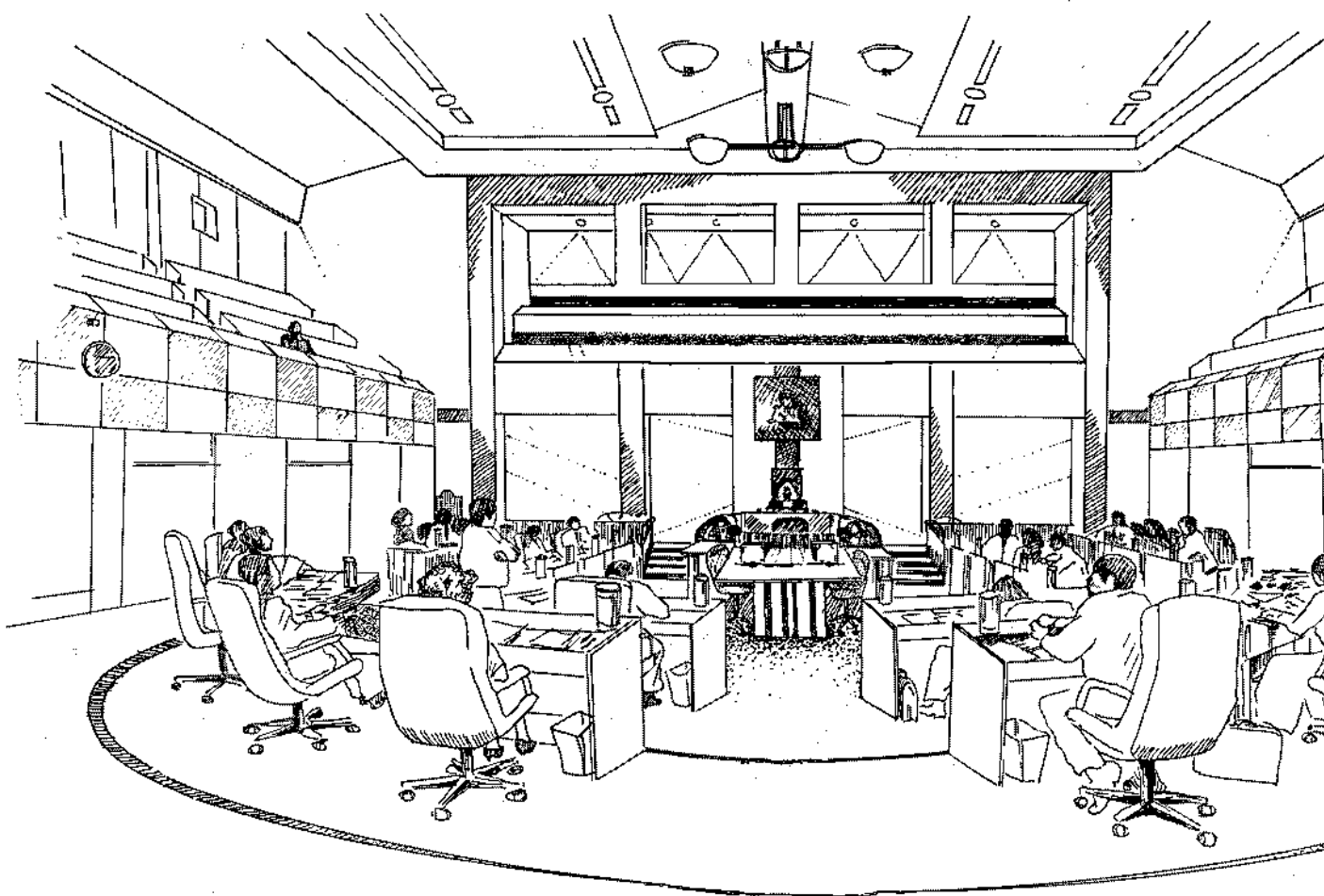




**AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY**

AUGUST 2001 REPORT

TO THE LEGISLATIVE ASSEMBLY



**Auditing for Parliament...
providing independent analysis**

Auditing for Parliament...
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.

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

16 August 2001

Sir

I request that you arrange to have this Report tabled during the first sittings of the ninth Legislative Assembly. The Report deals with matters arising from audits I have conducted in the six months to 30 June 2001.

In this period, audits were conducted to assess how well controls over the proper administration of public monies are functioning.

Audits were also conducted of the systems which public sector entities use to manage the delivery of Government policies, and to report financial and non-financial information to the Legislative Assembly about the Government's performance in managing that delivery. I have arranged my comments on the specific policy areas in the triple bottom line terms of:

- managing fiscal resources and economic development policy,
- managing natural resources policy, and
- managing social policy,

and I have identified where Agencies see these policies contributing to the Government's six Foundations for Our Future areas.

I have also been able to provide preliminary comments on one item which features in my audit program to 31 December 2001, and for which there has been high interest from Parliamentarians. This refers to the Community Benefit Fund, established under the Gaming Machine Act.

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

Yours faithfully

Iain Summers
Auditor-General for the Northern Territory

Major Findings

Compliance with prescribed financial administration procedures

- Generally, Agencies continue to comply with the prescribed requirements for internal control as outlined in Treasurer's Directions.
- An adequate internal audit capacity is still not being demonstrated by many Agencies.

Refer pages 10 to 13 and 14 to 15 for further comments

Conditions of Service Trust funds transferred to the Budget scope

- The Government's ability to transfer significant amounts in or out of its Budget scope highlights that the Budget scope format is unreliable as a measure of the Government's fiscal stewardship and accountability. The Uniform Presentation Framework is a more reliable format.

Refer pages 16 to 18 for further comments

Assessing value for money for major outlays of public funds

Owen Springs Station

- The commitment of \$3.6 million of public funds was recommended without a substantive plan of land use against which the offer price could be evaluated.

Refer pages 27 to 30 for further comments

Alice Springs Convention Centre

- An economic benefit analysis should have been prepared to evaluate the Government's \$8.5 million contribution to the cost of the facility.

Refer pages 35 to 36 for further comments

Hidden Valley Promotions Pty Ltd

- Almost \$1 million of public funds was provided to allow the May 2000 Supercars event to be staged. The economic benefit to the Northern Territory has not been reliably determined.

Refer pages 49 to 51 for further comments

Major Findings

Reporting performance information about policy outcomes

- **Systems to identify, assess and report performance information about policy outcomes in measurable terms have still not generally been developed.**
- **The Government's *Working for Outcomes* performance management system expects, as yet, only output reporting by Agencies.**

Refer pages 54 to 56 and 108 to 111 for further comments

Performance reporting on Foundations for Our Future

- **Processes have been established to gather information from Agencies about their contribution to the tasks, projects and outputs defined in the six Foundations for Our Future documents, and to report this information to the Government.**
- **As yet, performance measures underpinning the desired outcomes for the six Foundations for Our Future areas have not been identified to provide clarity about what level of achievement is desired by the Government.**
- **Identifying clear and specific performance intentions should assist public administrators in managing for the effective achievement of those results.**

Refer pages 57 to 60 for further comments

**Reporting on audits conducted
in the six months ended 30 June 2001**

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 decisions on 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 appropriate 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 (described in Appendix 5), and
- audits of performance management systems (described in Appendix 6).

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 significant audit findings in previous Reports to the Legislative Assembly.

Are entities able to include their responses in the Report?

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

Entities referred to in this Report

By Ministerial Portfolio:

Chief Minister; Attorney-General

Chief Minister, Department of the	14-15, 57-60, 105-106
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Treasurer; Minister for Police, Fire & Emergency Services; Minister for Public Employment & Industrial Relations

Northern Territory Treasury	10-13, 16-18, 19-22, 23-26, 35-36, 42-45, 54-56, 108-111, 112-114
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Minister for Health; Minister for Essential Services

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AUGUST 2001 REPORT

Matters Arising from auditing the Public Account and other accounts

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Auditing the Public Account and other accounts

Compliance with prescribed financial administration procedures

KEY FINDINGS

- **Efforts by Agencies to keep Accounting and Property Manuals up to date were, in general, not successful. A number of Agencies were still awaiting the format to be released by DCIS.**
- **The requirements for the recording of policies and procedures in Accounting and Property Manuals could be less prescriptive.**
- **Generally, Agencies continue to comply with the prescribed requirements for internal control as outlined in Treasurer's Directions.**

Background

Agency Chief Executive Officers are required by Section 16 of the Financial Management Act to maintain Accounting and Property Manuals.

Treasurer's Direction Part 3 section 1 sets out the Government's expectations for the contents of those Manuals. This section, and the Treasurer's Directions generally, prescribe the principles and some procedures for financial administration controls required to be established by Agencies to safeguard receipt and expenditure of public monies. Compliance with proper internal control requirements reduces the risks of significant fraud or error in financial administration.

Since the creation of the Department of Corporate and Information Services (DCIS), a number of the functions identified in the Accounting and Property Manuals are now conducted within DCIS. Consequently, it is important that Agency Chief Executive Officers ensure that all matters for which they are responsible are attended to either within their Agency, or by DCIS. Service Level Agreements with DCIS are intended to set out that understanding.

Throughout the past few years, I have been reporting about the status of Accounting and Property Manuals, and more recently about Service Level Agreements.

In my August 2000 report to the Legislative Assembly, I highlighted that:

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

**Auditing the Public Account and other accounts
Compliance with prescribed financial administration procedures**

Background (continued)

I have also been reporting, most recently in August 1998 and August 1999, that records of plant and equipment assets are not being kept up to date, and stocktakes are not conducted regularly.

The maintenance by Agencies of their Accounting and Property Manuals and their associated Service Level Agreements with DCIS continued as a matter examined in Agency Compliance Audits. Those audits examine procedures in Agencies which demonstrate their compliance with the financial administration procedures set out in the Treasurer's Directions. However, I do not conduct such audits at all Agencies each year.

Audit findings

Accounting and Property Manuals

Efforts by Agencies to keep Accounting and Property Manuals up to date were, in general, not successful. A number of Agencies were still awaiting the format expected to be released by DCIS.

An exception was the Department of Sport and Recreation which did have an up to date Manual at the time of the audit.

It is apparent that Accounting and Property Manuals are often at best a "history book", that is, they record what used to happen. As new people take on jobs and receive training from within their workplace, as jobs and tasks evolve with an organisation's needs and as employees exert influence over how tasks are conducted, Accounting and Property Manuals become out of date.

Although policy and procedural guidance is useful in many instances to respond to circumstances which arise in the workplace, the efforts to commit each and every procedure to writing, and to keep these up to date, is probably unwarranted.

New employees learn of job requirements often by on-the-job instruction from others in their work team. Where it is an operational necessity that procedures are written down, for example when checklists need to be devised to ensure that tasks are completely conducted and in the correct sequence, personnel in the workplace usually do prepare the written procedures.

However, where there is familiarity by personnel with the general intent of certain procedures, it is unlikely that these are recorded, and if they are, it is then unlikely that they are updated as changes evolve over time.

The use of prescriptive Manuals reflects more the command and control management ethos of past years. Increasingly recognised in recent years is that employee satisfaction and motivation is derived from the ability of the employee to tailor work practices to suit individual preferences.

From my observations over the past six years, I recommend that the requirements for the recording of policies and procedures be less prescriptive.

**Auditing the Public Account and other accounts
Compliance with prescribed financial administration procedures**

Audit findings (continued)

Accounting and Property Manuals (continued)

The Government should identify a group of core financial management policies with which it requires Agencies to comply, and Agencies in turn should identify and record supplementary policies for their own needs, for example, from legislation for which the Agency is responsible. Agencies can then determine what procedures they need to record for the operational support of those policies and for their training purposes.

Service Level Agreements

Service Level Agreements were also at various stages of completion or updating, and were recognised by some Agencies as not providing guidance in some infrequently occurring situations.

However, Service Level Agreements are currently being operated between Agencies and DCIS not on a strict contractual obligations basis, but on a relationships basis. That is, where a dispute or uncertainty over roles and responsibilities occurs, the issue is resolved by negotiation between DCIS and the Agencies, not by recording variations within Service Level Agreements.

Audits allow an assessment of how well the relationship between Agencies and DCIS was functioning. The service relationship was identified to be generally achieving Agency expectations. Operating structures within DCIS, and the personnel numbers and positions as between DCIS and Agencies, were stable during the year.

Reviewing the legislative requirements

The Financial Management Act is to be reviewed by the Government in 2001/02 in the preparation for the *Working for Outcomes* financial reporting changes. The requirement for Accounting and Property Manuals in the primary legislation and in the Treasurer's Directions could be reviewed at that time.

Records of physical plant and equipment assets

Records of plant and equipment assets continue in many Agencies to be out of date. However, once accrual accounting is in use in Agencies under the Government's *Working for Outcomes* framework, the accounting requirement for proper asset records is more likely to encourage better record keeping, and better financial control and management of these assets.

Internal audit capacity

I highlight in the item which follows that Agencies need to better demonstrate the existence of an adequate internal audit capacity.

Generally

Although mindful of the exceptions noted above, my overall conclusion is still that Agencies generally continue to comply with the prescribed requirements for internal control as outlined in Treasurer's Directions.

**Auditing the Public Account and other accounts
Compliance with prescribed financial administration procedures**

The Department of Corporate and Information Services has commented:

The DCIS Accounting and Property Manual is now available on the NTG intranet and includes a message that “it can be copied and edited to suit your agency requirements”. To assist with this option, the generic term “agency” is used throughout, and “DCIS” only when it is a DCIS specific function.

Auditing the Public Account and other accounts

Internal audit capacity

KEY FINDING

- **An adequate internal audit capacity is still not being demonstrated by many Agencies.**

Background

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

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

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

Treasurer's Direction Part 3 Section 2 provides the specific expectations of the Government about the conduct of internal audit at Agencies.

Most Agencies were wholly or primarily dependent during the year on the Strategic and Audit Services (now Business Risk Services) unit located within the Department of the Chief Minister for the provision of their internal audit capacity.

In my August 2000 Report to the Legislative Assembly, I identified that:

- *most Agencies in 1999/2000 did not maintain an adequate internal audit capacity as required by the Financial Management Act; and*
- *access to professional internal audit services provided by Government was not maintained during the 1999/2000 year at adequate levels.*

Internal audit capacity of Agencies continued as a matter examined in Agency Compliance Audits, although I do not conduct those audits at all Agencies each year.

Audit findings

While I noted that a few Agencies did have reasonable internal audit coverage, I again reported to most Chief Executive Officers that there was an inadequate internal audit capacity being demonstrated in their Agency.

Where Agencies were able to identify that at least one internal audit had been conducted this year, it was usually the GST compliance audit. This audit had been arranged at a whole of Government level, and was not derived through an Agency's business risk assessment.

**Auditing the Public Account and other accounts
Internal audit capacity**

Audit findings (continued)

In other instances, Agencies had conducted business risk assessments, but had not yet commenced internal audits as determined by those assessments. A dependency on the limited resources from within the Strategic and Audit Services unit was commonly observed to be the reason as to why audits had not progressed.

In other instances, audits had been conducted, but not within a business risk assessment context, that is, the audits could not demonstrate that they were in priority areas.

These issues all lead to my conclusion that an adequate internal audit capacity is still not being demonstrated by many Agencies.

The Department of Sport & Recreation was one Agency that did demonstrate sound commitment to, and use of, internal audit.

For Agencies which in my opinion did not maintain an adequate internal audit capacity in the 2000/01 year, I will review the comments in Agency Annual Reports in which the Chief Executive Officer should make reference to that exception when submitting to the Minister the letter about compliance with internal controls, as required by Treasurer's Direction.

Auditing the Public Account and other accounts

Conditions of Service Trust funds transferred to the Budget scope

KEY FINDINGS

- **The Government's ability to transfer significant amounts in or out of its Budget scope highlights that the Budget scope is unreliable as a measure of the Government's fiscal stewardship and accountability.**
- **A better calculation of the estimated financial result for the 2000/01 year is identified in the increase in net debt as calculated by the Uniform Presentation Format. This shows that the deficit estimated by the Government was \$149 million.**

Background

The Government announced its 2001/02 Budget on Tuesday 29 May 2001, together with its estimates of the actual results for the year ending 30 June 2001. The Budget Papers forecast a deficit of \$149 million for 2000/01.

An amendment to the Budget scope was announced in the Budget Papers which saw the Conditions of Service Trust balance being brought into the Public Account balance in the 2000/01 year. Previously the Trust balance was outside of the Budget scope, and transfers to and from the Trust were shown as receipts and payments into the Public Account.

The transfer in of the Conditions of Service Trust funds of \$150 million was identified by the Government as balancing the expected \$149 million deficit for the 2000/01 year.

Parliamentary and public debate focused on whether the \$150 million should be seen as legitimately balancing the Government's 2000/01 financial result.

In planning my audit of the Treasurer's Annual Financial Statement for 2000/01, I have prepared the following analysis of this issue.

Audit findings

I have been identifying in my November Reports to the Legislative Assembly that the Government had been using two reporting frameworks for its Budget announcements and for the subsequent identification of the actual results in the Treasurer's Annual Financial Statement.

The "Budget scope" is the Government's own creation of how it will present its Budget, and subsequently how it presents the results.

The "Uniform Presentation Framework" is the current format of that which Australian Governments agreed to adopt in 1991. This is a format derived more independently from the Northern Territory Government's own "Budget scope" format.

**Auditing the Public Account and other accounts
Conditions of Service Trust funds within the Budget scope**

Audit findings (continued)

Until the Budget was announced on 29 May 2001, the Government had not wished to include the Conditions of Service Trust balance in its Budget scope. However, this was clearly public money, and the Uniform Presentation Framework required its inclusion when calculating the Government's net debt position. This led to the two differing measures of net debt which I observed in my November 1999 Report to be confusing.

In terms of the Government's own Budget scope, the transfer in of the \$150 million of the Conditions of Service Trust can be described as a receipt. In fact, the Government amended the Financial Management Act in June 2001 to ensure that it was.

However, the Government's ability to transfer significant amounts in or out of its Budget scope highlights how unreliable the Budget scope format is as a measure of the Government's fiscal stewardship and accountability.

A better calculation of the estimated financial result for the 2000/01 year is identified in the increase in net debt as calculated using the Uniform Presentation Format. This calculation shows the deficit estimated by the Government was \$149 million, since this accounts for the Conditions of Service Trust in both the opening and closing net debt balances, not just in the closing balance as with the Budget scope. This calculation does not, however, take into account revenue earned by the Conditions of Service Trust during the year ended 30 June 2001.

The Trust Deed and the Treasurer's disclosures in the Treasurer's Annual Financial Statement identified that the Trust monies could be used as the Treasurer directs, but in particular, for meeting the Territory's (employee) service related liabilities including salaries, wages, commissions, fees, expenses, allowances, leave entitlements, termination, redundancy and superannuation payments and similar purposes. As the following analysis of the Conditions of Service Trust transactions to 30 June 2000 identifies, while there was little evident use of the funds for the particular purposes, funds held in this Trust could be used for any purpose at the direction of the Treasurer.

Summary of transactions July 1990 to June 2000:

Equity transferred in 1990/91 and 1993/94 from conditions of service funds	\$136.5 million
<i>Less:</i> Equity withdrawn (1991-93) to fund tourism infrastructure liabilities of the Government	(\$98 million)
Equity contributions (1993-94)	\$22.3 million
Proceeds from tourism infrastructure disposals, including the 1994 sale of 40% of Ayers Rock Resort	\$31.1 million
Proceeds from the 1997 sale of the balance of Ayers Rock Resort	\$100 million
Income earned by the Trust from 1990 to 2000	\$144.7 million
<i>Less:</i> Commonwealth Superannuation contributions paid for NTPS employees (1994/95 and 1995/96 only)	(\$25.6 million)
Balance of the funds in the Trust at 30 June 2000	\$311 million

**Auditing the Public Account and other accounts
Conditions of Service Trust funds within the Budget scope**

Audit findings (continued)

\$165 million was then withdrawn in 2000/01 for the Government's contribution to the Alice Springs to Darwin Railway construction. After accounting for the income earned on the funds in the year, approximately \$150 million remained. The Trust was dissolved on 22 June 2001, and the funds transferred into the Public Account.

The financial statements of the Trust to the point of its dissolution will be audited, and I will update my analysis of the transactions of the Fund in my November 2001 Report to the Legislative Assembly.

Now that the Government has decided to include the balance of the Conditions of Service Trust in its Budget scope, it has brought its own reporting format for 2000/01 closer to the more independently established Uniform Presentation Framework.

Auditing the Public Account and other accounts

Land and infrastructure asset valuations

KEY FINDINGS

- **Information about asset values in the Treasurer's Annual Financial Report is:**
 - **incomplete;**
 - **based on estimated replacement costs; and**

hence not a reliable measurement for external reporting purposes of the value of land and infrastructure assets owned or controlled by the Northern Territory.
- **An asset valuation policy for land and infrastructure assets has not yet been established by the Government.**

Background

The objective of the audit was to ascertain whether the values for land and infrastructure assets included in the unaudited Treasurer's Annual Financial Report Schedule 6.3 are based on reliable records. This was to assess the Government's readiness, and the audit planning consequences, of the Government's requirement from 1 July 2002 to include asset values in its audited Statement of Financial Position. Schedule 6.3 in the 1999/2000 Treasurer's Annual Financial Report identified a total of \$7.2 billion of land and infrastructure assets in total across all Agencies.

Land was shown at a value of \$406 million at 30 June 2000. Records are managed by the Department of Lands, Planning and Environment.

Records of the major infrastructure assets are maintained by the Department of Transport and Works. For the purposes of the audit, major value infrastructure assets were split into the following two categories:

- buildings, with a value recorded at 30 June 2000 of \$3.2 billion; and
- other infrastructure assets, being mostly roads, with a value recorded of \$2.7 billion.

Northern Territory Treasury compiles the schedule of asset values for disclosure in the unaudited section of Treasurer's Annual Financial Report.

Audit findings

The values allocated to these assets at 30 June 2000 are not reliable assessments of their values under generally accepted asset valuation methods.

