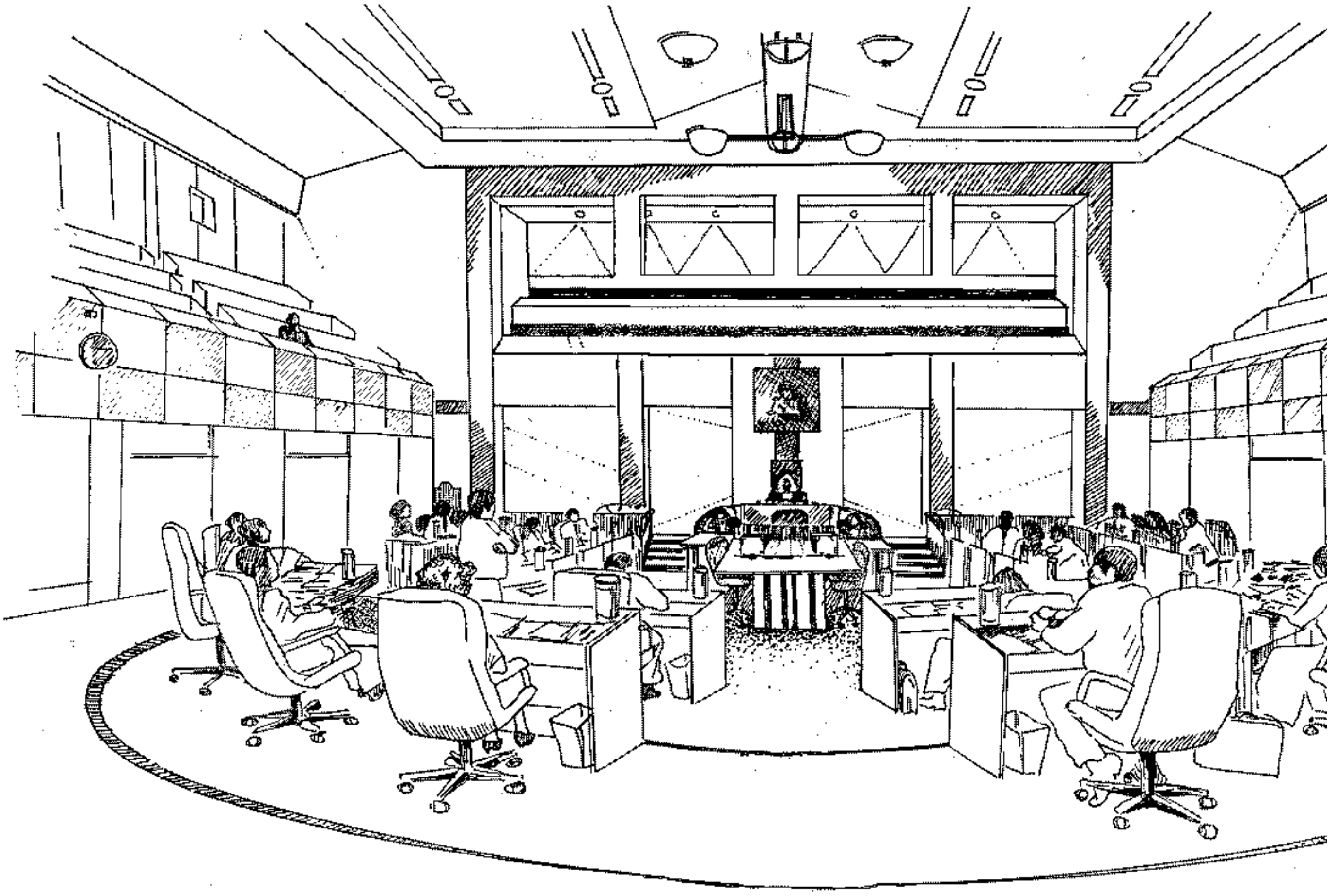
AUDITOR-GENERAL FOR THE NORTHERN TERRITORY

NOVEMBER 2002 REPORT

TO THE LEGISLATIVE ASSEMBLY



Auditing for Parliament...
providing independent analysis

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

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

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

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

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

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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

26 November 2002

Madam,

This is the first opportunity for me to report to you since my appointment as Auditor-General for the Northern Territory on 1 July 2002. A number of matters arising in this Report were issues which emerged during the tenure of my predecessor, Mr Iain Summers, and during the brief time of Mr Otto Alder as Acting Auditor-General. Mr Summers completed his term as Auditor-General on 26 April 2002 after seven years of dedicated contribution to the review of public sector performance. His provision of independent analysis to the Legislative Assembly contributed effectively to the Parliament's scrutiny of the performance of government administration.

I request that you table this Report in the Legislative Assembly today.

Members will have noticed that, in contrast to past practice, I did not table an August 2002 Report. As a result, this Report deals with matters arising from audits conducted during the six months to 30 June 2002.

It has also been past practice to table a report in November dealing specifically with the Treasurer's Annual Financial Statement (TAFS). At the time of preparing this report, my audit of TAFS was still in progress and I shall report to you on the TAFS in my February 2003 Report.

This Report to the Legislative Assembly continues the practice previously adopted whereby attention is focussed on the provision of independent narrative analysis of audited financial and performance information, allowing Members to better understand this information, and to be more assured about its reliability.

In his final report to the Legislative Assembly in February 2002, Iain Summers highlighted a number of issues which he believed required on-going attention. The matters raised will be re-evaluated during the process of developing NTAGO's plans for the next three years and, in particular, its strategic plan for 2003. Relevant details of the strategic plan, such as work planned in the immediate future, will be included in future reports to the Legislative Assembly.

Recent corporate collapses in the private sector have heightened debate on corporate governance, auditor independence, responsibilities of management as against those of the auditor, compliance with and status of accounting standards and of the possible need for increased regulation. These matters will receive much attention in the early period of my tenure. Often an issue to be more clearly understood is the role and responsibility of the independent auditor perhaps requiring more informed debate on what is often referred to as the "audit expectation gap". It is for this reason that I have included in this Report a statement of my understanding of the duties and functions of my Office, which is set out in an audit engagement letter to you and your fellow Parliamentarians at Appendix 1 to this Report.

Yours sincerely

Mike Blake
Auditor-General for the Northern Territory

Major Findings

Auditing the Public Account and other accounts

- **At the time of conducting Agency Compliance Audits (and interim audits) in the period January to June 2002 some Agencies, in particular those impacted by the restructure in November 2001, were still updating internal procedures relating to such matters as:**
  - **Adopting single property and accounting manuals;**
  - **Updating service level agreements with DCIS;**
  - **Re-constituting Audit Committees and actioning internal audit plans;**
  - **Amending and updating assets registers; and**
  - **Adopting revised internal management reporting frameworks.**

Refer pages 10 to 11 for further comments

Northern Territory Treasury – Darwin Procurement Review Board

- **The functions of the Darwin Board and Procurement Policy Function could be widened.**

Refer pages 12 to 14 for further comments

Northern Territory University

- **The University operated at a loss of $2.1 million before including the results of controlled entities. This loss was primarily caused by a write down by $10.4 million in the carrying amount of the University's interests in joint ventures.**

Refer pages 19 to 23 for further comments

Hidden Valley Promotions Pty Ltd

- **The cost to the Northern Territory Government to support the 2001 V8 Supercar race at the Hidden Valley Circuit in Darwin in the year ended 31 December 2001 was in excess of $1 million.**
- **The cumulative total of Government direct and indirect funding to enable the running of the V8 Supercar race at the Hidden Valley Circuit in Darwin from 1998 to 2001 is estimated to have exceeded $13 million, which includes an estimated $9.2 million for the construction of the track and other facilities.**

Refer pages 27 to 29 for further comments

Major Findings

Jabiru Town Development Authority

- **The Authority was technically insolvent at 30 June 2001 as it had a deficiency of assets of approximately $3.4 million.**
- **The Authority's ability to continue as a going concern is dependent on the moratorium, which has existed since 1986, on the Authority's future interest payments and repayment of loans due to the Northern Territory Government totalling $8.8 million.**
- **The Authority remains unable to repay in full its loan of $8.8 million from the Northern Territory Government. Based on the position at 30 June 2001, unless there is a significant turn around in the performance of the Authority's land transactions, the Northern Territory government will not receive more than $5.4 million of its loan.**

Refer pages 33 to 36 for further comments

DEET – Indigenous Education Strategic Initiatives Program (IESIP)

- **Expenditure incurred in the year ended 31 December 2001 related to IESIP Project Areas. However, it was still not possible to establish what amount of IESIP funding had been expended in achieving each Performance Target, and therefore whether the Department of Employment, Education and Training had fully complied with the requirements of Clauses 8.2 and 9.2 of the Indigenous Education Agreement.**
- **The audit opinion on the acquittal to the Commonwealth of the project funding referred to this exception.**
- **Reporting internally of IESIP program progress has improved overall during 2001. There has been work undertaken by DEET during 2001/2002 to clearly link program outcomes with the Indigenous Education Strategic Plan 2000-2004 to evidence expenditure and achievement of targets in 2002.**

Refer pages 40 to 41 for further comments

Major Findings

Department of the Chief Minister - Risk Management Services

- **Risk Management Services' performance management system was inadequate and it could not make reliable assessments of its operational effectiveness and efficiency.**
- **At the time of the audit, Risk Management Services was implementing a substantial change program to provide a better audit and risk management service to government Agencies.**
- **Risk Management Service's audit methodologies, and their use, generally comply with both Australian and Internal Auditing Standards.**

Refer pages 44 to 46 for further comments

DEET – Managing Repairs and Maintenance

- **Funding is generally available for the priority areas of "Health, Safety and Security" and "Retention of Asset Integrity". This enables DEET to meet the former Department of Education's stated performance criteria of "ensuring students and staff work in a safe … environment."**
- **At present DEET does not have in place a performance management system, linked to its business plan, to adequately monitor the repairs and maintenance function at the schools in the Northern Territory for which it has ultimate responsibility.**
- **DEET, as the accountable Agency, was unable to assess whether or not, from its viewpoint, the repairs and maintenance function is being performed economically, effectively or efficiently.**
- **The deferred maintenance gap between maintenance required and maintenance funded appears to have widened from $0.94m to $5.58m over the three years ended 30 June 2002.**

Refer pages 47 to 50 for further comments

DCIS – Outsourcing of IT Services

- **The framework for vendor risk assessment and internal audit needs to be improved for all IT contracts to provide ongoing assurance as to the integrity of vendor service level reporting, vendor contract compliance and vendor processes.**
- **Failure by the Agency to accurately ascertain the number of units, which were the subject of the tender process, may have affected tender pricing.**

Refer pages 51 to 54 for further comments

Reporting on audits conducted in the six months ended 30 June 2002

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits conducted in the six months ended 30 June 2002, this Report outlines only those matters which the Auditor-General considers would contribute information of relevance to the Northern Territory Legislative Assembly.

Records of Parliamentary debates, requests and suggestions to the Auditor-General by Members 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 comment 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 6); and
- audits of performance management systems (described in Appendix 7).

