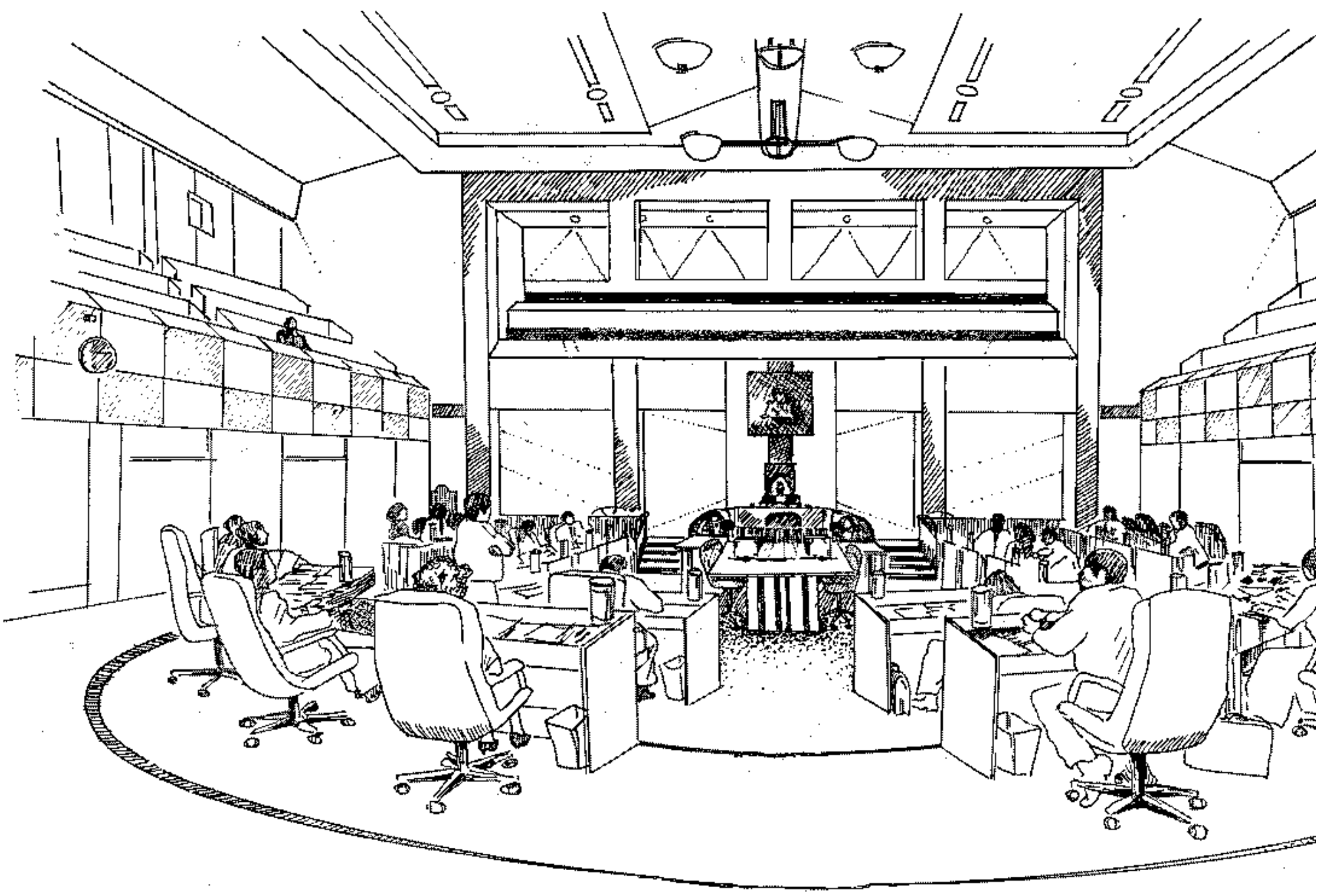
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

FEBRUARY 2003 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.

ORDERED TO BE
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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.

Contents

Entities referred to in this Report

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

25 February 2003

Madam,

I request that you table today in the Legislative Assembly my report on matters arising from audits conducted during the six months to 31 December 2002.

In the main, the Report summarises the outcomes from financial attest audit work performed for the year ended 30 June 2002. Also included are the results of performance management systems audits conducted.

A report of this type is by its nature historical, dealing with past financial results of Agencies and other public sector entities. Annual financial reporting by Agencies is an important step in their accountability to the Parliament for managing the resources under their control and this Report enhances this accountability by providing analysis of the financial results.