Auditing the Public Account and other accounts
Land and infrastructure asset valuations

Audit findings (continued)

Land

The listing of land provided to Northern Territory Treasury for inclusion in the Treasurer's Annual Financial Report is maintained through the Land Administration Information System (LAIS) which uses the Unimproved Capital Value as the basis for valuation. This is a basis for valuation which does not take into account buildings or other infrastructure improvements that may be on the land.

Approximately 1500 to 2000 pockets or parcels of land identified by LAIS as owned by Government for which no valuation has been applied are currently not included in the amounts reported by Government. These areas of land have been identified as being in mainly remote localities or on nature reserves but should still require valuation and inclusion in the values reported by Government.

Land under roads is currently not valued.

Crown land has been transferred and is currently held by the Northern Territory Land Corporation (the Corporation). Although the land has been legally identified as not controlled by the Government, this notion of control, as used for legislation, may not align with the notion of control as used in Australian Accounting Standards. If control is established based on the definitions contained in Australian Accounting Standards, then there will need to be a formal record of the value of land held by the Corporation, to enable its inclusion in the Government's Statement of Financial Position commencing from 1 July 2002.

Buildings

The listing of Government Building assets provided to Treasury is drawn directly from the Building Asset Management System (BAMS). The values on the BAMS listing were formula driven, being based on a number of set parameters or variables, such as average building costs per square metre in the building industry Australia wide, adjusted for local and remote area factors. The use of these formulae produces a general estimate of the replacement cost of each individual asset.

For asset management purposes, BAMS records for each property such key factors as:

- condition of the property;
- estimated remaining useful life of the property;
- differing types of construction for similar properties
- any capital improvements conducted at properties or to structures.

These factors are monitored by management for asset maintenance and planning purposes.

These factors are also critical when determining asset values for external reporting purposes, but in the absence of asset valuation methodologies of Government requiring their consideration, the estimated replacement costs are used in the Treasurer's Annual Financial Report. Replacement costs reflect the assets in "as new" condition, and do not take account, in particular, their condition and remaining useful life at the reporting date.

**Auditing the Public Account and other accounts
Land and infrastructure asset valuations**

Audit findings (continued)

Other Infrastructure Assets

The records of other infrastructure assets are maintained through the Road Information Management System (RIMS). RIMS values are also formula driven, being based on a number of set parameters or variables, to produce a general assessment of the estimated replacement cost value of each kilometre of road or each asset (ie bridge, airstrip etc). These values are predominantly linked to assessing the previous year's values and, after taking into account any movement in asset numbers (including road lengths), increasing the values by the Transportation component of the Consumer Price Index.

For asset management purposes, RIMS records for each infrastructure asset such key factors as:

- condition of the asset;
- estimated remaining useful life of the asset;
- differing types of construction for similar structures (eg assessment of differing lengths/widths bridges);

These factors are monitored by management for infrastructure maintenance and planning purposes.

As with buildings, these factors are also critical when determining asset values for external reporting purposes, but in the absence of asset valuation methodologies of Government requiring their consideration, the estimated replacement costs are used for the Treasurer's Annual Financial Report. Replacement costs reflect the assets in "as new" condition, and do not take account, in particular, for their condition and remaining useful life at the reporting date.

Asset valuation methodologies

At present the methods used for valuing the Government's infrastructure assets do not satisfy the criteria required under Australian Accounting Standards. In particular the key requirements of AAS 38, Revaluation of Non-Current Assets, which covers Public Sector Entities, are not complied with.

However, the Government may not choose to adopt Australian Accounting Standards. If they do, a key requirement includes measuring assets on either an actual cost basis or fair value basis. If fair value were applied, then the Government would need to develop an appropriate valuation methodology and would be required to keep these values up to date.

Even if the Government does not require Australian Accounting Standards to be adopted, it will still need to determine an alternative valuation policy for which systems to record information will be required. This is one of the projects to be conducted within the Government's *Working for Outcomes framework*.

The Department of Lands, Planning and Environment and Northern Territory Treasury have commented. See following page.

**Auditing the Public Account and other accounts
Land and infrastructure asset valuations**

The Department of Lands, Planning and Environment has commented:

The Northern Territory Government has not adopted the Australian Accounting Standards, which, therefore, have no impact on the legal position of the Northern Territory Land Corporation. The Northern Territory Land Corporation is not an authority or instrumentality of the Crown and is not, for the purposes of the Interpretation Act or the Financial Management Act, a statutory corporation. The Corporation is not subject to the control and direction of a Minister or the Crown: Section 6 of the Northern Territory Land Corporation Act (NT) and R V Kearney; Ex parte Japanangka (1984) 185 CLR 395.

Northern Territory Treasury has commented:

In other jurisdictions adopting accrual accounting and reporting has resulted in improved asset recording and subsequent valuation. However, the Northern Territory already has comprehensive recording systems for material assets, and valuation processes which are appropriate to current circumstances. As part of Working for Outcomes, valuation policies will be developed taking into account the costs and benefits of adherence to accounting standards.

Auditing the Public Account and other accounts

Northern Territory Treasury; Power and Water Authority

Contingent liabilities of the Amadeus Basin to Darwin gas pipeline obligations

KEY FINDINGS

- **The Government's obligations to the Financiers of the Amadeus Basin to Darwin gas pipeline construction in 1986 expire in June 2011.**
- **By 30 June 2011, the Financiers are entitled to sell the pipeline, and are guaranteed a residual payment of \$57.8 million. If there is no buyer willing to pay at least that amount, the Government would be required to pay the Financier the \$57.8 million residual value for ownership of the pipeline.**
- **Construction proposals for alternative pipelines have been announced by developers who are interested in the Timor Sea gas reserves. Construction of alternative pipelines may reduce the commercial value of the Amadeus Basin to Darwin gas pipeline by the time the residual value is due for payment.**

Background

In my February 2001 Report to the Legislative Assembly, I outlined the arrangements entered into by the Northern Territory Government in 1988 to facilitate the construction of the Darwin to Katherine power transmission line. This arrangement saw the Government expecting to make a residual payment for the Line in 1998, at the expiry of the financing arrangements.

Those obligations were reported in the Treasurer's Annual Financial Statement, together with the arrangements for the construction of the Amadeus Basin to Darwin gas pipeline. Because the residual payment arrangements in particular were subject to considerable debate by Members of the Legislative Assembly, I also conducted an audit inquiry into the gas pipeline arrangements which existed at 30 June 2000.

Audit findings

Construction

Following preliminary design work in early 1985, the Construction Agreement for the Amadeus Basin to Darwin gas pipeline was signed in June 1985, with final design work and material procurement through 1985, and construction occurring through 1986. Construction was completed in December 1986.

**Auditing the Public Account and other accounts
Amadeus Basin to Darwin gas pipeline obligations**

Audit findings (continued)

Construction (continued)

NT Gas Pty Ltd (which is substantially owned through the Australian Pipeline Trust by a consortium of public companies) built the pipeline, sold it to a consortium of banks then leased it back. Darnor Pty Ltd, a wholly owned subsidiary of the Power & Water Authority (PAWA), holds 2.5 % of NT Gas Pty Ltd to represent the Government's interests.

Construction cost of the pipeline was \$252.2 million. Capitalised interest on construction finance was a further \$29.0 million, so financing required for the construction was \$281.2 million.

The Construction Agreement provides for a payment (the "Return Tariff") by PAWA to NT Gas Pty Ltd as an incentive payment for successfully constructing the pipeline at a cost below an agreed amount. It provided the builder with a profit for participation in the project. The payment occurs over 20 years through to 30 September 2006. The quarterly payments were structured so that 50% of the payment was made in the first five years and the balance over the next 15 years. The Government has indemnified this arrangement. The payments are quarterly, and 25 (ie 6 years, plus one further quarter) remained as at 30 June 2000. The Net Present Value of these payments at 30 June 2000, using an 8% discount factor, was \$47 million.

Financing

The sale to the Financiers by NT Gas Pty Ltd occurred in December 1986. NT Gas Pty Ltd then leases (rents) the Line from the Financiers through to 30 June 2011, and PAWA in turn pays a leasing tariff to NT Gas Pty Ltd sufficient to meet the NT Gas Pty Ltd obligations for rental to the financier through that period. In return for providing a lower cost of funds, this arrangement gained tax advantages for the financier, which the Australian Taxation Office has agreed to allow. The arrangement is termed a leveraged lease. The Government indemnified PAWA's obligations for the tariff payments.

The tariff fluctuates in the range of \$8 million to \$9 million, based on prevailing interest rates, and is paid half-yearly through to 30 June 2011. The indemnity from the Government lasts a further 3 years to 30 June 2014. As at 30 June 2000, there were still 22 (ie 11 years) of payments left. Using the 8% discount factor, this was \$134.8 million.

At the expiry of the Financing Agreement in 2011 a residual value for the pipeline of \$57.8 million is required to be paid to the financier.

Operations

The Government has indemnified PAWA for the volume of gas purchases it has agreed to take from the Mereenie and Palm Valley producers under contracts signed in 1985. The gas purchase contracts expire in June 2012.

The Net Present Value calculation of the gas purchase contracts at 30 June 2000 was \$115.8 million, and also used a discount rate of 8%.

**Auditing the Public Account and other accounts
Amadeus Basin to Darwin gas pipeline obligations**

Audit findings (continued)

Ownership

The pipeline is owned by the financiers under a leveraged leasing structure, until the expiry on 30 June 2011, or any earlier termination as allowed for by the agreement.

At expiry, NT Gas Pty Ltd is appointed as the selling agent on behalf of the Financiers. The Financiers require proceeds from the sale to the value of the residual amount of \$57.8 million, and this payment is indemnified by the Government. This had a Net Present Value of \$20.4 million at 30 June 2000. The audit identified that this amount has never been included in the Contingent Liability disclosures in the Treasurer's Annual Financial Statement since the obligation commenced in 1987. Northern Territory Treasury have undertaken to correct this oversight, and to include this in the contingent liability disclosures from 30 June 2001.

If NT Gas Pty Ltd does not wish to buy the pipeline at this residual amount, the Government is the last option if no other buyer is obtained.

Recent announcements by private sector developers indicate that the pipeline may not be used for the Timor Sea gas supplies to interstate markets. For the remainder of the contract period it can still be used for transporting Amadeus Basin gas, subject to the continuity of supplies through the period. It could also be used to transport Timor Sea gas to Northern Territory power stations, if Timor Sea supplies are brought on shore to Darwin. In either case, the pipeline may have a commercial value lower than the residual of \$57.8 million due to be paid to the Financiers by June 2011.

A summary of the key expiry dates in these arrangements, together with the Net Present Value of contingent liabilities of the Government at 30 June 2000 is:

September 2006 – completion of the payment of the Return Tariff by PAWA to NT Gas Pty Ltd, which the Government has indemnified. **(\$47 million)**

30 June 2011 – completion of tariff agreement in which NT Gas Pty Ltd leases (rents) the pipeline from the Financiers, and PAWA in turn pays a tariff to NT Gas sufficient to meet the NT Gas Pty Ltd obligations for rental to the Financiers. **(\$134.8 million)**

30 June 2011 – option for the pipeline to be sold by the Financiers. NT Gas Pty Ltd have first option to buy. If no buyer is found, the Government would be required to pay the Financier the \$57.8 million residual value and would then own the pipeline. **(\$20.4 million)**

30 June 2012 - cessation of the gas purchase agreements by PAWA. **(\$115.8 million)**

Power and Water Authority has commented. See following page.

**Auditing the Public Account and other accounts
Amadeus Basin to Darwin gas pipeline obligations**

Power and Water Authority has commented:

The Amadeus Basin to Darwin gas pipeline project was one of the largest ever undertaken in the Territory. It has been a major success as it has allowed most of the Territory's electricity to be generated from an environmentally friendly indigenous fuel. It has minimised the use of liquid alternative fuels, which have generally been in the order of 4 times more expensive than that of gas delivered to the Authority's main Darwin region power station.

Furthermore it has assisted new mining and industrial developments locally and is expected to be used for many years in conjunction with major new pipeline infrastructure that is planned to link the Territory with Southern and Eastern Australian gas transmission and distribution systems.

Auditing the Public Account and other accounts

Department of Lands, Planning and Environment

Land for development

KEY FINDINGS

Owen Springs Station

- **The commitment of \$3.6 million of public funds was recommended without a substantive plan for land use against which the offer price could be evaluated, and with an ownership structure which gifts the land away from the formal control of the Government.**

Myilly Lot 7268 (the old Darwin hospital site)

- **Processes for evaluating proposals, and for advising the Government, demonstrated fairness and equity. However, how the Government intends subsequently monitoring the terms of the development agreement should be clarified.**

Myilly Point aged care facility

- **Considerably more research and analysis was required in 1998 before proposals were subsequently encouraged for the development of a retirement village and nursing home on land which at the time was zoned for tourism use.**

Background

The objective of this audit was to assess whether administrative procedures in respect of the acquisition of Owen Springs Station and the release of Myilly Lot 7268 (the old hospital site) for development, comply with satisfactory internal control procedures, and in particular the fairness and equity expectations of the Government's Employment Instruction No.13.

In addition, the audit revisited the status of the proposed development of the Myilly Point aged care facility by the Moran Health Care Group, about which I commented in my August 2000 Report to the Legislative Assembly.

Audit findings

Owen Springs Station

Value for money assessment

The Government had been interested in acquiring sections of this Pastoral Lease for many years, primarily to add to the Northern Territory's Park Estate. Of the 3,477 square kilometres obtained in the purchase, the Parks and Wildlife Commission had indicated the desire to acquire the 500 square kilometre Alice Valley for the West Macdonnell's Park, and 600 square kilometres in the Waterhouse Range and James Range areas.

**Auditing the Public Account and other accounts
Land for development**

Audit findings (continued)

However, the balance of the property did not have specifically identified uses, other than general expectations that land would be available for surrounding pastoral leases, recreation, commercial, and if proven feasible, for horticultural uses.

The valuation obtained for the property on a normal sale basis was that the unimproved value of the property was \$812,000, and with fixed improvements appropriate for a functioning cattle property but excluding livestock and moveable plant and equipment, it was \$2.576 million.

However, the \$3.6 million offer was based on an “anxious buyer” valuation, which was an unimproved value of \$1.82 million, and fixed improvements of \$1.76 million. The \$1.76 million can be seen as the premium paid to obtain the property since, without a land use plan, the fixtures may have no use to the Government. This amount of premium was then not able to be evaluated against specific intended land uses to substantiate that value for money was being obtained.

A finalised plan of use for the land acquired at Owen Springs Station is not required by Government until 31 December 2001.

Ownership entity

Advice to Government in April 2000 included that on expiry the period of leaseback to the vendors (subsequently set as on 31 December 2001), all of the land would be gifted to the Northern Territory Land Corporation (the Corporation), which is an entity outside of the formal control of the Government. It is not clear how the Government can control the future use of the land, for Parks or other uses, if it is held by the Corporation. Advice in documentation from the Department to the Government was that the Corporation would be asked to manage the land in accordance with the Government’s wishes. However, the Government cannot legally direct the Corporation to do so.

In summary

The commitment of \$3.6 million of public funds was recommended without a substantive plan of land use against which the offer price could be evaluated, and with an ownership structure which gifts the land away from the formal control of the Government.

Myilly Lot 7268 (the old Darwin hospital site at Myilly Point)

Processes for evaluating proposals, and for advising the Government, demonstrated fairness and equity. However, how the Government intends subsequently monitoring the terms of the development agreement should be clarified.

Substantial analysis and negotiations followed the receipt of two development submissions in response to the calls for Expressions of Interest in June 2000. This included obtaining additional information from the interested developers to allow comparable analysis. Subsequently, the preferred development group was provided with a Letter of Offer from the Government, for which a formal response was still awaited at the time of the audit.

**Auditing the Public Account and other accounts
Land for development**

Audit findings (continued)

Myilly Lot 7268 (the old hospital site at Myilly Point) – (continued)

Included with this Offer was the wording of the proposed Crown Lease covering an eleven year period for the development. Thereafter the property is intended to become freehold to the developers.

One of the proposed terms in the Lease was that the developer erects improvements of a value of not less than \$100 million. However, it is not clear how that valuation is to be determined, or whether the Government will be able to verify this valuation.

The proposed aged care facility at Myilly Point

Subsequent to calling for expressions of interest for development of this site on 18 December 1998, the Government accepted in principle on 2 February 1999 the Moran Health Care Group's development proposal for an aged care facility.

Negotiations then continued over the next two years. These negotiations culminated in May 2001 with the failure to reach an agreement and the abandonment of the project.

Significant factors emerging during the negotiations which contributed to reducing the commercial viability of the developer's proposals, and ultimately the termination of the negotiations were:

- the implications of rezoning of the land from a tourism related use to one suitable for a retirement village and nursing home, which were not fully understood at the time of calling for the expressions of interest. Under the tourism zoning, the land would have been most suited for high rise developments to allow sufficient commercial returns. This proved unachievable under the alternative zonings;
- similarly, uncertainty over whether the proposed development complied with the provisions of the "Retirement Village Act", allowing Government a mechanism of ensuring that the apartments are used for aged care and not sold to the general public;
- the lack of consultation with Darwin City Council over the proposed access onto Marina Boulevard, resulting in a reduction in the size and value of the site.

Using hindsight, it is apparent that the proposals to encourage a retirement village and nursing home development on land zoned for tourism use required considerably more research and analysis than was allowed for when calling for expressions of interest in December 1998.

The Department of Lands, Planning and Environment has commented. See following page.

**Auditing the Public Account and other accounts
Land for development**

The Department of Lands, Planning and Environment has commented:

Owen Springs Station

While over the years land use of parts of the property had been identified, the pending sale did not allow for a land use plan to be fully developed before purchase. The valuation of the fixed improvements of \$1,764,000 applied to buildings, water supplies and fences, all of which would add to the value of the property, regardless of their value to a specific purchaser. However, it was obvious that the improvements would be of significant benefit to the Government.

Advice to Government stated that, were the land to be offered to the NT Land Corporation, then the Corporation “would then be in a position to deal in the land as it saw fit”. The NT Land Corporation is its own entity and is not controlled by Government. The final decision was that Owen Springs will remain in the ownership of Government pending the finalisation of land use plans.

Myilly Lot 7268 (old hospital site at Myilly Point)

Monitoring of the terms of the development agreement occurs through a number of mechanisms.

The lease itself contains provisions for the imposition of rental should specified performance criteria not be met. As the lease is issued under the provisions of the Crown Lands Act, it is subject to the penalty provisions of that Act, with the ultimate penalty for non-compliance with the lease being forfeiture.

The development is to occur in stages, with freehold title to issue over each stage as it is completed. The conversion to freehold will not occur unless the relevant service authorities have accepted the works to be carried out as part of the stage being converted.

\$100M was nominated by the proponent as the minimum expenditure required to develop in accordance with the proposed plan, which outlines specific minimum requirements regarding floor space, building construction and purpose. The primary requirement of a lease would be that development is completed in accordance with the approved plan. Any valuation on the improvements would be undertaken by the Valuer-General.

Myilly Point Aged Care Facility

Negotiations were continuing with the Moran Health Care Group to address a range of issues, including those raised in the audit findings. However, the project failed in the end due to the company being unable to secure a joint venture partner, rather than as a result of the issues under negotiation.

Auditing the Public Account and other accounts

Department of Industries and Business

Financial assistance to industry

KEY FINDINGS

- **Policy guidelines should be clarified and documented for the different types of financial assistance currently provided by the Department.**
- **There is a lack of standardised structure and completeness about monitoring performance criteria for grants.**
- **Disclosures in the Department's Annual Report are on the basis of assistance provided during the year and not total assistance approved where funding in future years has also been committed.**
- **The Government's investment in the Queensland and Northern Territory Multimedia Centre (QANTM) was at a cost of \$1 million. The Government wishes to gift this asset to the Northern Territory University, but it does not know the current valuation of this public asset.**

Background

The audit was conducted to assess the compliance by the Department of Industries and Business with adequate internal controls and risk management practices over the provision of financial assistance to industry and for equity investments. The Department estimated that for 2000/01 it would provide \$18.5 million as grants and subsidies.

A similar audit was conducted in 1997 at the then Department of Asian Relations, Trade and Industry based on the 1993 recommendations of the Public Accounts Committee. The key findings from the 1997 audit were:

- there should be guidelines for granting financial assistance;
- applications should be subject to comprehensive assessment; and
- appropriate monitoring procedures should be put in place.

Accordingly, the audit criteria that were applied to this current audit were that there should be:

- assessment of applications for financial assistance, and equity investment proposals;
- appropriate monitoring procedures, which should be seen to be operating; and
- readily accessible information on the status of assets and liabilities arising from the financial assistance and equity investments.

**Auditing the Public Account and other accounts
Financial assistance to industry**

Audit findings

Assessment guidelines

The criteria for approval of the initial funding needs to be clarified. Internal policy and procedure manuals need to be developed, in which policy guidelines are clarified and documented for the different types of financial assistance currently provided by the Department. The following should be considered:

- the need to assess the potential benefit to the Territory;
- the requirement for indicators of successful achievement of funded objectives to be identified; and
- appropriate monitoring and review requirements to be followed.

A good feature of the Department's review process is the Investment Facilitation Review Committee comprising four senior officers of the Department, which makes recommendations to the Minister about grant proposals placed before the Department.

Provision of financial assistance to Industry Association bodies accounts for almost two thirds of the \$2.3 million provided in the 2000/01 financial year. Some files lacked the comprehensive records concerning the nature of the Associations' activities and financial status, which might be expected to support this level of financial assistance.

Performance monitoring of grantees

There was a lack of standardised structure and completeness about monitoring performance criteria for grantees. There is evidence of set program criteria, established outcomes and evaluation processes, however, some of the files reviewed failed to demonstrate they had been revisited to ensure program criteria had been achieved.

With no standardised review process or minimum file contents criteria being set, the risk exists that funding will be provided without the terms and conditions of the funding agreement being met or complied with.