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:

Matters Arising from auditing the Public Account and other accounts

Auditing the Public Account and other accounts

Common Issues and Trends arising from Agency Compliance Audits

KEY FINDINGS

- **At the time of conducting Agency Compliance Audits (and interim audits) in the period January to June 2002 some Agencies, in particular those impacted by the restructure in November 2001, were still updating internal procedures relating to such matters as:**
    - **Adopting single property and accounting manuals;**
    - **Updating service level agreements with DCIS;**
    - **Re-constituting Audit Committees and actioning internal audit plans;**
    - **Amending and updating assets registers; and**
    - **Adopting revised internal management reporting frameworks.**

Background

As part of my audit of the Public Account, Agency Compliance Audits are conducted at the large Agencies comprising the Public Account during the March to June period each financial year. This year, the audits took cognisance of the restructures being effected within Agencies initiated in November 2001 and the management transition issues that resulted from the restructures. The matters identified below generally related to delays during the transition period in the introduction of Agency wide crucial internal control measures required by the Financial Management Act.

In addition, interim audits were conducted for Government Business Divisions and for some other entities prior to financial year-end, during which similar findings were identified and are included in the matters reported on the next page.

Auditing the Public Account and other accounts
Issues and trends arising from Agency Compliance Audits

Audit Findings

Noted below are those internal control and other matters that were identified. The names of the Agencies concerned are not reported. All Agencies will benefit from reviewing this summary, and can use it to assess their own performance and make changes where necessary. Some of the findings have a direct implication for the introduction of accrual based accounting and reporting and, where this is the case, will require attention prior to 30 June 2003.

Matters reported

1. **Accounting and Property Manuals** - There were different Accounting and Property Manuals in use within the same Agency and some were not up to date. The manuals differed in various ways, as some of them had not been updated to fall in line with the Treasurer's Directions. This is a matter that has been raised by Audit in prior years and is not being given adequate priority by Agency management. The move to accrual accounting makes the need for such manuals even more important. These manuals represent an opportunity to document Agency policy on accounting and internal control related matters which will assist transition, assist existing and new staff and ensure consistency of practice.
2. **Service Level Agreements (SLAs)** - SLAs with the Department of Corporate and Information Services (DCIS) required updating. The agreements in use were those of the pre-restructure Agencies, were not signed, were out of date or required finalisation. These agreements are important for identifying service levels, monitoring performance and detailing respective responsibilities and should be kept up to date.
3. **Audit Committees –** Audit committees were either not established promptly by the new Agencies, were not meeting regularly, internal audit plans had not been prepared or internal audits were infrequent. Audit Committees and internal audits are an essential component of governance and internal control particularly in an environment of change.
4. **Asset Registers** - Whilst the fixed asset registers currently contain the information required for cash accounting purposes, the fixed asset information held did not meet accrual accounting requirements.

   In addition, registers of physical assets had not been actively maintained throughout the period. In one instance, keeping the register up to date was complicated by the inability to locate assets or to record assets on loan outside the Agency.

   Up to date and reconciled assets registers and regular asset counts are essential for effective asset management in both cash and accrual accounting environments. Accurate reporting of assets in an accrual environment is impossible if registers are not up to date.
5. **Internal Management Reporting Frameworks** - Single internal management reporting frameworks for the new restructured Agencies had yet to be established, making budget management difficult.

The Department of Corporate and Information Services has commented:

SLAs between agencies and DCIS have been revised and forwarded to Chief Executives for signature on 18 October 2002.

Auditing the Public Account and other accounts

Northern Territory Treasury – Darwin Procurement Review Board

KEY FINDINGS

- **The Darwin Board's processes and its Procurement Policy Function (PPF) provide reasonable assurance that:**
  - **the application of the five principles of the NT Procurement Policy is independently assessed by the Board; and**
  - **goods and services purchased by the NT Government have been properly procured.**
- **The functions of the Darwin Board and PPF could be widened.**

Background

The Government of the Northern Territory's Procurement Policy is based on five fundamental principles as follows:

i. Open and effective competition;

ii. Value for money;

iii. Enhancing the capabilities of local business and industry;

iv. Environmental protection; and

v. Ethical behaviour and fair dealing.

The Darwin Procurement Review Board (the Board) is responsible for the independent assessment of the application of the five principles of the NT Procurement Policy by Agencies in the Darwin region.

The Board was established under the Procurement Act 1995 and associated Regulations. The Procurement Policy Function (PPF) within the Board is the Board's executive arm.

Under the Government's new public sector Agency arrangements the Board's operations were transferred from the Department of Business, Industry and Resource Development to Northern Territory Treasury.

Auditing the Public Account and other accounts
Procurement Review Board

Audit objective and scope

The objective of the audit was to assess whether internal controls within the Board and the PPF provides reasonable assurance that:

- the application of the five principles of the NT Procurement Policy is independently assessed by the Board; and

- goods and services purchased by the NT Government have been properly procured.

Audit findings

Overall conclusion

The audit concluded that, whilst the functions of the Board and PPF could be widened, their functions provide reasonable assurance that:

- the application of the five principles of the NT Procurement Policy is independently assessed by the Board; and

- goods and services purchased by the NT Government have been properly procured.

Widening the Board's role

The Board's functions are defined in legislation and these do not currently include:

- prescribing courses of action to be taken in case of breaches of procurement policy and legislation by Agencies; and

- involvement in the approval or declining of procurement-related proposals submitted by Agencies.

The Board and PPF should adopt a more pro-active approach to strengthening their role within the Government's procurement policy. This could entail:

- the conduct of site audits on Agencies' procurement processes on an ad-hoc basis and reports to the Under Treasurer and the Agency's Accountable Officer on their findings;

- questioning Agency representatives, rather than taking Agency submissions at face value. This should be done, for instance, in the case of Certificates of Exemption, where the Board is aware of alternative service providers; and

- involvement by the PPF in the formulation and enforcement of procurement policies and procedures employed by the Agencies.

This widening of functions would enable the Board (and the PPF) to operate in a pro-active rather than in a reactive manner and thus enhance compliance by Agencies with systems currently in use.

Auditing the Public Account and other accounts
Procurement Review Board

Audit findings continued

To whom does the Board report?

The Board and PPF do not officially report on a regular basis to any office on their activities. Hence, there is no independent check on the activities of the Board and PPF to ensure that they are performing the duties that they are meant to be performing. It is recommended that the Board report to the Under Treasurer.

Certificates of Exemption

The Board and PPF do not ensure that all Certificates of Exemption are followed by a "Recommendation to Accept Tenders" from the Agencies. Contracts awarded, as published in the Government Gazette, are not checked off against the Business Papers approved by the Board. The procurement process is therefore potentially open to abuse as:

- Agencies may not contract with the best possible supplier; and
- Some contracts may go un-gazetted and therefore not comply with procurement policy and guidelines.

Internal audit

It was also noted that no internal audit has been performed of the activities of the Board since it came under the auspices of Treasury in November 2001, although there is no specific requirement to do so under current legislation.

Northern Territory Treasury has commented:

The findings are consistent with other recent reviews of procurement processes initiated by Treasury. All the issues identified are scheduled for reform in the Procurement Reform Action Plan which is to be presented to Cabinet in November.

Auditing the Public Account and other accounts

Department of Infrastructure, Planning and Environment

Construction Division Fee Offer System

KEY FINDINGS

- **The Fee Offer System (FOS) has the ability to track time, cost, tasks, contract start/end dates and revenue associated with a fee offer.**
- **Timesheet data was not always entered into the FOS by all users.**
- **A breakdown of material FOS items were not included in the monthly financial performance reports.**
- **Current forecasting of fee offer revenue could be improved.**

Background

The Construction Division is a Government Business Division (GBD) established by Treasurer's Determination. Construction Division plans and coordinates the majority of capital works projects on behalf of NT Government Agencies. Notwithstanding its GBD status and funding, Construction Division is an operational activity of the Department of Infrastructure, Planning and Environment (formerly Transport and Works).

As a GBD, it does not receive direct funding from Government. The funds it expects to earn appear in Agency budgets, which are paid to Construction Division as charges from Construction Division on the basis of previously agreed cost estimates, the "Fee Offer System" (FOS). The charging methods are either "fixed fee" or "percentage of program".

FOS was developed to, "allow the creation and maintenance of fee offers to Construction [Division] clients, to create invoices based on information in these fee offers and to extract information and statistics from the fee offers and associated timesheets and invoices." (per FOS user manual.)

FOS was initially implemented in October 1999. The system was still being implemented during 1999/2000, and there remained matters (eg all staff not providing time records) that Construction Division was addressing at the time of conducting this audit

There were approximately 280 active users of the system as at May 2002.

Auditing the Public Account and other accounts
Construction Division Fee Offer System

Audit Objective and scope

The objective of this audit was to perform, as part of the 30 June 2002 financial statement audit, an IT review of the FOS to better understand its capabilities in providing information to be used for financial reporting and management purposes.

The audit:

- ♦ Reviewed high-level IT application controls over key components within FOS;
- ♦ Reviewed high-level FOS logical security and FOS change control processes focussing on the elements required to support the key IT application controls; and
- ♦ Obtained an understanding of FOS reporting capabilities for financial reporting and management purposes.

The key areas of focus were:

- ♦ Financial performance reports (monthly operating statements generated from the Government Accounting System [GAS]);
- ♦ Data extracted from FOS for the purposes of forecasting fee offer revenue; and
- ♦ The FOS reporting process (pre-set and ad-hoc reporting functionality).

It should be noted that the FOS directly interfaces with the Asset Information System (AIS) and also indirectly integrates with GAS. This audit did not review the integrity of interfaces with AIS or GAS; AIS/GAS IT general or application controls; or other IT general controls relating to the environment within which FOS resides (eg. LAN security and system development controls).

Audit Findings

Overall conclusions

The FOS has the ability to track time, cost, tasks, contract start/end dates and revenue associated with a fee offer. However:

- ♦ timesheet data is not always entered into FOS;
- ♦ a breakdown of material FOS items is not included in the financial performance reports; and
- ♦ current forecasting of fee offer revenue could be improved.

Auditing the Public Account and other accounts
Construction Division Fee Offer System

Audit findings continued

Timesheet data is not always input by all users.

A key component of FOS is its ability to track the time and costs associated with the completion of construction projects. This requires that users submit details of time expended during each weekly period for on-line approval.

This requirement was not being met at the time of the audit. Analysis of timesheet data for one business unit revealed that for the period of May 2002, of the potential 52 timesheet slots (13 employees x 4 weekly periods) only nine timesheets were submitted into the system. “Time fee offers”, one of four different types of fee offers, are directly impacted by timesheet data not being entered into the system because billing is processed on the basis of total dollars (time multiplied by rate per hour). Therefore, where hours are not being entered into the system, there is a risk that earned revenue will not be billed and subsequently received.

For other fee offer types, not entering timesheet data into the system reduces the ability to track costs associated with individual tasks in each fee offer project and impacts the ability to monitor employee utilisation and resource allocation.

Management should ensure that timesheet data is entered and approved and an exception report is generated to indicate employees that do not have approved timesheets in FOS.