Those Members with whom I have met have indicated their liking of the format and content of previous reports. As a result, the format of this Report is unchanged. Members could use it to enhance their understanding of the financial performance and position of Agencies thus contributing to informed debate.

It is my intention in future reports to deal more comprehensively with the impacts of the move to accrual accounting and output based management with one objective being to assist Members in transitioning from cash to accrual reporting. I also plan to comment in a future report on the topical issue of governance.

Yours faithfully,

Mike Blake
Auditor-General for the Northern Territory

Major Findings

Issues and Trends arising from IT Audits

There were issues relating to:

- **IT policy;**
- **Business continuity plans;**
- **Upgrade testing;**
- **Storage of back up tapes and disks;**
- **Passwords access control; and**
- **User access.**

Refer pages 12 to 13 for further comments

Analysis of the 30 June 2002 audited financial statements of

Darwin Port Corporation

- **The development of East Arm Wharf Stage 2 was projected at 30 June 2002 to have little or no impact on the anticipated future income flows of the Darwin Port Corporation, leading to a write down in this asset at 30 June of $29.9 million and potential for further write downs in the future of $50 million. The methodology adopted to determine written down values for Stage 2 was similar to that adopted for Stage 1.**
- **These write downs do not, however, impact the service potential of these Port assets.**
- **Independent assessments of the carrying value of Port assets have resulted in asset write downs totalling $102 million over the last four years.**

Refer pages 28 to 31 for further comments

Territory Housing Business Services

- **The operating result shows a loss from ordinary activities for the financial year ended 30 June 2002 of $17.9 million.**

Refer pages 32 to 34 for further comments

Major Findings

Analysis of the 30 June 2002 audited financial statements of

Northern Territory Government and Public Authorities Employees' Superannuation Fund

- **A significant contributor to the poor operating result was a reduction in the net market value of investments during the current year of $14.83 million ($14.92 million appreciation in 2001). This is not inconsistent with the investment performance of other superannuation funds in Australia.**

Refer pages 56 to 58 for further comments

Territory Insurance Office

- **TIO, excluding MACA, incurred an operating loss after tax of $1.06 million for 2001/02 in comparison with the operating loss after tax of $1.65 million in 2000/01. The loss arose primarily due to deterioration in investment income.**
- **MACA incurred a loss for the year of $10.26 million in comparison to the prior year profit of $10.44 million. This was primarily due to a significant increase in the level of claims provisioning during the year, giving rise to an increase in claims expense, which mainly resulted from changes to economic assumptions applied to claims provisioning.**
- **Adoption by TIO of the new Australian Prudential Regulation Authority regulations is recommended as compliance will facilitate consistency and comparative performance and assist both management and the Parliament in their assessment of the financial performance and position of TIO.**

Refer pages 64 to 69 for further comments

Review of Grants and Subsidies - Department of Employment, Education and Training

- **Lack of uniformity in the utilisation of MYOB for reporting purposes had the effect of reducing the former Department of Education's ability to evaluate and analyse financial data received from schools.**

Refer pages 86 to 90 for further comments

Reporting on audits conducted in the six months ended 31 December 2002

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 31 December 2002, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

Records of Parliamentary debates, 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 4), and
- audits of performance management systems (described in Appendix 5).

Are entities able to include their responses in the Report?

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

Matters Arising from auditing the Public Account and other accounts

Auditing the Public Account and other accounts

Issues and Trends arising from End of Year Compliance Audits

KEY FINDING

- **No material weaknesses in controls were found during these reviews and the accounting and control procedures examined were found to be generally satisfactory and compliant with the accountability requirements.**

Audit objective and scope

The audit objective of an End of Year (EOY) Compliance Audit is to review the adequacy of selected aspects of end of financial year controls over accounting and material financial transactions.

EOY Compliance Audits in respect of the financial year ended 30 June 2002 were conducted at:

- Department of Business, Industry and Resource Development
- Department of Community Development, Sport and Cultural Affairs
- Department of Corporate and Information Services
- Department of Education, Employment and Training
- Department of Health and Community Services
- Department of Infrastructure, Planning and Environment
- Department of Justice
- Northern Territory Police, Fire & Emergency Services.