Annual Report disclosures

The 1997 audit highlighted that the Agency's Annual Report did not disclose funding committed in future years. This point remains to be addressed, particularly in relation to significant future commitments to Industry Associations for up to three years.

Monitoring

There is a conscious effort by the Department to improve key performance indicators and establish timely outcomes in assessing applications. However, based on the files examined, the quality control procedures and structure of files could be improved and greater evidence of review needs to be demonstrated on file. In some instances there appears to be no attempt to determine whether the investments have given a real return.

**Auditing the Public Account and other accounts
Financial assistance to industry**

Audit findings (continued)

The Department currently monitors 65 loans totaling almost \$5 million. 50 of these loans relate to Natural Disaster Relief funds made available principally as a result of the Katherine floods. Effective and efficient systems to manage the loan portfolio need to be better established. This will become even more important once accrual accounting is introduced by the Government from 1 July 2002, when the loans, at their recoverable value, will need to be included in the Agency's and the Government's Statements of Financial Position.

Equity Investment in QANTM

In 1995 the Government approved \$1 million funding over four years to the Queensland and Northern Territory Multimedia Centre (QANTM) with the objective of promoting information technology. This is one of six Cooperative Multimedia Centres (CMC's) in Australia developing leading edge technology.

Rather than being treated as a grant of funds, one ordinary 'A' class share was issued for each dollar invested by the NT Government, which now currently holds 22% equity in QANTM at a cost of \$1million.

"A" class shares have the same rights as ordinary shares except that holders of "A" class shares are not entitled to:

- vote on a resolution in respect of winding up of the company; or
- receive any part of the property of the company upon the winding up of the company.

The Queensland Government initially invested greater levels of funding but subsequently divested its interest to various tertiary institutions in Queensland.

The viability of the Government's investment was addressed in the audit. The balance sheet of QANTM at December 2000 disclosed accumulated losses of \$4.2 million, which have resulted from the company's investment in research and development undertaken since 1995. While the Department is expecting a break-even position in the 2000/01 financial year, of the \$7.2 million in revenue estimated to be generated, 18% is by way of Commonwealth assistance, with the remaining 82% required to be commercially generated. A current valuation of the investment has not been determined.

The Government has now directed that the investment in the company be gifted to the Northern Territory University, and the process to do that is currently being researched. However, without a current valuation, the Government does not know what value of public asset it is gifting.

The Department of Industries and Business has commented. See following page.

**Auditing the Public Account and other accounts
Financial assistance to industry**

The Department of Industries and Business has commented:

A manual is being compiled by the Department of Industries and Business containing existing policies which have been previously agreed to by our Minister. This manual will include internal guidelines and procedures.

Performance measurement indicators are now contained within all offers of financial support. These indicators are generally aimed at financial viability and the ongoing positive benefits to the Territory economy. The Department is unable to standardise all performance measurement indicators due to the diverse nature of the various grant programs.

The Department of Industries and Business Annual Report has previously contained details of funds drawn down during the reporting period. From 2001/02, the Annual Report will disclose the total amount of assistance provided to applicants, including the amounts of commitments in future years.

With regard to QANTM, under the Shareholders Agreement, disposal and transfer of ownership requires acceptance by at least 75% of members entitled to vote. The transfer would have to occur in the form of a bonafide cash consideration. Methods of resolution are being pursued.

Auditing the Public Account and other accounts

Department of Transport and Works; Northern Territory Treasury

Alice Springs Convention Centre funding arrangements

KEY FINDINGS

- **There was compliance with prescribed procurement requirements of Government in the evaluation and awarding of contracts for the Alice Springs Convention Centre.**
- **An economic benefit analysis should have been prepared to evaluate the Government's \$8.5 million contribution to the cost of the facility, and the \$742,000 contribution to the developer's financing costs.**

Background

The Government has awarded the development and subsequent operations of the Alice Springs Convention Centre to Ford Dynasty Pty Ltd, trading as Lasseter's Hotel Casino. The developer has agreed to construct a Convention Centre to seat 1200 delegates, and accommodate up to 900 in banquet format.

The cost of the development is estimated at \$9.7 million. As part of the Government's security arrangement, the developer will lease the facility to the Government then lease it back for a period of 20 years from Practical Completion. Thereafter, ownership will revert to the developer and operator.

The Department of Transport and Works headed the tender evaluation process. The negotiations in respect of the construction and management agreement were headed by the Northern Territory Treasury.

Audit findings

There was compliance with prescribed procurement requirements of Government in the evaluation and awarding of contracts for the Alice Springs Convention Centre.

However, studies commissioned by the Government during the process identified that convention centres do not make money in their own right, but that major economic multiplier effects are expected for businesses, governments and the community in the region.

Both of the pre-qualified submissions indicated a need for government to provide capital support for construction and subsequent operational support.

The Government has agreed to pay to the developer \$8.5 million at the later of certified Practical Completion or 10 July 2002. Under this arrangement the construction risks rest with the developer. The Government is also to provide a contribution of \$742,000 to the developer's financing costs.

Auditing the Public Account and other accounts Alice Springs Convention Centre

Audit findings (continued)

The Government has also agreed to provide an operating incentive to Lasseter's Hotel Casino capped at \$5.7 million in total over the 20 year operating lease period, with a per annum cap of \$1.25 million. These payments will be based on the operator's ability to attract international and interstate delegates. During the 20 year operating lease period, the Government can step in and take control of the operations of the facility if the operator fails to achieve specified performance criteria. The \$5.7 million includes an amount of \$700,000 for initial marketing programs.

The Government will have a right of "step in" should the project not reach completion for whatever reason. Although the arrangement has transferred the construction risk to the developer, the value for the use of \$8.5 million of taxpayers' money in the arrangements has not been demonstrated by any quantification of expected benefits. The \$8.5 million construction payment was simply a negotiated position.

An economic benefit analysis should have been prepared to evaluate the Government's \$8.5 million contribution to the cost of the facility, and the \$742,000 contribution to the developer's financing costs. Value for the use of those amounts of public monies could then have been assessed with reference to their economic impact on the Region.

The operational incentive payments of up to \$5.7 million will be more readily linked to the achievement of the delegate numbers. This should form part of the performance information compiled for assessing how well the Convention Centre is contributing to its intended "Alice in Ten" objectives. I comment on this aspect in the performance management systems audit findings section of this Report.

Northern Territory Treasury has commented:

The Government's purpose in supporting the Alice Springs Convention Centre was for a facility to be built and operated that would increase the numbers of business and associated tourists visiting Central Australia and extend the average duration of stay. Independent research had demonstrated that Alice Springs does not currently have the capacity to capture an increased percentage of the expanding business tourism market.

The competitive process used has effectively kept Government contributions to a minimum.

Long term economic benefits to the region will flow from the multiplier effect of visitors from outside Alice Springs during the operating phase of some 20 years. There is significant immediate benefit from the construction phase.

Auditing the Public Account and other accounts

Territory Health Services

Capital works - Alice Springs Hospital

KEY FINDING

- **The Alice Springs Hospital redevelopment is being managed in accordance with a Master Plan and the Government's Total Asset Management Guidelines.**

Background

An audit was conducted to establish that the Government's Total Asset Management (TAM) principles have been addressed in the Alice Springs Hospital redevelopment project.

The objectives of TAM, as set out in the Government's guidelines, are that Agency's procedures for the management of major assets owned and constructed will:

- support its core business and ensure efficiency of service;
- materially contribute to client satisfaction;
- ensure assets meet indispensable quality and performance criteria;
- attain a balance between service delivery costs and management liabilities; and
- provide information for improved management.

Audit findings

A Master Property Development Control Plan for the Alice Springs Hospital was first issued as a draft in July 1994. The draft report recommended that redevelopment of the Alice Springs Hospital be undertaken. In 1996 a steering committee was formed to study a number of specific issues contained within the draft report and to make recommendations which could be incorporated into the final report. The Steering committee issued their report on 16 September 1996. The Master Property Development Control Plan (the Plan) for Alice Springs Hospital was issued in its final form in January 1997.

The Plan recommended the redevelopment of the Alice Springs Hospital instead of two other options, which were to do nothing, or a greenfield site reconstruction. The redevelopment staging forecasting model in the plan called for the redevelopment to span four years, with year 1 concerned with design documentation and calling of tenders with the bulk of the construction occurring in years 2 and 3.

In March 1997, Government endorsed the Master Property Development Control Plan for Alice Springs Hospital and approved the staged redevelopment of the hospital.

In 1997/98 \$14.8 million was allocated in the Capital Works Program to cover years 1 and 2 of the 4 year redevelopment.

**Auditing the Public Account and other accounts
Capital works - Alice Springs Hospital**

Audit findings (continued)

A construction management contract was let in July 1998 to John Holland Construction and Engineering Pty Ltd (John Holland) to manage the first two stages of the redevelopment. The contract was suspended in November 1998 pending the outcome of the Northern Territory Government's consideration of the expressions of interest for private operators to provide public hospital facilities and services in the Territory.

In March 1999, Government approved the reinstatement of the project, with the inclusion of a Private Wing and separate entrance. In November 1999, Government approved the reactivation of John Holland's contract. The suspension of work was lifted on 6 December 1999 and John Holland re-established on site.

In 2000/01 a further \$16 million was allocated in the Capital Works Program to fund the revised project with actual construction commencing 4 July 2000 and completion by August 2002. The total estimated cost was then \$30.8 million.

The redevelopment master plan includes:

- substantial alterations to the main building to accommodate
 - new building works on the ground floor for mental health, staff amenities, paediatrics medical imaging, main entry and chapel, cafe/kiosk, outpatient facilities and pharmacy;
 - new building works on the first floor for delivery suites;
 - alteration or refurbishment works on the ground floor for pharmacy, GP clinics and outpatient facilities;
 - alteration or refurbishment works on the first floor for maternity ward, special care nursery, ICU/HDU, offices and library, private hospital and private consulting; and
 - alteration or refurbishment works on the second floor for medical ward, day surgery, theatres and surgical wards;
- the construction of a new physiotherapy rehabilitation building;
- refurbishment of the child health building;
- various engineering infrastructure works; and
- external works such as roads, pathways and landscaping.

**Auditing the Public Account and other accounts
Capital works - Alice Springs Hospital**

Audit findings (continued)

Total Asset Management principles have been addressed in the Alice Springs Hospital redevelopment project. In particular:

- The redevelopment was based on a Master Property Development Control Plan for the Alice Springs Hospital.
- A Master Plan Strategy review was completed in March 2000.
- A Departmental steering committee provided input into the development of the Master Property Development Control Plan.
- A project control group consisting of staff from Territory Health Services and the Department of Transport and Works, the project manager, and John Holland, the contract manager, meet on a monthly basis to monitor the project.
- A project development group was established to manage specific input and processes to facilitate completion of the project and to manage workplace reforms and operational procedural aspects of negotiations to collocate the private hospital.
- User working groups established to provide detailed client input into specific components of the project and assist with workplace reforms.

Auditing the Public Account and other accounts

Office of the Commissioner for Public Employment

Leased property

KEY FINDINGS

- **The process for the procurement of leased property provides reasonable assurance that there was compliance with prescribed requirements.**
- **The Agency has systems in place to ensure the leasing of property from the private sector provides value for money and matches the needs of Government Agencies.**
- **For 2000/01, approximately \$1.4 million of the total \$37.5 million leasing costs relate to the Government's provision of leased premises to approximately 50 community service organisations and the Northern Territory Land Corporation.**

Background

The NT Property Management group (NTPM) within the Office of the Commissioner for Public Employment is responsible to ensure cost effective building and facility management of the properties leased by government from the commercial sector.

The Agency disclosed in its 1999/00 Annual Report that \$33.8 million was spent on property rentals and \$800,000 on support services in that year. Expenditure under the Property Management activity for 2000/01 was estimated at \$37.6 million, while the budget for 2001/02 has been set at \$35.5 million.

The audit objective was to ascertain whether:

- the process for the procurement of leased property provides reasonable assurance that there is compliance with prescribed requirements; and
- the Agency has systems in place to ensure the leasing of property from the private sector provides value for money and meets the needs of Government Agencies.

Audit findings

The process for the procurement of leased property provides reasonable assurance that there was compliance with prescribed requirements.

The Agency had systems in place to ensure the leasing of property from the private sector provided value for money and matched the needs of Government Agencies.

**Auditing the Public Account and other accounts
Leased Property**

Audit findings (continued)

The above opinion was based on the following:

- An Agency's accommodation request must first be endorsed by its Minister.
- The Minister for Public Employment must also approve the processing of the request.
- The management and administration of accommodation requirements is centralised within the professional services provided by officers from NTPM. Officers match accommodation needs with available options and conduct the negotiations over terms and conditions of leases. Where longer lease terms are negotiated, this usually reflects a reasonable requirement of the lessor to recoup costs incurred in meeting particular fit-out needs of Agencies.
- The Australian Valuation Office advises on the market rate for the property to be leased.
- Ministerial approval of lease terms and conditions is obtained before a letter of commitment is sent to the lessor. No evidence of Ministerial disagreement with the professional advice of NTPM was observed.
- The NTPM Property Management System provides a comprehensive recording system for each lease.

For 2000/01, approximately \$1.4 million of the total \$37.5 million leasing costs relate to the Government's provision of leased premises to approximately 50 community service organisations, and to the NT Land Corporation.

The Office of the Commissioner for Public Employment Annual Report for 1999/2000 did not separately identify the number or cost of leases undertaken for Community Service organisations, or for the Northern Territory Land Corporation. This support is another form of grant or subsidy to these organisations. Separate disclosure would identify the components of expenditure which is directly related to Government Agency accommodation needs, and that which relate to operational support to non Government entities.

The Commissioner for Public Employment has commented:

While I am pleased with the outcome of the Audit Report, there is always room for improvement. As such, the recommendation that Community Service Organisation lease costs be separately identified in future annual reports will be implemented as soon as practicable.

Auditing the Public Account and other accounts

Department of Industries and Business; Northern Territory Treasury

Community Benefit Fund – preliminary audit findings

KEY FINDINGS

- **As at 30 June 2001, the Fund held \$5.3 million.**
- **On 27 March 2001, the Government approved a \$1 million program of grants to community groups, to be supervised by the Treasurer. By 30 June 2001, \$225,000, net of GST, had been distributed.**
- **Other payments approved by the Minister for Racing, Gaming and Licensing continue to be made from the Fund. Net of GST, these totalled \$258,000 in 2000/01.**
- **Payments in the year to 30 June 2001 have been made in accordance with the legislative requirements of the Gaming Machine Act.**

Background

When gaming machines were introduced into clubs and hotels from 1 January 1996, part of the regulatory regime required the establishment of a Community Benefit Fund (the Fund). Under the Gaming Machine Act (the Act), licensed premises were required each month to pay a gaming machine community benefit levy (the Levy) in the manner and at the rate prescribed under the Act. The Director of Licensing is required to pay the Levy into the Fund.

The Minister under the Act is required to establish a committee to be known as the Gaming Machine Community Benefit Committee (the Committee) and to also appoint the members and determine how the Committee is to operate.

The initial Committee in 1996 consisted of four officers from the Agencies then responsible for the portfolios of Treasury, Health, Sports and Recreation and the Gaming Division, as well as two private sector members representing the hoteliers and charities.

The initial guidelines for distributions from the Fund were approved by the Minister for Racing and Gaming and required that the Committee should consider applications for disbursements from the Fund. Disbursements were to be for either social impact or social benefit.

The Guidelines of the Minister for Racing and Gaming at the time were that:

- Social impact would focus primarily on those issues directly related to the introduction of gaming machines into clubs and hotels, and

**Auditing the Public Account and other accounts
Community Benefit Fund - preliminary audit findings**

Background (continued)

- Social benefit payments were to be made to organisations that were incorporated bodies that may have been detrimentally affected by the introduction of gaming machines (ie. now receiving less funding), and were “grass roots” organisations. Clubs were to direct money back towards its source, both in terms of geographical distribution and in terms of the people who generated the money in the first place. Applications were to be considered having regard to recommendations from the licensed hoteliers, the extent of financial support for the applicant from other sources and the nature of the community benefit provided by the organisation.

The indicative split of funds between social impact and social benefit was set at 25% and 75% respectively.

Social benefit payments from the Fund were suspended in July 1997 pending the Government’s review of the Northern Territory gaming industry. However, social impact payments continued to be made from the Fund to enable Amity Community Services and Anglicare NT to respond to community needs caused by problem gambling.

The findings of the review were delivered in 1998. The review recommended that the Fund should only be used for gambler services, gambler education and gambler research with revenue being drawn from the gambling industry as a whole. The review also recommended that the current balance of the Fund, after provision for immediate needs, be distributed to recreational and charitable organisations in whose favour it was originally collected.

The Government directed on 27 March 2001 that \$1 million be granted from the Fund to community groups with the Treasurer to oversee the grants.

In view of the interest expressed by Members of the Legislative Assembly on the operation of the Fund, I have commenced an audit of the receipts and payments of the Fund. This will particularly focus on the time of the Government’s announcement on 27 March 2001 that it is once again drawing grant monies from the Fund. The audit will be verifying compliance with the legislation for the administration of the Fund.

Preliminary audit findings

Audit work conducted in July 2001 has identified the following preliminary findings.

On the 1 May 2001, the Minister for Racing, Gaming and Licensing terminated all previous appointments to the Committee and appointed three persons from within Northern Territory Treasury to constitute the Committee.

The guidelines were reissued to remove the link of social benefit payments to organisations detrimentally affected by the introduction of gaming machine or, in respect of clubs, direct money back to its source origins in terms of the Minister’s original guidelines. The latter change is of no consequence as clubs are not required to pay the Levy. Also the requirement to have regard to recommendations from gaming machine licensed hoteliers was removed.

Auditing the Public Account and other accounts Community Benefit Fund - preliminary audit findings

Preliminary audit findings (continued)

The rate prescribed for the Levy is a percentage of the gross monthly profit (net machine revenue) of the licensed premises for the month and was set at 0% for clubs and 25% for hotels. These rate remained unchanged until 30 June 2001. From 1 July 2001 the Levy has been reduced to 10% and still only applies to hotels.

The Minister for Racing Gaming and Licensing also authorised the Treasurer to exercise the Minister's powers under the Act to approve the Director paying amounts out of the Fund. No limits were specified in the authority.

The new guidelines, Committee and authorisation to the Treasurer were identified as interim measures to give effect to the Government's direction of 27 March 2001. Following significant changes in the gaming machine industry from 1 July 2001, including revised tax and community benefit levy rates, it was identified that the guidelines would need amendment for receipts to the Fund after 1 July 2001.

Through advertisements in the print media, the Government invited proposals from community groups for small one-off grants for community projects. The initial closing date for proposals was 31 May 2001, however this was later extended to 30 June 2001. Application forms were available from the Office of the Deputy Chief Minister and Treasurer and from the Government website. Applications were to be posted or faxed to the Deputy Chief Minister and Treasurer.

The applications were passed to the current Committee, comprising three officers from Northern Territory Treasury, for consideration under the guidelines with recommendations provided back to the Treasurer as to whether the grant should be paid.

The following table summarises movement through the Fund from its establishment in 1996 until 30 June 2001.

Summary of movements through the Fund

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
	\$	\$	\$	\$	\$	\$
Opening balance	-	58,204	621,831	1,447,396	2,791,697	4,138,590
Receipts	58,204	598,505	962,997	1,427,301	1,466,079	1,614,541
<u>Less</u> Payments	-	34,878	137,432	83,000	119,186	482,915
Closing balance	58,204	621,831	1,447,396	2,791,697	4,138,590	5,270,216

Source: Department of Industries and Business records

**Auditing the Public Account and other accounts
Community Benefit Fund - preliminary audit findings**

Preliminary audit findings (continued)

As at 30 June 2001, 45 applications with a total value of \$507,783 had been forwarded from the Office of the Deputy Chief Minister and Treasurer to the Committee, and of those, 14 grants with a total value of \$247,839, or \$225,308 net of GST, were approved by the Treasurer and paid. The 31 remaining applications with the recommendations of the Committee were with the Treasurer for consideration. Grant applications and transactions being processed after 30 June 2001 have yet to be reviewed by the audit.

In June 2001, the Minister for Racing, Gaming and Licensing approved payments to the Royal Agricultural Show Society of \$83,751 and Volunteering NT of \$25,000. These payments were the result of Government decisions that were not part of the \$1 million small grants program overseen by the Treasurer, and were not referred to the Committee for recommendation.

Auditing the Public Account and other accounts

Northern Territory University – an analysis based on its 31 December 2000 financial statements

KEY FINDINGS

- **The improved operating surplus achieved in 2000 may not be sustainable.**
- **Writing off the Tiwi land and buildings reduced the University's net worth by \$3.2 million.**

Key financial statistics

	2000 \$million	1999 \$million
Total public investment in assets	170.8	161.5
Total liabilities	20.5	21.2
Net investment of public funds in the entity	150.3	140.3
Operating revenue	91.7	83.7
Net surplus/(deficit) after extraordinary items	9.2	(1.5)

Background

The University provides both Higher Education and Vocational Education and Training. Higher Education funding is provided by the Commonwealth Government through direct grants, and through the Higher Education Contribution Scheme revenues collected by the Commonwealth. Vocational Education and Training (VET) funding is provided by the Northern Territory Government via the Northern Territory Employment and Training Authority (NTETA). The University also attracts research funding.

The University produces its annual financial statements as at 31 December each year. These are required to be audited by the Auditor-General, and included in the University's Annual Report.

Audit analysis

The improved operating profit may not be sustainable

The operating surplus for the year was \$9.25 million, which compares to a deficit of \$1.5 million for 1999. This variation reflects the impacts of revenue and expense transactions which are specific to the 2000 year, as well as the consequences of tighter budgetary controls over expenditure in the year.