Contents of Divisional financial performance reports

Monthly financial performance reports for each business unit within Construction Division provide divisional managers with an operating statement indicating the financial performance of business units under their control during the period. Information contained in these reports is extracted from GAS, which is at an aggregated level, and it may therefore not be possible to obtain the level of detail needed to enable management to use these reports for decision making. The reports contain no breakdown of the charges for goods and services, the only material income for Construction Division.

It is understood that the level of data being captured by FOS may be able to provide sufficient breakdown of costs and revenues in the monthly management report. For example a breakdown of costs to date and cost to complete each fee offer, would aid management decision making and link divisional performance to key organisational performance indicators.

It was therefore recommended that consideration be given to including a breakdown of FOS related items in the monthly performance reports. Management has confirmed that this level of information can be extracted manually and that steps are under-way to collect this electronically.

Auditing the Public Account and other accounts
Construction Division Fee Offer System

Audit findings continued

Ability of the FOS to forecast fee offer revenue

In order to forecast fee offer revenue, and thus assist management to derive future divisional profitability, an extract of all fee offers is made from FOS. From this data extract, the amount of outstanding fee offer revenue is calculated. Given that individual fee offers have different durations and that billing can fluctuate significantly between periods, the usefulness of this extract for forecasting purposes is limited.

Functionality exists within FOS to capture the expected start and end dates of the fee offer tasks and also the expected dollar value of billing in future periods. However, the fields capturing this data are not mandatory and therefore are being left blank by the majority of end users at the time of creating a new fee offer. Given that this information is not being captured for all fee offers within FOS and subsequently not being included in the data extract summary report, the level of subjectivity in forecasting the amount and timing of fee offer revenue is increased.

Therefore, the level of information being extracted from FOS for the purposes of forecasting fee offer revenue could be improved by:

- completing all the relevant fields in FOS;
- extracting expected start and end dates of the fee offer tasks and expected dollar value of billing in future periods; and
- revisiting the forecasting process and monitoring actual results against forecast facilitating achievement of budget.

The Department of Infrastructure, Planning and Environment has commented:

The Department of Infrastructure, Planning and Environment has noted the findings of the Auditor-General in this regard and their implementation will be monitored by the Department's Audit Committee.

Auditing the Public Account and other accounts

Analysis of the 31 December 2001 financial statements of:

Northern Territory University

KEY FINDINGS

- **The University operated at a loss of $2.1 million before including the results of controlled entities. This loss was primarily caused by a write down by $10.4 million in the carrying amount of the University's interests in joint ventures.**
- **A change in accounting policy relating to bringing revenue to account increased revenue by $2.7 million.**

Audit opinion

The audit of the Northern Territory University (NTU or the University) for the year ended 31 December 2001 resulted in an unqualified independent audit opinion, which was issued on 25 June 2002.

Background

The University provides both Higher Education and Vocational Education and Training (VET). Higher Education funding is provided by the Commonwealth Government through direct grants, and through the Higher Education Contribution Scheme revenues collected by the Commonwealth. VET funding was provided by the Northern Territory Government via the then 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, which are required to be audited by the Auditor-General, and included in the University's Annual Report.

Auditing the Public Account and other accounts
Northern Territory University

Financial analysis

The University prepares its annual financial statements on the full accrual basis consistent with Australian Accounting Standards, and other mandatory professional reporting requirements. Its financial statements must also comply with the reporting requirements set out by the Commonwealth's Department of Education, Science and Training.

Abridged Statement of Financial Position for NTU excluding controlled entities

	2001 $'000	**2000 $'000**
Current assets[1]	24,293	22,667
Non-current assets		
Property, plant and equipment	145,123	145,591
Investments in joint ventures	4,696	10,315
Total Assets	**174,112**	**178,573**
Current Liabilities	15,961	18,152
Non-current liabilities	4,164	4,283
Total Liabilities	**20,125**	**22,435**
Net assets	**153,987**	**156,138**
Represented by accumulated funds and reserves	**153,987**	**156,138**

[1]*of which $18.1 million (2000 - $13.3 million) is investments*

The major change in the University's financial position relates to its interests in joint ventures and the provision for diminution raised against the cost of those joint venture interests.

Auditing the Public Account and other accounts
Northern Territory University

Financial Analysis continued

Abridged Statement of Financial Performance for NTU excluding controlled entities

	2001 $'000	2000 $'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	29,821	29,765
Financial assistance from the Territory Government	29,253	33,845
Other revenue (HECS, fees, interest, etc)	29,531	30,110
Total revenue from ordinary activities	**88,605**	**93,720**
Expenses on ordinary activities before adjusting carrying value of interests in joint ventures		
Employee benefits	51,264	50,874
Depreciation, maintenance, interest and other expenses	29,077	32,266
Total expenses on ordinary activities before adjusting carrying values of interests in joint ventures	**80,341**	**83,140**
Operating result from ordinary activities before adjusting carrying value of interests in joint ventures	**8,264**	**10,580**
Less Provision for diminution in carrying value of interests in joint ventures	10,415	0
Operating result for year	**(2,151)**	**10,580**

Auditing the Public Account and other accounts
Northern Territory University

Financial Analysis continued

The decrease in the operating result for the NTU can be reconciled as follows:

Prior Year result	**10,580**
Add:	
♦ Increase in revenue resulting from change in accounting policy	2,746
Less:	
♦ Provision for diminution in value of joint venture interests	(10,415)
♦ Decrease in operating and capital funding for vocational education and training [1]	(4,592)
♦ Decrease in sundry income and other items	(470)
Current year result (Loss)	**(2,151)**

[1] *Funding was higher in 2000 due to the receipt of $2 million in one off capital funding and approximately $3 million additional funding arising from the commencement of the Goods and Services Tax regime when the University invoiced the Northern Territory Government with associated costs including some costs relating to prior periods.*

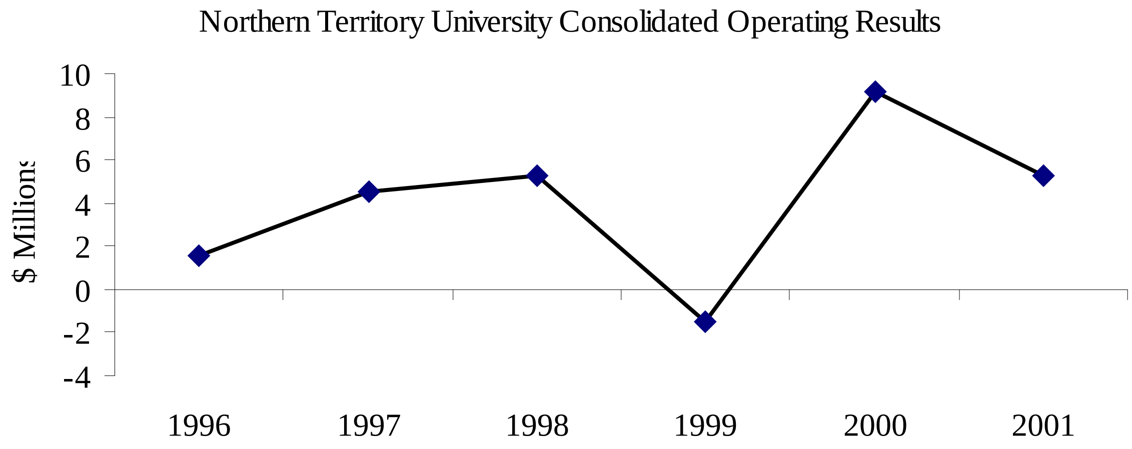
As noted above, the decreases in revenue and funding were offset by an increase in revenue of $2.746 million resulting from a change in accounting policy relating to the recognition of the financial assistance received from the Commonwealth Government whereby all financial assistance received from the Commonwealth Government during the year was treated as current year's revenue. This was a one-off impact and arises from the need, consistent with Australian Accounting Standards, to recognise funds received as revenue once the funds are “controlled” even where the funds, as was the case in this instance, will be disbursed in a future accounting period. Under the previous accounting treatment, this $2.746 million would have been deferred to 2002 and treated as a liability at 31 December 2001 in which event the operating deficit would have been $4.897 million.

Auditing the Public Account and other accounts
Northern Territory University

Financial Analysis continued

Financial performance including controlled entities (the University Group)

The University Group has generally sustained operating surpluses over the past 5 years. This followed large surpluses that 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 for the University Group since 1996.



Source: Northern Territory University Financial Records

Auditing the Public Account and other accounts

Analysis of the 31 December 2001 financial statements of:

Batchelor Institute of Indigenous Tertiary Education

KEY FINDINGS

- **The Institute recorded an operating surplus for the year of $1.387 million. This result was aided by a change in accounting policy relating to the treatment of approximately $1 million in operational grant monies received.**
- **At 31 December 2001, the Institute's assets exceeded its liabilities by $4.259 million, an increase of $1.387 million over the prior year.**

Audit opinion

The audit of the Batchelor Institute of Indigenous Tertiary Education (the Institute) for the year ended 31 December 2001 resulted in an unqualified independent audit opinion, which was issued on 20 June 2002.

Background

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

Financial analysis

The Institute prepares its annual financial statements on the full accrual basis consistent with the Commonwealth Department of Education, Science and Training's guidelines for the preparation of annual financial statements, Australian Accounting Standards, other mandatory professional reporting requirements and its own legislation.

Auditing the Public Account and other accounts
Batchelor Institute of Indigenous Tertiary Education

Financial Analysis continued

Abridged Statement of Financial Performance

	2001 $'000	2000 $'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	21,387	20,963
Financial assistance from the Territory Government	8,098	8,662
HECS	1,295	1,168
Other Revenue	1,242	1,194
Total revenue from ordinary activities	**32,022**	**31,987**
Expenses from ordinary activities		
Employee benefits	16,907	16,658
Buildings and grounds maintenance	2,803	3,069
Travel and other expenses	10,925	11,332
Total expenses from ordinary activities	**30,635**	**31,059**
Operating result from ordinary activities	**1,387**	**928**

As disclosed in the table above, the Institute recorded an operating surplus for the year of $1.387 million ($0.928 million in 2000), a result which was significantly aided by a change in accounting policy relating to the treatment of approximately $1 million in operational grant monies received. This is a one-off impact and arises from the need, consistent with Australian Accounting Standards, to recognise funds received as revenue once the funds are “controlled” even where the funds, as is the case in this instance, will be disbursed in a future accounting period. Under the previous accounting treatment, this $1 million would have been deferred to 2002 and treated as a liability at 31 December 2001 in which event the 2001 operating surplus would have been $0.434 million which is $0.494 million less than the prior year.

Auditing the Public Account and other accounts
Batchelor Institute of Indigenous Tertiary Education

Financial Analysis continued

Abridged Statement of Financial Position

	2001 $'000	2000 $'000
Current assets	6,124	8,093
Non-current assets	2,239	770
Total assets	**8,363**	**8,863**
Current liabilities	3,628	5,495
Non-current liabilities	476	496
Total liabilities	**4,104**	**5,991**
Net assets	**4,259**	**2,872**
Represented by Equity (reserves and accumulated funds)	**4,259**	**2,872**

The decrease in current assets resulted from recovery of a receivable from the Indigenous Education Special Initiatives Program (decrease $3.6 million) offset by increased cash at bank (increase $1.7 million).