Background

The purpose of EOY Compliance Audits is to provide support to the audit of the Treasurer's Annual Financial Statement and includes additional compliance aspects. Accordingly, the strategy is to review the reasonableness of Agency end of financial year controls over accounting, material financial transactions (including major end of financial year procurement) and, most importantly, the Agency's end of year returns/confirmations to NT Treasury.

These EOY Compliance Audits may also provide matters for Accountable Officers to consider when preparing their representations to the relevant Ministers for 2001/02.

In addition to normal compliance related audit procedures and in anticipation of accrual reporting being effective from 1 July 2002, processes used by agencies to establish amounts owing to creditors at 30 June 2002 were reviewed.

Auditing the Public Account - Issues and trends arising from End of Year Compliance Audits

Key issues

Overall conclusion

No material weaknesses in controls were found during these reviews and the accounting and control procedures examined were found to be generally satisfactory and compliant with the accountability requirements.

Processes applied in determining amounts due to creditors

The reviews identified that Agencies relied on the Department of Corporate and Information Services (DCIS) to determine the balances due to creditors at financial year end. Whilst DCIS provides this service, it remains the responsibility of the Agency to ensure that it is reporting all amounts due at year end. A misstatement of liabilities is likely to have a direct effect on the Statement of Financial Performance and it is important that the Agency's procedures address all of the issues of completeness of information, existence of liabilities, accuracy of calculations and the correct valuation of amounts outstanding. Agencies must ensure that details of all creditors are captured on a timely basis, preferably concurrently with the provision of the service or supply of goods.

While implementing such procedures may be difficult due to the remoteness of some Agency activities, procedures should be sufficiently rigorous to account for all large value amounts, particularly those that impact the Statement of Financial Performance.

It is, however, important to obtain a balance between total accuracy and the timeliness of information. To achieve this, it may be necessary to vary procedures between an Agency's divisions depending on the materiality of individual transactions and whether the transactions are revenue or capital in nature. The procedures should include:

- Issuing instructions to all staff involved in the processing of accounts payable at any level setting out the new procedures;
- Identifying all major initiatives and/or contracts in process during June each year and ensuring that invoices and/or progress certificates are obtained for each;
- Ensuring that major and regular suppliers are included in the list of accounts payable;
- Recording all suppliers' invoices, delivery dockets or other prime source documents dated prior to balance date received at each office after the close of processing for the month;
- Arranging for the lists of documents to be accumulated in a central point, summarised and then recorded into the records at the latest date compatible with producing timely financial reports; and
- Where possible, arranging for amounts recorded in the accounts payable subsidiary ledger to be reconciled with suppliers' statements for all major suppliers in order to be certain that all material liabilities are recorded.

Auditing the Public Account - Issues and trends arising from End of Year Compliance Audits

Key issues continued

Once processes have been designed and approved, all staff involved should be given training in the procedures, together with training that covers the change to accrual accounting and the importance of the changes.

The new procedures should also be implemented for the end of March or April 2003, with a check being made on all invoices that should have been recorded, but were overlooked. This trial of the procedures will reinforce the training and identify any deficiencies in the procedures that need rectifying before 30 June 2003.

Auditing the Public Account and other accounts

Issues and Trends arising from Capital Asset Inspections conducted in Alice Springs

KEY FINDINGS

- **There were no matters arising from the capital asset inspections conducted in Alice Springs.**

Audit objectives and scope

The objectives of the audit were to

- Physically sight a small number of major assets located in the Alice Springs area, details of which were extracted from asset registers maintained by Agencies; and
- Comment on the condition and serviceability of those assets.

Audits were conducted in Alice Springs at:

- Department of Business, Industry and Resource Development
- Department of Community Development, Sport and Cultural Affairs
- Department of Health and Community Services
- Department of Infrastructure, Planning and Environment
- Northern Territory Police, Fire & Emergency Services.

The scope of audit included:

- Physically sighting the assets selected;
- Forming an opinion on the general condition of the assets; and
- Inquiry as to the serviceability of the assets (ie are they in use/readily available for use).

Matters arising

There were no matters arising.

Auditing the Public Account and other accounts

Issues and Trends arising from IT Audits

KEY FINDINGS

There were issues relating to:

- **IT policy;**
- **Business continuity plans;**
- **Upgrade testing;**
- **Storage of back up tapes and disks;**
- **Passwords access control; and**
- **User access**

Audit objectives and scope

IT audits are conducted as stand-alone projects or as part of the audits of financial statements. Audit objectives are specific to the particular project or financial statement audit. This section summarises common findings from these audits, which all NT Public Sector agencies should review and consider in the conduct of their operations.

