions to the Jabiru Town Council, which prepares a separate Annual Report. The annual financial report of the Authority covers the functions retained by it.

A 1985 Cost Sharing Agreement, upon which the Authority's financial statements are based, sets out the principles for the allocation between the participating parties for the expenditure which had been required for the town development. The participating parties were principally Energy Resources Australia Limited, the Northern Territory Government, the Commonwealth Government, and the Authority.

	1999	1998
Brief financial statistics		
	\$million	\$million
Total Assets	8.15	8.2
Total Liabilities	<u>8.8</u>	<u>8.9</u>
Accumulated Funds and Reserves	<u>(0.7)</u>	<u>(0.7)</u>
Operating Revenue	0.26	0.22
Net (Deficit)/Surplus after income tax	(0.03)	(0.1)
Dividend	nil	nil

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Jabiru Town Development Authority

The Authority's major asset is land held for sub-lease, at a value of \$3.3 million, but this value appears overstated in light of the limited remaining life of the Ranger Uranium mine, and no alternative economic activity of a similar scale yet identified.

This asset is the land that remained available for sub-lease for residential dwellings at the time of the Cost Sharing Agreement in 1985. However, take-up of leases has been slow, with only one sub lease being entered into this financial year, and only 30 of the 144 residential lots available being sub-let since 1985.

I have issued a qualified audit opinion on the 1998/99 financial statements of the Authority, because of my uncertainty over whether the \$3.3 million carrying value of land held for sub lease is in excess of the amount which the Authority will recover from it. In previous years, I have drawn attention to this through an emphasis of matter in the audit opinion.

This year, the uncertainties to which I have previously referred are being crystallised, necessitating a qualification comment in the audit opinion. This is because the value to the Authority of land held for sub-lease is dependent on all the individual lots being sub-let for the construction of residential dwellings. The likelihood of recovering the full \$3.3 million value is dependent on new economic activity bringing with it the need to house additional people on the available land.

However, the development opportunities in Jabiru from processing of Jabiluka ore are currently stalled, and the operating life of the current Ranger Uranium Mine operations was identified in a debate in the Northern Territory Legislative Assembly on 24 November 1999 as lasting no more than eight years.

The Authority remains unable to repay its loan of \$8.8 million from the Northern Territory Government.

During the construction phase of the Jabiru township in the early 1980s, the Authority met the cost of certain oversized headworks, mainly water supply and sewerage facilities, using funds borrowed from the Northern Territory Government.

As a consequence of the Authority's present inability to generate income through the sub-lease of its land, it is unable to repay the loan balance of \$8,804,916 it still has with the Northern Territory Government. The Government ceased charging interest on, and seeking repayment of, this loan balance in 1986.

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS

Hidden Valley Promotions Pty Ltd

KEY FINDINGS

- **Administrative controls over issuing of tickets needed to be improved.**
- **Substantial financial support was provided by Government to allow the event to be staged to the expected national standard.**

Brief operational overview:

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.

The first race was staged in July 1998. A further race meeting was held in June 1999, with the next scheduled for May 2000. The company's agreement with the national race organisers was to hold the event annually at Hidden Valley for the three years up to 2000, with an option to stage the event for a further two years to 2002.

A company structure was selected to give the management more flexibility in areas such as procurement and employment than would be available to a public sector entity. Three people formed the management team, assisted by Mr Marshall Perron as part-time Chairman.

I was appointed the Company's auditor at the request of the Minister for Sport and Recreation. The company's first financial year ended on 31 December 1998.

Administrative controls over issuing of tickets needed to be improved.

As a new organisation, with a new and national event to stage, a tight and non-negotiable deadline, and a small management team, administrative systems were often developed to meet emerging needs, and experience and hindsight showed where shortcomings existed.

I issued a qualified audit opinion on these financial statements, as I was unable to obtain sufficient evidence on the completeness of recording both ticket sales revenue and the value of in-kind services received. The lack of adequate controls over ticket revenue, and specifically, not identifying those tickets exchanged for the receipt of goods and services from suppliers, did not enable the company to adequately record all in kind revenue and related expenditure. Recommendations were made to the Company to improve the control procedures where necessary.

FEBRUARY 2000 REPORT

AUDITING THE PUBLIC ACCOUNT AND OTHER ACCOUNTS **Hidden Valley Promotions Pty Ltd**

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

The Department of Sport & Recreation provided grants to the company of \$796,000 in 1997/98 and \$449,000 in 1998/99.

A comparison of this funding with other large recreational activity funding by the Department of Sport & Recreation during this period, both current and capital shows:

	1997/98	1998/99
Hidden Valley Promotions Pty Ltd	\$796,000	\$449,000
NT Motor Sports Council	\$558,007	\$151,000
NT Netball and regional netball associations	\$670,725	\$296,700
Northern Territory Hockey Association	\$189,246	\$243,000
Northern Territory Football League	\$185,000	\$140,000

In September 1998 a further \$275,000 was paid to the Company by the Department of the Chief Minister to cover an anticipated shortfall in funding for the 1998 event bringing the total of direct grant funding to \$1,520,000 in its first thirteen months of operations.

In addition, the following costings were prepared by other public sector entities for their contribution to the 1998 event:

- Department of Transport & Works:
 - Capital Works to bring the track up to CAMS requirements \$5,850,000
 - Bus access roads and upgrade of facilities \$140,000
 - Free bus service \$47,046

- Power & Water Authority - electricity infrastructure \$73,000

Following the Touring Car Championship event in 1998, a further \$2 million was allocated for additional drainage works, improvement of spectator facilities, pit garage buildings and additional safety upgrades and resurfacing of the track.

The Department of Transport & Works has another project for \$482,000 due for completion by March 2000 which mainly involves drainage protection works and further landscaping.

Further information on funding and costings for the June 1999 event will be reported in the company's 31 December 1999 financial statements.

Hidden Valley Promotions Pty Ltd has commented:

The procedures used in 1998 reflected the limited time to prepare for and stage a major national event. Improved practices were adopted in 1999 with further enhancements planned for the 2000 event.

FEBRUARY 2000 REPORT

MATTERS ARISING FROM PERFORMANCE MANAGEMENT SYSTEM AUDITS

Index	Page
Performance information in Agency Annual Reports for 1998/99	
• Common Issues	50-52
• Territory Health Services	53-54
• Power and Water Authority	55-57
• Department of Transport & Works	58-59
• Darwin Port Authority (now Darwin Port Corporation)	60
• NT Police, Fire and Emergency Services	61-62
• Department of Housing (now Territory Housing)	63-65
• Northern Territory Employment & Training Authority	66-67
• Northern Territory Treasury	68-70
• Northern Territory Correctional Services	71-72
• Department of Sport & Recreation	73-74
• Office of Courts Administration	75
How well does program evaluation support organisational performance?	76-80
Outsourcing of information technology services	81-82

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Common issues identified during audits of performance information in Agency Annual Reports for 1998/99:

KEY FINDINGS

- **There was no consistent effort across Agencies to provide an accounting for performance achieved in the year using the same terms as presented in outcome and output descriptions in Budget Papers.**
- **No Agency audited had provided information on all the performance intentions outlined in the Budget Papers for the year.**
- **Reporting should comment on reasons why, when achieving the outcomes and outputs for the year, the actual use of financial resources varied from the budget approved by the Legislative Assembly. This linkage was not evident in the Annual Reports examined.**
- **The impetus to improve Annual Reporting should come from the Legislative Assembly, and in particular the Public Accounts Committee, since this is the body which needs to signal to the Government of the day the Parliament's requirements for accountability.**
- **Governments with an appreciation of the need to maintain public trust through open accountability should also see benefits in improving performance information at key opportunities such as that presented by Annual Reports.**

In my August 1999 Report to the Legislative Assembly, I identified that:

“During the Appropriation Bill debate in June 1999, the Government made apparent its expectations that Annual Reports of public sector entities will be providing relevant performance information to allow the Members of the Legislative Assembly to understand the Government's performance in the 1998/99 year.

I will be completing the performance management system audits on entities examined in the recent period by reviewing the performance information which is included in their 1998/99 Annual Report. I am confident this will provide a more useful output from performance management systems audits for use by Members of the Legislative Assembly.”

Our system of public governance expects that the members of the Executive Government are to remain accountable to the people's representatives in the Parliament. Processes to do so include the Parliament's approval of the Government's Budget proposals, which is preceded by a debate of the Budget Papers as submitted to the Parliament by the Government. Linking to that is the Government's subsequent accountability to the Parliament for its stewardship and achievements in using the financial resources which the Parliament approved.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Common issues about performance information in Annual Reports

This accountability should most clearly be demonstrated through the Annual Reports prepared by budget sector Agencies, and tabled to the Parliament by the responsible Government Minister. These reports should provide a basis for Parliamentarians questioning the Government about its use of public funds to deliver the intended level of services to its constituents, as well as a reference from which to debate future Government budgets.

How well the performance information in Annual Reports is linked to performance aspirations in Budget Papers defines the quality of this accountability process.

The audits identified that there was no consistent effort across Agencies to provide an accounting for performance achieved in the year, using the same terms as presented in outcome and output descriptions in Budget Papers. While some Agencies, such as Territory Health Services and the Northern Territory Employment and Training Authority, are much better at reporting performance information in similar terms as Budget Papers, no Agency audited provided information on all the performance intentions outlined in the Budget papers for the year.

The format and content of Annual Reports is still largely at the discretion of Agencies, and this leads to wide variations in the quality of performance information presented. Unless all performance in Budget Papers is reliably reported upon, there is no safeguard against, for example, selective reporting of favourable performance only.

The ability for Agencies to provide answers to performance questions arising from Parliamentary and public expectations is dependent on the calibre of performance information and measurement systems in use by agencies. The audits identified many instances where performance measurement systems had not been adequately established.