Non current assets (fixed assets) increased to reflect buildings under construction at year end of $1.2 million.

The decrease in current liabilities reflects reduced grants receivable in funding terms as well as the impact of the change of accounting policy noted on page 25.

Auditing the Public Account and other accounts

Analysis of the 31 December 2001 financial statements of:

Hidden Valley Promotions Pty Ltd

KEY FINDINGS

- **The cost to the Northern Territory Government to support the 2001 V8 Supercar race at the Hidden Valley Circuit in Darwin in the year ended 31 December 2001 was in excess of $1 million.**
- **The cumulative total of Government direct and indirect funding to enable the running of the V8 Supercar race at the Hidden Valley Circuit in Darwin from 1998 to 2001 is estimated to have exceeded $13 million, which includes an estimated $9.2 million for the construction of the track and other facilities.**
- **The Company's Management is preparing a report outlining the benefits to the Northern Territory of holding this event.**

Audit opinion

The audit of Hidden Valley Promotions Pty Ltd (the Company) for the year ended 31 December 2001 resulted in an unqualified independent audit opinion, which was issued on 9 August 2002.

Background

The Company was established by the then 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 2001 included the operations of the fourth such annual event at the Hidden Valley Circuit in May 2001.

Key issues

Benefits to the Northern Territory of holding the annual V8 Supercar event

At the conclusion of the 2001 audit, management advised that an exercise was under way to estimate the benefits to the Northern Territory of holding this event. Such an exercise is supported, particularly in view of the estimated $13 million in direct and indirect funding that the Northern Territory Government has provided to this event since its commencement in 1998 to 31 December 2001.

Auditing the Public Account and other accounts
Hidden Valley Promotions Pty Ltd

Key Issues continued

This estimated direct and indirect funding of $13 million includes costs incurred by other Agencies, such as the Department of Infrastructure, Planning and Environment, for the construction of the track and other facilities (estimated at $9.2 million), but excludes costs incurred by:

- Northern Territory Major Events Company Pty Ltd on behalf of Hidden Valley Promotions Pty Ltd but which are not recovered. It may be appropriate for this "estimate of benefits" exercise to attempt to identify and quantify these costs; and
- Other government entities, such as Territory Insurance Office and Power and Water Corporation, in providing sponsorship.

The Company is committed to staging the V8 Supercar event until 2007.

Financial analysis

Abridged Statement of Financial Performance for the year ended 31 December 2001

	2001 $'000	**2000 $'000**
Revenue from ordinary activities before government grant	1,260	1,227
Less expenditure from ordinary activities:		
Licence Fee	485	312
Marketing and publicity	497	601
Administration and other costs	1,122	1,119
Total expenditure	2,104	2,032
Operating loss before government grant	(844)	(805)
Grant from Northern Territory Government	912	876
Net profit from ordinary activities	**68**	**71**

In addition to $912,000 direct funding through government grants the Company received assistance through:

- sponsorship from Power and Water Authority ($10,000 cash and engineering and testing services);
- sponsorship from Territory Insurance Office ($27,400);
- funding for the free bus service to the event ($72,290);
- unquantified services provided free of charge by staff of Northern Territory Major Events Company Pty Ltd (refer pages 30 to 32 in this report) in the production of the event; and
- hire of a corporate hospitality facility by the Department of the Chief Minister ($110,000).

Auditing the Public Account and other accounts
Hidden Valley Promotions Pty Ltd

Financial analysis continued

The 2001 licence fee increased as part of a new seven year agreement which included any television production fees. In 2000 a fee of $160,000 was separately paid by the Company to televise the event.

The Statement of Financial Performance highlights that the Company is dependent on the NT Government for ongoing funding.

Abridged Statement of Financial Position at 31 December 2001

	2001 $'000	2000 $'000
Current assets	223	418
Less Current Liabilities	38	301
Net Current assets	**185**	**117**
Represented by contributed equity ($2) and retained profits	**185**	**117**

The Company has no fixed assets because, other than the rights to use the Hidden Valley complex for the presentation of the event, it has no tenure over the site and accordingly all expenditures incurred, including permanent capital improvements, are expensed.

Current assets have decreased due to a reduction in cash balances of $75,000 and recognition in 2000 of grants receivable from the NT Government of $131,000.

Current liabilities were high at 31 December 2000 as the liability for the television fee of $160,000 was outstanding and an accrual was raised for electrical installation costs incurred of $75,000. Neither liability existed at 31 December 2001.

Auditing the Public Account and other accounts

Analysis of the 30 June 2001 financial statements of:

Northern Territory Major Events Company Pty Ltd

KEY FINDINGS

- **In addition to providing staff to manage the V8 Supercar race at the Hidden Valley Circuit in Darwin the Company provided funding to other events totalling $208,930.**

Audit opinion

The audit of Northern Territory Major Events Company Pty Ltd (the Company) for the year ended 30 June 2001 resulted in an unqualified independent audit opinion, which was issued on 9 August 2002.

Background

The Northern Territory Government established the Company with the principal responsibility of attracting major events to the Northern Territory and promoting and coordinating such events.

As with Hidden Valley Promotions Pty Ltd, the Company was established so that the procurement requirements applicable to public sector Agencies did not apply. This was intended to provide the Company with greater operational flexibility.

Key issues

Financial reporting

The Directors of the Company signed the financial statements on 7 August 2002, which is more than thirteen months after year-end. This means that any final assessment by the Board of Directors of the performance of the Company is significantly out of date and was only possible after another full year of operations had been completed. This matter has been discussed with management who are planning to complete the 30 June 2002 financial reports in a more timely manner.

Auditing the Public Account and other accounts
Northern Territory Major Events Company Pty Ltd

Financial analysis

Abridged Statement of Financial Performance for the financial year ended 30 June 2001 (prior period is for the 18 months ended 30 June 2000)

	2001 $'000	2000 $'000
Revenue from ordinary activities before government grant	11	8
Less expenditure from ordinary activities:		
Employee benefits	380	513
Depreciation and other expenses	345	1,314
Total expenditure	725	1,827
Operating loss before government grant	(714)	(1,819)
Grant from Northern Territory Government	566	1,950
Net (loss) profit from ordinary activities	**(148)**	**131**

The Company's net loss from ordinary activities of $148,000 for the year, which follows the previous period's net profit from ordinary activities of $131,000, is consistent with the Company being funded by government on a breakeven basis. Unspent grants recognised as income in the prior 18-month period were offset against the funding requirement for the current year. The result is that the Company shows a small equity deficiency (see Abridged Statement of Financial Postion) at 30 June 2001.

The statement of financial performance highlights that the Company is dependent on the Northern Territory Government for ongoing funding.

In addition to providing staff to manage the V8 Supercar race at the Hidden Valley Circuit in Darwin the Company provided funding to the following other events:

Event	**2001 $'000**	**2000 $'000**
Tennant Creek Go Karts	35	-
Royal Darwin Show	21	-
Finke Desert Race	28	55
Australian Safari 2001	125	125
Australian Safari 2000	-	250
Australian Safari 1999	-	250
The Musical *Cats*, including associated costs	-	358
New Year's Eve 2000 fireworks	-	106
London to Sydney Marathon	-	8
Rotary/Defence Force	-	5
	209	**1,157**

Auditing the Public Account and other accounts
Northern Territory Major Events Company Pty Ltd

Financial analysis continued

Abridged Statement of Financial Position at 30 June 2001

	2001 $'000	2000 $'000
Current assets	336	395
Non-current assets – plant and equipment	24	32
Total Assets	**360**	**427**
Current Liabilities (there are no non-current liabilities)	377	296
Net (liabilities)/Assets	**(17)**	**131**
Represented by contributed equity ($2) and (equity deficiency)/retained profits	**(17)**	**131**

The current liabilities at 30 June 2001 are high because they include government grants of $320,000 received in advance in respect of the musical Grease ($300,000) and the Finke Desert Race ($20,000) to be held after year end. Cash to fund these events is included in current assets.

Auditing the Public Account and other accounts

Analysis of the 30 June 2001 financial statements of:

Jabiru Town Development Authority

KEY FINDINGS

- **The Authority was technically insolvent at 30 June 2001 as it had a deficiency of assets of approximately $3.4 million.**
- **The Authority's ability to continue as a going concern is dependent on the moratorium, which has existed since 1986, on the Authority's future interest payments and repayment of loans due to the Northern Territory Government totalling $8.8 million.**
- **The Authority remains unable to repay in full its loan of $8.8 million from the NT Government. Based on the position at 30 June 2001, unless there is a significant turn around in the performance of the Authority's land transactions, the NT Government will not receive more than $5.4 million of its loan.**

Audit opinion

The audit of the Jabiru Town Development Authority (the Authority) for the year ended 30 June 2001 resulted in an unqualified independent audit opinion, which was issued on 11 June 2002.

Background

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

The NT Government provided loan funds of $8.4 million for over-designed services, mainly water supply and sewerage facilities, constructed to facilitate expansion of the town to its final estimated population. During the period January 1984 to June 1986 this debt grew by $0.4 million, being net unpaid interest, to $8.8 million. In August of 1986 a moratorium, which was still in place at 30 June 2001, was granted on the Authority's future interest and loan repayments on existing loans.

A 1985 Cost Sharing Agreement sets out the principles for the allocation between participating parties for expenditure required for the town development. The participating parties were principally Energy Resources Australia Limited, the NT Government, the Commonwealth Government and the Authority.

Auditing the Public Account and other accounts
Jabiru Town Development Authority

Background continued

The Authority has delegated its local government functions to the Jabiru Town Council, which prepares a separate Annual Report.

The annual financial report of the Authority covers the functions retained by it. The Council also assists the Authority by maintaining its accounting records.

The Authority prepares its annual financial statements on the full accrual basis consistent with Australian Accounting Standards, other mandatory professional reporting requirements and its own legislation.

Key issues

Inability to operate without the ongoing moratorium from the Northern Territory Government

The Authority's deficiency in assets increased to $3.4 million at 30 June 2001 compared to a deficiency of $0.8 million at 30 June 2000. This worsening of the Authority's net assets position primarily reflects the $2.58 million revaluation decrement referred to in the financial analysis on page 36. Technically, the Authority was insolvent at 30 June 2001 and its ability to operate as a going concern is dependent on the continuation of the ongoing moratorium over debt and interest payments due to the NT Government.

Inability to service debt

As a consequence of the Authority's present inability to generate income through the sub-lease of its land holdings, it is unable to repay the loan of $8.8 million, or pay interest, due to the NT Government. The Government ceased charging interest on, and seeking repayment of, this loan balance effective 1 July 1986.

Timeliness of financial reporting

The Jabiru Town Development Act requires that the Authority present it financial statements for audit within three months of financial year-end, in this case by 30 September 2001. This accountability obligation was not met and the financial statements were not received for audit until late April 2002.