**Auditing the Public Account and other accounts
Financial statement analysis – Northern Territory University**

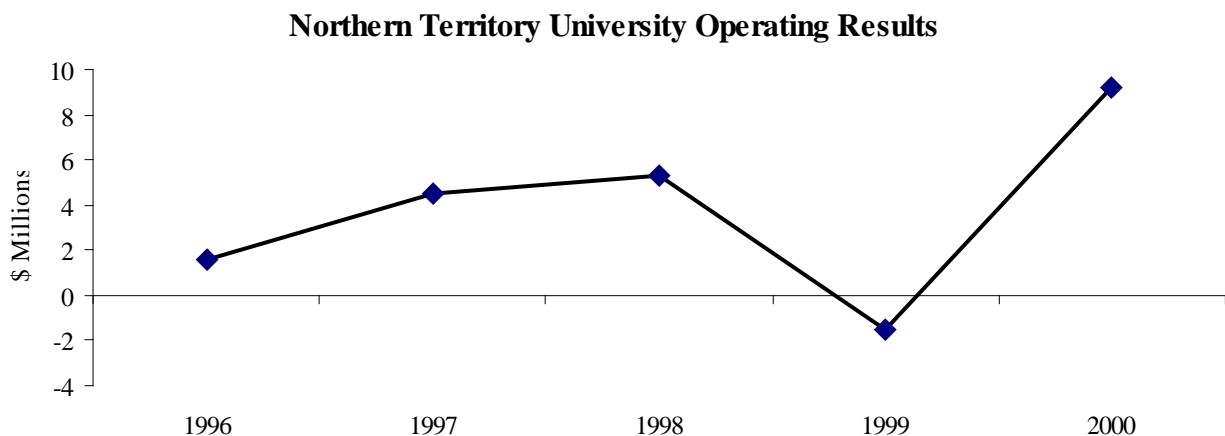
Audit analysis (continued)

The specific 2000 year transactions were:

1. The special operating subsidies of \$4.5 million received from the NT Government, as part of a \$7 million funding package over three years to meet future Enterprise Bargaining Agreement commitments of the University.
2. Recognition as revenue of the remaining \$1.55 million of Commonwealth funding for the 1999-2001 Triennium. This was the balance of \$3 million originally received as a cash allocation in 1997. In 1998, \$1 million was released to revenue, but in 1999 only \$500,000 was released. When compared to the \$1.55 million released to revenue in 2000, approximately \$1 million is contributed to the turnaround in the result.
3. Additional VET funding from NTETA, including \$1.6 million more than 1999 for repairs and maintenance, and approximately \$1.5 million more in “user choice” funding.
4. Offsetting that extra NTETA funding is a reduction in capital funding compared to 1999 of \$1.3 million.
5. Approximately \$1 million of reductions in operating expenses across faculties, following the tighter budgetary controls implemented in 2000.
6. The offsetting increase in depreciation of \$3.8 million, following the change in estimated useful lives of assets.

For 2001, the expenses intended to be funded by the special NT Government grant funds will draw on the cash balance of \$15.8 million accumulated at 31 December 2000. If the tighter budgetary controls are sustainable, the operating result for 2001 will then be largely determined by levels of funding attracted for both the Higher Education and VET sectors.

The University has generally sustained operating surpluses over the past 5 years. This followed large surpluses which were recorded in its early years when large capital funding grants were received from the Commonwealth to establish the University’s infrastructure. The following chart illustrates the trend in operating surpluses since 1996.



Source: Northern Territory University Financial Records

**Auditing the Public Account and other accounts
Financial statement analysis – Northern Territory University**

Audit analysis (continued)

Writing off the Tiwi land and building reduced the University's net worth by \$3.2 million

As a condition of receiving in total \$7 million of financial support from the Northern Territory Government over three years, the University was required to hand back to the Government, for no direct consideration, the land and infrastructure of the former Tiwi Primary School. This had been provided to the University by the Government in the early 1990's.

The value of the Tiwi land at 31 December 2000, before it was written off in the University's books, was \$550,000. This was the 1997 valuation, which was not updated because the land was to be returned to the Government. Other land values at the Casuarina campus were lifted by an average of 160% in the revaluations conducted as at 31 December 2000.

The buildings and improvements on the Tiwi land were carried at 31 December 2000 at a written down value of \$2.6 million, but this was then also written off against the asset revaluation reserve in recognition that no direct recompense would be received by the University.

Although it does not affect the operating surplus for the year, the total \$3.2 million of asset value being written down against the revaluation reserve reduces the net worth of the University by this amount. Although the receipt of the special subsidy from the Northern Territory Government boosted net worth at 31 December 2000 by the unexpended portion on hand at that date, this increase is only temporary, since those funds are committed to salary increases.

The transfer of the Tiwi land and buildings to the Government was to occur as at 30 June 2001.

Auditing the Public Account and other accounts

Hidden Valley Promotions Pty Ltd - an analysis based on its 31 December 2000 financial statements

KEY FINDINGS

- **Almost \$1 million of public funds was provided to allow the May 2000 Supercars event to be staged to the expected standard.**
- **The economic impact to the Northern Territory has still not been reliably determined.**

Brief financial statistics	2000	1999
	\$'000	\$'000
Public funds invested in assets	418	104
Total liabilities	301	58
Net investment of public funds	117	46
Operating revenue	1,227	1,320
Operating deficit before Government grants	(805)	(697)
Government grants	876	735

Background

Hidden Valley Promotions Pty Ltd (the Company) was established by the Department of Sport and Recreation on 28 November 1997 to promote and facilitate the running of a national V8 Supercar race at the Hidden Valley Circuit in Darwin.

The financial statements of the Company for the year ended 31 December 2000 covered the operations of the third such annual event at the Hidden Valley Circuit in May 2000.

Audit analysis

The Company recorded an operating surplus of \$71,060 for the year ended 31 December 2000.

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

Audit analysis (continued)

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

	2000	1999
	\$	\$
General funding	748,216	595,000
Funding for the free public bus and for power costs	140,000	140,000
Supply of generators and power cables	-	45,000
Other expenses paid on behalf of the Company	<u>8,640</u>	<u>11,669</u>
TOTAL	896,856	791,669
Less GST reclaimed	<u>11,909</u>	-
	<u>\$884,947</u>	<u>\$791,669</u>

The following associated outlay also used public funds:

Hire of a corporate hospitality facility by the Department of the Chief Minister.	<u>\$102,500</u>	<u>\$110,290</u>
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Public funding in total **\$987,447** **\$901,959**

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

The Government also provides support for the event through the capital works program managed by the Department of Transport and Works. The Department has advised that the total spent on the Hidden Valley track by the Department during 2000/01 was \$168,242 of which \$24,412 was a carry over from the 1999/00 capital works program. This expenditure would also assist other motor sports events which use the track during the year.

An economic impact study completed in 1999 estimated that the event that year injected an additional \$1.65 million into the Northern Territory economy. In announcing a new agreement from 2001, the Government advised that the economic benefit to the Northern Territory of the race was now \$3 million. However, this was an estimate made by the Government itself based on the 1999 economic impact study, but without any substantiation of how that new estimate was derived.

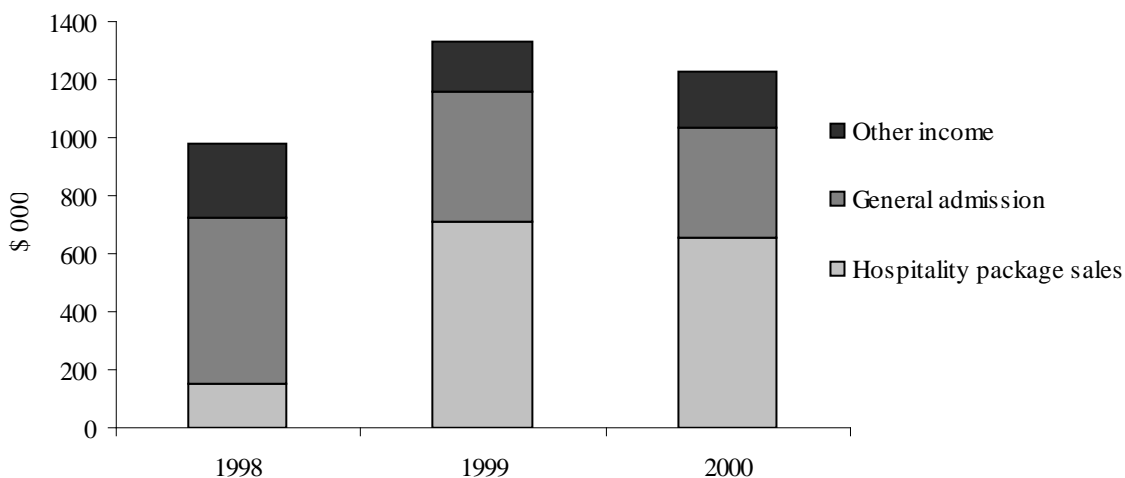
The new agreement secures the Supercar event through to 2007. Sanction fees payable to the national controlling body for Supercar racing will escalate during that period, in comparison to the levels now being paid.

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

Audit analysis (continued)

The chart following illustrates the increasing reliance on hospitality package sales within attendance revenues. The Northern Territory Government's purchase of a hospitality package for \$102,500 was 25% of the VIP hospitality packages, and 15% of all hospitality revenue for the 2000 event.

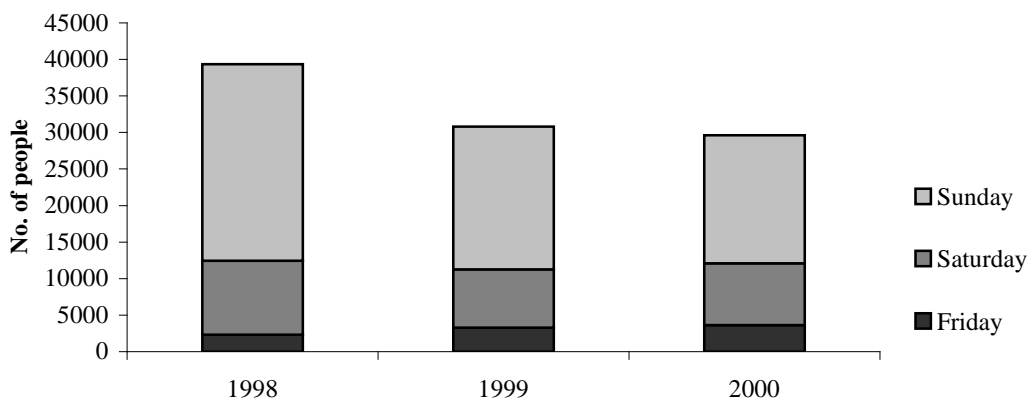
Hidden Valley Promotions Pty Ltd - Operating Revenue by Type



Source: Financial Records of Hidden Valley Promotions Pty Ltd

Attendance revenues peaked in 1999. With declines in attendance numbers being recorded, as shown in the following chart, there is greater reliance on corporate hospitality revenue.

Hidden Valley Promotions Pty Ltd - Number of persons visiting the racetrack



Source: Attendance figures compiled by Hidden Valley Promotions Pty Ltd

Matters arising from performance management system audits
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Performance management system audits

Reporting performance information about policy outcomes

KEY FINDINGS

- **Systems to identify, assess and report performance information about policy outcomes in measurable terms have still not generally been developed.**
- **Performance information reported both internally and publicly through Annual Reports in general continues to be about the status of tasks, projects and outputs.**
- **Performance information provided by Territory Housing is focused on both outputs and outcomes, and provides a good practice example of how public administrators should be responding to their professional duties.**

Background

A performance management system should allow an Agency to assess whether its objectives are being achieved economically, efficiently and effectively.

Assessing and reporting effectiveness requires measures about the achievement of outcomes. Reporting on efficiency and economy requires measures about the cost of outputs delivered. While the Government announced in December 2000 its outputs measurement requirements, it still has not identified an outcomes assessment format. I comment further about this in the item which follows in this section entitled “Coordinating performance reporting on Foundations for Our Future and in the item “The Government’s prescribed performance management system” in the Topical Issues section of this Report.

In my August 1998 Report to the Legislative Assembly, I highlighted that:

Until clear, specific, and measurable performance information is in use within Agencies, performance management systems will not allow agencies to evidence that they are achieving their objectives efficiently, effectively and economically.

In my August 1999 Report, I commented that:

Incomplete answers provided in the June 1999 Appropriation Bill debate in the Legislative Assembly to questions about the performance of public sector entities reflect the unsatisfactory status of performance information which I have been highlighting in comments from performance management system audits.

In my August 2000 Report, I observed that:

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

**Performance management system audits
Reporting performance information about policy outcomes**

Background (continued)

In my February 2001 Report, I highlighted that:

Performance information in Annual Reports of Agencies is again generally unable to provide a comprehensive insight into the extent of their (Agencies) contribution to the achievement of Government policy outcomes.

The requirements of Section 28 of the Public Sector Employment and Management Act recognise that reporting on effectiveness in Annual Reports is a professional duty of Chief Executive Officers.

The Financial Management Act places responsibility for proper systems of internal control in Agencies with their Chief Executive Officers. Section 3 of the Financial Management Act defines internal control to include: *methods and procedures adopted within an Agency to promote operational efficiency, effectiveness and economy.*

Reporting on effectiveness is a professional duty of public administrators, and reporting about the extent of achievement of intended policy outcomes is necessary to assess effectiveness. From that context, performance management system audits were again conducted to examine how well systems have been established to assess and report about the achievement of policy outcomes as identified by Government.

Policy statements and outcomes identified in 2000/01 Budget Papers provided the main reference for the audits conducted.

Audit findings

Once again, the consistent theme identified in the findings which follow in this section of the Report is that systems to identify, assess and report performance information about policy outcomes in measurable terms have still not generally been developed.

Instances were also noted where Agencies had adopted less measurable terminology for policy statements than they had previously been using.

Performance information reported both internally and publicly through Annual Reports in general continues to be about the status of tasks, projects and outputs.

One exception to this general finding is the performance information provided by Territory Housing. This is focused on both outputs and outcomes, and provides a good practice example of how public administrators should be responding to their professional duties to demonstrate the effectiveness and efficiency of their Agencies. I comment further in a following item.

Performance management system audits
Reporting performance information about policy outcomes

Audit findings (continued)

Impact of the Government's Working for Outcomes performance management system framework

I highlight in my discussion about the Government's *Working for Outcomes* framework in the Topical Issues of this Report that there is now a risk that the output measurement system identified in the framework will distract public administrators from focusing on their additional requirements to develop systems to measure and report their effectiveness through reporting about outcomes.

The Government should be reminding Chief Executive Officers that their reporting responsibilities are wider than those identified in the *Working for Outcomes* framework, and in so doing encourage, assist and lead Agencies to achieve high standards of performance information disclosure about how well intended outcomes are being achieved.

Performance information expressed in the outcome terms used in Budget Papers provides an important contribution to the Government's accountability to Members of the Legislative Assembly, in their capacity as representatives of Northern Territory citizens.

Northern Territory Treasury has commented:

The choice of appropriate performance measures is complex and expert opinion on the most useful approach varies considerably. Chief Executive Officers determine performance measures included in Annual Reports based on their assessment of the most appropriate measures. It is expected that performance information will continue to be improved as part of Working for Outcomes.

Performance management system audits

Department of the Chief Minister

Performance reporting on “Foundations for Our Future”

KEY FINDINGS

- **Processes have been established to gather information from Agencies about their contribution to the tasks, projects and outputs defined in the six Foundations for Our Future documents, and to report this information to the Government.**
- **As yet, performance measures underpinning the desired outcomes for the six Foundations for Our Future areas have not been identified to provide clarity about what level of achievement is desired by the Government.**
- **Identifying clear and specific performance intentions should assist public administrators in managing for the effective achievement of those results.**

Background

The Department of the Chief Minister has the responsibility to coordinate the performance reporting on whether the Government’s Foundations for Our Future objectives are being achieved economically, efficiently and effectively.

An audit examined how well performance information about the effectiveness of the achievement of the Foundation’s six key areas is to be assessed and reported to the Northern Territory Government and to the Legislative Assembly. Reporting on effectiveness requires measures about the achievement of outcomes.

The processes administered through the Department of the Chief Minister for coordinating the assessment and reporting of the performance information were the focus of this audit. Documents and information referred to were:

- The six Foundations for Our Future documents published by the Government between August 1999 and November 1999;
- The Ministerial Statements supporting each of those documents;
- The Chief Minister’s “Working Together” document published in February 2000;
- Information held in the:
 - Government Executive Reporting System, and
 - Quarterly Reports to Cabinet; and
- The Ministerial Statements on progress with Foundations for Our Future which were made to the Legislative Assembly on 3 and 5 July 2001.

**Performance management system audits
Reporting Foundations for Our Future performance**

Background (continued)

The six Foundation for Our Future areas are:

- 1. Preserve and build on the lifestyle of all Territorians**
- 2. Build on a successful resource based economy**
- 3. Become the supply, service and distribution centre for the Region**
- 4. Foster partnerships in Aboriginal development**
- 5. Diversify the economy through service industry growth**
- 6. Encourage strong Regions and communities**

Audit findings

Processes have been established by the Department of the Chief Minister to gather information from Agencies about their contribution to the tasks, projects and outputs defined in the six Foundations for Our Future documents. The reporting draws together the contributions being made by various Agencies, in the total effort required to deliver the tasks and projects in the Government's strategic plan for each Foundation area.

This information forms the basis for the reporting to the Cabinet which occurs approximately quarterly.

As yet, performance measures underpinning the desired outcomes for the six Foundations for Our Future areas have not been identified to provide clarity about what level of achievement is desired by the Government. Identifying clear and specific performance intentions should assist public administrators in managing for the effective achievement of those results.

While each of the six Foundation area documents identifies intermediate and final outcomes, the documents are silent on how the achievement of those outcomes will be assessed.

As a result, reporting to date, both internally through the Government Executive Reporting System, Reports to Cabinet and publicly through Ministerial Statements to the Legislative Assembly, is directed at comments about the status of the tasks and projects identified in the Foundation documents, but not how each of these is impacting on the overall objectives and intended outcomes.

This approach is in contrast with the initiatives in:

- the Australian Capital Territory, where three Outcome Areas have been allocated in total 20 Measures of Success. *See:* (<http://www.act.gov.au/government/budget/budget2001/budgetpaper3>);
- Tasmania, where the Government's Tasmania Together project is finalising benchmark performance for key outcome areas, which will be allocated performance targets. *See:* (<http://www.tastotogether.asn.au:80/targetsandbenchmarks.html>); and in
- the Canadian Province of Alberta, where reporting on outcomes has been occurring for a number of years. *See:* (<http://www.treas.gov.ab.ca:80/publications/measuring/measup01/intro.html>)

**Performance management system audits
Reporting Foundations for our Future performance**

Audit findings (continued)

The Chief Minister's "Working Together" document published in February 2000 is a high level summary of the intended outcomes of Foundations of Our Future. This would have been the opportunity to identify how performance would be achieved.

While it summarised each of the six areas, it also provided on its page 1 an indication of the high level key result areas linking each of the areas. However, there are two different descriptions of the key result areas on that page, as follows:

In the narrative, the paragraphs are headed:

- A Great Lifestyle
- Growing Our Economy
- More Jobs and Opportunities.

whereas the side margin identifies:

- Building on our unique strengths and opportunities
- Stimulating new thinking and innovative industries
- People and enterprises working in Partnership

While these two ways of identifying key result areas can be compatible, there was no identification of expected performance measures for any of them, such as demonstrated in the Australian Capital Territory example.

In the absence of specific performance measures, the performance reporting in the Ministerial Statements in the Legislative Assembly on 3 and 5 July 2001 was about forecasts and predictions of performance, and about the status of projects and initiatives.

Yet, in a Legislative Assembly debate on 11 May 2000, the Chief Minister indicated his support for transparent performance reporting:

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

Other jurisdictions in Australia and internationally do identify and report on measures for outcomes of Whole of Government policies. Indeed, the Public Sector Employment and Management Act requires Chief Executive Officers to report on their Agency's effectiveness in their Annual Reports.

Key Result Areas should be identified for Foundations for Our Future as a whole, and for the six Foundation areas. Performance measures which can be used to assess the extent of achievement of the Key Result Areas should be agreed, and systems established to capture and report the performance information.

Performance management system audits
Reporting Foundations for our Future performance

Audit findings (continued)

The Secretary of the Department of the Chief Minister would then be better able to coordinate the assessment and reporting about how effectively the objectives identified for Foundations for Our Future are being achieved.

Triple Bottom Line reporting

Triple Bottom Line is a method of arranging performance reporting in terms of sustainable development. I first discussed the concept in the Topical Issues section of my February 2000 Report.

Triple Bottom Line concepts could be recognised in arranging the format of the Government's Foundations for our Future performance measures. This format has been adopted in Alberta, and in the process underway in Tasmania. It provides an opportunity to for the Government to identify its values, which in turn should be reflecting the values of the community. This is because in focusing on the triple bottom lines of

- financial and economic management;
- environment management; and
- social policy delivery,

the values of the Government and the community will underpin the performance measures selected. This can be seen in the Alberta example, where the performance measures of its Triple Bottom Line of "People, Prosperity and Preservation" illustrate the type of community that Albertans aspire their Government to shape.

The Government, through its Foundations for Our Future Statements, is articulating aspirations for the Northern Territory community. Triple Bottom Line measures and reporting could help to more clearly identify those aspirations and the community values which underpin them.

The Department of the Chief Minister has commented:

The 6 Foundations For Our Future documents collectively clearly set out the strategic directions of Government. The initiatives underpinning each Foundation have, in themselves, no budget status and are linked to public expenditure through agency budgets.

A comprehensive whole of government reporting system already operates to measure progress against all Foundations projects. The requirement for any additional performance information would need to be carefully assessed.

Performance management system audits
Managing fiscal resources and economic development policy

TRIM electronic records management

KEY FINDINGS

- **The Records Connect implementation project was officially wound up in December 1999 after the TRIM system was installed, and the policy requirements of Government had been achieved.**
- **However, the more advanced inter-Agency electronic document exchange functions of TRIM, which had been proposed in the Records Connect Project, have not been approved for funding at the whole of Government level.**

Background

In March 1998, the Government approved the Records Connect project to install a whole of Government best practice record keeping system. The records management software selected was Tower Records Information Management (TRIM).