The lack of consistency in reporting performance information also reflects a lack of rigour and clarity in the requirements for annual reporting established by the Parliament through applicable legislation, such as the Public Sector Employment and Management Act. The impetus to improve Annual Reporting should come from the Legislative Assembly, and in particular the Public Accounts Committee, since this is the body which needs to signal to the Government of the day the Parliament's requirements for accountability.

In this regard, it is noteworthy that the Public Accounts Committee of the Parliament of Queensland is currently undertaking an investigation into Annual Reporting in the Queensland Public Sector, with one of its Terms of Reference being: "the accuracy, completeness and usefulness of information reported".

However, Governments with an appreciation of the need to maintain public trust through open accountability should also see benefits in improving performance information at key opportunities such as that presented by Annual Reports.

I also restate my previous remarks, as published in my August 1999 Report, on the use of performance information in Parliamentary debates:

"It is important that performance information be used in the Legislative Assembly in a way which gives appropriate recognition to the reasons provided, if performance has not achieved the levels originally intended. How performance information is used in the Legislative Assembly will most likely influence how well it will be reported in future."

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Common issues about performance information in Annual Reports

Comments which follow deal with the specific instances of Annual Reports examined. The Agencies selected were those for which a performance management system audit had been conducted in the period January to June 1999. However, I also included comments on Territory Health Services, because of the significant extent of public resources allocated to it, and also the Department of Transport & Works, because I review its Annual Report during my audit of its annual financial statements, conducted at the request of the Chief Executive Officer.

The Annual Report of the Department of Education has not been included in this audit analysis.

I had intended also to comment on the calendar year 1998 Annual Report of the Department of Education, following up my comments and recommendations in my February 1999 Report to the Legislative Assembly.

Although the Annual Report was tabled in the Legislative Assembly on 25 November 1999, which was then eleven months after the end of the reporting period, no copies were printed and available from the Department for my review, even by late January 2000.

I propose to comment further on the Department's recent Annual Reporting in my August 2000 Report to the Legislative Assembly. In the meantime, my most recent assessment of Annual Reporting by the Department of Education is included in my February 1999 Report to the Legislative Assembly.

The Department of Education has commented:

The Department acknowledges that its 1998 Annual Report was very late in being tabled. The problem arose because of restructuring and lack of appropriate staff to prepare the report. Preparation of the 1999 Annual Report is already underway and the report is planned for tabling in May 2000.

Difficulties were experienced in having the report printed for wider circulation.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Territory Health Services - performance information in its 1998/99 Annual Report

KEY FINDINGS

- **Overall, performance information is well presented.**
- **More specific reference to each of the budget commitments would improve the performance reporting.**

Overview

Territory Health Services (THS) is the largest individual agency in the Northern Territory public sector.

In 1998/99, its gross outlays totalled \$403.5 million, being 14% of total Northern Territory gross outlays for that year. \$107.9 million was funded from Commonwealth Government sources, with the balance from Northern Territory Government funding and some self-generated sources.

A specific performance management system audit was not conducted at this Agency in 1999, but the performance information in its Annual Report warrants analysis because of its relative size.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

Overall, the performance reporting of THS in the 1998/99 Annual Report is well presented. The Major Budget Outcomes section is especially relevant, listing what actions have been taken by THS to meet the budget commitments made by Government.

The Activity and program reports are presented in a consistent format, providing a brief outline of the Activity or program, the strategies developed to implement its objectives, and a list of achievements for the reporting period. Some include trend analysis of aspects of their performance, which allows the reader to better understand this year's performance in context with past performance, and to see the direction performance is generally heading.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Territory Health Services' - performance information

Instances where performance reporting could have been improved:

Some of the major planned outcomes that are outlined in Budget Paper No. 2 are addressed but rarely directly. While outcomes are listed for each area of activity, the activities are not reported on in the same context as Budget Paper No. 2.

Much of the performance reporting was done across several areas or, as in the case of the hospitals, amalgamated into one section. However, performance information on key areas of commitment in the Budget Papers as "reduced elective surgery waiting times" could be shown separately for Royal Darwin Hospital, Alice Springs Hospital and the other acute care centres.

While the use of graphs and tables make some areas of the report clearer and provide good comparisons or trends, others, such as Family and Children's Services appear to have no explanation or link with the written performance reporting.

Linking performance reporting to Corporate goals

The links between the Corporate Plan 1996/99 and the Annual Report can be seen. The subsequent corporate plan, "Strategy 21st Century", is also reported against, but mainly in the Aboriginal health care areas.

Reporting performance information on the Aboriginal health policy was a specific criteria in the audit review of the Annual Report. Reporting should occur with reference to the objective of the policy which is to reduce health differences between Aboriginal and non-Aboriginal Territorians, through significant and sustainable improvements to the health of the Aboriginal population. This can be measured by comparing the Aboriginal and non-Aboriginal statistics on life expectancy, birth weights, infant mortality, dental health and other areas where reporting is broken into Aboriginal and non-Aboriginal sectors. However, there is no emphasis on this 'narrowing of the gap' in the reporting; the reader must make comparisons using the charts provided.

Foundations for the Future has also been mentioned, THS identifying four of the Foundations particularly relevant to their operations. This could be taken one step further in future Annual Reports, linking the Foundations to the Corporate Plan, and linking the Program strategies more strongly with the corporate strategy.

Linking financial reporting to performance information

The explanations to Financial Table 1, 1998/99 Expenditure by Activity and Program does give some links to the performance information. The comments outline the variations between 97/98 and 98/99, some of which include the specific commitments made in Budget Paper No. 1.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Power and Water Authority – performance information in its 1998/99 Annual Report

KEY FINDINGS

- **There are a number of planned outcomes and policy initiatives in Budget Paper No. 2 1998-99 which were not addressed in the Annual Report.**
- **The Annual Report did not identify the Authority's corporate objectives or key result areas for the year.**
- **Resource management has not generally been analysed as a measure of economy and efficiency.**

Overview

This is a large Agency and Government Business Division in the Northern Territory public sector. In 1998/99, its gross outlays totalled \$334.5 million. It is largely self-funded through levying charges for the essential services of power, water and sewerage.

A performance management system audit in June 1999, focusing on repair and maintenance programming, identified that although the Authority had developed identifiable customer service performance standards, the repairs and maintenance planning and programming was not clearly aligned to strategies to achieve those standards. The 1998 Annual Report of the Authority had not reported on the Key Performance Indicators established for Customer Service in the Corporate Plan

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

Performance reporting presents information about many of the planned outcomes for the Authority identified in the Government's 1998-99 Budget Paper No.2. These outcomes were generally expressed in terms of "continuing reliable supply" of electricity, water and sewerage services. However, the performance reporting on these key outcome goals is embedded in the detailed reporting sections, and could be brought forward in summary form into an introductory highlights or "performance snapshot" section.

The performance reporting on these key outcome goals included comparative information over time and in respect of other providers/jurisdictions, and information in respect of customer service. For example, electricity prices are compared with power suppliers elsewhere on pages 39 and 40 of the Annual Report, and while the Annual Report does not disclose standards for electricity reliability, pages 25 to 29 comment on and provide comparative data on system reliability during the year.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Power and Water Authority

Instances where performance reporting could have been improved:

There were also a number of planned outcomes in Budget Paper No. 2 1998-99 which were not clearly identified in the Annual Report. These include:

- *AES planned outcomes*

Power

- fuel savings through gas substitution

Water

- improved monitoring of water quality

Sewerage

- commencement of priority works required to upgrade existing systems to meet the Authority's standards and proposed discharge licensing requirements
- development of forward works proposals to address priorities at those communities where septic systems will not be effective because of natural limitations.

- *Commercial Services planned outcomes*

Organisational Services

- revise strategic infrastructure plans for Katherine
- asset performance reported against standards of service
- asset condition monitoring programs reviewed and extended or modified
- review of the five year forward works program to meet accelerated growth
- discharge licenses in place for a number of major facilities
- establish power line easement guidelines
- a Palm Valley gas field compression augmentation.

Policy initiatives that were not clearly reported on in the Annual Report include:

- improve the Darwin distribution system efficiency through power factor correction at substations;
- improve water quality through the use of an air curtain in Darwin River Dam;
- improvement in water pressure in the Alice Springs areas through upgrading two pump stations;
- investigation of the viability of gas substitution at some rural stations;
- continued upgrading of community services and land availability profiles to engineering base plan levels for remote communities; and
- improve the effectiveness of existing sewerage treatment and discharge for remote communities.

Linking performance reporting to Corporate goals

The 1998/99 Annual Report provides the reader with information regarding the major review of the Authority conducted during the year and of the reform the Authority is undertaking. There is some information and analysis of the Authority's performance based on the new structure of the Authority with some comparison to the previous year. However the Annual Report did not identify the Authority's corporate objectives or key result areas for the year, so there is no performance reporting against such objectives.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Power and Water Authority

The former corporate goal of a 5% reduction in real per unit production costs for each of electricity, water and sewerage in the five years to 30 June 2001 is not referred to, although the new Government policy for the Authority to improve financial performance by \$30 million annually within three years is stated. It was not explained, however, how this improvement is to be achieved.

Linking financial reporting to performance information

Resource management has not generally been analysed as a measure of economy and efficiency. This does not enable users to identify the impact of changes to planned resources on the delivery of services. In particular the allocation for AES for 1998/99 was reduced by \$8.4 million during the year from \$45.8 million to \$37.4 million, with final expenditure \$37.0 million. This reduction occurred within an overall reduction of allocation for the Authority of \$5.2 million (from \$349.0 million to \$343.8 million). There was no identification of this variance in the Annual Report, or of its impact on AES program management.

As also stated earlier, my audit in June 1999 found that although the Authority had developed identifiable customer service performance standards, the repairs and maintenance planning and programming was not clearly aligned to strategies to achieve those standards. The Annual Report identifies strategies to link asset management, which includes maintenance, to system reliability at reduced electricity production cost.