Auditing the Public Account and other accounts
Jabiru Town Development Authority

Financial analysis

Abridged Statement of Financial Performance

	2001 $'000	2000 $'000
Revenue from ordinary activities		
Interest earned and sundry income	182	186
Grants received	36	47
Total revenue from ordinary activities	**218**	**233**
Expenses from ordinary activities before revaluation decrement		
Grants paid	136	231
Administration and amortisation expenses	103	122
Total expenses from ordinary activities before revaluation decrement	**239**	**353**
Loss before revaluation decrement	**(21)**	**(20)**

Grants received comprise expenses paid on behalf of the Authority for management fees and audit.

Grants paid comprise the value of infrastructure assets gifted by the Authority to the Jabiru Town Council.

Abridged Statement of Financial Position

	2001 $'000	2000 $'000
Current assets (of which $3.3m is cash at bank)	3,451	3,536
Non-current assets		
Land held for sub-lease	774	3,351
Town infrastructure and plant and equipment	1,209	1,272
Total Assets	**5,434**	**8,159**
Current Liabilities	26	153
Non-current liabilities (loans due to NT Government)	8,805	8,805
Total Liabilities	**8,831**	**8,958**
Net Liabilities (or asset deficiency)	**(3,397)**	**(799)**
Represented by accumulated deficits	**(3,397)**	**(799)**

Auditing the Public Account and other accounts
Jabiru Town Development Authority

Financial Analysis continued

The audit opinions on the Authority's financial statements for the 1999 and 2000 financial years outlined concern that the $3.35 million valuation attributed to residential land held for sub-lease may not have been supportable. This year management initiated a revaluation of this land by the Valuer-General resulting in a revaluation decrement of $2.58 million and a carrying value in the financial statements of $0.774 million. This revaluation caused the significant decrease in land held for sub-lease and increase in the accumulated deficit respectively.

The Authority was technically insolvent at 30 June 2001 as it had a deficiency of assets of approximately $3.4million. As disclosed in the 2001 financial statements, the Authority's ability to continue as a going concern is dependent on the moratorium on the Authority's future interest and loan payments to the NT Government.

Based on the position at 30 June 2001, unless there is a significant turn around in the performance of the Authority's land transactions, the NT Government will not realise more than $5.4 million of its loan.

Auditing the Public Account and other accounts

Analysis of the financial statements for the six months to 31 December 2001 of:

Menzies School of Health Research

KEY FINDINGS

- **In 2001, the Menzies School of Health Research (the School) changed its reporting year-end from 30 June to 31 December. The most recent financial statements cover the six months to 31 December 2001.**
- **The School changed its accounting policy in regard to unspent research grants received. The previous policy was to recognise any unspent grants as liabilities whereas the policy is now to recognise the total of any research grants as revenue when received. This change added $1.5 million to the net surplus from ordinary activities for the six-month reporting period.**
- **Any comparative assessment of the School's performance must take the above two factors into account.**

Audit opinion

The audit of Menzies School of Health Research (the School) for the six months ended 31 December 2001, resulted in an unqualified independent audit opinion, which was issued on 6 June 2002.

Background

The School was established under the Menzies School of Health Research Act in 1985 and operates as a medical research institute within the Northern Territory. The majority of the School's funding is from grants received.

In 2001, the School changed its reporting year-end from 30 June to 31 December. The most recent financial statements cover the six months to 31 December 2001.

Key issues

Change in accounting policy for recognising revenue

During this financial period the School changed its accounting policy in regard to unspent research grants received. The previous policy was to recognise the unspent grants as liabilities. The new policy is to recognise the total of the grant as revenue when received.

Auditing the Public Account and other accounts
Menzies School of Health Research

Financial analysis

Abridged Statement of Financial Performance for the six month financial period ended 31 December 2001 (prior year is for the 12 months ended 30 June 2001)

	December 2001 $'000	June 2001 $'000
Revenue from ordinary activities before impact of change in accounting policy in bringing grants received into account	4,573	7,797
Less expenses from ordinary activities		
Employee benefits	3,077	5,195
Administration, operational and other expenses	1,368	2,491
Total expenses from ordinary activities	4,445	7,686
Operating surplus before change in accounting policy	128	111
Impact of change in accounting policy	1,543	0
Net surplus from ordinary activities	**1,671**	**111**

If the policy change had applied at 30 June 2001 the resulting surpluses would have been $128,000 in the six months to 31 December 2001 and $344,000 in the 12 months to 30 June 2001.

Assuming a normal trend in expenditure, it might have been anticipated that pre inflated costs for the six months to 31 December 2001 would approximate $7.7 million on an annualised basis. On the assumption that costs are incurred evenly during a period, grossing up expenditure for the six months to 31 December 2001 to 12 months, gives estimated expenditure of $8.9 million. This is an annualised increase of $1.2 million or $600,000 for the six months, which is almost all due to increases in employee related costs.

Auditing the Public Account and other accounts
Menzies School of Health Research

Financial Analysis continued

Abridged Statement of Financial Position at 31 December 2001
(prior period was at 30 June 2001)

	December 2001 $'000	June 2001 $'000
Current assets	6,062	6,464
Non-current assets – Property, plant and equipment	688	728
Total assets	6,750	7,192
Current liabilities	2,325	4,438
Non-current liabilities	131	131
Total liabilities	2,456	4,569
Net assets	**4,294**	**2,623**
Represented by accumulated funds	**4,294**	**2,623**

The increase in the School's accumulated funds is primarily attributed to the change in accounting policy referred to above which now results in the recognition of research grant funding of $1.5 million as revenue earned. It must also be noted that the School has ongoing responsibilities in relation to unspent grant funding.

The School is the Centre Agent for the Cooperative Research Centre for Aboriginal and Tropical Health. The total assets of the School of $6.7 million include $1.2 million held in trust for the Co-operative Research Centre. The School reports a corresponding liability to the Co-operative Research Centre.

Auditing the Public Account and other accounts

Department of Employment, Education and Training

Indigenous Education Strategic Initiatives Program (IESIP) funding acquittal - year ended 31 December 2001

KEY FINDINGS

- **Expenditure incurred in the year ended 31 December 2001 related to IESIP Project Areas. However, it was still not possible to establish what amount of IESIP funding had been expended in achieving each Performance Target, and therefore whether the Department of Employment, Education and Training had fully complied with the requirements of Clauses 8.2 and 9.2 of the Indigenous Education Agreement.**
- **The audit opinion on the acquittal to the Commonwealth of the project funding referred to this exception.**
- **Reporting internally of IESIP program progress has improved overall during 2001. There has been work undertaken by DEET during 2001/2002 to clearly link program outcomes with the Indigenous Education Strategic Plan 2000-2004 to evidence expenditure and achievement of targets in 2002.**

Audit opinion

The audit of the Indigenous Education Strategic Initiatives Program (IESIP) funding acquittal for the year ended 31 December 2001 resulted in a qualified independent audit opinion, which was issued on 3 June 2002. Reasons for issuing a qualified audit opinion are detailed below.

Background

The IESIP is a Commonwealth funded program intended to contribute to the achievement of improved outcomes in Indigenous education. Funding is subject to Indigenous Education Agreements between the Northern Territory and the Commonwealth, which include performance measures, targets and strategies, and reporting on these by the Northern Territory.

A new agreement between the Territory and the Commonwealth for continued IESIP funding for the period 2001–2004 was negotiated and signed in 2001.

Auditing the Public Account and other accounts
Indigenous Education Strategic Initiatives Program funding acquittal

Audit Findings

Compliance with the Indigenous Education Agreement

Clauses 8.2 and 9.2 of the Indigenous Education Agreement between the Department of Education, Training and Youth Affairs (DETYA) and the Northern Territory require:

> "that the Northern Territory shall use the IESIP Funds only on activities which are related to achieving the Performance Targets applying to the IESIP Funds; and for the projects or initiatives, if any, specified in the Schedules;
>
> and
>
> that the Northern Territory agrees not to use the IESIP Funds on activities related to the provision of education to Indigenous Students that would normally be provided from other sources."

The audit could establish that expenditure incurred in the year was related to IESIP activities. However, accounting records prepared by the Northern Territory's Department of Employment, Education and Training (DEET) do not break down the expenditure that was related to achieving the Performance Targets or for the projects and initiatives specified in the Schedules to the Indigenous Education Agreement, for which funding and performance indicators have been allocated. As a result, it was not possible to establish what amount of the IESIP Funding had been expended in each activity, and therefore whether DEET had fully complied with the requirements of Clauses 8.2 and 9.2 of the Indigenous Education Agreement.

The audit opinion issued with the project funding acquittal statements to the Commonwealth Government commented on this exception.

However, in other respects, DEET's IESIP Acquittal and performance reports to the Commonwealth for the year ended 31 December 2001 were in compliance with reporting criteria.

Reporting internally of IESIP program progress has improved overall during 2001. There has been work undertaken by DEET during 2001/2002 to clearly link program outlines with the Indigenous Education Strategic Plan 2000-2004 to evidence expenditure and achievement of targets in 2002.

The Department of Employment, Education and Training has commented:

Since an earlier report on the IESIP program, work has been carried out to develop a financial structure which links subprograms to specific performance indicators and Project Areas as agreed with the Commonwealth and recommended through Learning Lessons.

On calling for IESIP funding submissions from areas of the Department (including schools), a requirement is that any project must specifically identify which performance indicators it addresses through elements of the Indigenous Education strategic plan.

An independent review of the accounting and reporting arrangements for these programs is underway to ensure that reporting within each Performance Target satisfies the requirements of the agreement with the Commonwealth.

Auditing the Public Account and other accounts

Other financial statements and acquittal audits completed this period.

Audit opinions

The results of audits of the following entities do not warrant separate financial analysis. Details of audit opinions issued are:

Agency	Audit opinion qualified or unqualified	Financial year end	Date audit opinion issued
Financial statement audits			
Cobourg Peninsula Sanctuary and Marine Park Board	Unqualified	30 June 2001	14 April 2002
Nitmiluk (Katherine Gorge) National Park Board [1]	Unqualified	30 June 2001	14 April 2002
Northern Territory University Foundation	Unqualified	31 December 2001	5 April 2002
Northern Territory University Foundation Trust	Unqualified	31 December 2001	5 April 2002
Inter-government agreement (acquittal) audits			
Commonwealth State Housing Agreement	Unqualified	30 June 2001	22 Aug 2002
NTU Financial Research Data Collection acquittal	Unqualified	21 December 2001	17 June 2002

[1] The notes to the financial report of the Nitmiluk (Katherine Gorge) National Park Board include the following:

> *"Economic Dependence – Nitmiluk (Katherine Gorge) National Park Board established by the "Nitmiluk (Katherine Gorge) National Park Act" is partially funded by the Northern Territory Government in recognition that it carries out activities on a non-commercial basis. These financial statements have been prepared on a going concern basis as such funding will continue."*

At 30 June 2001, the Board's liabilities exceeded its assets by $237,000 ($170,000 in 2000) and it operated at a deficit from ordinary activities of $67,000 ($35,000 in 2000). It was therefore concluded that, until such time as the Nitmiluk (Katherine Gorge) National Park Board generates an operating surplus and its assets exceed its liabilities, economic dependence on the Northern Territory Government will continue.