Although the Records Connect Project identified the potential within TRIM to share information electronically across Government, the approved policy framework was limited to requiring the implementation of:

- **consistent records management standards and practices across all Agencies, and**
- **consistent records management software in all Agencies.**

The objective of this performance management system audit was to assess how well the TRIM implementation in Agencies supports the business needs of those Agencies, while achieving the expectations of the Government policy. Three Agencies were included in the scope of the audit.

Audit findings

The key benefits identified in the original Records Connect Project were to:

- build the tools and methods to manage electronic documents into routine business processes;
- allow resource sharing for acquisition and implementation of document/records management technologies; and
- achieve cost effective use of technology to enable business processes.

However, the Government approval of March 1998 was limited to the introduction of consistent records management software, standards, and practices.

**Performance management system audits
TRIM implementation**

Audit findings (continued)

By December 1999 TRIM record keeping software had been installed in Agencies to manage paper records, as required by the Government policy. The Records Connect Project was then officially wound up.

The audit confirmed that the system was functioning to meet Agency needs within that limited policy scope.

However, the more advanced stages of TRIM identified in the Records Connect Project, involving electronic document exchange and business support, and therefore better knowledge management capabilities within Government, have still not been approved for funding at the whole of Government level.

If Agencies wish to proceed to further develop the electronic documentation benefits outlined in the Project, they are required to fund the development themselves. This entails a risk that the original policy of achieving “consistency” in Government wide records management could be eroded.

The Department of Corporate and Information Services has commented:

Given the comprehensive records management policies, standards and practices in place across all agencies, together with the fact that all agencies are required to use the same software, it is considered unlikely that consistency will be eroded by agencies proceeding at their own pace to implement the electronic document benefits.

**Performance management system audits
Managing fiscal resources and economic development policy**

Department of Corporate and Information Services

Achievement of Government policy expectations

KEY FINDINGS

- **Systems were not established to report comprehensively whether the Government's intended policy outcomes for the creation of DCIS were being achieved effectively.**
- **Only one of the four policy objectives was accompanied by an explanation as to how its achievement would be measured or assessed. How that measure was subsequently calculated was not independently verified.**
- **A number of commendable human resource management initiatives have been implemented in DCIS.**

Background

On 14 October 1998, the Treasurer delivered a Ministerial Statement on 'Planning for Growth'. In that statement the Minister outlined the Government's policy expectations for the establishment of the Department of Corporate and Information Services (DCIS). The expectations identified were that DCIS would:

- **Free up Government Agencies to concentrate on core business;**
- **Provide a broader range and higher quality of services to agencies;**
- **Realise efficiencies through economies of scale, standardisation and improved use of technology; and**
- **Develop the local IT industry through outsourcing of Government work.**

A consultancy was commissioned by DCIS in November 1999 to examine public and private sector perceptions about its progress in achieving Government objectives; explore any perceived gaps in the provision of corporate and information services; and identify any specific issues adversely impacting on the delivery of services.

The Report of the consultant was issued in January 2000. A key finding was that no whole-of-Government performance measures of the intended policy outcomes had been established.

A Management Board was established in October 1998 from a representative group of Northern Territory public sector Chief Executive Officers. The purpose of the Board was to monitor the activities of the newly formed DCIS, to ensure that the Government objectives were being met.

**Performance management system audits
DCIS: Achievement of Government policy expectations**

Background (continued)

The audit focused on whether the performance management systems of DCIS enable its management to assess whether its objectives in relation to achievement of the Government's expectations for its establishment are being achieved efficiently and effectively. In doing so, the audit followed up on the recommendations of the consultant's report.

The audit also inquired into human resource management processes within the Agency to follow up matters included in my Report to the Legislative Assembly in August 1999 entitled "Managing the Planning for Growth changes – the human aspects".

Audit findings

The audit concluded that the performance management systems in use by DCIS did not have systems to report whether the expected policy outcomes were being achieved effectively.

Only one of the original policy objectives was accompanied by an explanation as to how their achievement would be measured or assessed. This was the objective to "Realise efficiencies through economies of scale, standardisation and improved use of technology", for which whole of Government savings of \$15 million were forecast. The Government subsequently claimed that was achieved, but at the time the measurement of that was based on estimates and budgets. The extent of savings achieved has not been subject to independent verification.

A number of commendable human resource management initiatives were seen to have been implemented. These should assist in building a culture of employee involvement which, together with appropriate training and development, can contribute to higher levels of personnel productivity.

Following are comments about the intended policy outcomes in establishing DCIS, and performance information which was available:

Free up Government Agencies to concentrate on core business

There were no performance reporting systems in place to determine whether, at the whole-of-Government level, Government Agencies had been freed up to concentrate on their core business or to what extent they were duplicating activities previously transferred to DCIS.

The Management Board of DCIS decided that the Agency would not develop performance indicators or establish systems to measure the achievement of the whole of Government objectives for the establishment of DCIS. No other Government Agency had taken ownership of measuring and reporting the achievement of this goal.

DCIS advised that whilst there was no specific performance management system in place, there were control systems to prevent duplication of major activities such as payroll and accounts payable processing by Agencies. These controls were operational in nature, in that client Agency staff no longer have the facilities to enable processing. In that way, DCIS has adopted a controls process rather than a measurement focus.

Performance management system audits
DCIS: Achievement of Government policy expectations

Audit findings (continued)

Provide a broader range and higher quality of services to Agencies

DCIS have been involved in large scale whole of Government projects such as Year 2000 Compliance and preparing for the introduction of the Goods and Services Tax. Whilst this can be seen as the provision of a broader range of services, these were externally imposed requirements. A more significant example of internal innovation intended to contribute efficiencies was the introduction of the innovative financial reporting tool GASWEB.

Regular forums had been introduced to facilitate discussion about service provision issues between DCIS and client Agency representatives. Findings and developments in processing arising from the forums were not necessarily documented by those involved.

DCIS advises Agencies of monthly processing and activity levels. Feedback is requested from the Agencies within these reports, however many were either not returned or were completed by Agency staff who, by virtue of the positions they held, did not regularly deal with DCIS representatives. Consequently, the audit concluded that systems available to measure the quality of services provided were inadequate.

Realise efficiencies through economies of scale, standardisation and improved use of technology

Improved efficiencies through the use of economies of scale, standardisation and improved use of technology was supported by the initial strategy to reduce staff numbers within DCIS to 590. 2001/02 Budget Papers show DCIS predicting staff levels in those areas to be 582.

The establishment of DCIS as part of the planning for growth initiative was forecast to realise whole of government savings of \$15 million. A Ministerial statement issued on 9 May 2000 identified that savings of \$15 million had been realised. The calculation of that was provided partly by DCIS and partly by Northern Territory Treasury. DCIS was reported as achieving savings of \$6.5 million. However, the measurement of these claims was never subject to independent audit, and the initial calculation of the \$15 million relied on estimates and budgets. DCIS has since recalculated its contribution to the reported level of savings, using actual results, but this also has not been subject to independent verification.

A relatively high number of staff members move from DCIS to other NT public sector Agencies. This risks the sustainability of the efficiencies achieved. DCIS recognises some value from such movement in that staff entering the public service via DCIS are provided with consistent induction and training programs and can assist in subsequently maintaining Agency relationships with DCIS.

Develop the local IT industry through outsourcing of Government work

There was no formalised approach to measuring and reporting the extent to which the outsourcing of IT work had developed the local IT industry. An internal fact sheet has now been established reporting the level of outsourced information technology activities. The Treasurer also summarised outsourcing achievements to date in a speech to the Legislative Assembly on 3 July 2001.

**Performance management system audits
DCIS: Achievement of Government policy expectations**

Audit findings (continued)

Develop the local IT industry through outsourcing of Government work (continued)

A briefing on IT Outsourcing was provided recently by DCIS to the Public Accounts Committee. The briefing lists the services outsourced to specific contract, the time period of the contract and the value of the contract per year. To date, the value of IT contracts outsourced to Northern Territory industry is approximately \$44 million per annum. Tenders had recently been awarded for the outsourcing of Desktop services, valued at \$42 million per annum. A five year plan had been developed with Cable & Wireless Optus Limited to grow local industry through partnerships with local industry participants.

A number of commendable human resource management initiatives have been implemented.

During the conduct of the audit, aspects relating to the human resource management processes of the Agency were also reviewed. This allowed a follow up of matters included in my Report to the Legislative Assembly in August 1999 entitled "Managing the Planning for Growth changes – the human aspects".

I concluded that DCIS had implemented a number of commendable initiatives to involve its personnel in the development of their own and the organisation's capabilities, and to encourage feedback about their attitudes towards the organisation and its management.

These include:

- the annual staff attitudes survey;
- the CEO's weekly bulletin to all staff;
- monthly staff meetings convened by Team Leaders;
- the electronic "Vines" forum for staff to air emerging issues in an anonymous, open way;
- the intranet based induction package;
- the professional staff counselling facilities for staff whose positions are being outsourced;
- the Continuous Improvement System intended to record and manage customer service quality issues;
- the individually prepared Personnel Development Plans outlining training needs; and
- the annual individual performance evaluations.

The most recent employee satisfaction survey identified a satisfaction index of 61%. It will be important for sustaining and building satisfaction, motivation and productivity that management's responses to the issues raised in the personnel feedback mechanisms be evident.

**Performance management system audits
DCIS: Achievement of Government policy expectations**

The Department of Corporate and Information Services has commented:

The Auditor General was informed of the systems in place to assess achievement of all four policy objectives as follows:

- *Removal of budget allocation for non-core services from agencies in 1998/99;*
- *An annual customer survey on the range and quality of DCIS services to commence in February 2002;*
- *Treasury calculation of the whole of government saving and DCIS' calculation of its actual contribution of \$6.5m were provided to the Auditor General; and*
- *Implementation in 2001/2002 of a program of reviews and audits on IT outsourcing as recommended by the Auditor General in previous audits.*

**Performance management system audits
Managing fiscal resources and economic development policy**

Department of Corporate and Information Services

Management of the Information Technology outsourcing policy

KEY FINDINGS

Electronic messaging (eMAG) contract (Computer Support and Maintenance Pty Ltd)

- **Not all relevant service delivery performance indicators for the eMAG contract management are as yet implemented and regularly reviewed by the DCIS Contract Management Group, although some progress in this area has occurred.**

Advanced Communication Services contract (Cable & Wireless Optus Limited)

- **Sound contract management processes have been established which can allow subsequent monitoring of the Government's service delivery expectations.**

Mainframe and Non-Mainframe Application Services contract tendering

- **Well established processes and methodologies were used to evaluate the tender responses for these contracts**

Generally

- **Formal post implementation reviews have not been planned by DCIS to independently verify the success of meeting objectives and benefits for each of the outsourcing contracts.**

Background

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

The outsourcing of IT&T Services by the Department of Corporate and Information Services (DCIS) was initially subject to audit in 1999 to determine how well the Agency was managing the achievement of the Government policy. My February 2000 and February 2001 Reports summarised the results of subsequent audits.

**Performance management system audits
DCIS: Management of the IT outsourcing policy**

Background (continued)

I have continued to monitor the IT&T outsourcing arrangements and a follow up audit was conducted in March 2001.

At the time of the audit, Government had decided to commence contract negotiations with the consortium led by Computer Science Corporation for the Desktop Services contract. Subsequent to the audit the contract was entered into with the consortium to take effect from close of business Friday 29 June 2001. I intend to review the tender process and contract management for this contract during my next audit of IT outsourcing scheduled for early 2002.

Linkage to "Foundations for Our Future"

The Department identifies that the policy contributes to the following Foundations for Our Future area:

- Diversify the economy through service industry growth

Audit findings

The outsourcing projects have progressed significantly since the previous audit. Contract management processes for the eMAG and ACS contracts have continued to improve. Contracts have been established for the Non-Mainframe and Mainframe application support.

Electronic Messaging and Groupware (eMAG) contract

Although the eMAG contract management team are monitoring and investigating performance indicators over messaging system reliability and usage, existing performance indicators do not address service tasks that are considered to be important to Agencies. eMAG contract management will continue to be compromised until a full suite of relevant indicators is implemented and subject to regular review and follow-up by the DCIS Contract Management Group.

DCIS commissioned an independent audit of the Computer Support & Maintenance Pty Ltd (CSM) billing system in late 2000. The audit concluded that the billing system was operating accurately at the time of the audit.

Agency demand for messaging services has been steadily increasing. Recent negotiations with CSM have reduced the unit price per message with the objective of maintaining costs below the annual billing cap. Reimbursement of costs incurred by CSM, directly as a result of the Government Outsourcing Contract, is also being considered.

A Government Working Party was negotiating new key performance indicators (KPIs) with CSM that address service delivery. These indicators were expected to be finalised by May 2001 and would facilitate measurement of the timeliness of messaging service implementation and maintenance. They would compliment the original KPIs, which have been difficult to measure in some cases. Agency IT Managers were to be provided with the

**Performance management system audits
DCIS: Management of the IT outsourcing policy**

Audit findings (continued)

opportunity to comment on the new KPIs prior to the service levels being settled with CSM. Penalties associated with not meeting the new KPIs were yet to be considered. Penalties should be identified in the revised contract with CSM.

The absence of performance history from relevant key performance measures, will limit the Government's ability to address performance inadequacies during contract and pricing renegotiations.

An eMAG Contract Management Procedure Manual was being drafted to provide specific guidelines in areas such as escalation of service issues, performance report analysis and auditing and was expected to be completed by May 2001.

To provide Agencies with the opportunity to provide feedback regarding CSM's services, DCIS and CSM were working together to issue a customer feedback survey to representatives across Government. The survey was expected to be conducted via the Government Intranet. This Manual was expected to be completed by July 2001.

Advanced Communication Services (ACS) contract

The DCIS Contract Management Group have established sound contract management processes for the Advanced Communication Services contract to subsequently allow assessment as to whether services provided meet Government's expectations.

Processes have been established to monitor the service levels being provided by Cable and Wireless Optus (Optus), which primarily focus on availability of services. These processes include the analysis and follow-up of monthly performance reports and outage reports provided by Optus including system availability reports and help desk response time reports. These reports address the majority of KPIs to be measured by Optus.

The contract management team were establishing tools to enable them to verify the level of service credits being given to Agencies through their monthly bills.

An Agency feedback survey was expected to be undertaken in the later half of 2001 to capture broad customer information about Optus' performance.

Mainframe Application Services and Non-Mainframe Application Services contract tendering

Well established processes and methodologies were used to evaluate the tender responses for the Mainframe and Non-Mainframe Application Services contracts.

The tender evaluation criteria and assessment methodologies were appropriately based on the Government's objectives for these contracts. The methodologies and criteria were approved by the Outsourcing Steering Committee and Government.

**Performance management system audits
DCIS: Management of the IT outsourcing policy**

Audit findings (continued)

The tender evaluation processes involved independent expert opinions and input where appropriate. In addition, the Government tender evaluation teams included Government representatives, from DCIS and other Agencies, selected for specific areas of expertise and experience.

The tender evaluation processes were subject to an independent probity audit, which concluded that the procedures were fair and equitable and in accordance with pre-developed evaluation and procurement guidelines.

The tender evaluation processes and selection decisions have been well documented.

General Findings

Formal post implementation reviews were not planned by DCIS to independently verify the success of meeting objectives and benefits for each of the outsourcing contracts. Instead, DCIS were conducting a number of ad hoc internal reviews (including industry development reviews) that were reported to the Minister for Corporate and Information Services.

Given the significance of each of the outsourcing contracts, there was insufficient formalised reporting to Government regarding the achievement of objectives and benefits for each contract.

A strategy for performing vendor compliance audits has yet to be established. Areas such as Contractor security controls and business continuity planning should be reviewed by the Government to ensure that the contractors are meeting Government's expectations.

The Department of Corporate and Information Services has commented:

The Auditor-General notes that contract management processes have continued to improve and it is advised that further measures have been implemented subsequent to the audit.

A program of reviews and audits will be implemented in 2001/2002 as recommended by the Auditor-General.

**Performance management system audits
Managing fiscal resources and economic development policy**

Northern Territory Correctional Services

Matching infrastructure development to Agency needs

KEY FINDINGS

- **The current infrastructure developments planned for Darwin Correctional Centre have been based on strategic analysis of future prisoner numbers and needs.**
- **In planning and managing the developments at Darwin Correction Centre, the Agency has also applied Total Asset Management principles and considered the recommendations arising from the Commission into Aboriginal Deaths in Custody.**
- **However, despite the sound planning procedures followed, revisions to the current Low Security development entailed an additional \$1.7 million or 32% increase, over the cost originally approved.**

Background

An audit was conducted to determine whether Northern Territory Correctional Services has systems in place to assess whether its infrastructure development contributes to its corporate objectives being achieved efficiently and effectively.

The audit was focussed on infrastructure development at the Darwin Correctional Centre and included determining whether Total Asset Management principles had been addressed when planning and implementing infrastructure development projects.

The audit was selected as a follow on from a similar audit conducted of the construction of the Alice Springs Correctional Centre, about which I commented in my February 1997 Report to the Legislative Assembly.

Audit findings

The infrastructure needs of the Darwin Correctional Centre have been the subject of considerable research and analysis.

Planning for the project commenced in 1997 during a strategic review of the infrastructure needs across the Northern Territory during the construction of the Alice Springs Correctional Centre.

Performance management system audits
NT Correctional Services: Matching infrastructure development to Agency needs

Audit findings (continued)

Planning was based on an expected increase in prisoner numbers in the Northern Territory as a result of the Truth in Sentencing and Mandatory Sentencing initiatives of the Northern Territory Government. A Redevelopment Investigation Report was prepared specifically for the Darwin Correctional Centre. Best practices and statistics from other prisons in Australia were used to determine optimal space per prisoner.

Infrastructure requirements were then prepared with reference to a Prisoner Accommodation Strategy prepared in September 1998, which forecast prisoner numbers in the Darwin and Alice Springs Correctional Centres through to 2005.

Forecasts of prisoner numbers developed in 1998 predicted that the average level of prisoners in custody for the year 2000 would be between 801 and 891. Actual prisoner numbers for the year 2000 were in the low 600s. However, the increase in Foreign Nationals in the Centre has recently seen the average prisoner population rise, and a recent trend analysis demonstrates increasing prisoner numbers.

To allow flexibility if prisoner numbers fell below the 1998 projections, three stages for infrastructure needs at Darwin Correctional Centre were initially devised:

Stage 1 – 100 bed minimum security facility (possible timing 1999/00)

Stage 2 – female accommodation (possible timing 2002/2003)

Stage 3 – further infrastructure, as necessary (possible timing 2004/2005)

In March 1999, Stage 1 was approved by the Government to be added to the Design List. It was subsequently included in the Government's 2000-01 Capital Works Program for the estimated construction cost of \$5.3 million. Design of the facility took into consideration recommendations arising from the Commission into Aboriginal Deaths in Custody.

However, by December 2000 the Stage 1 development had been reworked to include additional facilities, and to relocate its positioning from the front to the rear of the Darwin Correctional Centre complex. These revisions to the original concept were costed at an additional \$1.7 million, bringing the total project to \$7 million. The additional costs are a 32% increase over the originally approved proposals. New design requirements in the construction of the Alice Springs Correction Centre in 1995/96 also incurred a one-third over-run from the original approval to the time of its completion.

In early 2001 the original structure of the 3 stage development was reviewed and it was identified that with the substantial increase in remand prisoners and the mounting criticism over conditions imposed by the existing facilities, Stage 2 should involve the construction of a new remand centre. The development of a new overall master plan was considered necessary before any further works were programmed; this is currently being prepared.

Performance management system audits
NT Correctional Services: Matching infrastructure development to Agency needs

Audit findings (continued)

In summary the audit concluded that:

- the current infrastructure developments planned for Darwin Correctional Centre have been based on strategic analysis of future prisoner numbers and needs. The Agency has also applied Total Asset Management principles and considered the recommendations arising from the Commission into Aboriginal Deaths in Custody.
- the submissions to the Government seeking approval for the current Low Security development at the Darwin Correctional Centre did not illustrate its impact on the Agency's key performance measures, in particular, its cost per prisoner per day performance.
- The original proposals for the Low Security development appear to have been submitted to the Government for approval prematurely. Despite the sound planning processes followed, the design concepts initially approved for the development were subsequently altered, requiring a revision to the approval to allow an additional \$1.7 million expenditure. The total approved construction cost of \$7 million is now almost one-third in excess of the original approved cost of \$5.3million. This also contributed to delaying the commencement of the construction by at least one year.

**Performance management system audits
Managing fiscal resources and economic development policy**

Department of Industries and Business

Major Projects Unit: securing business opportunities from the Alice Springs to Darwin Railway construction

KEY FINDINGS

- **The Major Projects Unit has not yet reached the position in which its planning documents indicate how performance of the Government's policy objectives will be achieved, and what performance information will be used to report on that achievement.**
- **Without such a performance measurement framework, management is as yet unable to determine whether activities of the Unit are efficiently and effectively contributing to the objectives of the Unit.**

Background

The focus of this audit was the systems to provide performance information to the Department of Industries and Business about whether it was managing the implementation of the Government's Major Projects Unit policy outcomes efficiently and effectively.

Budget Paper No. 2 for 2000/01 identified the following outcome for this Unit as:

“Securing opportunities for Territory business through the construction of the Adelaide to Darwin railway.”

The following specific output objectives have been identified for this initiative;

- Be the primary point of contact in Government in relation to business development opportunities for the railway;
- Liaise and coordinate with all areas of the Department and Government;
- Initiate extensive contact with private sector representatives;
- Initiate a marketing campaign to ensure Territory firms are well placed to capitalise on the Asia Pacific Transport Consortium railway expenditure;
- Develop an intensive marketing program in conjunction with the Department of the Chief Minister and the AustralAsia Railway Corporation;
- Provide business skills improvement courses;
- Raise NT business awareness of the Consortium's requirements and tender program; and
- Focus on attracting new skills, technology and labour to the NT.