Power and Water Authority has commented:

The Audit Findings fail to take into consideration the considerable changes that occurred in the Authority's operations during the reporting period.

As is stated in the Authority's Annual Report, during the reporting period the Authority was the subject of a major Government Review (announced on 28 April 1998 and not completed until October 1998) the results of which were not announced until December 1998.

The first half of the reporting period was directed towards major review activities whilst the second half of the year reflects the commencement of the implementation, under a new Chief Executive Officer, of Government decisions arising from the Review.

The Annual Report very much reflects a year of transition and major change and should not be taken as indicative of the Authority's approach to performance reporting. Indeed the Authority has always provided fulsome performance reporting in its Annual Reports.

The Authority's Corporate Plan and planned outcomes foreshadowed in the Government's 1998/99 Budget Paper No. 2 were largely overtaken by events. In fact it could be argued that the Authority's performance should be measured against the Government's policy statement concerning the Review outcomes announced in the Assembly on 1 December 1998 by the Treasurer (Ministerial Statement by the Treasurer).

In relation to the changes to the AES allocation and the apparent reduction of \$8.4 million, \$3.8m went through as actual variations that changed the bottom line of the budget and \$4.5m was due to transfer of allocation between activities. The original budget did not change the allocation of cash for R & M and Capital works from what was distributed in the previous financial year.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Department of Transport and Works – performance information in its 1998/99 Annual Report

KEY FINDING

- **The Annual Report from the Department continues to be of a high standard although there is scope for improvement.**

Overview

This is one of the larger sized Agencies in the Northern Territory public sector. In 1998/99, its gross outlays (excluding GBDs) totalled \$223.7 million, with 85% of that funded by the Northern Territory Government, and the balance by grants directly from the Commonwealth and some self-generated sources.

A specific performance management system audit was not conducted at this Agency in 1999, but the performance information in its Annual Report warrants analysis because of the size of the Agency.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

The Agency's Annual report on pages 30 to 65 reports performance for each activity. Key results and performance against selected objectives are clearly reported.

Instances where performance reporting could have been improved:

It was noted that in this reporting not all outcomes as listed in the Budget Papers were included. Specific examples where performance measures were not defined or clearly reported were:

- *Construction Industry Support*
 - Increased implementation of quality systems by all suppliers of works and services
 - Increased implementation of quality procedures by Government Agencies involved with procurement
- *Marine*
 - A robust but safe maritime industry and recreational boating service.

The following outcomes were also not reported, but refer to a program transferred to the Department of Corporate and Information Services (DCIS) during the year.

- *Contract Services*
 - Improved service
 - Customer independence and efficiencies
 - Complementary alignment with industry

The 1998/99 Annual Report of DCIS provided some performance information on the customer service achievements for this program.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Department of Transport and Works

Linking performance reporting to Corporate goals

In the 1998/99 Annual Report, each reported item of performance against objectives is clearly linked to the relevant corporate goal of the Department.

Linking financial reporting to performance information

On page 81 of the Agency's Annual Report there is a schedule of budget variations with a summary of the reasons for the major variations between the original budget allocation and the final allocation.

Narrative and performance information from the financial statements of GBDs, which are included in the Annual Report, is now also better linking financial reporting to performance information. Trend information on profitability and dividend payments could be a useful next step with the GBD financial performance disclosures.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Darwin Port Authority (now Darwin Port Corporation) – performance information in its 1998/99 Annual Report

KEY FINDINGS

- **The Corporation has produced an Annual Report that generally addresses the requirements of reporting performance management results.**
- **Whilst the majority of key performance indicators are reported, they are not completely addressed.**

Overview

In Budget terms, this is a smaller sized Agency and Government Business Division in the Northern Territory public sector. In 1998/99 its gross outlays totalled \$21.6 million. It is largely self-funded through levying charges for wharfage services.

A performance management system audit in June 1999 identified that the Authority had a Corporate Plan with key result areas identified, and that the results achieved within the reporting year, including key operational and financial performance indicators, are quantified and included in its Annual Report.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

The majority of key outputs and planned outcomes were incorporated within the Annual Report.

Instances where performance reporting could have been improved:

However the progress by the Authority towards the achievement of one of the 'planned outcomes' was not clearly enunciated. This item was "Optimum port design which caters to the anticipated shipping traffic until 2006 and does not compromise further expansion of the East Arm Port".

Linking performance reporting to Corporate goals

The Authority had identified within its Corporate Plan several key performance indicators with associated key performance targets. The Authority had reported on many of these indicators and targets within the Annual Report, however some indicators and targets were not clearly reported upon, for example, berth occupancy rate, and average customer approval rating.

Linking financial reporting to performance information

Resource management has not generally been analysed as a measure of economy and efficiency. This does not enable users to identify the impact of changes to planned resources on the delivery of services. No analysis or explanation is provided for variations from original budget allocation to final allocation.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Northern Territory Police, Fire and Emergency Services – performance information in its 1998/99 Annual Report

KEY FINDING

- **The Agency's evaluation of its achievement of performance targets and planned outcomes is included in the Annual Report.**
- **However the reporting does not fully address the performance targets and planned outcomes.**

Overview

Northern Territory Police, Fire and Emergency Services is one of the larger agencies in the Northern Territory public sector. In 1998/99, its gross outlays totalled \$113.2 million, with almost all funding being from the Northern Territory Government.

A performance management system audit in April 1999 of the Agency, with reference to property crime and illicit substances program objectives, identified that the Agency had established a sound foundation for its performance management systems to enable management to assess whether program objectives were achieved effectively, efficiently and economically.

However, the key result areas for property crime and illicit substances as published in the Corporate Plan and the Budget Paper No. 2 were considered not to be sufficiently specific and measurable as to their requirements for success, and performance information in the previous Annual Report could have been enhanced.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

In Budget Paper No. 2 for 1998/1999 the Agency identified several planned outcomes that correlate to the performance indicators and targets of the Agency. These outcomes and indicators were specifically addressed in the Annual Report.

Instances where performance reporting could have been improved:

However some planned outcomes were not addressed fully or in a manner by which a reader of the report would be able to form an opinion on the success or failure of achieving the outcome. Specific examples where performance measures were not defined or clearly reported were:

- Reduction in the impact of illicit substances;
- "No drop" prosecution policy for domestic violence; and
- Reduced false alarms in relation to Fire and Rescue.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Northern Territory Police, Fire and Emergency Services

Linking performance reporting to Corporate goals

The Agency's Annual Report clearly sets out the objectives for each program as identified in the Agency's Corporate Plan, with performance reported against intended outcomes.

Linking financial reporting to performance information

While the Agency provides financial and resource information at the Activity level, this was not analysed in comparison to benchmarks for each Activity or program. It was noted that the Agency did provide trend analysis of expenditure by program but this did not appear to be linked to the results that those programs had achieved. The reader can see that expenditure has increased, and the narrative below it indicates that it has increased due to police numbers allocated to the program, but there was no indication that any extra achievements had been made with regard to the planned outcomes by this extra staff allocation and expenditure.

It was also noted that the Agency has disparate reporting structures in that the organisational structure is not consistent with the programs designated within Budget Paper No. 2, which is not consistent with the corporate plan. The Agency on page 8 of the Annual Report acknowledges this, and provides a link between key result areas, as defined in the Agency's Corporate Plan 1996-2000 and budget programs submitted to Government.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Department of Housing (now Territory Housing) – performance information in its 1998/99 Annual Report

KEY FINDINGS

- **The Annual Report included many of the elements of satisfactory performance reporting, including identification of revised outcome and output requirements as a consequence of a new policy (Housing 2003) implemented from 1 July 1998; some comparison with the previous year; and some reporting of performance against targets and benchmarks.**
- **However the Annual Report did not address all Planned Outcomes published in the applicable Budget Paper No. 2 for the financial year.**
- **Financial and resource management has not been analysed in terms of economy and efficiency.**

Overview

The Department of Housing was formed in March 1999 from the former Department of Housing and Local Government. The Department of Housing was renamed Territory Housing in October 1999.

It is a medium sized Agency in the Northern Territory public sector. In 1998/99 its gross outlays totalled \$45.2 million, with \$31 million of that funded from Commonwealth Government sources. Gross outlays of the associated NT Housing Government Business Division were \$137.3 million.

A performance management system audit in June 1999 identified that while the Agency did not have a formal, up to date Corporate Plan, the objectives of the Agency are clear and focussed. A statement of government policy, "Public Housing to 2003", in April 1998 had given the Agency a clear direction for the management of housing stocks over the five year timeframe.

However, that audit identified that the Agency was not classifying performance information as measures of economy and efficiency. Some performance indicators, for example maintenance times, are obviously indicators of efficiency, however, the framework for measuring performance did not clearly demonstrate that the agency is carrying out a positive assessment of economy and efficiency.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

Since the publication of Budget Paper No. 2 for 1998-99, Government policy statement "Public Housing to 2003" commenced operation. This was effective from 1 July 1998, and required significant organisational restructuring. The Annual Report reflects the updated performance structure.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Department of Housing (Territory Housing)

The 1998/99 Annual Report provides the reader with information and analysis of the Agency's performance in addressing "Public Housing to 2003", including some comparison with the previous year, and some reporting of performance against targets and benchmarks. Public Housing performance is reported on pages 25 to 30 of the Annual Report, and performance reporting of other functions is evident.

Instances where performance reporting could have been improved:

However performance was not reported against all the Planned Outcomes published in Budget Paper No. 2 for 1998/99.

Proposed outcomes identified in the Budget Paper for the financial year to which the Annual Report relates should be addressed, even if only to the extent of explaining the reasons for any deletion or restatement of the forecast outcomes. This may require additional disclosure where, in the case of this Agency, a major new policy direction was announced and implemented for the financial year, replacing the outcomes previously included in the Budget documents.