Matters arising from performance management system audits

Performance management system audits

Department of the Chief Minister – Risk Management Services

KEY FINDINGS

- **Risk Management Services' performance management system was inadequate and it could not make reliable assessments of its operational effectiveness and efficiency.**
- **At the time of the audit, Risk Management Services was implementing a substantial change program to provide a better audit and risk management service to government Agencies.**
- **Risk Management Service's audit methodologies, and their use, generally comply with both Australian and Internal Auditing Standards.**

Background

Risk Management Services is a division within the Department of the Chief Minister (DCM) and is charged with offering a risk management assessment and internal audit service to public sector Agencies. Although not all Chief Executives take advantage of the services offered, most do.

Audit Scope and Objectives

The objective of this performance management system audit was to determine whether Risk Management Services' systems enable the DCM to assess whether the objectives in relation to the delivery of Government Policies for Risk Management Services are being effectively achieved.

Mini-Budget Paper No. 2 2001/02 does not describe the objectives of Risk Management Services, except that the reference under "Public Sector Coordination and Advice" to the "management of business risk assessments" may be deemed as referring to Risk Management Services.

The Risk Management Services' 2001/2002 business plan identifies its mission statement as:

> "Risk Management Services provides a centralised risk management, business consulting and internal audit service to 18 NT Government Agencies through a customer-focused business approach that uses risk as the driver.
>
> However, use of our services is not mandated. The services assist Chief Executives to manage business risk, to improve business performance and to meet their accountabilities under legislation."

Performance management system audits - Risk Management Services

Audit Scope and objectives continued

The audit criteria adopted for this performance management systems audit were drawn from the NTAGO's performance management system audit framework. In applying this audit framework, to the extent they were not directly addressed by the framework, consideration was also given to:

- The findings reported in the Auditor-General's August 1999 Report;
- Risk Management Services' audit methodologies, and their use, having regard to compliance with both Australian and Internal Auditing Standards; and
- The effectiveness of the contract management practices of Risk Management Services.

At the time of the audit, Risk Management Services was implementing a substantial change program to provide a better audit and risk management service to government Agencies which needs to be borne in mind when noting the conclusions detailed below.

Overall conclusions

Risk Management Services' performance management system was inadequate and it could not make reliable assessments of its operational effectiveness and efficiency.

The audit concluded that Risk Management Services' audit methodologies, and their use, generally comply with both Australian and Internal Auditing Standards and that, over all, their contract management practices are satisfactory. These practices could, however, be improved by documenting the criteria for selection and allocation of contract audits under the Consultancy Services Panel scheme; and by monitoring the mix of contract personnel used as a project is in progress.

Key Findings

Performance Management

The 2001/2002 business plan for Risk Management Services identified five performance indicators for assessing its performance. However, none of these performance indicators were being measured or reported leading to the conclusion that Risk Management Services' performance management system was inadequate and it could not make reliable assessments of its operational effectiveness and efficiency.

Other findings included:

1. Project performance evaluations are on individual project files, but this performance information was not collated or assembled to provide data to assess the performance of the Division overall.

2. There was no overall work plan for Risk Management Services and work flows were not planned, recorded or monitored on a whole of office basis to enable the Division to be effectively managed. It is acknowledged, however, that individual principal consultants did have work plans, although these were not consolidated into an overall plan.

Performance management system audits - Risk Management Services

Key findings continued

3. Project performance evaluations provide the basic input for staff performance assessments, but there was no clear nexus between the two forms such that the project performance evaluations received from Agencies can be readily translated or transcribed to staff performance assessments.

4. The personal training needs of staff were not linked to their performance appraisals or to the overall goals and objectives of the Division.

5. Staff meetings were not held on a regular basis, were informal when held and had no defined outcomes. As a result members of the Division were only ever aware of their individual workflows and had little or no idea of the activity and performance of the Division as a whole. Communication needs to be improved to enable an awareness of unit workflows and performance matters.

6. Risk Management Services only reported to the Chief Executive of the Department of the Chief Minister once per annum and then only to provide limited information for annual reporting purposes.

The Department of the Chief Minister has commented:

The issues highlighted have been recognised and action has been taken to address them. For example a unit-wide work-planning system has been implemented and the Strategic Audit Information System has undergone comprehensive development.

Performance management system audits

Department of Employment, Education and Training (DEET)

Managing Repairs and Maintenance

KEY FINDINGS

- **Funding is generally available for the priority areas of "Health, Safety and Security" and "Retention of Asset Integrity". This enables DEET to meet the former Department of Education's stated performance criteria of "ensuring students and staff work in a safe … environment."**
- **At present DEET does not have in place a performance management system, linked to its business plan, to adequately monitor the repairs and maintenance function at the schools in the Northern Territory for which it has ultimate responsibility.**
- **DEET, as the accountable Agency, was unable to assess whether or not, from its viewpoint, the repairs and maintenance function is being performed economically, effectively or efficiently.**
- **The deferred maintenance gap between maintenance required and maintenance funded appears to have widened from $0.94 million to $5.58 million over the three years ended 30 June 2002.**

Background

Expenditure on repairs and maintenance at the 293 Government school sites administered by the Department of Infrastructure, Planning and Environment (DIPE) for the former Department of Education (DOE – now Department of Employment, Education and Training - DEET) totalled $13.4 million in 2000/2001. DOE's 2000/01 annual report provides an overview of its approach to maintaining standards in school facilities such that they meet "nationally recognised standards". Expenditure details for major upgrades/maintenance of facilities during that financial year are also given.

To assist in its management of schools, the DOE developed a School Management Handbook which includes a section on property management detailing the roles of the DOE, School Councils and administrators and DIPE. The School Management Handbook is currently in use by DEET.

Under the Northern Territory Government's Total Asset Management System (TAMS) regime, the repairs and maintenance function for Northern Territory schools has effectively been out-sourced to DIPE. TAMS lays down the guidelines implemented by DIPE in its management of assets across government using the Building Asset Management System (BAMS). Annual condition assessments of assets are conducted by DIPE.

Performance management system audits
DEET - Managing Repairs and Maintenance

Background continued

Under TAMS/BAMS, DIPE has input into the repairs and maintenance funding submissions prepared by DEET. DEET has input to the requirements in the School Management Handbook and therefore into procedures to be followed by the schools, including the schools' procurement procedures.

Audit Scope and Objectives

The focus of this audit and the performance management systems to be audited were restricted to the repairs and maintenance activities undertaken by the former DOE.

The audit objective was to assess whether the performance management system enabled the former DOE to assess how well its repairs and maintenance planning and programming supports its objectives, and in so doing, how well efficiency and economy were addressed.

Key Findings

Standards for measuring performance

The 2000/01 annual report of the former DOE stated that "The Department of Education has a responsibility to ensure students and staff work in a safe and positive environment. To achieve this the department has in place a range of policies and practices aimed at ensuring school facilities and staff credentials meet nationally recognised standards." From discussions with various staff members at both DEET and DIPE it was concluded that there are not any nationally recognised standards in regards to the maintenance of school facilities. In addition, no evidence of internally developed standards was identified. However, schools are constructed in line with nationally recognised standards.

Prioritising repairs and maintenance

Under TAMS/BAMS, repairs and maintenance are prioritised by use of a rating that defines the nature and urgency of the work.

Funding is generally available for the priority areas of "Health, Safety and Security" and "Retention of Asset Integrity". This enables DEET to meet the former DOE's stated performance criteria of "ensuring students and staff work in a safe … environment."

If funds are available for lower levels of priority, these items are negotiated directly with School Councils. DIPE and DEET provide School Councils with assistance and advice to make decisions in the interest of efficiency and economy, but ultimately these decisions on lower priority items are not controlled by DEET as the School Councils are incorporated bodies with their own governance and decision making processes. Repairs and maintenance are dealt with as they arise apart from mechanical and electrical items, which are dealt with on a cyclical basis by DIPE's Construction Division.

Given the centralised systems of TAMS and BAMS, where personnel and funding are effectively controlled outside of the Agency, DEET has to rely on the DIPE's expertise to provide effective and efficient advice.

Performance management system audits
DEET - Managing Repairs and Maintenance

Key Findings continued

However, at present DEET does not have in place a performance management system, linked to its business plan, to adequately monitor the repairs and maintenance function at the schools in the Northern Territory for which it has ultimate responsibility. This results in DEET, as the accountable Agency, being unable to assess whether or not, from its viewpoint, the repairs and maintenance function is being performed economically, effectively or efficiently.

As noted below, the funding levels at present are not adequate to meet all the repairs and maintenance items identified on the BAMS reports and the non-priority items are deferred until later years. The decision on which items to defer to future periods is made by the schools themselves.

Managerial responsibility

Under the Northern Territory Government's TAMS regime, DEET has had to out-source the monitoring and performance of its repairs and maintenance function to DIPE. However, overall DEET still remains responsible for ensuring that it provides a suitable learning environment for its staff and students.

The TAMS regime, when combined with BAMS, effectively acts as an out-sourcing agreement between the two entities, DEET and DIPE.

A planning meeting between DEET and DIPE is held once a year to set the repairs and maintenance priorities for the ensuing financial year. Following this meeting, feedback from DIPE to DEET is in the form of expenditure reports and monthly management meetings. Importantly, no key performance indicators have been specified by DEET and, as a result, this reporting is principally in terms of dollar amounts spent compared to the budget.

DEET employees have stated that they perform spot checks of the state of the facilities at schools where possible, but budgetary constraints mean that these checks are not performed frequently nor on a regular basis. At present the principal way that DEET can assess the effectiveness of the performance of DIPE is through direct feedback from the schools themselves. Whilst DIPE personnel annually assess the level of school requests by comparison with the previous year's funding, there is no formal methodology in place for collecting such feedback from the schools.

Expenditure on repairs and maintenance by the former DOE

Funding submissions are made by DEET from information provided by DIPE from the yearly BAMS review. These reviews of all the school assets are conducted by consultants appointed by DIPE annually to identify works that need to be completed in the ensuing year and include a dollar value for each of the works to be performed. Funding for repairs and maintenance on Northern Territory's schools to be spent on behalf of DEET by DIPE totalled $14.6 million for the year ended 30 June 2002. This amount can be compared with required repairs and maintenance expenditure identified for 2001/02 in DIPE's BAMS' reports which was $20.18 million, a gap of $5.58 million.

Performance management system audits
DEET - Managing Repairs and Maintenance

Key Findings continued

The process of comparing actual expenditure with required expenditure has noted a gap between works identified and works funded, which could represent a “deferred maintenance situation”, as follows:

Financial Year	Identified $’000	Funded/Actual $’000	Gap (deferred maintenance) $’000
2001/2002	20,180	14,600	5,580
2000/2001	16,300	13,420	2,880
1999/2000	15,670	14,730	940

This summary indicates that the gap between the funding levels identified as being required by the BAMS reports and the funding received appears to have widened in recent years resulting in an increase in the number of items being deferred. This could result in a deferred maintenance build up.