Performance management system audits
DIB: Major Projects Unit – Railway construction business opportunities

Background (continued)

The Major Project Support Unit is resourced within the Defence, Tourism and Major Project Support program under the Industry Development activity. Expenditure of \$500,000 was approved for the first two years of the program to June 2001.

The audit covered the activities of the unit for the period from the date of the Unit's inception in December 1999 to June 2001. This period included activities of the Unit after financial closure for the construction of the Adelaide to Darwin railway on 20 April 2001.

Linkage to "Foundations for Our Future"

The Department identifies that policy outcome contributes to the following Foundations for Our Future area:

- Become the Supply, Service and Distribution Centre for the Region

Audit findings

The Major Projects Support Unit was established specifically to address the desired outcome.

Although a number of the identified outputs have been achieved, it is important for an effective performance management system that the efficiency and effectiveness of the expected outcomes of Government policy objectives are able to be appropriately measured.

Measures for the "Securing opportunities for Territory business" outcome needs to be formally agreed upon, and systems to capture that information need to be identified or developed. For example, information from the NT industry Search and Opportunities Office may need to be sought to identify new business leads offered to Territory enterprises.

The Major Projects Unit has developed an action plan, which identifies six goals for the project. However, it has not developed a business plan which links these six goals to the outcome identified in Budget Paper No 2 2000-01 and the eight identified output objectives for the project.

As well, performance indicators have not been specifically identified for the project outcomes.

Without such a performance measurement framework, it is difficult for management to determine whether activities of the Unit are sufficiently contributing to the objectives of the Unit efficiently and effectively.

Performance management system audits
DIB: Major Projects Unit – Railway construction business opportunities

The Department of Industries and Business has commented:

The report acknowledges the output objectives established for this Unit and the plan that was implemented to achieve the Government's desired outcome (as stated in Budget Paper No 2, 2000-01). However, in the Department's opinion it does not acknowledge the considerable outputs that the Unit has achieved in accordance with its action plan and which were reported monthly to the Minister. In the Department's opinion the Unit has discharged its responsibilities according to the Government's expectations.

It is important to note that the Unit is effectively a Unit of one person sitting within the broader Division for which there is a business plan. Furthermore, the audit does not appear to have acknowledged that whilst the Major Projects Support Unit was established specifically to address the desired outcome, it harnessed considerable resources across the Department to achieve its objectives.

The Unit undertook a professional approach to its work at a time of considerable uncertainty and delays in financial closure. Great care was also taken to not waste valuable resources until the project was well defined. Furthermore, the audit report does not acknowledge that the role of the Unit has been one of facilitator and not a producer of the end result.

The internal program evaluation undertaken reported on stakeholder feedback and the high level of quality outcomes that the Unit has achieved.

Action has been taken to address the performance management framework. The project is now firmly underway and a business plan for the year 2001-2002 will include performance indicators specifically for this Unit.

**Performance management system audits
Managing fiscal resources and economic development policy**

**Northern Territory Employment and Training Authority
(NTETA)**

Training Support for the Alice Springs to Darwin Railway

KEY FINDINGS

- **Outcome objectives need to be linked to measurable performance indicators.**
- **The strategies employed to achieve the outcome objectives need to be regularly evaluated to assess whether they are making the intended impact.**
- **Systems to report achievement of outcomes need to be established.**

Background

The focus of this audit was the systems to provide performance information to the Northern Territory Employment and Training Authority (NTETA) about whether it was managing the implementation of the Government's Alice Springs to Darwin Railway project employment and training outcomes efficiently and effectively.

Government policy is for NTETA to:

Develop initiatives to enhance its lead role for Government in employment initiatives, especially to support major projects such as the Alice Springs to Darwin Railway

Linkage to "Foundations for Our Future"

The Agency identifies that the policy outcome contributes to the following Foundations for Our Future area:

- Become the Supply, Service and Distribution Centre for the Region

Audit findings

Major employment initiatives, such as the railway project, are incorporated into the overall planning and reporting framework of the NTETA. To date, the NTETA Railway Employment and Training Plan has been developed through a forum held with key training organisations and industry and community representatives. NTETA has also drafted a working document entitled "Employment and Training Initiatives for Support Jobs Created by the Railway" to outline the objectives and strategies of the project.

Whilst this working document specifies the objectives, it does not detail measurable performance indicators for these objectives. The Agency needs to translate its outcome objectives into measurable performance indicators; to regularly assess whether the strategies employed are achieving the outcome objectives and how achievement of outcome objectives will be reported to stakeholders.

Performance Management System Audits
NTETA: Training support for the Alice Springs to Darwin Railway

Northern Territory Employment and Training Authority has commented:

The report states that in relation to “Training support for the Alice Springs to Darwin Railway” the Northern Territory Employment and Training Authority “needs to translate its outcome objectives into measurable performance indicators; to regularly assess whether the strategies employed are achieving the outcome objectives and how achievement of outcome objectives will be reported to stakeholders”.

At the time the audit was carried out the findings were accurate. Since then the working document has progressed and the following has occurred:

- *performance indicators have been linked to objectives,*
- *monitoring of effectiveness of strategies through monthly reports by Client Liaison Officers in Alice Springs, Katherine and Tennant Creek is in place, and*
- *systems to report achievements are being established.*

**Performance management system audits
Managing natural resources policy**

Department of Primary Industry and Fisheries

Managing Fisheries policy

KEY FINDINGS

- **The Fisheries Business Plan for 2000/01 details projects being undertaken and specific performance indicators about those projects and outputs, but there was no system to report whether the achievement of those projects had assisted in the delivery of policy outcomes.**
- **In particular, the important concept of “sustainability” is included in the Fisheries policy statements, as is industry “profitability” in the outcome statements, yet no indication of how these were to be measured was identified.**

Background

The focus of this audit was the systems to provide performance information to the Department about whether it was managing the implementation of the Government’s Fisheries policies outcomes efficiently and effectively.

The program’s policy objectives identified in Budget Paper No.2 for 2000-01 were *to manage the fisheries resources of the Territory on a sustainable basis and to support their development for the benefit of the community*. The outcomes for the Fisheries Activity are listed in the Budget Paper as:

- **Increased industry production and higher economic returns from aquaculture on a sustainable basis.**
- **Ecologically sustainable development and use of fish and aquatic resources.**
- **Expanded and profitable commercial fishing sector.**
- **Expanded and profitable recreational fishing sector.**
- **Comprehensive service of surveillance, apprehension and prosecution for foreign fishing activities.**

Fisheries is identified as a separate Activity and program within the Department’s budget with expenditure in 2000-01 projected at \$4.65 million.

**Performance management system audits
DPIF: Managing Fisheries policy**

Background (continued)

Linkage to “Foundations for Our Future”

The Department identifies that the policy contributes to the following Foundations for Our Future areas:

- Preserve and build on the lifestyle of all Territorians
- Build on a successful resource based economy
- Foster partnerships in Aboriginal development

Audit findings

The Fisheries Business Plan 2000/01 is a comprehensive document that provides substantial detail at the Program, Sub-Program and Project levels. At the Program level objectives are identified together with the desired outputs. However, at the Program level no performance measures are identified. Outcomes are identified at the Sub-Program level together with desired outputs and performance indicators. Performance indicators mainly deal with the achievement of tasks, processes or outputs. At the project level, performance is concerned with the achievement of the desired outputs, and the performance indicators reflect this.

In particular, the concept of “sustainability” was highlighted in the policy statement, together with industry “profitability” in the outcome statements, yet no indication of how these were to be measured was identified.

The Fisheries Division of the Department produces quarterly reports for each Program. An Aquaculture Program quarterly report for 2000/2001 was examined as part of the audit. In line with the comment above, no performance indicators were identified at the Program level for the sole objective of the Aquaculture Program being, *“Increased aquaculture industry production and higher economic returns from aquaculture on an ecologically sustainable basis.”*

“Into the Blue”, which is the Aquaculture policy and supporting strategies for 1999-2004, detailed its performance measure as being to achieve aquaculture production in the Northern Territory of \$100m by 2004. This target was not linked or explained in terms of either “sustainability” or industry “profitability”. There was also no reporting against this performance target to management.

A comparison of Budget Paper No.2 and the Annual Report 1999-2000 also identified that reporting of performance information for outcomes did not occur. Rather, outcomes defined in Budget Paper No.2 were commented upon by reporting about the achievement of outputs, projects and tasks undertaken. This does not provide external readers with an indication as to whether the projects succeeded in making the impact intended to deliver the policy outcome.

Outcome No.5 listed in Budget Paper No. 2 for 2000/01, “Comprehensive service of surveillance, apprehension and prosecution for foreign fishing activities”, has not been addressed in the Business Plan. The Department has advised that it has an agreement with the Commonwealth Government to perform the surveillance of the Australian Fishing Zone and report through the Australian Fish Management Authority.

**Performance management system audits
DPIF: Managing Fisheries policy**

Audit findings (continued)

A commendable feature of the Fisheries business planning processes was that the Department generally displayed a high level of employee involvement in setting of business plans. This assists in obtaining employee commitment, particularly at the project level.

As well, the Department has developed employee values statements, and client service standards. Management of these issues would be enhanced if the extent of their achievement were assessed in comparison to agreed standards identified in business plans.

The Department of Primary Industry and Fisheries has commented:

All Department of Primary Industry and Fisheries Division Business Plans for 2001/02 and more particularly 2002/03 will be linked back through specific performance indicators to Program Outputs and Departmental Outcomes consistent with the Government's initiative "Working for Outcomes".

**Performance management system audits
Managing social policy delivery**

Territory Housing

Housing 2003

KEY FINDINGS

- **Territory Housing has established a comprehensive and very commendable performance management system to assess whether the intended outcomes in the Housing 2003 policy are being achieved. Appropriate measures of efficiency and economy have also been identified by the Agency.**
- **In particular, performance information reported both internally for management purposes, and externally through the Annual Report, is clearly aligned to the intended outcomes of the policy.**

Background

The focus of this audit was the systems to provide performance information to Territory Housing about whether it was managing the implementation of the Government's "Housing 2003" policy outcomes efficiently and effectively.

The intended outcomes of Housing 2003 were primarily to:

- **increase home ownership;**
- **decrease waiting times for public housing;**
- **realign the public housing stock profile to emerging needs and;**
- **provide a fairer system for allocating public housing.**

The policy is fundamental to the operations of the Agency, and is managed within the Agency's Housing Services Activity. This was estimating expenditure for 2000/01 of \$19.2 million.

Linkage to "Foundations for Our Future"

The Agency identifies that the policy contributes to the following Foundations for Our Future areas:

- Preserve and build on the lifestyle of all Territorians
- Foster partnerships in Aboriginal Development
- Encourage strong communities and regions

**Performance management system audits
Territory Housing: Housing 2003**

Audit findings

Territory Housing has established a comprehensive and very commendable performance management system to assess whether the intended outcomes in the Housing 2003 policy are being achieved efficiently and effectively.

The Agency's systems are able to capture information in a form that can be audited. The Agency has identified how to upgrade its systems to improve the quality of information used for performance measurement. This is indicative of the Agency's continuous self-review process.

High level reporting of performance is made via the Annual Report and yearly Cabinet Submissions. Business Units and regional divisions report monthly via Management Group meetings. Each unit specifies outcomes and outputs, and reports on the achievement of these in terms of the relevant factors of performance measurement (ie: efficiency, appropriateness, quality). The reporting framework has allowed management to monitor the appropriateness of Housing 2003 initiatives within the changing housing environment and to undertake corrective action where necessary.

Business Units have individual business plans that align the Agency's objectives with their own specific outcomes. Performance measures and a summary of key performance indicators have been identified in terms of quality, appropriateness and efficiency. Of particular note is the Public Housing sub-committee's Co-ordination Strategy, which identifies and aligns key objectives and strategies for various stakeholders (such as "Foundations For Our Future" and the Commonwealth/State Housing Agreement).

This is indicative of the Agency's ability to recognize its various reporting requirements and ensure they are consistent with the Strategic Plan.

Although no specific program evaluation has been conducted in regards to Housing 2003, an adequate system of evaluation is used to assess the achievement of policy and strategic objectives for the various programs within the Agency. Relevant initiatives of Housing 2003 are incorporated within the evaluations of these programs.

Performance information in the 1999/2000 Annual Report links appropriately to the objectives identified in the Business Plans, Budget Paper No.2 and Foundations For Our Future.

Although the original development of Housing 2003 policy had minimal input from business unit personnel, the Agency provided extensive opportunities to communicate the value of Housing 2003 initiatives to staff. Initial staff training was conducted at the instigation of Housing 2003, and staff forums have since been held annually to reiterate corporate objectives and strategies. Public Housing also performs annual staff orientation sessions with all Tenancy Management personnel. These practices highlight the organisational culture whereby employee involvement and feedback is a fundamental step in achieving and maintaining strategic direction.

The audit highlighted various National key performance indicators that the Agency could adopt to further enhance its performance measurement and reporting.

**Performance management system audits
Managing social policy**

Department of Education

***Schools Our Focus* policy implementation**

KEY FINDINGS

- **Methods to assess whether the intended outcomes of the *Schools Our Focus* policy were being achieved effectively and efficiently were superseded during the 2000/01 year by the Department's Plan on a Page framework. Success measures for the Plan on a Page framework were still being established during the 2000/01 year.**
- **Plan on a Page is expressed in less measurable terms than the *Schools Our Focus* framework. The *Schools Our Focus* outcome statements could be retained for public reporting.**

Background

The focus of this audit was the systems to provide performance information to the Department of Education about whether it was managing the implementation of the Government's *Schools Our Focus* policy outcomes efficiently and effectively.

Schools Our Focus was adopted as the policy framework for the Government in November 1998. It was intended to refocus the Department's resources onto educational outcomes. The Minister for School Education reported to the Legislative Assembly on 10 May 2000 that he expected to receive "...a sustained commitment to excellence in schooling across the Northern Territory...commitment to results, accountability, quality and standards of performance". As recently as 31 May 2001, the Minister identified in the Legislative Assembly that recommendations from the policy are being implemented.

The intended outcomes of *Schools Our Focus* were to be judged by the following four key result areas:

- **Students achieve the best possible learning outcomes;**
- **Access, equity and participation in the educational process is available;**
- **The Agency is able to meet needs and aspirations of clients and;**
- **The Agency manages and coordinates resources efficiently and effectively.**

The policy framework identified 27 initiatives, tasks or outputs to be actioned to implement the policy. The interim Annual Report of the Department for 1999/2000 which was issued in November 2000 identified progress with implementing these initiatives.

The policy is fundamental to the operations of the Department of Education, which for 2001/01 was estimating expenditure of \$345 million.

Performance management system audits
Department of Education: *Schools Our Focus*

Background (continued)

Linkage to “Foundations for Our Future”

The Department identifies that the Learning and Technology in Schools (LATIS) component of the policy contributes to the following Foundations for Our Future area:

- Diversify the Economy through Service Industry Growth

Progress on reporting

On a number of occasions I have reported where improvements were necessary in the Department’s systems to clearly measure and report performance against budget and policy outcomes.

In October 1998, in my letter to the Secretary of the Department, and subsequently in February 1999 in my Report to the Legislative Assembly, I highlighted that planned outcomes for educational achievement should be written in ways that allow achievement to be measured, monitored and reported. Performance information included in the Department’s reporting should be in a trend over time format, and/or related to an acceptable benchmark. The Department’s responses to the issues raised were that it would work towards measurable performance indicators to report achievement of planned outcomes.

In June 2000, a performance management system audit of the Secondary Schools Program continued to identify that performance information in the Department’s Annual Report in many instances lacked adequate analysis or commentary. The Department responded that improved analysis of performance of programs will be considered in future reports, including identifying appropriate measures of economy, efficiency and effectiveness into planning and evaluation processes.

I also reported in my August 2000 Report to the Legislative Assembly that although performance information was being measured in some key educational outcome areas, this was not yet being included in the Department’s Annual Reports. The Department’s comments were that it acknowledged the need to improve reporting of performance in its Annual Report.

As well, a major evaluation of Indigenous Education was lead by former Senator Bob Collins in 1999. The “Learning Lessons” Report which was produced included amongst the findings and recommendations the need to focus on a clearer statement of the outcomes sought, and improved data collection to enable reporting of performance.

Audit findings

The *Schools Our Focus* framework was a promising initiative. It defined its overarching vision – that the Department will be recognised as an education provider exceeding client expectations (this being written in measurable ways) - as well as four key result areas and implementation strategies.

Performance management system audits
Department of Education: *Schools Our Focus*

Audit findings (continued)

The four key result areas adopted when *Schools Our Focus* was announced in November 1998 were:

- That NT students achieve the best possible learning outcomes.
- That access, equity and participation in the educational process is available for all Territorians.
- That we are able to meet needs and aspirations of our clients.
- That we manage and coordinate resources efficiently and effectively.

However, at its release it did not articulate what measures would be used to assess performance. A further publication, *Maintaining Momentum*, was issued in January 2000 which did then define outcome and output success in clear, measurable terms.

Maintaining Momentum identified that:

- *Improved student outcomes* would be measured by benchmarks for Literacy levels and numeracy levels, with performance reporting against Indigenous, non-Indigenous and English as a second language students;
- *Improved participation* would be measured by trends over time for enrolments rates, attendance rates and retention rates, with reporting also classified by student ethnicity as above; and
- *High community and stakeholder satisfaction* would be measured using qualitative interviews and focus groups.

This was a substantial milestone in the Department's efforts to improve its performance reporting capability.

The Minister for School Education endorsed the expectation that performance reporting would be improved when he announced to the Legislative Assembly in May 2000 that he expected to receive "...a sustained commitment to excellence in schooling across the Northern Territory...commitment to results, accountability, quality and standards of performance".

In that speech the Minister quoted a number of relevant performance trends and results which appeared to indicate how he expected information to be shown in the Agency's Annual Report.

However, the interim Annual Report issued in November 2000 did not provide performance information in the format identified in *Maintaining Momentum*.

When this audit examined processes and systems in the Department, there was no evidence that the performance information identified in *Maintaining Momentum* was being systematically measured and reported.

Performance management system audits Department of Education: <i>Schools Our Focus</i>

Audit findings (continued)***The Department's Plan on a Page (POP)***

The lack of follow through on the Maintaining Momentum performance measures appears to be caused by the *Schools Our Focus* policy implementation framework being superseded in the second half of 2000 by the development of the Department's Plan on a Page (POP) framework.

The POP framework is now the corporate planning tool within the Department. *Schools Our Focus* no longer has visibility as a working tool within the Department.

POP still retains the principles and strategies of *Schools Our Focus* and has incorporated initiatives of this policy to enable the achievement of the Department's objectives.

It adopted a format of "Principles...Strategies...Outcome Areas to be measured". The overall POP for the Department outlines the following four "Outcome areas to be measured":

- Learners for the Future
 - Info Technology as a learning tool
 - Curriculum –relevance, currency, streamline
- Renewing Teaching
 - Professional Development – entry to exit
 - Workforce planning –recruitment, succession planning
 - Retentions - conditions
- Indigenous Education Outcomes
 - Attendance – community support
 - Competence with oracy, literacy
 - Hearing/health
 - Development for indigenous teachers
- Systems Alignment
 - Flexible, enabling strategic outcomes
 - Minimalist, efficient
 - Meet needs of end user first

These four outcomes areas are not stated in readily measurable terms, and the supporting points are strategies or issues, not measurement systems.

In June 2001, the Department released a draft document listing success measures for the four POP outcomes. These success measures refer to tasks, projects, outputs, and in some cases outcomes.

Performance management system audits
Department of Education: *Schools Our Focus*

Audit findings (continued)

The Department's Plan on a Page (POP) (continued)

However, the Maintaining Momentum measures were not retained for use in formally managing and monitoring performance in the meantime.

While the tasks, projects and outputs measures for the POP outcomes will be important for managing and monitoring progress, the reporting of the outcome measures is the important aspect for external stakeholders, particularly the Minister, Members of the Legislative Assembly, and the citizens they represent.

Outcome performance information extracted from the POP measures could form the basis of effectiveness reporting to management.

However, the more measurement-oriented *Schools Our Focus* outcome statements and Maintaining Momentum measures could be retained as an overlay to the POP outcomes, and used when reporting publicly on outcomes.

The Department of Education has commented:

The Department does not agree with the Audit opinion that there has been a lack of follow through with the performance measures in Maintaining Momentum.

The new Plan on a Page framework, both for the Department as a whole and the supporting plans for specific areas of our operation is an attempt to put very complex issues in a single page, readable format. The Maintaining Momentum measures are in the main being retained, and will be reported on in NTDE's Annual Reports, as well as satisfying the NT's national reporting responsibilities, including the Australian National Report on Schooling.

The Department has acknowledged on several occasions the need to improve the measurement and reporting of its performance and is working to that end. The Auditor-General's preference for the Schools our Focus/Maintaining Momentum format over the new Plan on a Page format is noted.

Performance management system audits Managing social policy delivery

Territory Health Services: Disability Services

KEY FINDINGS

- **During 2000/01 Territory Health Services did not have in place systems to capture, measure and report performance information in terms of the performance indicators established for the key result areas identified in the Disability Services Five Year Strategic Plan 1997-2001.**
- **Rather than report on outcomes, performance reporting in the Territory Health Services Annual Report for 1999/2000 was mostly the listing of outputs, such as the achievement of specific projects and tasks undertaken.**
- **Territory Health Services is developing a new Disability Services program and action plans to guide the Agency after 2001. The draft Program Plan 2001-2011 and Action Plan 2001-2004 identify the objectives and actions to be achieved, although these are not expressed in clearly measurable terms as were the key result areas in the 1997-2001 Plan.**

Background

The focus of this audit was the systems to provide performance information to the Territory Health Services about whether it was managing the implementation of the Government's Disability Services policy outcomes efficiently and effectively.

Disability Services are grouped for budget purposes within the program "Family, Aged and Disability Services" with a total spend for the program in 2000/01 projected at \$58.2 million. The Agency in its 1999/2000 Annual Report identified expenditure specifically on disability services in the year reported at \$15.45 million.