Planned outcomes which were not clearly reported included:

- For the former Northern Territory Housing Commission -

Tenancy Management

- Maximised occupancy of public housing stock.

Property Management: Housing Maintenance

- Reduced turnaround time after vacates;
- Improved partnerships with the private sector in housing management services;
- Enforcement of government policy to decrease risk from asbestos;
- Improvement of Quality Assurance including training and auditing;
- Increased utilisation of contractors for property inspections and improved contract control and performance auditing; and
- Improved maintenance practices and contract administration through appropriate training and utilisation of maintenance service standards.

- For the former Department of Housing and Local Government -

Housing: Housing Policy and Planning

- Contribution to the formulation of the Territory's position relating to the housing reform package.
- An older persons housing policy to be put in place.
- Improved communications with operational programs both in the regions and other Government agencies.

Housing: Aboriginal Housing

- Expansion and further development of the community housing program;
- The introduction of regionally based construction programs; and
- The development of three-year community housing plans with IHANT program support for housing management and local building team development.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Department of Housing (Territory Housing)

Linking performance reporting to Corporate goals

As stated above, the performance management system audit in June 1999 identified that while the Agency did not have a formal, up to date Corporate Plan, the objectives of the Agency were clear and focussed. The statement of government policy, "Public Housing to 2003", in April 1998 had given the Agency a clear direction for the management of housing stocks over the five year timeframe. This is reflected in the Annual Report for 1998/99 on page 19, which identifies the intended outcomes and outputs. Performance reporting on pages 24 to 42 is consistent with the model on page 19.

Linking financial reporting to performance information

Performance information was not generally analysed in terms of economy and efficiency. With the exception of aspects of Home Ownership, the Annual Report did not provide an analysis of actual financial resources used in comparison with the budget allocations, and the operational causes of any differences.

Comparative and trend information is an effective format for such performance information, and there are instances of this in the Annual Report. In addition there are instances of reporting against specified targets or benchmarks.

Territory Housing has commented:

Some of the Planned Outcomes in the form published in Budget Paper No. 2 for 1998-99 were superseded by subsequent Government decisions mentioned in the Annual Report. These included:

- *announcement of the Public Housing to 2003 strategy;*
- *realignment of agency functions; and*
- *the separation of Territory Housing from the former Department of Housing and Local Government.*

These changes impacted on the planned outcomes identified by the Auditor General as follows:

- *Tenancy Management – Public Housing to 2003 incorporated a strategy to maximise occupancy of public housing stock through the upgrade or construction of 1 and 2 bedroom housing. Public housing occupancy will thus be maximised as the construction of the needed housing program proceeds;*
- *Property Management: Housing Maintenance – responsibility for maintenance contract management and associated outcomes were transferred to the Department of Transport and Works during the reporting period;*
- *Housing: Housing Policy and Planning – Public Housing to 2003 addresses the 'housing reform package' issues and also introduced purpose-designed seniors villages to cater for the needs of older persons; and*
- *Housing: Aboriginal Housing - administration of the community housing program and grants for construction of Aboriginal housing are now undertaken by the Department of Local Government under a service agreement following the establishment of a separate housing agency.*

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Northern Territory Employment and Training Authority – performance information in its 1998 Annual Report

KEY FINDINGS

- **The Northern Territory Employment and Training Authority has produced an Annual Report that addresses most of the requirements for reporting performance.**
- **However, the Authority could improve its reporting of the financial and resource management by including both financial year and calender year information.**

Overview

This is a medium sized Agency in the Northern Territory public sector. In 1998/99, its gross outlays totalled \$56.8 million, with \$11.4 million of that funded from Commonwealth Government sources.

A performance management system audit in June 1999 identified that the Agency had established a sound foundation for its performance management systems, with critical issues to support its objectives being clearly defined, and a well developed process to link these corporate objectives to the work plans of business units.

However, enhancements identified as necessary were monitoring of the implementation of the strategies in the approved workplans of the business units, and evaluation of the contribution of those strategies to the achievement of expected program outcomes.

A commentary on the performance information in the Agency's calender year 1998 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

The Authority has reported its achievement of key performance indicators in a clear and concise manner within the Annual Report. The Authority has also reported on its public performance goals identified within Budget Paper No. 2 1998-99, omitting comment on one item only, this being. "Development of an action plan for implementing the National Women's VET Strategy".

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Northern Territory Employment and Training Authority

Instances where performance reporting could have been improved:

There is scope to better address the aspects of “improvement” in stated performance outcomes. For example:

- the performance of the planned outcome of “Increased number of scholarships awarded” on page 25 of the 1998 Annual Report is provided by way of listings on pages 36 and 37, which provide information on the scholarships and recipients, but not whether the number has increased; and
- the performance of the planned outcome of “Increased and more flexible training packages for traineeships and apprenticeships”, also on page 25, does not address either “increased” or “flexible”, but simply stated that “NTETA continued to implement all requested National Training Packages in 1998.”

Linking performance reporting to Corporate goals

Key result areas, and key performance measures for assessing achievement, are identified on pages 14 to 16 of the Annual Report for calendar year 1998. However performance reporting is not directly in terms of these key result areas, but in terms of Budget Paper No. 2, in which different descriptions of intended outcomes are used. Thus, for example, it cannot readily be established how well the key result area of “Increased industry and community focus to more effectively meet their current and future training needs” has been met.

The reporting of intended achievement creates an expectation for performance to be reported also. While performance reporting in terms of Budget Papers is appropriate, there is scope for additional high level performance reporting against each of the key result areas.

Linking financial reporting to performance information

The Authority had 13 programs, the expenditure and budget for each of these being disclosed within the Annual Report on a financial year basis, as is staffing level. The financial information disclosed provides a foundation for performance achievement reporting.

The Authority reports on a calendar year basis, in comparison to the financial year applying to government allocations, and the Treasurer’s Directions for financial reporting in agency Annual Reports. The Authority aligns its financial reporting with its operational reporting by presenting calendar year financial information in the Annual Report. However, this means that a comparison in terms of Budget Paper No. 2, which is on a financial year basis, is not then presented. Reporting on a financial and a calendar year basis would be necessary to satisfy both requirements.

Northern Territory Employment and Training Authority has commented:

The recommendation of the Northern Territory Auditor-General’s Office is noted. The means by which better links could be established between Budget Paper 2 and the Authority’s Annual Report will be explored acknowledging the complexity therein and increased resources that would be necessary to achieve this and concurrently meet national calendar reporting requirements

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Northern Territory Treasury – performance information in its 1998/99 Annual Report

KEY FINDINGS

- **There is an improved reporting of performance of the Territory Revenue Management Activity in the 1998/99 Annual Report.**
- **However, the statistical information could be improved by establishing targets for performance, where practicable.**
- **A reliable method for measuring the level of taxpayer compliance (potential tax gap) is not presently available.**

Overview

This is normally a medium sized Agency in the Northern Territory public sector in gross outlay terms. However in 1998/99, its gross outlays totalled \$175.9 million, but \$100 million of that was the transfer of funding earmarked for the Alice Springs to Darwin Railway project.

A performance management system audit in June 1999 with reference specifically to the Territory Revenue Management Activity identified that the Agency had established a sound foundation for its performance management system. This was set out in terms of *Why we are here, Where we focus, What we do and How we are organised* in the Agency's Corporate Plan, published in the 1997-98 Annual Report. This document set out the functions, strategies, performance indicators, three-year comparison and initiatives for the following year.

The audit highlighted that performance disclosure of the Activity in the Agency's Annual Report could be enhanced with explanation of the linkage of each of the statistics provided to the objectives of the Activity, and interpretation of the significance and consequences of variances from prior years.

A commentary on the performance information for the Territory Revenue Management Activity in Northern Territory Treasury's 1998/99 Annual Report follows:

PERFORMANCE MANAGEMENT SYSTEM AUDITS
NT Treasury

Linking performance reporting to Budget Papers

Good examples of reporting:

Improvements in the reporting of the Activity include enhanced 'key data' information, and the provision of analysis supporting aspects of the statistical information disclosed on page 37 and 38 of the Annual Report. An example of this analysis is the explanation supporting the apparent deterioration in 'Revenue/Operational'. Also included is reporting of the initiatives for 1998/99 identified within the previous Annual Report, and narrative analysis of program performance.

Instances where performance reporting could have been improved:

The aim of the Revenue Collection program is stated on page 32 of the Annual Report for 1998/99 "to ensure effective collection of revenue in accordance with relevant tax and royalty legislation and to develop community understanding of revenue obligations." Performance indicators for the assessment of this aim are stated as "various measures demonstrating efficiency and effectiveness of operations over time." There is statistical performance information identified as relating to efficiency and economy on page 37 of the Annual Report, but there is no statistical performance information clearly identified as relating to effectiveness.

An issue impacting on the effectiveness of tax collections is the level of taxpayer compliance, or potential 'tax gap' (the difference between the potential taxation base and the amount of assessed liabilities). This tax gap may arise from taxpayers not knowing or understanding their obligations, or by simply not complying with requirements. Research elsewhere and locally has noted that a reliable method for measuring the potential tax gap has not been developed, due to the complexity of the task. Strategies identified in the Annual Report to improve tax collection effectiveness all address this issue, which includes the motor vehicle stamp duty project disclosed on page 33 of the Annual Report.

Whilst qualitative performance information and statistical trend information is provided, the inclusion of additional quantitative targets, where practicable, would enhance the quality of reporting. For example, "assessments per staff member" has fluctuated over the years, but understanding of the relevance of the level of activity or fluctuation as a measure of efficiency is difficult without target or explanation provided.