Systems currently in place

As noted above, the system currently in place to manage the repairs and maintenance function is BAMS with guidelines being set in the School Management Handbook. These do not however represent “performance management systems” because they do not assist DEET to:

- Identify, in its own right, the policy and outcomes to be achieved by the repairs and maintenance function;
- Identify, in its own right, the strategies and outputs intended to deliver the required repairs and maintenance outcomes and record these in a business plan;
- Identify how to measure the achievement of the outcomes and outputs and design systems to capture the repairs and maintenance performance information;
- Monitor and report the progress of the achievement of outputs and outcomes;
- Evaluate the effectiveness of the final outcomes against the intended objectives; and
- Report internally on the outputs and outcomes and report externally, preferably in the annual report, on the outcomes together with recommendations for subsequent improvement.

The Department of Employment, Education and Training has commented:

DEET agrees with the audit findings, discussions with DIPE are underway with a view to establishing a closer relationship between DIPE’s operational officers, school councils and the unit, and to consider an appropriate performance management system to monitor the repairs and maintenance function. The intent is that DEET will be able to form a view on whether the function is being delivered economically, effectively and efficiently.

While funding is limited, the level to which assets can be maintained is restricted. Generally, funding is only available to address the high priority items as acknowledged by the Auditor-General.

Working within the policy of devolution of management functions to schools, school councils have maintained control of the funds available to them for repairs and maintenance and are still able to determine their own priorities.

Performance management system audits

Department of Corporate and Information Services:

Outsourcing of IT Services

KEY FINDINGS

- **Issues identified in the Desktop and LAN Services contract related to:**
  - **Confirmation of Agency hardware volumes and associated pricing adjustments;**
  - **Delay in completion of the transition period; and**
  - **Management of the contract.**
- **The framework for vendor risk assessment and internal audit needs to be improved for all IT contracts to provide ongoing assurance as to the integrity of vendor service level reporting, vendor contract compliance and vendor processes.**
- **Failure by the Agency to accurately ascertain the number of units, which were the subject of the tender process, may have affected tender pricing.**

Background

The Department of Corporate and Information Services (DCIS) is responsible for the management of the various contracts with private sector service providers for the provision of mandated IT services to Government Agencies including overseeing the initial transition of the service provision from the public to the private sector.

Audit objectives and scope

The objective of the audit was to assess DCIS's approach to the outsourcing of IT services and to determine whether the contracts for IT services will allow DCIS to actively manage them, with reference to performance and service delivery standards.

The review addressed the ongoing management by DCIS of the contracts for Desktop & LAN Services, Electronic Messaging and Groupware (eMAG) and Advanced Communication Services (ACS). Commentary on the results of earlier audits can be found in the Auditor-General's February 2000, February 2001 and August 2001 Reports.

Performance management system audits – Outsourcing of IT Services

Audit findings

Desktop & LAN Services contract

The Desktop & LAN Services contract was awarded to CSC and commenced on 2 July 2002. There was a delay in the finalisation of the transition period for this contract from 28 February to 30 June 2002. As a consequence, this audit, which was completed in June 2002, was unable to review the management of the contract post transition period. I intend to revisit the management of this contract in 2003.

The issues identified from the audit were:

♦ *Confirmation of Agency hardware volumes and associated pricing adjustments*.

The tender request (based on Agency asset registers) indicated approximately 11,000 units of desktops, laptops and printers would be subject to the Desktop & LAN Services contract. However, an initial count by the successful tenderer and sole service provider could only locate approximately 8,500 units and a subsequent review raised the number to 9,439 units. At the time of the audit DCIS and the service provider were yet to agree a final number.

There was no imperative within Agencies during the transition period to ensure the accuracy of the count as the service provider was charging based on each Agency's proportion of the volumes provided by Agencies in June 2001 and Agencies were fully funded for these costs in 2001. A financial imperative was only established after the transition period when Agencies were required to pay by actual units in use.

Also there was no consideration in retrospect whether the selection process was fair and equitable in light of the reduction in units. No attempt was made to determine whether pricing by the unsuccessful tenderers would have been different with more realistic inventory figures of between 8,500 and 9,500 units.

♦ *Delay in completion of the transition period*.

The primary outstanding issue contributing to the need to extend the transition period was confirmation of Agency hardware volumes and associated pricing adjustments.

Also contributing to the extension of the transition period was the service provider's failure to meet certain predetermined deliverables. As a consequence payment of scheduled transition payments to the service provider under the contract were delayed until the contract deliverables were met.

♦ *Managing the contract*.

DCIS actively managed the relationship with the service provider to ensure that outstanding contract commitments were met as soon as possible. Improving communication between DCIS, the Agencies and the service provider was considered to be a key strategy in improving services throughout Government and reducing the number of issues arising.

Performance management system audits – Outsourcing of IT Services

Audit findings continued

Managing the contract continued

Processes had been established to monitor service performance levels provided under the contract. DCIS was liasing with the service provider to address service level areas that were not meeting Key Performance Indicators (KPIs) within the contracts.

Under the terms of the contract the service provider can be sanctioned up to 10% of its fee for a failure to achieve all of the KPIs. It is questionable whether the value of this sanction is sufficiently high to encourage full compliance with the KPIs by the service provider.

Electronic Messaging and Groupware (eMAG) contract

In 1999, the NT Government entered into a contract with Computer Support and Maintenance for the provision of whole of government messaging (email) and groupware services for a three year period expiring 30 June 2002. Prior to the expiration of the contract the NT Government exercised an option in the contract to negotiate an extension of the term for a further two years.

The negotiations with the service provider to improve KPIs that were identified during a previous audit in March 2001 continued through to the negotiation for the contract extension. The revision to KPIs, which was expected to be implemented by May 2001, had not been implemented at the time of the audit. Audit concerns at the time were that the absence of a performance history from relevant key performance measures would limit the Government's ability to address performance inadequacies during the contract and pricing renegotiations. However, subsequent to the earlier audit, DCIS initiated a benchmarking study in October 2001 to assess the current services and their associated costs against industry standards. This study concluded that the eMAG services were reasonable value for money.

The eMAG contract extension was on the basis of an assessment of historical performance against KPIs, subjective feedback from Agencies, the benchmark study, an assessment of the relationship with the service provider and new agreements reached with the service provider for improved KPIs, reporting, service credits and industry development beginning 1 July 2002.

Advanced Communications Services (ACS) contract

In December 1999, the NT Government entered into a contract with a consortium led by Cable & Wireless Optus for the supply of all government telephone, data and internet communications.

The audit found that contract management processes were operating effectively to ensure that the service provider met the NT Government's expectations and to verify the accuracy of service credits. Opportunities exist to refine the performance management systems through improvement of KPIs, performance reporting and vendor audits.

Performance management system audits – Outsourcing of IT Services

Audit Findings continued

A number of benchmarking and contract management reviews undertaken by independent experts during the past 12 months had identified some service areas that were not adequately addressed by existing KPIs. Key areas lacking defined service levels included internet and dial-up services and mobile telephony. DCIS is addressing the recommendations made from these reviews and is negotiating enhancements to KPIs with the service provider.

Six monthly reviews were conducted by DCIS to measure the achievement of industry development commitments made in the ACS contract.

ACS billing issues that were identified in the previous audit were resolved in January 2002.

General Findings

A recommended internal audit strategy for reviews of the integrity of performance reporting and vendor processes was prepared by DCIS in 2001 for the 2001/2002 financial year and submitted to the DCIS Audit Committee for consideration. The coverage of the plan was limited and did not extend beyond July 2002. Only a small percentage of the reviews scheduled in the past 18 months had been performed. The framework for vendor risk assessment and internal audit needs to be improved for all IT contracts to provide ongoing assurance as to the integrity of vendor service level reporting, vendor contract compliance and vendor processes.

The Department of Corporate and Information Services has commented:

The contact was based on 9890 workstations, and this was adjusted by true-up negotiations in July 2002 to 9200. Final sign off by agencies is expected in November and may result in a slight increase on 9200. All Tenderers were provided with the same information which was the best available at the time. It is possible that they would all have increased their prices for lesser volumes as this would have adversely affected economies of scale.

Advice from KPMG Consulting who reviewed the contract in May 2002 was that a service credit cap of 10% of the service charges within any one period is considered reasonable. An internal audit strategy for the 2002/03 financial year is now in place.

Topical Issues
Issues impacting the planning or conduct of audits

No further topical issues have been identified from audit work conducted since the February 2002 Report to the Parliament. However, this opportunity is taken to note for the information of Members my approach to:

Preparation of financial statements

Various pieces of legislation include requirements for Agencies to:

- ♦ prepare financial statements within specified time frames; and
- ♦ submit those statements for audit.

For example, section 10 of the *Financial Management Act* requires the Accountable Officer of a Government Business Division to prepare a financial statement within three months of the financial year end and to submit this financial statement to me for audit. I then have a further two months in which to complete my audit thereof. Another example is section 44 of the *Northern Territory University Act*, which imposes a similar requirement on the University's Accountable Officer.

It is my interpretation that the intention of these requirements is that the financial statements to be submitted to me for audit must be:

1. delivered to my Office by 1700 hours on the final date due – normally 30 September or 31 March; and
2. complete in all respects (i.e. including all notes to the financial statements and signed by the Accountable Officer or other appropriate accountable person or body).

In the short time since taking up my appointment I have noticed the practice of incomplete and unsigned financial statements being submitted to me with the expectation that the audit process will identify errors and accounting adjustments prior to completion. This is not acceptable. Management must take responsibility for preparation of complete financial statements.

Entering into Public Private Partnerships (PPPs)

In recent years governments in Australia have entered into PPPs or Build Owned Operate Transfer (BOOT) or similar arrangements particularly for long term infrastructure projects in areas of health, water and transport. In the Northern Territory the AustralAsia Railway is a BOOT project and I have noted the Northern Territory Government may be giving consideration to further projects of this nature.

Projects of this nature are complex and often unique. They require careful consideration of complex legal, financing, risk sharing and accounting treatments. The Australian Accounting Standards Board has had accounting for PPPs/BOOTs under consideration for some time but there is currently no accounting standard specifically dealing with these transactions in Australia.

Topical Issues
Issues impacting the planning or conduct of audits

On occasions such arrangements result in their not being fully recorded, as they are treated as “off balance sheet”. Under a “cash based” financial reporting environment, this has not been an issue for Northern Territory Treasury to deal with, other than to ensure that information about such transactions is disclosed in schedules to the Treasurer’s Annual Financial Statement. However, under an accrual environment Treasury will need to give consideration to the “control” and “significant influence” tests in accounting standards and concepts.

It is appropriate for the Government to give such projects due consideration and I shall monitor emerging issues as they develop.

Appendix 1 – Engagement Letter

Northern Territory Auditor-General's Office

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

26 November 2002

Dear Madam Speaker and Members

The purpose of this "Engagement Letter" is to detail the approach that I will follow in the conduct of audits required of me by sections 13, 14 and 15 the Audit Act. It is not a requirement that I detail this information but I regard it as good practice to do so and it should provide Madam Speaker and Members with an understanding on how audit work is conducted by my Office.