The policy objectives identified as outcomes in Budget Paper No.2 for 2000/01 are not specific for Disability Services. However the THS Disability Services Five Year Strategic Plan 1997-2001 endorsed by the Minister identifies the seven key result areas to achieve the Government's objectives as:

- **To increase consumer focus and accountability;**
- **To improve access to, and coordination of, services;**
- **To increase support for families and carers;**
- **To address gaps in service delivery;**
- **To develop services in rural and remote areas;**
- **To improve partnerships with non government sector; and**
- **To promote early intervention.**

**Performance management system audits
Territory Health Service: Disability Services**

Background (continued)

These key result areas illustrate the Government's policy intentions for Disability Services during the 5 years of the Plan.

Linkage to "Foundations for Our Future"

The Department identifies that the policy, through the Aged and Disability Services program, contributes to the following Foundations for Our Future area:

- Preserve and build on the lifestyle of all Territorians

Audit findings

During 2000/01 Territory Health Services did not have in place systems to capture, measure and report performance information in terms of the performance indicators established for the key result areas identified in the Disability Services Five Year Strategic Plan 1997-2001.

Disability Services developed a strategic plan for 1997-2001 that reflected applicable Territory Health Services corporate objectives and included specific performance indicators. These performance indicators, however, were not used in the 1999/2000 Annual Report to report on performance. Periodic reporting against objectives and strategies for Disability Services was not performed.

Rather than report on outcomes, performance reporting in the Annual Report for 1999/2000 was mostly the listing of outputs, such as the achievement of specific projects and tasks undertaken. These outputs were general in nature and reflected the implementation of strategies, not whether the strategies succeeded in making the impact intended to deliver the policy outcome. This is insufficient to assess whether the Government's policy objectives in relation to Disability Services were being achieved efficiently and effectively.

Disability Services is grouped with Aged Care for Budget reporting purposes. This prevents reporting on the financial resources used to implement the Disability Services policies and objectives of the Government.

The audit noted the Agency is developing new Disability Services' program and action plans to guide the Agency after 2001. The draft Program Plan 2001-2011 and Action Plan 2001-2004 identify the objectives and actions to be achieved, although these are not expressed in clearly measurable terms as were the key result areas in the 1997-2001 Plan.

These plans form part of a new policy framework for Disability Services, which is currently being developed. The framework is based on a purchaser/provider model, and requires service level agreements (SLA) with government providers as well as the existing contract requirements with non government providers. The SLAs within government are still being developed.

While the service level agreements between Funder – Purchaser and Purchaser – Provider include references to the newly implemented Disability Service Standards, the Standards are also not expressed in measurable terms.

Performance management system audits Territory Health Service: Disability Services

Audit findings (continued)

The relevant Foundations for Our Future and the Commonwealth, State and Territory Strategy on Healthy Aging have been incorporated into the draft five-year plan.

The new contracts and service level agreements to be put in place need to reflect these various National and Territory policy requirements, and need to provide clear performance measures to enable performance reporting to be compiled.

Whilst the new policy framework for Disability Services is establishing the basis for performance reporting, it is important that the Agency ensures that appropriate systems are in place to capture the relevant performance information about the achievement of intended outcomes. Otherwise the achievement of the outcomes expected from the new framework may not be sufficiently measured and managed.

The Agency's participation in the Government's *Working for Outcomes* project should provide the opportunity to ensure that the key outputs are more readily identified and costed, and systems developed to measure and monitor efficiency of the production of those outputs.

Territory Health Services has commented:

Key Finding: "During 2000/01 Territory Health Services did not have in place systems to capture, measure and report performance information in terms of the performance indicators established for the key result areas identified in the Disability Services Five Year Strategic Plan 1997-2001."

Given that the majority of service providers in the Disability Services area in the NT are non-government agencies data collection and reporting is difficult. Whilst this difficulty is reflected among community service programs nationally Territory Health Services is working towards the comprehensive collection and reporting of data on disability services.

To this end, Territory Health Services is represented on the national implementation group focusing on the redevelopment of the current Minimum Data Set (MDS). Currently data on disability services is collected on a 'snapshot' basis. This will become an ongoing collection from July 2002 resulting in the provision of more comprehensive data on the users of disability services in the NT.

The Disability Services Five Year Strategic Plan was endorsed as a working document, to implement the seven strategies. As at June 2001, the Disability Services Program has addressed all of the key result areas:

- ***Increase consumer focus and accountability***

As part of the disability services reform process a consumer focused funding model was implemented in 2000/01, which sought applications from across the Territory for new funding. This funding round enabled consumers, carers, families and advocates to apply directly for new funding. It also provided the Department with a very clear appreciation of priorities, the numbers and locations of people with disabilities and formed the basis for the 2001/02 funding priorities.

**Performance management system audits
Territory Health Service: Disability Services**

Territory Health Services has commented (continued):

Accountability in disability services is being achieved through the implementation of clear service agreements for service providers. These agreements require services to report against specific outcomes including the Northern Territory Disability Services Standards.

Consumers, carers, peak bodies and service providers have all publicly supported the new reform process. This is indicative by the reduction in direct Ministerial representation and the support the community has displayed in becoming involved in future planning for the program.

- ***Improve access to and coordination of services***

The 2000/01 consumer focused funding round provided the Department with an excellent overview of service provision and gaps in service delivery. The gaps in service development are being addressed in the current fiscal year.

Further, with the implementation of the Local Area Coordination Program in 2000/01, which enables all people with disabilities to access a Disability Coordinator within their region, people with disabilities now have improved access to service delivery options.

Following the implementation of the reforms, the department through public forums and the Local Area Coordination program sought feedback both in urban and rural/remote areas. The level of consumer/carer satisfaction has increased since the reform process.

The Disability Services program has been instrumental through the reform process in developing closer linkages within Territory Health Services focusing on cross program approaches to disability services. This has led to new policy direction in the area of supported and other accommodation options and continuum of care options for children with disabilities. Further, a major thrust of the program has been the focus on coordinated options for people being discharged from hospital to the community sector.

The Northern Territory Disability Advisory Board was established in August 2000 and this Board has identified their key area of responsibility as the development of a whole of Government approach to disability. The Board will meet with senior officials from government agencies to develop a whole of government approach to the delivery of Disability Services in the Northern Territory.

- ***Increase the support of families and carers***

The Commonwealth State Disability Agreement (CSDA) specifically provided funding for ageing carers and was targeted across the NT.

More importantly the reform process and the introduction of consumer focused funding has enabled consumers, families and carers to be allocated funding to purchase their own services.

The focus of the reform process was on the critical unmet needs of people with disabilities, specifically families and carers.

Performance management system audits Territory Health Service: Disability Services

Territory Health Services has commented (continued):

- ***Address gaps in service delivery***

The unmet funding round of 2000/01 has provided government with a broad appreciation of gaps in service delivery. Funding has been quarantined and policies and programs are being developed to address high priority areas such as early childhood intervention, post school options, services for people with challenging behaviours and services for people in rural and remote areas. A consumer focused funding survey will be concluded by end 2002.

- ***Develop services in remote and rural areas***

The reform process clearly highlighted the need for more innovative services in rural and remote areas. A significant proportion of the new funding was allocated to remote areas. Further, the consumer focused funding model identified the need for new and innovative service development priorities in remote areas. A significant proportion of the new funding for 2001/02 has been targeted towards rural and remote areas as a result of an analysis of the 2000/01 funding round.

Further the NT Government has attracted significant Commonwealth funding to review services to people with disabilities in remote areas, which will ultimately provide a much needed policy platform for service delivery to this consumer group.

- ***Improve partnerships with the non government sector***

In the last fiscal year Territory Health Services renegotiated service agreements with all non-government service providers. This provided an opportunity for both parties to analyse service delivery responses and provided a forum for consultation.

The development of the Funder/Purchaser service agreement inclusive of disability services will require Purchasing to include in all new service agreements with disability services service providers, specific performance information. This information will provide data on, among other things, consumer numbers, demographic details, need for services as well as identifying shortfalls in funding and training requirements of non-government service providers.

All new funding within the program is focused on innovative service delivery in 2001/02. The funding round highlighted key gaps in service delivery and the need for more innovative and flexible service options. Peak bodies, consumers and service providers have endorsed these options.

- ***Promote early intervention.***

The highest priority for the 2001/02 fiscal year is the review of the existing early intervention program both within and external to government. A policy research officer has been appointed to undertake this review and additional funds have been allocated this fiscal year to progress a reform process.

**Performance management system audits
Territory Health Service: Disability Services**

Territory Health Services has commented (continued):

Discussions have also occurred with hospitals across the Territory to identify transitional care programs, which will ensure a coordinated care package for people with disabilities being discharged from NT hospitals.

Key Finding: "Rather than reporting on outcomes, performance reporting in the Territory Health Services Annual report for 1999/2000 was mostly the listing of outputs, such as achievement of specific projects and tasks undertaken."

The Territory Health Services Annual Report for 2000/01 required the reporting on outputs and outcomes and given the wide range of programs within the department individual reporting program by program was restrictive.

The Audit Report fails to acknowledge that the Performance reporting in the Annual Report does link to the seven strategies outlined in the THS Disability Services Five Year Strategic Plan. The question regarding the reporting in the Annual Report is more one of Departmental format requirements.

The THS Annual Report is not the only means of reporting against the Disability Services Annual Plan. The Annual Report is not designed for in-depth Program reporting. In depth reporting against the Program Plan will take place annually to the NT Disability Advisory Board, which is then responsible for reporting to the Minister

Key Finding: "Territory Health Services is developing new Disability Services program and action plans to guide the Agency after 2001. The draft Program Plan 2001-2011 and Action Plan 2001-2004 identify the objectives and actions to be achieved, although these are not expressed in clearly measurable terms as were the key result areas in the 1997-2001 plan."

The Audit of the Disability Services Program was completed prior to the completion of the planning process which will guide the agency post 2001. The Auditor perused existing service level agreements which did not reflect the outcomes and objectives that are contained in the draft Program and Action Plans. Since that time a Funder/Purchaser Service Agreement has now been drafted which will require that all new agreements with service providers reflect the outcomes and objectives that are contained in the draft Program and Action Plans

Further the Program does not concur with the statement that objectives and actions to be achieved are not expressed in clearly measurable terms.

The Outcomes and Objectives included in the Draft Program and Action Plans are measurable. Each of the expected outcomes and objectives are evidence based, and the Actions are then the means of achieving the evidence based Outcomes and Objectives. The information and data collection requirements that are then specified in the Funder/Purchaser and Purchaser/Provider Agreements will provide the evidence to assess whether the Outcomes and Objectives have been achieved.

**Performance management system audits
Territory Health Service: Disability Services**

Territory Health Services has commented (continued):

The Draft Program and Action Plans are clearly dependent on national negotiations, particularly the third Commonwealth State Disability Agreement to be concluded by June 2002. As the Program is a joint Commonwealth/State program and the third Commonwealth State Disability Agreement has yet to be renegotiated early indications suggest a broader integrated program. This will impact on the coordination and delivery of disability services particularly in remote areas of the Territory.

**Performance management system audits
Managing social policy delivery**

Department of Industries and Business

Work Health Unit

KEY FINDINGS

- **The Work Health Unit has an impressive performance management system which provides management with information to allow an assessment of whether the Unit is achieving its objectives efficiently and effectively.**
- **However, the performance information which is prepared about the extent of achievement of outcomes is not then being included in the Agency's Annual Report. Instead reporting is about workloads, tasks and outputs.**

Background

The focus of this audit was the systems to provide performance information to the Department of Industries and Business about whether it was managing the implementation of the Government's Work Health policy outcomes efficiently and effectively.

Budget Paper No. 2 for 2000/01 describes the outcome objectives of the Work Health program as:

- **to provide broad community awareness of their responsibilities, obligations and entitlements in respect of Occupational Health and Safety (OHS), dangerous goods and workers compensation;**
- **reduce the incidence and severity of work-related injuries and illness;**
- **minimise the risks to the community associated with the transport, storage and handling of dangerous goods;**
- **sustain an equitable and viable workers compensation scheme;**
- **deliver a high quality, responsible service; and**
- **ensure that injured workers are assisted in their endeavours to return to suitable employment as soon as practicable.**

The Work Health business plan identifies the mission statement as:

"Work Health aims to reduce the social and economic impact to the community of work related injuries and diseases. Protect workers and the community from the hazards associated with the transport, storage and handling of dangerous goods".

The budgeted expenditure for the Work Health Unit in 2000/01 was \$2.5 million.

**Performance management system audits
DIB: Work Health Unit**

Background (continued)

Linkage to “Foundations for Our Future”

The Unit has identified no direct contribution of its policy outcomes to Foundations for Our Future areas.

Audit findings

The Work Health Unit has many features of an impressive performance management system.

These include:

- Policy outcomes expressed in measurable trend terms;
- Key Result areas and outcomes identified in measurable terms, and supported by performance measures in the business plans for each of the Compensation and Prevention Units. These measures inform the Work Health Unit about effectiveness and efficiency issues;
- Workplace Targeting Strategy reports provide useful performance information for the Prevention Unit, and the Work Health Unit as a whole, through inclusion of information in the Work Health Information System (WHIS);
- Weekly staff meetings provide an opportunity for on-going work unit performance feedback between technical officers and management;
- Financial reporting uses GASWEB information, allowing timely financial status information to be available; and
- Staff performance is reviewed annually, using a self assessment system linked to the work unit’s goals.

Better performance information should be published

However, despite this impressive collection of performance information, the Department of Industries and Business (DIB) Annual Report does not include the performance indicator information gathered about the extent of achievement of outcomes. Performance indicators such as:

- the average premium rate for insured employers is below 2%;
- reduce the annual disputation rate to 9%; and
- achieve a durable return to work rate of greater than 80%;

provide very useful information about the achievement of their associated outcomes.

The Work Health Unit has in the past produced good quality performance information in trend terms using charts and diagrams which was linked to the Unit’s goals (for example, the 1997/98 Report of the Work Health Authority). Since the Work Health Unit has become a part of DIB it has been limited in the way in which it produces performance information in the DIB Annual Report.

**Performance management system audits
DIB: Work Health Unit**

The Department of Industries and Business has commented:

The report recognises the considerable commitment Work Health has made to defining measures of its effectiveness and achieving appropriate outcomes.

Action has been taken to address the issue of performance information in the Annual Report. The department's 2000/2001 Annual Report will contain information which informs the extent of achievement of program outcomes.

The requirement for an overall evaluation of the Work Health program is noted.

Oil and gas industries and related downstream processing and manufacturing industries which are expected to commence in the Northern Territory within the next five years will require considerable change to current Work Health operations. Work Health is planning for the advent of these projects and the changes that will be required to current operating processes and procedures.

An overall program evaluation will be undertaken when this work has been completed.

However it should be recognised that while an evaluation of the total Work Health program has not been performed, it is operational practice for the Branch to routinely carry out evaluations of its functions and projects.

While the updating of the Work Health booklet "Working with You" is not an audit issue it is identified in the report (to management) as a minor matter. The department is currently reviewing all its publications and a schedule for publication updating will be developed following completion of that review.

Performance management system audits Managing social policy

NTsafe

KEY FINDINGS

- **The NTsafe Committee, through the NTsafe secretariat, has not yet reached the position in which the Crime Prevention Strategy document is available to indicate how performance of the Government’s objectives will be achieved, and what performance information will be used to report on that achievement.**
- **The NTsafe Grants Scheme is operating without reference to the Crime Prevention Strategy framework, and so there are as yet no formal systems to capture performance information about the effectiveness of the Grants Scheme and its contribution to the NTsafe outcomes.**

Background

The focus of this audit was the systems to provide performance information to the NTsafe Committee about whether it was managing the implementation of the Government’s “safe communities” policy outcomes efficiently and effectively.

On 22 June 2000 the Chief Minister announced NTsafe, as a whole of Territory, whole of Government crime prevention initiative, following on from his statement – *“Foundations for our Future: Preserve and Build on the Lifestyle of all Territorians*. NTsafe was announced as the first phase of a \$5.4 million “safe community” initiative.

It was announced that NTsafe would *“Deliver improved quality of life for Territorians through a safer community”* and *“Harness the Territory’s community spirit to create grass roots crime prevention programs”*.

In the medium to long term the following specific outcomes have been identified for this initiative:

- Reduced social costs resulting from crime;
- Reduced economic costs resulting from crime; and
- Reduced personal costs resulting from crime.

Short term aims include:

- Conduct community awareness raising;
- Conduct an audit of existing crime prevention programs and activities;
- Conduct consultations with community stakeholders; and
- Develop a Crime Prevention Strategy for the Northern Territory.

Performance management system audits
NTsafe

Background (continued)

Medium term aims are:

- Monitor the implementation of the Crime Prevention Strategy; and
- Oversee the NTsafe Grants Scheme.

Although the NTsafe policy is a whole of Government, whole of community approach to crime prevention the NTsafe Secretariat is resourced within the Corporate Services program under the Tri-Service Support activity of the NT Police, Fire and Emergency Services.

Linkage to “Foundations for Our Future”

In launching the initiative, the Chief Minister identified that the policy contributes to the following Foundations for Our Future area:

- Preserve and build on the lifestyle of all Territorians

Audit findings

NTsafe has been in operation for 12 months and to date the following short and medium term aims have been achieved:

- Establishment of the NTsafe Committee to oversight and monitor the initiative;
- Establishment of Working Groups with membership from Government Agencies/Bodies, the business sector, the media and community groups;
- An audit of crime prevention activities across the NT Government Agencies;
- Public consultations across the Territory, covering both urban and remote areas to assist in the development of the strategy document;
- Attending local crime prevention committee meetings (eg Neighbourhood watch);
- NTsafe Secretariat acting as a referral/advisory service for the community and agencies seeking crime prevention or community safety information;
- Public awareness through the implementation of a website, newsletters, the media and events such as NTsafe Expo; and
- Setting up of a \$250,000 crime prevention grants scheme.

However, the NTsafe Committee, through the NTsafe Secretariat, has not yet reached the position in which the Crime Prevention Strategy document is available to indicate how performance of the Government’s objectives will be achieved, and what performance information will be used to report on that achievement.

The NTsafe initiative is still involved in the community consultation phase, which was established as one of its primary short term objectives. This phase is being used to gather community input into the final format of the Crime Prevention Strategy.

**Performance management system audits
NTsafe**

Audit findings (continued)

However, this has meant that the *NTsafe* Grants Scheme has been operating without reference to the Crime Prevention Strategy framework and so there are, as yet, no formal systems to capture performance information about the effectiveness of the Grants Scheme, and its contribution to the *NTsafe* outcomes.

Entities and community groups seeking small grant funds are required to identify objectives, strategies, performance indicators and outcomes, so base records are available for reference once the Crime Prevention Strategy is established.

The *NTsafe* Strategy when released should:

- align outcomes, key result areas and agreed performance measures and identify performance measurement processes;
- develop an action plan and timetable of events across relevant Agencies;
- identify budget requirements;
- identify training needs aligned with the objectives of the program; and
- establish an evaluation strategy and timetable.

**Performance management system audits
Managing social policy delivery**

Department of Arts and Museums

Alice Springs Cultural Precinct

KEY FINDING

- **Performance information about each of the policy outcomes is in terms of processes, outputs and services, so measurement systems were not reporting clearly whether outcomes were being achieved.**

Background

The focus of this audit was the systems to provide performance information to the Department of Arts and Museums about whether it was managing the implementation of the Government's Alice Springs Cultural Precinct (the Precinct) policy outcomes efficiently and effectively.

The following objectives of Government policy were identified for the Precinct as outcomes in Budget Paper No. 2 for 2000/01:

- **Presentation of a diverse range of exhibition and performing arts programs;**
- **Increased visitation;**
- **Enhance experiences for visitors to Precinct facilities; and**
- **Management of Agency controlled facilities in Alice Springs.**

The Precinct was allocated \$2.05 million for the 2000/01 year. The Precinct began operating in August 1999 through the \$1.1 million relocation of the Museum of Central Australia.

Linkage to "Foundations for Our Future"

The Department identifies that the policy contributes to the following Foundations for Our Future areas:

- Preserve and build on the lifestyle of all Territorians
- Foster partnerships in Aboriginal development

Audit findings

The performance management systems in use by the Department enable management to receive information about each of the Precinct's outcomes in Budget Paper No.2. The information was only in terms of processes, outputs and services. Measurement systems were not reporting whether outcomes were being effectively achieved. Information was also not being clearly provided to management about the extent of efficiency being achieved in the production of the Precinct's outputs and services.

**Performance management system audit
Department of Arts and Museums: Alice Springs Cultural Precinct**

Audit findings (continued)

Draft strategic and business plans had been developed which were generally consistent with the applicable "Foundations for Our Future" statements and the Department's Budget Paper No.2 for 2000/01. The draft strategic and business plan formats used had provided a framework within which the Precinct's management was assessing performance with reference to processes, outputs and services.

Performance indicators had been developed for each of the strategies and outcomes in the business plan and were reported against on a monthly basis. However, the four outcomes identified in Budget Paper No.2 needed to be supported by clearer performance measures of what their achievement was expected to look like.

One of the key issues for the funding and development of the Precinct was to increase the economic return to Alice Springs from increasing visitation, and in particular from tourists to Alice Springs. This was identified in the Precinct's Outcome 2. Although visitation was measured and reported monthly, it was not given sufficient prominence as a measure of the achievement of this desired outcome. The use of trend charts with prior year comparatives, and comparisons of actual to forecast visitation numbers would improve the monthly reports.

Outcome 1 about presenting a diverse range of programs, Outcome 3 about enhanced experiences and Outcome 4 about management of facilities were not written in ways which allow a clear assessment of the extent of their achievement.

Also the systems did not yet allow management to assess the efficiency of the Precinct's outputs and services. Many of the performance indicators in the monthly reports have not been quantified and none were explicitly linked to amounts from the monthly financial report. Some of the output indicators in the operating report, such as number of exhibitions or number of productions could have been linked to the finance report to provide a measure of efficiency.