In respect of the program "to ensure the continued relevance and efficacy of the Northern Territory revenue regime to the needs of the Territory", there is comment on page 34 of the Annual Report to the commencement of an inter-jurisdictional benchmarking program. It is stated that this "has provided useful insights for performance comparisons between the States and Territories", but while some comparison with other jurisdictions is provided in Budget Paper No. 3 1999-00, no similar data is provided in the Annual Report.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
NT Treasury

Linking performance reporting to Corporate goals

There is consistency in statement of corporate objectives strategies and outcomes and Budget Paper No. 2.

Linking financial reporting to performance information

Page 37 of the Annual Report provides financial and human resource information. However there was a variance between the original budget for the Activity in Budget Paper No. 2 1998-99 of \$2.7 million and the actual overall expenditure of \$16.2 million disclosed for the Activity on page 79. The operational cost of the Activity is identified as \$2.7million and subsidies paid were \$13.4 million. There is no linkage of these to explain the material variance from budget in the Annual Report, although explanation is provided in another document, the Treasurer's Annual Financial Report for 1998-99. Page ii of that document provides a commentary on the variation in subsidies paid, which refers to changes in accounting for business revenue replacement receipts from the Commonwealth Government.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Northern Territory Correctional Services – performance information in its 1998/99 Annual Report

KEY FINDINGS

- **The 1998/99 Annual Report addresses the majority of key outcomes as documented within the 1998/99 Budget Papers.**
- **Items for improvement were identified.**

Overview

This is a medium sized Agency in the Northern Territory public sector. In 1998/99, its gross outlays totalled \$41 million, with almost all of that funded by the Northern Territory Government.

A performance management system audit in June 1999 identified that at the Correctional Centre level, the performance management system was not fully providing the Agency the opportunity to assess whether the Alice Springs and Darwin Correctional Centres were contributing to the Agency's objectives being achieved economically, efficiently and effectively. However, performance indicators appeared to reflect most key aspects of the operations.

At an Agency level, the development of business plans and strategic directions provided a valuable basis for the development of operating plans for programs, although some improvements in performance reporting could occur.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

Review of the 1998/99 Budget papers against the Annual Report identified that the majority of outcomes were addressed. Whilst the outcomes were not always reported against the Budget Paper No.2 headings, they were reported either in relation to an objective or as a specific result.

Instances where performance reporting could have been improved:

The following exception was identified:

- The outcomes for Community Corrections reported did not address all outcomes documented within the 1998/99 Budget Papers, such as:
 - Improved service delivery and accountability, in response to community expectations;
 - Increased community understanding of, and commitment to, justice programs and initiatives; and
 - Relevant and culturally appropriate range of community corrections options.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
NT Correctional Services

As well, while qualitative performance measures are reported, achievements are not able to be reported against quantitative targets, because quantitative performance measures were not set by the Agency for the 1998/99 year.

Linking performance reporting to Corporate goals

The Agency in its Annual Report has clearly reported performance against the five key focus areas identified in its corporate planning document titled "Strategic Directions" issued in September 1997.

Linking financial reporting to performance information

Analysis within the Annual Report of financial resource usage is limited. With the exception of the cost per day of keeping a prisoner, the Annual Report does not provide an analysis of actual resource usage against budget, and the operational causes of any differences.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Department of Sport and Recreation – performance information in its 1998/99 Annual Report

KEY FINDINGS

- **The Department has produced an Annual Report that generally addresses the requirements of reporting performance management results.**
- **Whilst the majority of key performance indicators are reported, they are not completely addressed.**

Overview

This is a smaller sized Agency in the Northern Territory public sector. In 1998/99, its gross outlays totalled \$13.4 million, with almost all of that funded by the Northern Territory Government.

A performance management system audit in June 1999 identified that a comprehensive performance management system was in place at the Agency, which should provide management with sufficient performance information to assess whether Agency's objectives were being achieved efficiently and effectively.

Improvements which were highlighted referred to the need for the Corporate Plan to be consistently linked to the Business Unit Plans.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Good examples of reporting:

The Agency has produced an Annual Report that addresses many of the outcomes in the Budget Papers.

Instances where performance reporting could have been improved:

The Annual Report reports primarily against the Corporate Plan, which is not, in some instances, linked to the Business Plan where key indicators are detailed. As such, not all key performance measures are reported against. Furthermore, comparative data is not provided for those measures requiring the data to determine whether the quantitative target has been achieved. Additionally, as the Annual Report focuses on reporting progress against the Corporate Plan, planned goals disclosed within the Budget Papers or ministerial statements are not completely reported against.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Department of Sport & Recreation

The following outcomes noted in 1998/99 Budget Paper No 2 were not included in the Annual Report:

- Corporate Services: *Improved utilisation of resources.*
- Performance: *Increased number of coaches with a more professional approach.*
- Performance: *Increased number of indigenous athletes competing at a higher level.*
- Participation and Development: *Increased community participation in sport and recreation.*
- Events: *Reducing dependence on government support.*

Linking performance reporting to Corporate goals

The linking of the performance reporting in the 1998/99 Annual Report to the corporate goals as articulated in the Agency's corporate plan "Sport 2000" is well presented. For each of the five Agency objectives one or two performance measures are detailed in the corporate plan. The Agency in its Annual Report has clearly identified and reported against these performance measures.

Linking financial reporting to performance information

Management of the Agency's finite resources is compared to last year's results in the financial report to the financial statements in the Annual Report, however there is limited comparison to budgets or plans. Whilst the Agency's actual revenue is compared to estimated revenue for the year, and reasons provided for the differences, no such analysis is provided for expenditure.

The Department of Sport and Recreation has commented:

The Department accepts the findings of the audit and comments made on how it can improve the reporting of its performance targets against business plans, corporate plan and budget papers.

The Department has completed a reappraisal of its corporate objectives and strategies that will form the basis of a new corporate plan. This will provide better linkages of key performance targets in the business plan with objectives in the Corporate plan and Budget Papers.

With better linkages between the corporate plan, business plan and budget papers and the development of client sensing surveys the Department will be able to report on comparative data for those measures requiring the data to determine whether quantitative targets have been achieved.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Office of Courts Administration – performance information in its 1998/99 Annual Report

KEY FINDING

- **While the 1998/99 Annual Report does present achievements during the year and some statistical information, performance information is not linked to Budget Papers or to Corporate Plan performance intentions.**

Overview

This is a smaller sized Agency in the Northern Territory public sector. In 1998/99, its gross outlays totalled \$15 million, with 70% of that funded by the Northern Territory Government, and the balance by fines levied.

A performance management system audit conducted in June 1999 identified that the agency did not have in place for the 1998/99 year the key elements of a performance management system designed to enable management to assess whether its objectives were being achieved economically, efficiently and effectively. In particular, there was no evidence of use of performance information for both internal management purposes, and for publication in the Agency's Annual Report.

A commentary on the performance information in the Agency's 1998/99 Annual Report follows:

Linking performance reporting to Budget Papers

Instances where performance reporting could have been improved:

The stated outcomes in Budget Paper No 2. are not specifically linked to the objectives of each program as set out in the 1998/99 Annual Report, and the "outcomes" are not specifically referred to or reported on in the 1998/99 Annual Report.

Linking performance reporting to Corporate goals

The Agency lists 12 corporate objectives on page 4 of its Annual Report. There is however no clear linking of performance reporting to these objectives. Agency performance reporting is by business unit each with their own objectives which are only loosely related to the corporate objectives. While some statistical data is provided there is no analysis of this data or clear performance measure identified.

Linking financial reporting to performance information

The Annual Report does not include any analysis of the Agency's financial results.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

How well does program evaluation support organisational performance?

KEY FINDINGS

- There is inconsistency amongst Agencies about how they recognise and use program evaluation as a method to improve policy formulation and advice, and to measure the effectiveness of policy implementation.
- There is general compliance with the Government's Treasurer's Direction to maintain and conduct a three-yearly cycle of program evaluations or reviews. However, it appeared unlikely that program evaluation would be conducted in a structured and formal way if the Government requirement did not exist.
- There is a lack of clear leadership on program evaluation within the Northern Territory public sector. Other than the Treasurer's Direction, it was clear that no central agency was providing clear leadership on how and why to carry out program evaluation. The extent to which agencies sought such leadership tended to vary according to their internal resources. This has led to inconsistencies in the extent of program evaluation skills within agencies.
- Program evaluation is not one of the topics included in the training activities offered service wide by the Office of the Commissioner for Public Employment. Yet the nationally developed Public Sector Management Course (PSMC), which is offered to selected middle managers in the NT public sector, does recognise the role of program evaluation by including this topic in its "Managing Service Delivery" module.
- There is evidence that the scale and scope of organisational change within the NT public sector in the last two years has affected the capacity of some agencies to properly conduct program evaluation during that time.
- Most agencies provided inadequate information of program findings and recommendations in their Annual Reports. This reduces the effectiveness of the reporting of program evaluations as an accountability by Agencies to the Legislative Assembly on policy delivery and resource management.
- A *program evaluation culture* would be evident in an Agency if program evaluation was recognised in training programs and management practices; if cabinet submissions on major policy issues included an evaluation strategy; and disclosures of evaluation findings in the Annual Report demonstrated an understanding of how evaluation is used.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

How well does program evaluation support organisational performance?

Background

A comparative analysis of program evaluation processes in five Northern Territory Government agencies was conducted. Each Agency selected had demonstrated a willingness to apply program evaluation techniques as part of their management and business improvement processes.

Agencies included in the audit:

- Department of Education;
- Department of Lands, Planning and Environment.
- Department of Primary Industry and Fisheries;
- Territory Health Services; and
- Territory Housing.

Defining a “program”

For the purposes of this task, a program was viewed as a cluster of strategies and activities, managed by one or more defined business units, designed to deliver a public policy outcome required by the Northern Territory Government.