The mission of the Northern Territory Auditor-General's Office is to provide to Parliament, on behalf of the people, knowledge of issues of substance arising from audits, so that the Parliament of the Northern Territory is better able to scrutinise the performance of government administration. In so doing this Office aims to be recognised as an effective and efficient resource in identifying and encouraging improvements in public administration practices. It achieves these objectives under two categories of audit work: financial attest and compliance audits; and audits of performance management systems.

Financial Attest and Compliance Audits

My financial attest and compliance audits are conducted in accordance with the provisions of the Audit Act and other relevant Northern Territory Acts with the objectives of auditing the Public Account and other accounts, and where applicable, expressing opinions on financial statements prepared by Northern Territory public sector Agencies and/or entities. Compliance with the Audit Act requires that I have regard to recognised professional standards and practices which would require me, as a minimum, to audit in accordance with Australian Auditing Standards.

Appendix 1 – Engagement Letter

Following completion of an audit of a financial report, my report will make clear, within the scope and opinion sections, the following:

1. The scope of my audit and of my opinion – which will specify:

   ♦ the financial period covered;

   ♦ the components of the report being audited;

   ♦ the fact that it is management's responsibility to prepare the financial report being audited;

   ♦ the fact that I have conducted an independent audit of the financial report with the purpose of expressing an opinion thereon to the responsible Minister (or other person or Board that may be nominated in relevant legislation);

   and is based on the facts that:

   ♦ my audit was conducted in accordance with Australian Auditing Standards;

   ♦ the audit procedures conducted were designed to:

     ▪ provide me with <u>reasonable</u> assurance that the financial report is free of <u>material</u> misstatement;

     ▪ examine, <u>on a test basis</u>, evidence supporting the amounts and other disclosures in the financial report;

     ▪ evaluate accounting policies and significant accounting estimates;

     ▪ enable me to form an opinion whether, in all <u>material</u> respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements in Australia and the requirements of the relevant legislation (normally the Financial Management Act); and

     ▪ enable me to form an opinion whether the financial report presents a view which is consistent with my understanding of the Agency's or entity's financial position, financial performance and its cash flows.

2. Opinion – I shall report in accordance with Australian Auditing Standard 702 (The Audit Report on a General Purpose Financial Report) whether or not the financial report presents fairly:

   ♦ the Agency's or entity's financial position at a point in time; and

   ♦ its financial performance and cash flows for the specified period for which the financial report has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements in Australia and with the requirements of the relevant legislation.

Appendix 1 – Engagement Letter

It will be clear whether or not my opinion is qualified or unqualified. In addition, the following will also be clear:

- to whom my opinion is addressed (in most cases my audits of financial reports will be addressed to the responsible Minister);
- the particular financial report encompassed by my opinion; and
- the date of my opinion.

If during the course of a financial attest or compliance audit any of the following are detected:

- material aspects of legislative and regulatory non-compliance and financial irregularity (including internal control weaknesses);
- material diseconomies, inefficiency and ineffectiveness; and
- any other specific matters required to be addressed by the audit mandate,

these matters will be reported, as appropriate, to the management of the entity, the relevant Minister and to the Legislative Assembly. However, my audit procedures are not specifically designed to identify matters such as these.

Inherent limitations

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal control, there is an unavoidable risk that even some material misstatements, fraud or irregularity may remain undiscovered.

However, in addition to any report on financial reports, I will also report concerning any material weaknesses in the systems of accounting and internal control which come to notice during the conduct of audits.

Audit of Performance Management Systems

The Audit Act also provides for me to conduct an audit of performance management systems of Agencies or entities or other organisation in respect of the accounts or financial report of which I am required or permitted by law of the Territory to conduct an audit.

The conduct of these audits is governed by Part 3 of the Audit Act. These audits may be separate audits or part of another audit. The objective is to determine whether the performance management systems (not the <u>performance</u> per se) of the Agency or organisation enable the Agency or entity to assess whether its objectives are being achieved economically, efficiently or effectively.

Appendix 1 – Engagement Letter

Performance management system audits can be conducted at a corporate, output or category of cost level, such as capital expenditure. My Office has developed a framework for its approach to the conduct of performance management systems audits. Details of this framework have been provided in previous reports to the Legislative Assembly and are included again – see Appendix 7.

My Office has strongly encouraged improved reporting of performance by Agencies and by entities. My Office has also encouraged Agencies or entities to report performance indicators that address the criteria of economy, efficiency and effectiveness. In applying the audit framework referred to above, my Office continues to apply the following definitions, provided in Australian Auditing Standard AUS 806, of these criteria:

Economy – the acquisition of the appropriate quality and quantity of financial, physical and information resources at the appropriate times and at the lowest cost.

Efficiency – the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

Effectiveness – the achievement of the objectives or other intended effects of activities.

Reporting to the Legislative Assembly

In accordance with the requirements of the Audit Act, matters identified and recommendations arising from these audits are reported to the Agency or entity, and where appropriate, to the responsible Minister and to the Legislative Assembly. The report to the Legislative Assembly is to include in its entirety, or in an agreed summary form, any comments provided by the Chief Executive Officer of the Agency or entity on the report when still in a draft form.

In addition to commenting on matters identified and recommendations arising from audits, I plan to continue the practice of providing independent analysis of Agency or entity performance, primarily of financial performance, in my reports to the Legislative Assembly.

Adding Value

I will also seek to maximise the value to the Agency, the Government and the Legislative Assembly of all audit work including where appropriate the framing of recommendations to address:

- improvements in the framework of accountability;
- opportunities for cost savings and efficiency gains; and
- recognition of good practice in use by Agencies, entities and units of administration.

Appendix 1 – Engagement Letter

Independence

Professional independence is a concept fundamental to the conduct of an audit requiring me to approach my work with integrity and objectivity. I must both be, and be seen to be, free of any interest which is incompatible with objectivity. It is essential therefore that I be independent of the Agencies being audited and free of interests which could be incompatible with integrity and objectivity.

In addition, I must be able to complete my professional duties free of any real or implied interference from Government.

I look forward to full cooperation from the Executive, Agency or entity management and staff and expect them to make available any accounts, documentation, reports and other information requested in connection with my audits.

Yours sincerely

Mike Blake
Auditor-General for the Northern Territory

Appendix 2 - Audit opinion reports issued since 31 December 2001

	Date 2001 financial statements tabled to Legislative Assembly	**Date of Audit Report Year ended 31 December 2001**	***Date of Audit Report Year ended 31 December 2000***
Entities with specific Legislation or Trust Deeds			
Northern Territory University	13 August 2002	25 June 2002	*28 June 2001*
NT University Foundation (a company limited by guarantee)	N/A	5 April 2002	*21 March 2001*
NT University Foundation Trust	N/A	5 April 2002	*21 March 2001*
Batchelor Institute of Indigenous Tertiary Education	13 August 2002	20 June 2002	*5 October 2001*
Menzies School of Health Research	13 August 2002	6 June 2002	*N/A (1)*
Entities that Sec 10 Financial Management Act applies as though a GBD		**Year ended 30 June 2001**	***Year ended 30 June 2000***
Cobourg Peninsula Sanctuary and Marine Park Board	14 May 2002	15 April 2002	*23 March 2001*
Nitmiluk (Katherine Gorge) National Park Board	14 May 2002	15 April 2002	*22 February 2001*
Jabiru Town Development Authority	19 June 2002	11 June 2002	*21 February 2001*
	Deadline for submission of Audited Financial Statement	**Date of Audit Report Year ended 30 June 2001**	***Date of Audit Report year ended 30 June 2000***
Inter-Government Statements by Agreement			
Commonwealth - State Housing Agreement	31 December 2001	22 August 2002	*7 June 2001*
		Year ended 31 December 2001	***Year ended 31 December 2000***
Northern Territory University Financial Research Data Collection Acquittal	31 August 2002	17 June 2002	*16 May 2001*
Indigenous Education Strategic Initiatives Program (IESIP)	31 March 2002	3 June 2002	*2 October 2001*

(1) Financial year end changed from June to December.

Appendix 2 - Audit opinion reports issued since 31 December 2001

	Deadline for submission of Audited Financial Statement	**Date of Audit Report Year ended 30 June 2001**	***Date of Audit Report year ended 30 June 2000***
Private Limited Companies			
Northern Territory Major Events Company Pty Ltd	N/A	9 August 2002	22 October 2001
	Deadline for submission of Audited Financial Statement	**Date of Audit Report Year ended 31 December 2001**	***Date of Audit Report year ended 31 December 2000***
Hidden Valley Promotions Pty Ltd	N/A	9 August 2002	17 April 2001

Appendix 3 - Status of Audits which were identified to be conducted in the six months to 30 June 2002

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits were identified in Appendix 3 of the August 2000 Report as being scheduled for the period.

Department of the Chief Minister	
Alice in 10 (performance management system audit)	Deferred to July to December 2002
Risk Management Services (performance management system audit)	Refer pages 44 to 46
Department of Corporate and Information Services	
IT outsourcing (continuation of performance management system audit)	Refer pages 51 to 54
Department of Employment, Education and Training	
Analysis and review of grants and subsidies. (compliance with controls audit)	Deferred to July to December 2002
Repairs and maintenance programming (performance management system audit)	Refer pages 47 to 50
Department of Health and Community Services	
Systems to measure performance information on selected outputs as per Budget Papers (performance management system audit)	Phase one of this audit is complete. It was concluded that the Department has established comprehensive databases to capture and report performance. Phase two will review how the Department reports its performance in its 2001/02 annual report.
Northern Territory Treasury	
Procurement Review Board (compliance with controls audit)	Refer pages 12 to 14

The following audits were identified on page 118 of the February 2002 Report as being “not completed” or “deferred”.

Department of Transport and Works	
Revisit Taxi Licence buy back scheme	Deferred to July to December 2002
Territory Health Services	
Patient travel assistance scheme – Alice Springs	No matters to report to the Legislative Assembly

Appendix 4
Proposed Audit Activity in the six months to 31 December 2002

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.

Power and Water Corporation

Review of IT support for new financial systems.

Department of Health and Community Services

An IT specialist review of Data Warehousing and performance reporting.

Performance reporting in the Agency's 2001/02 Annual Report.

Appendix 5
Agencies not audited in the year ended 30 June 2002

For activities relating to the financial year ended 30 June 2002, no audits have been, or are intended to be, conducted at the following Agencies.

- Aboriginal Areas Protection Authority
- Centralian College
- Department of the Legislative Assembly
- Ombudsman's Office
- Trade Development Zone Authority

These Agencies would usually be included in audit coverage at least once every three years.

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

It is also noted that an independent auditor appointed under section 27 of the Audit Act conducts an annual audit of the Auditor-General's Office.

Appendix 6 - Overview of 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:

1. 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

2. 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 6 – Overview of 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 7 - Overview of the approach to auditing performance management systems

Legislative Framework

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

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

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

Operational Framework

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

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

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

Index of Matters Reported

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 November 2002 Report are also available from the Northern Territory Auditor-General's Office.

The next Report by the Auditor-General to the Legislative Assembly will be a combination general Report and the analysis of the Treasurer's Annual Financial Statement. That report is expected to be tabled in the first sittings of 2003.

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