Key issues

The following issues arose at one or more agencies as a result of the IT audits performed.

IT policy

- *Adoption and dissemination of user information security policies* - User Information Security Policies for the use of information systems had not always been formally adopted and disseminated. Security policies are to be developed in 2003 and will cover inventory and equipment usage, software installation, information security, internet and e-mail usage, remote access, virus protection, and staff induction and separation.

- *Privacy policies as they relate to information in IT systems* – There was a need identified for Privacy Policies to be documented, approved and disseminated.

Business continuity plans

- Business continuity plans to assist in the restoration of critical business processes and resources in the event of a disaster had not always been developed.

- Business continuity plans were not always up to date and did not address all key areas of business continuity planning.

- Business continuity plans should be developed, maintained and tested on a regular basis.

Auditing the Public Account - Issues and trends arising from IT audits

Key issues continued

Upgrade testing

- Instances were noted where upgrades were not tested prior to being installed in the production environment. Test plans should be prepared and executed during upgrades and there should be documented acceptance of changes indicating that testing has been performed satisfactorily and that management support the changes being loaded into production.
- In one instance, there was currently no formal sign-off by the system owner or key users for acceptance of a change before it is migrated into production.

Storage of back up tapes/disks

- While backups are performed as intended, instances were noted where all backups were stored on-site. Best practice would require back ups to be stored off-site.

Password access controls

- Password weaknesses exist in certain systems where general and privileged account passwords did not automatically expire or did not have a required minimum length, thereby enabling users to have blank passwords. In other cases user account passwords were not being changed on a regular basis.
- System mandated requirements for users to have a password to access the domain or local servers were not always present.

User access

- It is essential that access by users to program logic and program code be controlled. It was found that regular reviews of user access in some IT environments had not been completed. Such reviews are essential in that they identify obsolete access to the systems. If users retain inappropriate access, the integrity and confidentiality of systems could be compromised.
- Opportunities exist to improve security administration processes to ensure that obsolete usernames are identified and removed. Opportunities also exist to enhance security around user terminal sessions and file transfers during the proposed implementation of new operating systems.
- The physical access to the server room at one Agency required review and inappropriate or obsolete access removed. Access to server rooms should be controlled, with access limited to authorised personnel only.

While these control weaknesses were found to exist, no breakdowns in control were noted during any of the above audits. However, a strong IT control environment would address these features.

The Department of the Chief Minister has commented:

While the IT audits in various agencies did not identify any breakdowns in control, there are still a number of important areas that need to be addressed by agencies. I have taken particular note of the observations regarding business continuity plans and IT security policies and expect measures to be taken to address these areas in 2003.

Auditing the Public Account and other accounts

Audit findings and Analysis of the 30 June 2002 financial statements of:

Northern Territory Tourist Commission

KEY FINDINGS

- **Following improvements made by the Commission to its recording of fixed assets, the prior year's audit opinion qualification was removed this year.**
- **Audit tests identified an initial understatement of creditors of $95,000 at 30 June 2002. This understatement was corrected and the Commission's management is improving processes.**

Audit opinion

The audit of the Northern Territory Tourist Commission (the Commission) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 7 October 2002.

Background

The Commission commenced operations in January 1980 and exists to market and influence the development of the Northern Territory as a competitive tourism destination. It was established under the *Northern Territory Tourist Commission Act*, is not a Government Business Division and is not subject to the *Public Sector Employment and Management Act.*

The Commission is required to prepare accrual based annual financial statements which consolidate the results of Territory Discoveries (see pages 38 to 40 of this Report) which it controls. The results of Territory Discoveries are also separately reported within the annual report of the Commission.

Key issues

Lack of timeliness in the processing of creditor invoices

Audit work revealed an understatement of creditor balances at financial year end of $95,000, which arose due to delays in the processing of invoices received from creditors. This control weakness also existed at 30 June 2001 and was noted at an interim audit conducted prior to 30 June 2002. The understatement was corrected and the Commission's management is improving processes to record balances.

Improvements to the management and recording of fixed assets

The audit opinion on the Commission's 2000/01 financial statements was qualified due to inadequate recording of fixed assets and an inability to assess the appropriateness of accounting for the write-off of computer equipment.

Auditing the Public Account - NT Tourist Commission

Key issues continued

Following improvements made by the Commission to its recording of assets, additional audit work was performed at both the interim and final stages of the 2001/02 audit and the audit opinion qualification was removed this year.