The role of program evaluation

Evaluation determines how well an Agency’s strategies are performing in delivering the intended public policy outcome, and what can be learned to improve subsequent strategy design. So an effective program evaluation should contribute to a public sector entity:

- an understanding of how well strategies are performing in delivering intended policy outputs and outcomes (*the performance measurement role*); and
- knowledge from the evaluation results for use in future strategy design or current strategy re-design (*the “learning organisation” role*).

Role which the agency expects program evaluation to fulfil

There was general support expressed by senior staff within agencies for program evaluation to be used creatively as a management tool to improve agency performance in delivering government policy objectives. However, the extent to which this was supported at other levels of the agencies varied.

In addition, some agencies had experienced significant organisational change and effectively were embarking on a new approach to program evaluation. This meant that the extent of acceptance within the agency of the strategic role of program evaluation was yet to be tested.

In some cases, the role of program evaluation was not communicated clearly, leaving scope for staff to view it principally as a compliance requirement, rather than as a strategic management tool.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

How well does program evaluation support organisational performance?

Procedures for planning and conducting program evaluation

Two agencies were in the process of developing or revising program evaluation guidelines; one recently had developed new guidelines and was just embarking on their application; and the remaining two agencies had well-established guidelines that were actively used. For these last two agencies, their guidelines were well-constructed, logical documents that would provide substantial assistance to the design and conduct of an evaluation.

Where guidelines already exist, the awareness and use of them by relevant agency staff was reasonable. In particular, staff in the agencies with well-established guidelines demonstrated knowledge of the documents and generally held positive views of their utility. This was less the case with those agencies in the throes of revising their guidelines, where awareness of the previous versions was adequate, but where staff tended to be more critical of them.

There is a significant reliance on the pre-existing skills and knowledge of agency staff. Given that program evaluation generally is not the primary role of the staff concerned, guidelines should be designed to provide sufficient information or guidance to sources of information to adequately carry out the evaluation role.

Most guidelines lacked adequate discussion of specific techniques that might be used for planning and conducting evaluations. The omission extended to discussion of issues such as assessing information requirements - both quantitative and qualitative; methods for collecting information; and information analysis. These are fundamental components of any evaluation and should be dealt with at the planning and design stage. In particular, guidelines could contain reference to resources both within and outside of the agency that may be of assistance.

Training support provided to agency personnel to plan, or contribute to the conduct of program evaluations, needs to be improved

There was no evidence of formal training programs or plans in place to ensure that staff in agencies have the skills necessary to conduct adequate program evaluations. Some agencies indicated that they had adopted a policy of learning by practice and so were building a body of skills over time. Such a strategy is reliant on retention of such skilled personnel, however. Others appeared to rely on program directors and others responsible for program evaluation already having the necessary skills.

Generally, agencies do not have a pool of resources on which to call for internal training and support for program evaluation. Territory Health Services (THS) does have such a pool of knowledge and skills, in the shape of its Program Review and Project Management Branch. The role of the Branch is clearly to provide support services for the planning and conduct of program evaluation. The benefits of properly using such a resource was evident in the planning, conduct and documentation of the evaluation in 1999 of the Environmental Health Program.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

How well does program evaluation support organisational performance?

There is scope to establish a network of skilled evaluators more widely across the public sector. This would provide recognised contact persons who provide knowledge and advice about the planning and conduct of program evaluations.

Program evaluation is not one of the topics included in the training activities offered service wide by the Office of the Commissioner for Public Employment. The nationally developed Public Sector Management Course (PSMC) recognises the role of program evaluation by including this topic in its "Managing Service Delivery" module.

Impact of program evaluation findings and recommendations in adjusting future business plans, strategies and policy advice

Where recent evaluations have been undertaken and sufficient time has elapsed, there is some evidence that the findings from the evaluations have been used in forward planning and policy advice. The evidence includes instances where:

- a program evaluation resulted in changes to the agency's organisational structure and the roles and functions of various units; and
- results of a program evaluation were included in a Cabinet Submission to change service delivery policy.

However, a systematic approach to identifying actions to adopt from evaluation findings and recommendations is necessary, if the benefits of the work are to be obtained.

Adequacy of summaries of evaluations included in the agency's Annual Report

Agencies generally performed less than satisfactorily in this area. Most agencies provided inadequate reporting of program findings and recommendations, and the information that was provided was often difficult to locate. As such, the reports often were inadequate for the purpose of informing readers on all of the following:

- the reviews completed in the reporting year;
- the key findings from those reviews;
- key recommendations; and
- actions taken.

These shortcomings reduce the effectiveness of the Annual Reporting of program evaluations as a means to discharge accountability to the Legislative Assembly for program management. For each completed evaluation, the Annual Report should include a summary of the key findings and recommendations. It would be appropriate to present key findings in terms of appropriateness, efficiency or effectiveness of the program.

Examples of good practice

There were examples of good practice in aspects of the conduct of program evaluations within agencies. These included organisational arrangements to support program evaluation, planning processes, documentation and annual reporting of program evaluation findings.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

How well does program evaluation support organisational performance?

Territory Health Services (THS) demonstrated a number of areas of good practice. The responsibility for managing and advising on program evaluation in THS resides with the Program Review and Project Management Branch, for which this is a primary role. This model works well in THS and it is clear that the availability of this repository of experience, knowledge and expertise in the planning, conduct and use of program evaluations is a valuable asset. There is scope to capitalise on this resource more broadly across the public sector.

The Department of Lands, Planning and Environment Annual Reports for 1997-98 and 1998-99 provide examples of how annual reporting of program evaluations should be carried out effectively. The 1997-98 report included a specific section on program evaluation, where recommendations of each evaluation and its results are outlined. For any one program the reader can easily refer to the section of the report that describes the program and its key results, and objectives. In the Agency's 1998-99 Annual Report, there is no specific program evaluation section. Rather, the reporting is included under the various divisions. All major programs have a program evaluation section and, in some cases, highlight the appropriateness, efficiency and effectiveness of the program evaluations. In all cases, they provide the recommendations arising from the evaluations.

PERFORMANCE MANAGEMENT SYSTEM AUDITS

Outsourcing of Information Technology Services

KEY FINDING

- **An effective process is in place to plan and manage IT outsourcing to meet the strategic objectives set by the Government.**

Background

A major element of the Planning for Growth strategy announced by the Government in October and November 1998 was the outsourcing of Information Technology (IT) services. The Government established a policy to develop the information technology industry within the Territory, with the proviso that IT services were to be obtained by the Government with reasonable value for money.

The outsourcing of IT Services by the Department of Corporate and Information Services was subject to an audit to determine how well the Agency was managing the achievement of the government policy.

The review covered the entire Electronic Messaging, Diary and Groupware contract, the Advanced Communications contract (but only to the point where there was a request for tenders) and the strategy for outsourcing the remainder of IT services.

On-going IT outsourcing arrangements will continue to be subject to audit.

Audit findings

The audit identified an effective process in place to plan and manage IT outsourcing to meet the strategic objectives set by the NT Government.

There were management reporting processes in place to review the performance of vendors of outsourced services, and mechanisms to independently review and verify information from those reporting processes.

Overall strategy implementation

The overall implementation of the strategy to outsource had been well prepared. Comprehensive information had been widely circulated to interested parties, specifically to potential service providers, agencies, specific interest groups, and was available to the general community through publication on a web site.

PERFORMANCE MANAGEMENT SYSTEM AUDITS
Outsourcing of Information Technology Resources

The process to outsource the whole of NT Government information technology services to the private sector had been split into three components:

- Electronic Messaging, Diary and Groupware (although this project was initiated prior to the outsourcing strategy, it had been incorporated within the outsourcing framework);
- Advanced Communications; and
- Other IT services, including the supply of, and support to, desktop computers; and Mainframe computer facilities.

At the time of the review, the Electronic Messaging, Diary and Groupware had been implemented for the period of three months. Advanced Communications had reached the stage of contractual negotiations. A draft cabinet submission was being prepared for the outsourcing strategy of all other information technology services.

Planning the outsourcing

The Government's strategic objectives have been considered in setting the overall strategy for the outsourcing framework and this had been carried through into the implementation of that strategy and the tendering process for the Electronic Messaging, Diary and Groupware contract.

The evaluation process used in the assessment of this tender was structured and designed to select a vendor who would provide the required level of service while meeting the Government's objectives for the outsourcing strategy.

Management of service providers

There were project management procedures in place to monitor service providers' performance against defined Key Performance Indicators (KPI's) for the Electronic Messaging, Diary and Groupware contract, which had been in operation since July 1999. This process was carried out through regular contract review and quarterly price review meetings. At the time of the review consideration was being given to expanding the KPI's used to assess the performance of the service provider.

However, it was noted that specific contractor review activities that the Agency was able to perform as part of contractual arrangements had not been initiated at the time of the audit.

FEBRUARY 2000 REPORT

TOPICAL ISSUES
Issues impacting on the planning and conduct of audits

Index	Page
Reporting performance in terms of sustainable development	84-85
Good reporting of performance information	86
- the New South Wales Council on Cost of Government	

TOPICAL ISSUES

Reporting performance in terms of sustainable development

KEY ISSUES

- **Some sectors of the business community are seeking to maintain longer term economic viability through recognition of environmental and social justice obligations. Reporting economic, environmental and social performance is described as triple bottom line reporting.**
- **Triple bottom line reporting, although with a different initial emphasis to business, is still an applicable concept in guiding public sector managers and policy makers in pursuing sustainable development.**

Background

An issue gaining momentum in the business sector internationally is the recognition that business performance and on-going viability is reflected in more than just economic and financial results. A business operates within a community, and its impact on the environment and social justice in the community determines how its market place will respond to it in the future.

Examples of community aversion to, and reparation costs incurred by, corporations with poor performance on environmental protection and industrial relations are used to illustrate the issues involved. On a smaller scale, support for businesses which engage with the community in socially enriching and environmentally sensitive ways can also be observed. This illustrates that business is now recognising that, as with Governments, maintaining public trust is important for long term survival.