However, with the implementation of an output based management accounting system, as part of the Government's *Working for Outcomes* project, the key outputs should be more readily costed, and systems developed to measure and monitor the efficiency of the production of those outputs.

Employee involvement when setting plans and performance indicators was apparent. This was an important factor in achieving commitment from the Precinct's personnel to the goals of the Precinct.

**Performance management system audits
Managing social policy delivery**

Department of the Chief Minister

Alice Springs Convention Centre and “Alice in Ten”

KEY FINDING

- **Measurable performance goals and performance measurement systems have not yet been established to allow an assessment of whether the Alice Springs Convention Centre will contribute to the objectives of “Alice in Ten” in an efficient and effective way.**

Background

The focus of this audit was the systems to provide performance information to the Department of the Chief Minister about whether it was managing the implementation of the Alice Springs Convention Centre to achieve Government’s “The Face of Alice Springs in Ten Years” policy outcomes efficiently and effectively.

Government policy objectives for the Alice Springs Convention Centre are:

- **stimulate economic growth in the region, generally;**
- **in particular, strengthen the identity of Alice Springs as a tourism destination; and**
- **provide job opportunities, particularly for the youth of Alice Springs.**

An audit was conducted to determine if the Agency’s performance management systems enable it to assess how well its objectives in relation to the delivery of Government policies for “The Face of Alice Springs in Ten Years” project (also termed “Alice in Ten”) are being addressed by the establishment of a Convention Centre.

The concept of an Alice Springs Convention Centre was included in the “Alice in Ten” discussion paper produced by the Government in March 1999. It received good support from the Alice Springs residents. The concept of a Convention Centre had been discussed and researched by Government since 1984, so community awareness of the proposal already existed.

The Convention Centre was adopted as one of the first six projects endorsed in the “Alice in Ten” strategy. It was identified in the discussion paper as contributing to the tourism development, improved transportation and vibrant community objectives.

The discussion paper itself became a sound basis for the subsequent consultation with the Alice Springs community about their aspirations for the town and the region.

The support from the community about the Convention Centre was accepted as endorsement of the Government’s desire to establish the facility. Feasibility studies obtained by the Government had identified that convention centres were themselves not commercially viable. It was more the building and operation of the Convention Centre which was expected to provide the desired “Alice in Ten” benefits to the wider community of Alice Springs.

Performance management system audits Alice Springs Convention Centre and "Alice in Ten"
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Background (continued)

Linkage to "Foundations for Our Future"

The Department identifies that the policy contributes to the following Foundations for Our Future areas:

- Build and preserve the lifestyle of all Territorians
- Diversify the economy through service industry growth
- Encourage strong regions and communities

Audit findings

For an effective performance management system, it is important that the efficiency and effectiveness of the expected outcomes of Government policy objectives are able to be appropriately measured. Measures for the Convention Centre objectives need to be formally agreed upon, and systems to capture that information need to be identified or developed. For example, current benchmark information for the following measures may be suitable to assess the objectives which the Convention Centre is intended to address:

- Convention delegate numbers in Alice Springs;
- International and interstate visitor numbers, and expenditures; and
- Youth unemployment.

The Northern Territory Tourist Commission may already have gathered such information for the Region for the first two of these suggested measures.

Once the Convention Centre is established and operating, trends in these measures should provide appropriate performance information to assess the contribution of the Centre in meeting the objectives of "Alice in Ten" in terms both of effectiveness, and when related to the Government's financial support to the Project, in terms of efficiency.

Performance information should be identified and adopted by the "Alice in Ten" committee for all the projects it endorses. Systems to measure the performance information should also be agreed upon. In this way, a basis from which to manage subsequent performance can be established, and from which performance achievement can be reported by the Committee and by the Department of the Chief Minister.

The Department of the Chief Minister has commented:

Risk Management Services of this Department will work with the Alice in Ten convention centre project team to develop practical performance measures.

Operating payments in the Development Agreement are already structured to encourage the operator to maximise convention and delegate numbers from outside of Alice Springs and to keep visitors in the region for longer stays. There is therefore an inbuilt incentive to maximise the economic benefits to the community from the convention centre.

Topical Issues

Issues impacting on the planning and conduct of audits

	Page/s
<i>Working for Outcomes</i> - the Government's prescribed performance management system	108-111
The status of program evaluation	112-114

Topical Issues

Working for Outcomes: The Government's prescribed performance management system

KEY ISSUES

- **Chief Executive Officers are required to report on efficiency and effectiveness in their Agency's Annual Report.**
- **Outputs report on efficiency. Outcomes report about effectiveness.**
- **The Government's *Working for Outcomes* performance management system expects, as yet, only output reporting by Agencies.**
- **Agency Chief Executive Officers will also need to report about outcomes, and this should be with reference to pre-determined measures.**

Background

In December 2000, the Government announced its *Working for Outcomes* project, a financial and performance management framework involving accrual accounting output costing which Agencies were to adopt.

The overarching outcome to be pursued by the initiative was the desire to control the level of budget deficits which the Government was incurring and forecasting for the medium term ahead. Other jurisdictions with accrual accounting output costing models were identified by the Government to be better managing their budget results.

The framework involves the Government and its Agencies converting to accrual budgeting, accounting and reporting with effect from the 2002/03 year. In preparation for that, the 2001/02 budget of the Government required output performance measures to be published by Agencies. How measures of quantity, quality, cost and timeliness would be derived was shown for each of the outputs identified by Agencies.

Outputs are the goods and services produced by Government Agencies for the benefit of the Territory Community...(with) clear links to outcomes (as described in the *Working for Outcomes* section in Budget Paper No.3 2001/02).

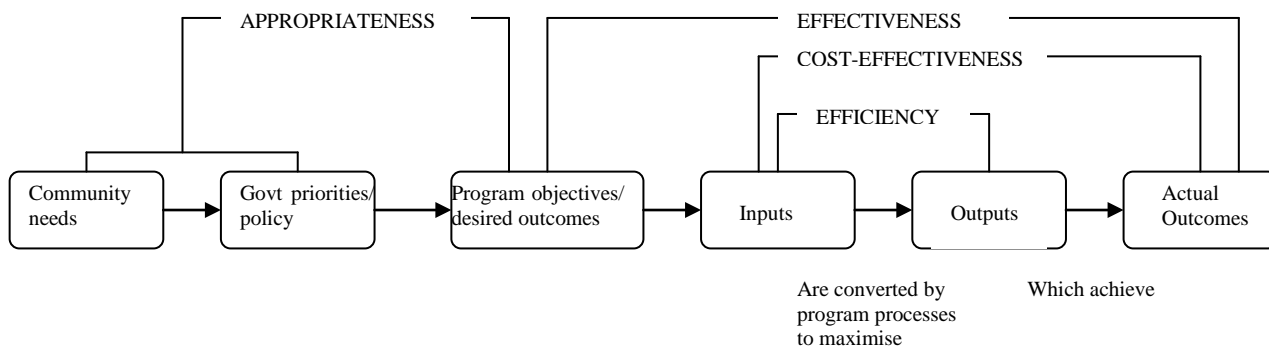
- so, **outputs** are tasks or products which contribute towards outcomes; and
- **outcomes** are the social, environmental and financial impacts which are intended by Government policy.

As illustrated in the following diagram:

- assessing **effectiveness** requires measures about the achievement of **outcomes**; and
- reporting on **efficiency** requires measures about the cost of **outputs** delivered.

Topical Issues
Working for Outcomes: The Government's prescribed performance management system

Background (continued)



Source: Commonwealth Department of Finance, 1994, *Doing Evaluations: A Practical Guide*

The following quote from the former Auditor-General of British Columbia, in a June 1995 publication “Enhancing Accountability in the British Columbia Public Sector”, sets out the basic goal of a performance management system in a system of Parliamentary democracy:

“Citizens have a right to know what their government intends to achieve and what it actually does achieve for the range of government activities. To be accountable in this way, governments must clearly define, measure and manage for the results they desire.”

Fundamental to this goal is that a Government defines and publishes how it is to measure achievement of its intended policy outcomes.

Since 1995, the Northern Territory Government’s Budget Papers have required Agencies to identify their outcomes and outputs and to show the links between these. The 2001/02 Budget was the first in which a prescriptive way of showing how outputs would be measured was required of Agencies by the Government.

Audit Commentary

Is Working for Outcomes a sufficient performance management system framework?

The Public Sector Employment and Management Act requires an Agency’s Annual Report to include comments on the Agency’s achievements, including efficiency, effectiveness and performance.

The Audit Act identifies that a performance management system should allow an Agency to assess whether its objectives are being achieved economically, efficiently and effectively.

Since effectiveness reporting requires an assessment of the extent of achievement of outcomes, reporting only about outputs under the *Working for Outcomes* framework is insufficient. Agency Chief Executive Officers will need to report also about outcomes.

Topical Issues

Working for Outcomes: The Government's prescribed performance management system

Is Working for Outcomes a sufficient performance management system framework? (continued)

Public Administration commentators (*for example, Ayers and Russell, Canberra Bulletin of Public Administration, March 2001 pp 33-39*) identify that the introduction of output performance reporting can take a few years to fine-tune to a reliable format, after which outcomes measures can be developed.

However, examples of outcome measures being used for reporting output quality are already being offered by Agencies in the 2001/02 Budget Papers.

For instance the example used by the Government in its *Working for Outcomes* explanatory chapter in the 2001-02 Budget Paper No.3, refers to the Department of Education. It shows:

Output Group:	Education Services
Output:	Primary Education
Outcome:	Improved educational outcomes for all students in key learning areas

It shows the output quantity performance measures for Primary Education to be:

- number of primary students enrolled at Government schools
- number of schools providing primary education

Its output quality measures would then be expected to be directly reflecting on those output descriptions, for example, student to teacher ratios, or school facilities equipped to deliver curriculum needs. However, the output quality measure is:

- percentage of students who reach the national reading benchmark

This directly measures an aspect of the outcome (improved educational outcomes for all students in key learning areas), rather than about the outputs which have been identified.

This tendency to use outcome measures for output quality is evident in numerous other sections of the 2001/02 Budget Papers.

While it may be an unintended benefit that outcome measures are being identified in the output reporting system, 2001/02 is to be used by the Government as a time in which output measures will be reviewed and better defined. There is a risk that where outcome measures have been used for outputs these will be amended.

If so, Agencies need to be aware of their separate responsibility to continue to identify, measure and report about the extent of achievement of their outcomes.

Topical Issues

Working for Outcomes: The Government's prescribed performance management system

Audit response to Working for Outcomes – auditing output and outcome measurement systems

The Audit Act requires that when performance management system audits are conducted, the Auditor-General is to have regard to prescribed requirements for performance management systems that apply to Agencies.

Working for Outcomes is a prescribed requirement and so performance management system audits will inquire into systems established by Agencies to measure the *Working for Outcomes* outputs as shown in Budget Papers.

As well, audits will inquire into systems established to measure the Agency's intended outcomes as stated in Budget Papers, Agency corporate plans and Government policies for which the Agency is responsible for implementation. How outcome information is reported, and as required of Chief Executive Officers by the Public Sector Employment and Management Act, will also be examined.

Audits may seek to verify the output and outcome performance information produced by these systems as a way of assessing the integrity and reliability of those systems. In that way, an assessment about the integrity and reliability of reported performance measures may be available.

Other jurisdictions, such as the Australian Capital Territory, Western Australia, Victoria and the Canadian Province of Alberta, directly provide in their legislation for the performance information presented by their Governments to be audited. This provides a stronger signal from Parliamentarians of their desire for assurance about key Government performance information, and a stronger basis for funding such audits.

Northern Territory Treasury has commented:

All jurisdictions have acknowledged that output and outcome structures take at least 3 years to be properly defined. In order to obtain meaningful and useful information as soon as possible, outcomes and output information was prepared for 2001/02, one year in advance of the move to an accrual output budget. In doing so, the Northern Territory acknowledged that 2001/02 was a transitional year during which outputs and outcomes would be refined. The refinement process includes separation of output and outcome measures. It is recognised that outputs are the building blocks of the new framework whereas outcomes have a longer term focus. Reliable output measures are necessary if appropriate performance indicators for outcomes are to be developed.

Topical Issues

The status of program evaluation

KEY ISSUES

- **With effect from 1 July 2001, the requirement for program evaluation and review was withdrawn from the Treasurer's Directions.**
- **There is now the risk that fewer program evaluations will be conducted and, if so, the benefits which program evaluations can contribute to better policy design and implementation will be more limited.**

Background

In the Treasurer's Directions issued in June 1995 was a requirement for Chief Executive Officers to implement program evaluation and review. The purpose of that requirement was to ensure that all functions of each Agency were reviewed at least once every three years.

A summary of the results of program evaluations or reviews was to be included in Agency Annual Reports.

With effect from 1 July 2001, the requirement for program evaluation and review has been withdrawn from the Treasurer's Directions. This was explained as being in recognition that the Government's new *Working for Outcomes* performance management framework focused on outputs, rather than programs.

However, the public policy administration tool of program evaluation was never confined to the Government's definition of the term "program". Indeed, when the Treasurer's Direction was introduced in 1995, program evaluation was being used by professional public administrators in Australia as a means to determine whether strategies to implement Government policies were delivering the intended benefits. At that time, the Commonwealth Government was mandating that program evaluation plans should accompany funding requests for new strategy and policy initiatives.

Defining a program

In my February 2000 Report to the Legislative Assembly, I outlined that "program" within the meaning of program evaluation was wider than that in use for budgeting purposes by the Government, and was:

"a cluster of strategies and activities, managed by one or more defined business units, designed to deliver a public policy outcome required by the Government".

Topical issues
The status of program evaluation

The role of program evaluation

I also identified in my February 2000 Report that the role of program evaluation was to:

determine 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).*

The status of program evaluation in NT public sector training programs

I also identified in my February 2000 Report that the nationally developed and accredited Public Sector Management Course recognises the role of program evaluation by including this topic in its "Managing Service Delivery" module.

My audit findings noted that:

"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", and

"no central agency was providing clear leadership on how and why to carry out program evaluation."

Program evaluation continues not to be sought by Agencies as one of the service wide training activities offered by the Office of the Commissioner for Public Employment.

Risks to policy design and implementation

There is now the risk that with:

- the withdrawal of the compliance requirement from the Treasurer's Direction;
- no alternative encouragement from within Government to conduct professional program evaluations; and so
- no demand from Agencies to include this in their training activities,

fewer program evaluations will be conducted.

If so, the benefits which program evaluations can contribute to better policy design and implementation will be more limited.

Northern Territory Treasury has commented. See following page.

Topical issues
The status of program evaluation

Northern Territory Treasury has commented:

The formal requirement to conduct program evaluation has been removed in 2001/02 in recognition that Agencies need to focus on outputs rather than programs in this transitional year. The Working for Outcomes framework will include a requirement for on-going review of outputs.

**Appendix 1 - Audit opinion reports issued since
31 December 2000**

	Date 2000 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2000	<i>Date of Audit Report year ended 31 December 1999</i>
Entities with specific Legislation or Trust Deeds			
Northern Territory University	Not yet tabled	28 June 2001	<i>19 June 2000</i>
NT University Foundation (a company limited by guarantee)	N/A	21 March 2001	<i>19 April 2000</i>
NT University Foundation Trust	N/A	21 March 2001	<i>19 April 2000</i>
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	Not finalised	<i>30 June 2000</i>
Entities that Sec 10 Financial Management Act applies as though a GBD			
		Year ended 30 June 2000	<i>Year ended 30 June 1999</i>
Cobourg Peninsula Sanctuary Board	7 June 2001	23 March 2001	<i>4 May 2000</i>
Jabiru Town Development Authority	5 June 2001	21 February 2001	<i>25 January 2000</i>
Nitmiluk (Katherine Gorge) National Park Board	7 June 2001	22 February 2001	<i>2 June 2000</i>
Inter-Government Statements			
By Agreement			
Commonwealth - State Housing Agreement	31 Dec 2000	7 June 2001	<i>7 June 2000</i>
		Year ended 31 Dec 2000	<i>Year ended 31 Dec 1999</i>
Northern Territory University Financial Research Data Collection Acquittal	31 August 2001	16 May 2001	<i>16 June 2000</i>

<p>Appendix 2 - Status of audits which were identified to be conducted in the six months to 30 June 2001</p>

In addition to the routine audits, primarily compliance audits of selected agencies, interim audits of entities requiring financial statements opinions, and follow-up of outstanding issues in previous audits, the following audits were identified in Appendix 3 of the February 2001 Report as being scheduled for the period.

Department of Industries and Business

Financial assistance to Industry and equity investments	Refer pages 31-34
Measuring achievement of outcomes: Work Health Unit and Major Projects Unit	Refer pages 75-77 and 97-99

Department of Lands, Planning and Environment

Release of land for development	Refer pages 27-30
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Northern Territory Treasury

Taxes, Fees and Fines	No matters to report to the Legislative Assembly
Alice Springs Convention Centre	Refer pages 35-36 and 105-106

Selected Agencies

Adequacy of capital assets records for financial reporting by government	Refer pages 19-22
How well does TRIM support business needs?	Refer pages 61-62

Department of Education

Schools: Our Focus	Refer pages 85-89
Review of IT strategy, including implementation of IT in schools	Refer pages 85-89

Territory Housing

Housing 2003	Refer pages 83-84
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Department of Corporate and Information Services

Fringe Benefits Tax	Audit not completed at 30 June 2001
Achievement of Government Expectations	Refer pages 63-67
IT Outsourcing (continuation of review)	Refer pages 68-71

Appendix 2 - Status of Audits which were identified to be conducted in the February 2001 Report

Territory Health Services

Nurses Rostering System - Royal Darwin Hospital	Audit cancelled
Assess the IT security, systems acquisition and development, Information Systems (IS) support and IS operations over the CARESYS application	No matters to report to the Legislative Assembly
Capital Works - Alice Springs Hospital	Refer pages 37-39
Delivery of Government Policy: Disability Services	Refer pages 90-96

Whole of Government

Delivery of Government Policy: NTsafe	Refer pages 100-102
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Department of Primary Industry and Fisheries

Delivery of Government Policy: Fisheries	Refer pages 80-82
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Northern Territory Attorney-General's Department

Provision of statistical information	Audit deferred to July 2001
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Northern Territory Correctional Services

Matching infrastructure development to Agency needs	Refer pages 72-74
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Department of Arts and Museums

Alice Springs Cultural Precinct, including compliance audit of Araluen Centre	Refer pages 103-104
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Appendix 3
Proposed Audit Activity in the six months to 31 December 2001

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

Department of Corporate and Information Services	Internet security in relation to the overall control environment Tennant Creek Regional Office
Department of Industries and Business	Community Development Fund
Department of Lands, Planning and Environment	How well does Information Technology support the business needs of the Agency?
Department of Local Government	How well does Information Technology support the business needs of the Agency?
Department of Mines and Energy	How well does Information Technology support the business needs of the Agency?
Department of Primary Industry and Fisheries	How well does Information Technology support the business needs of the Agency?
Department of the Chief Minister	In-house printing costs, Ministers and Leader of the Opposition
Department of Transport and Works	Revisit Taxi Licence buy back scheme
Office of Courts Administration	Remuneration of judges How well does Information Technology support the business needs of the Agency?
Territory Health Services	Patient travel assistance scheme – Alice Springs
Territory Housing	Verify performance information in the Agency's 2000/01 Annual Report

Appendix 4
Agencies not audited in the year ended 30 June 2001

For activities relating to the financial year ended 30 June 2001, no audits have been, or are intended to be, conducted at the following Agencies:

- Centralian College
- Office of Aboriginal Development
- Office of Communications, Science and Advanced Technology
- Office of the Director of Public Prosecutions
- Trade Development Zone Authority

These Agencies would usually be included in audit coverage at least once every three years.

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

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

Appendix 5

The approach to auditing the Public Account and other accounts

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

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

What is the Public Account?

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

- a) the Consolidated Revenue Account, and
- b) Operating accounts of agencies and Government Business Divisions

Audit of the Public Account

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

1. annual financial statement audits of entities defined to be within the Public Account, in particular Government Business Divisions, which have a requirement for such audits under the Financial Management Act;
2. an audit approach which the Northern Territory Auditor-General's Office terms the Agency Compliance Audit.

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

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

3. specific topic audits of the adequacy of compliance with prescribed internal control procedures. These can be initiated as a result of Agency Compliance Audits, or pre-selected because of the materiality or inherent risk of the activity; and
4. reviews of the accounting processes used by selected agencies at the end of the financial year, to detect if any unusual or irregular processes were adopted at that time.

Appendix 5

The approach to auditing the Public Account and other accounts

Other accounts

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

Audit of the Treasurer's Annual Financial Statement

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

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

Appendix 6

Overview of auditing performance management systems

Legislative Framework

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

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

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

The Government is implementing its *Working for Outcomes* project, a financial and performance management framework involving accrual accounting output costing. This will be in place for the 2002/03 financial year.

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:

- ◆ identify the policy and corporate outcomes to be achieved by the entity;
- ◆ identify the strategies and their associated tasks, projects and outputs intended to deliver the outcomes, and record these in the entity’s business plans and programs;
- ◆ identify how to measure the achievement of the outcomes and outputs, and design systems to capture the performance information;
- ◆ involve personnel of the entity, and other stakeholders as appropriate, in the design of strategies, performance measures and performance reporting and feedback systems;
- ◆ monitor and report the progress with the achievement of outputs and outcomes;
- ◆ evaluate the effectiveness of the final outcome against the intended objectives; and
- ◆ report internally on the outputs and outcomes, and externally on the outcomes, together with recommendations for subsequent improvement.

Once it is operational, the Government’s *Working for Outcomes* framework will be incorporated into the performance management system audit framework.

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Further information

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

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

Further copies of the August 2001 Report are also available from the Northern Territory Auditor-General's Office.

The next Report by the Auditor-General to the Legislative Assembly is the analysis of the Treasurer's Annual Financial Statement and this is expected to be tabled in sittings in November 2001. The next general Report to the Legislative Assembly will be scheduled for tabling in the first sittings of 2002.

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