Triple bottom line reporting recognises that, for a business, each of the three elements of economic, environmental and social justice performance should be measured or evaluated, so that management and governing boards can have the information necessary to make decisions for the long term survival of the enterprise.

Broadening the performance expectations of businesses in this way gives recognition to the following concept of *sustainable development*, first published in the 1987 Report by the World Commission of Environment and Development, entitled "Our Common Future" (also known as the Brundtland Report):

"Sustainable development meets the needs of the present world without compromising the ability of future generations to meet their own needs."

A World Business Council on Sustainable Development has been established. Its publications and further information are accessible at the internet site:

<http://www.wbcds.ch/aboutus.htm>

Concepts such as values in action, community empowerment, strategic alliances and community consultation become the strategies and characteristics evident in practicing enterprises.

TOPICAL ISSUES

Triple bottom line reporting in the public sector

These concepts are strategies and characteristics in public sector enterprises. The distinction with public sector enterprises is that they mostly exist to deliver policies intended to achieve sustainable social justice, but in doing so need to recognise the impact of their programs on the available environmental and financial resources.

So triple bottom line reporting, although with a different initial emphasis to business, is still an applicable concept in guiding public sector managers and policy makers in achieving sustainable development.

Although measurement techniques for economic and financial performance are well recognised, there are not as yet similar standards for measuring environmental and social justice performance, nor a unifying aggregate measure of the three components.

However, regular stakeholder consultation is seen as essential, and the public sector concept of program evaluation already addresses much of what should be considered when measuring outputs and outcomes, and learning from the experience of policy delivery strategies.

In seeking environmental performance measurement systems, the concept of eco-efficiency has been identified. This refers to optimising the use of a given quantity of resources and minimising the environmental implications of using the resources.

A leading example of an entity reporting on its efforts to achieve its commitments to environmental responsibility was the June 1999 Environment Report of the Northern Territory Power and Water Authority.

Triple bottom line auditing

Auditing has also been called upon to provide an independent assessment of environmental and social justice performance, as a way of communicating an entity's achievements, and as a way of identifying areas for improvement. For example, in Canada, an independent Commissioner of the Environment and Sustainable Development reports to the Parliament annually on achievements within the public sector; areas requiring corrective actions; and his or her own strategies for community education.

Social auditing involves verification of an organisation's performance with regard to commitments to workplace conditions; fairness and honesty in dealings with suppliers; customer service standards; community and charitable involvement; and non-exploitative business practices in developing countries. This implies that organisations have a clear vision for their role and direction, supported by values which are actioned, not merely espoused.

The performance management system audit framework used by the NTAGO addresses how well NT public sector entities identify, implement and report upon their role, vision, and supporting values, with reference also to the efficiency and economy of their use of resources. Audit work to be conducted by my Office in 2000 will include performance management system audits specifically focused on environmental management programs, and the delivery of social justice policies of the Northern Territory Government in areas of Seniors, Youth, and Women's affairs.

These audits should contribute to evaluating the NT Government's triple bottom line performance.

TOPICAL ISSUES

**Good reporting of performance information
- The NSW Council on Cost of Government**

KEY ISSUE

- **Good performance reporting is published by the New South Wales Council on the Cost of Government in its reports on “Service Efforts and Accomplishments” for each major area of Government service delivery.**

The quality of performance information prepared for Government by its Agencies is a key output from the performance management systems implemented by Agencies, and is included within the scope of performance management system audits which I conduct.

Where I have observed examples of good performance reporting by other Governments, I have been referring to these in my Reports to the Legislative Assembly. This is so the Legislative Assembly and Government Agencies can use these examples when encouraging or guiding improvements in the performance information prepared and presented by the Government.

On previous occasions, I have referred to the performance reporting of the Canadian provinces of Alberta and Nova Scotia, and the Australian Productivity Commission’s annual Report on Government Service Provision, as good examples.

A further good example is the Council on the Cost of Government established by the Government of New South Wales.

The Council came into effect on the 13 October 1995. Its creation had been anticipated by the New South Wales Government in its 1994 'Reviving Public Administration' policy. The Council’s role is to review management and operational effectiveness and efficiency in the public sector and to advise the Government on changes it considers necessary to ensure that the community receives value for money and quality services.

In particular it publishes “Service Efforts and Accomplishments” reports for each of the service delivery areas of: Agriculture; Arts and Culture; Economic Development; Environment; Fisheries; Health; Housing; Law, Order & Safety; School Education; Social Community; Sports & Recreation; Transportation; and Vocational Education and Training. These contain very good examples of performance using trend information and supporting narrative analysis to illustrate the extent to which the Governments’ performance aspirations are being achieved.

Information provided by the New South Wales Council on the Cost of Government is available at the following internet site:

<http://www.occg.nsw.gov.au>

In particular a November 1999 essay by the Chairman of the Council, Professor Bob Walker, provides useful insights on the development of public sector performance information.

FEBRUARY 2000 REPORT

UPDATE ON OTHER MATTERS PREVIOUSLY REPORTED

Index	Page
Firearms Buy-Back Scheme	88
Taxi-License Compensation Scheme	89
Year 2000 date problem	90

UPDATE ON OTHER MATTERS REPORTED PREVIOUSLY

NT Police Fire and Emergency Services / Department of Industries and Business

Firearms Buy-Back Scheme

KEY FINDING

- **Up to 31 December 1999 compensation payments for loss of business totalling \$418,501.90 have been paid to 15 licensed firearms dealers with 4 claims yet to be settled.**

In my February 1999 Report I provided details of the expenditure by the Northern Territory government in the conduct of the largely Commonwealth funded firearms buy-back scheme initiated in 1997. Other than compensation payments to firearms dealers for loss of business the expenditure required under the scheme was completed by 30 June 1998.

This report provides an update on the total payments made through the scheme in the Northern Territory, including the status of the loss of business compensation payments to dealers.

A financial summary of the scheme updated to 31 December 1999 shows:

Commonwealth funded portion:	Number	\$
Firearms compensation		4,401,913
Owners accessories		236,619
Dealer accessories		217,817
Valuation fees		<u>182,900</u>
		5,039,249
Northern Territory funded portion		<u>215,330</u>
Total	9,474	<u>\$5,254,579</u>
Average paid per firearm		<u>\$555</u>
Compensation (C'wealth funded) paid for loss of business	15	<u>\$418,502</u>
Claims outstanding	4	
Administrative Expenses		
Establishment of firearms licensing and registration system		1,677,978
Administrative cost		1,211,432
Public education campaign		<u>79,769</u>
		<u>\$2,969,179</u>
Funding received from the Commonwealth for administrative expenses		<u>\$2,710,000</u>

UPDATE ON OTHER MATTERS REPORTED PREVIOUSLY

Department of Transport and Works

Taxi-Licence Compensation Scheme

KEY FINDINGS

- **As at 31 December 1999 129 licences had been cancelled and compensated at a total cost of \$25,885,550.**
- **As at 31 December 1999, compensation of \$799,122 offered for the remaining 9 taxi licences was still in dispute.**

The Commercial Passenger (Road) Transport Amendment Act was amended in 1998, giving effect from 1 January 1999 to the Government's decision to buy back taxi licences at values determined with reference to market prices, and to introduce a new annual fee arrangement for taxis, private hire cars and minibuses.

Taxi licences in each of the areas of Darwin, Alice Springs, Katherine, Tennant Creek, and Nhulunbuy were valued for buy back purposes with reference to the market values as determined through the most recent sales by public tender.

In my August 1999 Report I reported that 69 of 138 taxi licences had been cancelled as at 30 June 1999.

From 1 July 1999 to 31 December 1999 a further 60 licences have been cancelled and compensated. This brings the total number of licences cancelled and compensated to 129 at a cost of \$25,885,550.

As at 31 December 1999, compensation of \$799,122 offered for the remaining 9 taxi licences was still in dispute. These disputed compensation claims are now subject to legal proceedings.

Legal costs identified by the Department of Transport & Works as being incurred in cancelling the taxi licences totalled \$25,146 as at 25 November 1999. Legal costs for settling the disputed claims will be additional to that.

The budget provision for this project was \$27 million.

Government expected that the scheme would be self-funding over a nine to ten year period through the collection of annual license fees paid by the passenger transport industry. The audit assessed the potential annual income of the replacement arrangements at \$2.384 million. This was based on fees for 162 annual taxi licenses issued in the early phase of the new arrangements.

UPDATE ON OTHER MATTERS REPORTED PREVIOUSLY

Office of Communications, Science and Advanced Technology

Year 2000 date problem

KEY FINDING

- **No service delivery interruptions were experienced by Northern Territory Government entities after the date change to 1 January 2000.**

I last commented in my August 1999 Report to the Legislative Assembly on my assessment of the readiness of Northern Territory Government entities to continue normal services after the date change on 1 January 2000. At that time, I commented that the substantial effort to date to remedy systems, equipment and facilities should minimise the likelihood of any risks of business interruption, and should minimise any impacts. Any risks remaining would most likely be from non-compliant suppliers and from insufficient contingency planning.

No service delivery interruptions were experienced by Northern Territory Government entities after the date change to 1 January 2000. The Government's own reporting shortly after the date change identified a minor issue with a feature in one of the electronic mail systems, a minor and easily corrected feature in a mainframe facility, and a problem with lift access in one building. This appeared to be the extent of the early reported incidents.

FEBRUARY 2000 REPORT

**APPENDIX 1 -
AUDIT OPINION REPORTS ISSUED SINCE
30 JUNE 1999**

Name	Date 98/99 financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 99	Date of Audit Report Year ended 30 June 98
Sec 9 Financial Management Act			
Treasurer's Annual Financial Statements	21 October 99	20 October 99	9 October 98
Government Business Divisions Sec 10 Financial Management Act			
Construction Agency	24 November 99	18 November 99	24 November 98
Darwin Bus Service	24 November 99	18 November 99	24 November 98
Darwin Port Authority	24 November 99	9 November 99	13 November 98
Government Printing Office	25 November 99	22 November 99	24 November 98
International Project Management Unit	Not yet tabled	21 December 99	5 November 98
Information Technology Management Services	25 November 99	22 November 99	N/A
DCAT: Commercial Services	N/A	N/A	16 September 98
NT Fleet	24 November 99	18 November 99	24 November 98
NT Housing	23 November 99	12 November 99	N/A
CEO (Housing): Housing	N/A	N/A	1 December 98
CEO (Housing): Lending	N/A	N/A	1 December 98
Power and Water Authority	24 November 99	16 November 99	5 November 98
TAB	21 October 99	21 September 99	15 October 98
Territory Wildlife Park	23 November 99	5 October 99	16 September 98
Entities that Sec 10 Financial Management Act applies as though a GBD			
Cobourg Peninsula Sanctuary Board	Not yet tabled	Not yet finalised	29 January 99
Jabiru Town Development Authority	Not yet tabled	25 January 2000	11 December 98
Menzies School of Health Research	24 November 99	14 September 99	8 September 98
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	Not yet finalised	29 January 99
NT Grants Commission	12 October 99	17 September 99	17 September 98
Surveyors Board of the NT	Not yet tabled	24 January 2000	11 November 98
Territory Insurance Office	Not yet tabled	12 November 99	13 November 98

FEBRUARY 2000 REPORT

**APPENDIX 1 -
AUDIT OPINION REPORTS ISSUED SINCE
30 JUNE 1999**

Name	Date 98/99 financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 99	Date of Audit Report Year ended 30 June 98
Other Entities			
Separate Acts/Trust Deeds			
Ayers Rock Resort Corporation	12 October 99	12 October 99	25 November 98
Legislative Assembly Members' Superannuation Trust	Not yet tabled	20 December 99	11 November 98
Nhulunbuy Public Cemetery (1)	N/A	N/A	24 August 98
Northern Territory Government and Public Authorities Employees Superannuation Fund	Not yet tabled	20 December 99	9 November 98
Northern Territory Government Conditions of Service Trust	21 October 99	19 October 99	3 November 98
Northern Territory Police Supplementary Benefits Scheme	N/A	21 December 99	16 November 98
NT Legal Aid Commission (2)	Not yet tabled	Not yet finalised	N/A
NT Treasury Corporation	12 October 99	5 October 99	15 September 98
Public Trustee	N/A	Not yet finalised	2 February 99
Agency Financial Statements at the request of the Agency			
Department of Primary Industry and Fisheries	12 October 99	21 September 99	10 September 98
Department of Transport & Works	24 November 99	18 November 99	25 November 98
NT Legal Aid Commission (2)	N/A	N/A	22 September 98
NT Tourist Commission (accrual financial statements)	23 November 99	23 November 99	19 October 1998

FEBRUARY 2000 REPORT

**APPENDIX 1 -
AUDIT OPINION REPORTS ISSUED SINCE
30 JUNE 1999**

Name	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 99	Date of Audit Report Year ended 30 June 98
Inter-Government Statements			
By Legislation			
Australian Land Transport Development	31 December 99	8 December 99	29 January 99
Australian National Training Authority (3)	30 September 99	Not yet finalised	17 November 98
Interstate Road Transport	31 December 99	8 December 99	2 November 98
Local Government Financial Assistance	asap	12 October 99	15 October 1998
Road Safety (Black Spot) Program	31 December 99	8 December 99	29 January 99
By Agreement			
Indigenous Housing Authority of the Northern Territory	30 September 99	25 August 99	27 October 98
Iwupataka Water Supply Project	30 September 99	30 September 99	22 September 98
Imangara Power Supply Project	30 September 99	30 September 99	29 September 98
Vocational Education and Training Financial Data (3)	30 September 99	Not yet finalised	16 July 99
National Disaster Relief Arrangements	31 December 99	Not yet finalised	Not yet finalised

- (1) Resigned as auditor after legislation was changed
- (2) Enabling legislation amended to now require audited financial statements
- (3) 31 December year end.
- Not yet finalised - as at 31 December 1999
- Not yet tabled - as at 31 December 1999
- N/A Not applicable.
- asap As soon as possible after the financial year end of 30 June.

FEBRUARY 2000 REPORT

APPENDIX 2 - STATUS OF AUDITS WHICH WERE IDENTIFIED TO BE CONDUCTED IN THE SIX MONTHS TO 31 DECEMBER 1999

In addition to the routine audits, primarily being end of financial year audits of agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits were identified on page 99 of the August 1999 Report as being scheduled for the period.

(IT = Information Technology)

Status as at 31 December 1999

Darwin Port Authority

1998/99 Annual Report - review of performance reporting Refer page 60

Department of Corporate and Information Services

Review of managing of outsourcing of Information Technology (IT) Refer pages 81 to 82

Department of Sport and Recreation

1998/99 Annual Report - review of performance reporting Refer pages 73 to 74

Northern Territory Attorney-General's Department

1998/99 Annual Report - review of performance reporting Not yet finalised

Northern Territory Correctional Services

1998/99 Annual Report - review of performance reporting Refer pages 71 to 72

Department of Education

Review of Schools IT upgrade project
Comments to be provided in the Auditor-General's August 2000 Report, together with other comments on performance management system audits to be conducted in the next six months.

Department of Transport and Works

Taxi licence compensation - Follow up Refer page 89

Northern Territory Employment and Training Authority

1998/99 Annual Report - review of performance reporting Refer pages 66 to 67

FEBRUARY 2000 REPORT

APPENDIX 2 - STATUS OF AUDITS WHICH WERE IDENTIFIED TO BE CONDUCTED IN THE SIX MONTHS TO 31 DECEMBER 1999

Status as at 31 December 1999

Northern Territory Police, Fire and Emergency Services

1998/99 Annual Report - review of performance reporting Refer pages 61 to 62

Northern Territory Treasury

1998/99 Annual Report - review of performance reporting Refer pages 68 to 70

Office of Courts Administration

1998/99 Annual Report - review of performance reporting Refer page 75

Power and Water Authority

1998/99 Annual Report - review of performance reporting Refer pages 55 to 57

Territory Health Services (THS)

Input of data into ANSOS; No matters identified warranting reporting to the Legislative Assembly.
Review of THS IT plan No matters identified warranting reporting to the Legislative Assembly.

Selected Agencies

Value of public property written off – comparison of recognition practices. Not yet finalised

How well does program evaluation assist organisational performance? Refer pages 76 to 80

The following audit was identified on page 97 of the August 1999 Report as being “not finalised”.

Northern Territory Attorney-General's Department

General Performance Management system audit Comments to be provided in the Auditor-General's August 2000 Report, together with comments on performance information in the Agency's 1998/99 Annual Report.

FEBRUARY 2000 REPORT

APPENDIX 3 - PROPOSED AUDIT ACTIVITY IN THE SIX MONTHS TO 30 JUNE 2000

In addition to the routine audits, primarily compliance audits of selected agencies, interim audits of entities requiring financial statement opinions, and follow-up of outstanding issues in previous audits, the following audits have been scheduled for the period.

Aboriginal Areas Protection Authority	General Performance Management System (PMS) audit
Department of Corporate and Information Services	Lease versus Buy assessments Receipts/Payments processing Katherine How well does GAS support GST implementation?
Department of Education	Secondary school program
Department of Housing	Aboriginal Housing (PMS audit with IHANT compliance)
Department of Lands Planning and Environment	General PMS with reference to Building regulation, and Environment Protection Release of land for development IT management with reference to the NT Land Information System
Department of Local Government	Management of Community Government financial accountability
Department of Mines and Energy	Office of Resource Development - PMS audit
Department of Primary Industry and Fisheries	BTEC costs arising from litigation
Department of the Chief Minister	Advertising and Research (involving polling) Managing the implementation of selected policy
Department of Transport and Works	General PMS audit update How well does IT support business needs? Motor Vehicle Registry, Darwin and Alice Springs
Northern Territory Tourist Commission	Procurement of marketing/advertising
Northern Territory Treasury	Banking Services Tender Budget Division PMS audit
Office of Communications, Science & Technology	IT strategy follow up
Office of the Commissioner for Public Employment	PMS audit of selected aspects of the Advisory Services Activity
Parks and Wildlife Commission	PMS audit of conservation management

FEBRUARY 2000 REPORT

***APPENDIX 3 -
PROPOSED AUDIT ACTIVITY IN THE SIX MONTHS
TO 30 JUNE 2000***

Power and Water Authority

Contract procurement

Management of cost reductions & other targets

WIMS

Racing and Gaming Authority

Internet Gaming – completeness of income

TAB

Procedures to administer the sale of the TAB

Territory Health Services

Indigenous health & follow up on 1996 PAC Report

IT strategic plan & controls within Windows NT environment

Procurement - contract management

Senior Territorians - actioning policy directives

**APPENDIX 4 -
THE APPROACH TO THE AUDIT OF 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 compliance with proper 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 4 -
THE APPROACH TO THE AUDIT OF 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 5 -
THE APPROACH TO THE AUDIT OF
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.

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 February 2000 Report are also available from the Northern Territory Auditor-General's Office.

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

**NORTHERN TERRITORY
AUDITOR-GENERAL'S OFFICE**



LOCATION

Level 12
Northern Territory House
22 Mitchell Street
Darwin NT 0800
Australia

POSTAL ADDRESS

GPO Box 4594
Darwin NT 0801
Australia

TELEPHONE

(08) 8999 7155

FACSIMILE

(08) 8999 7144

HOMEPAGE

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

E-MAIL

nt.audit@nt.gov.au

OFFICE HOURS

Monday-Friday
8.00am to 5.00pm