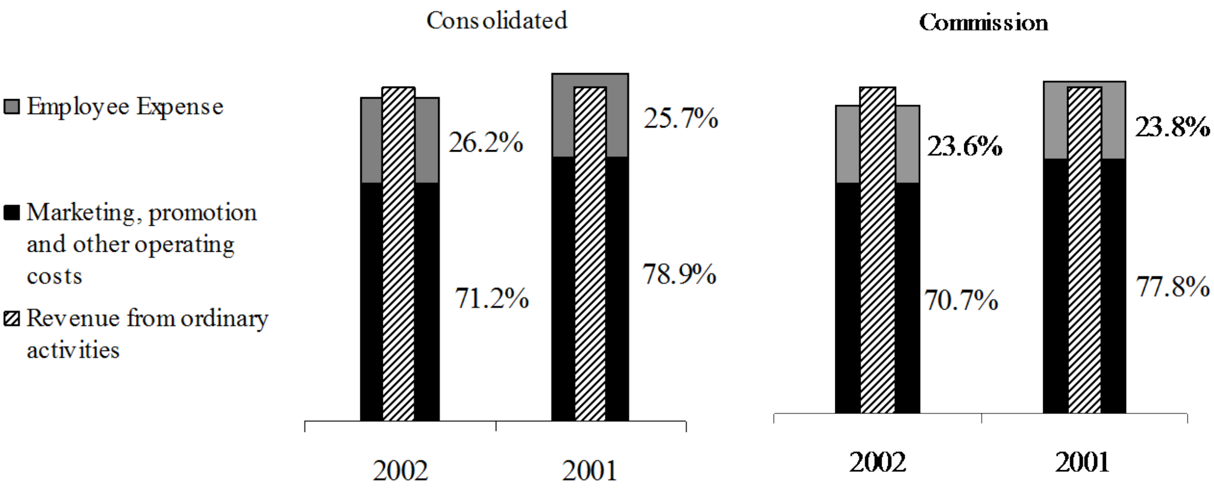
Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002 $'000	2001 $'000	2002 $'000	2001 $'000
	Consolidated		Commission	
Revenue from ordinary activities:				
Rendering services and other revenue	3,048	3,326	2,636	2,875
Community Service Obligation	25,832	25,169	25,832	25,169
Total revenue from ordinary activities	**28,880**	**28,495**	**28,468**	**28,044**
Less expenditure on ordinary activities:				
Marketing, promotion and other operating costs	20,719	22,131	20,064	21,479
Employee expenses	7,577	7,337	6,729	6,664
Depreciation and amortisation	76	376	75	362
Total expenditure	**28,372**	**29,844**	**26,868**	**28,505**
Net profit/(loss)	**508**	**(1,349)**	**1,600**	**(461)**

The above summary shows a decrease in expenditure for 2002 compared to 2001 of $1.5 million (consolidated) and $1.6 million (Commission). Management at the Tourist Commission advise that this is primarily due to a reduction in depreciation expenses, transfer of funding responsibilities and the achievement of whole of government efficiency targets.

Another way to compare expenditure is to express the above as a percentage of revenue as follows:



Auditing the Public Account - NT Tourist Commission

Financial results continued

This confirms the Commission took steps to reduce its main variable costs to improve its financial position.

Abridged Statement of Financial Position at 30 June 2002

	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
	Consolidated		Commission	
Current assets	673	1,178	557	935
Less Current Liabilities	1,876	2,907	1,690	2,726
Net Current Liabilities	(1,203)	(1,729)	(1,133)	(1,791)
Add Non Current Assets	485	513	3,455	2,521
	(718)	(1,216)	2,322	730
Less Non Current Liabilities	131	141	120	128
Excess of (liabilities over assets)/ assets over liabilities	**(849)**	**(1,357)**	**2,202**	**602**
Represented by:				
(Accumulated losses) / Total Equity	**(849)**	**(1,357)**	**2,202**	**602**

The Commission continues to have net current liabilities (or negative working capital) and, on a consolidated basis, an excess of total liabilities over total assets indicating continued reliance on the NT Government for financial support. However, the trend is for an improvement in this liquidity and net liability situation.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of:

Department of Infrastructure, Planning and Environment

KEY FINDINGS

Two opinions were issued as a result of the audit of the financial statements:

- **An unqualified opinion which stated that the financial statements of DIPE as at 30 June 2002 were, in my opinion, presented fairly in accordance with Part 2, Section 5 of the Treasurer's Directions; and**
- **A qualified opinion which stated that the financial statements had not been prepared to include the information required by Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments" to meet the objectives of a general purpose financial report. The major difference between the requirements of the Treasurer's Directions and AAS 29 is that AAS 29 requires the application of accrual accounting policies and procedures, whereas the Treasurer's Directions require reporting of receipts and expenditure on a cash basis and limited disclosure of asset and liability items.**

Audit opinion

The audit of the Department of Infrastructure, Planning and Environment (DIPE) for the year ended 30 June 2002 resulted in unqualified and qualified independent audit opinions, which were issued on 25 October 2002.

Background

DIPE provides a coordinated approach to infrastructure provision, transport services, development planning and environment protection as well as the sustainable use of land and water resources and preservation of native flora and fauna. The Department was formed in November 2001 by the amalgamation of the former Departments of Transport and Works; Lands, Planning and Environment and Parks and Wildlife.

Auditing the Public Account
Department of Infrastructure, Planning and Environment

Key issues

Two audit opinions

The *Audit Act* requires me to perform my duties in accordance with recognised professional standards and practices. Auditing Standards require me to make reference in my audit opinion on general purpose financial statements where adoption of a legislated reporting framework does not provide the information expected by an Australian Accounting Standard which is the case with DIPE's Annual Financial Statements.

Accordingly, my audit opinion had two elements. One referred to the compliance with the Treasurer's Directions , the other to the non-compliance with Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments". Details are:

- An unqualified opinion which stated that the financial statements of DIPE as at 30 June 2002 were, in my opinion, presented fairly in accordance with Part 2, Section 5 of the Treasurer's Directions; and
- A qualified opinion which stated that the financial statements had not been prepared to include the information required by Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments" to meet the objectives of a general purpose financial report. The major difference between the requirements of the Treasurer's Directions and AAS 29 is that AAS 29 requires the application of accrual accounting policies and procedures, whereas the Treasurer's Directions require reporting of receipts and expenditure on a cash basis and limited disclosure of asset and liability items.

Financial results

As the Department was formed in November 2001 there are no comparative financial results.

However, the financial statements do report cash revenues and expenditures for the year ended 30 June 2002, which is noted below along with the budget from the November 2001 Mini Budget.

Receipts for the Year ended 30 June 2002

	Mini Budget $'000	Actuals $'000
Operating account		
Charges for goods and services	14,631	20,673
Grants direct from the Commonwealth	33,631	34,687
Other revenue/receipts	2,124	2,572
Total Operating Account receipts	**50,386**	**57,932**
Transfers from Consolidated Revenue Account	310,561	317,576
Total receipts to Operating account	**360,947**	**375,508**

Increases charges for goods and services primarily reflect increased costs of recoverable works funding from the Commonwealth.

Transfers from Consolidated Revenue Account were increased to fund further Capital Works, Minor New Works and flood related repairs and maintenance.

Auditing the Public Account
Department of Infrastructure, Planning and Environment

Financial results continued

Expenditure by classification for the year ended 30 June 2002

	Mini Budget $'000	Actuals $'000
Personnel Costs	58,477	59,560
Operational expenses	158,617	158,795
Capital expenditure	134,040	144,990
Grants and Subsidies	21,333	19,306
Total Expenditure	**372,467**	**382,651**

Increases in capital expenditure reflected the increase in the capital recoverable works program for work to be carried out at Bradshaw access-Victoria River and other additional capital works costs.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Northern Territory Treasury Corporation

KEY FINDINGS

- **Profit from ordinary activities before tax increased by $12.4 million this financial year, from $13.7 million to $26.1 million.**
- **The Corporation became a Government Business Division on 1 July 2001.**
- **A primary performance target is to minimise the Government's cost of borrowings for the year and consequently the total cost of borrowed funds. This was achieved in 2001/02 when the average interest rate across all its borrowings was reduced to 7.4% for the year, down from 8.4% in the previous year.**

Audit opinion

The audit of the Northern Territory Treasury Corporation (the Corporation) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 30 September 2002.

Background

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

The Corporation became a Government Business Division on 1 July 2001. It prepares financial statements in accordance with the Australian Accounting Standards applicable to commercial entities.

Key issues

Managing the borrowing requirements of the Government

The Corporation continues to pursue its role of minimising the cost of borrowings to the Government. A primary performance target is to minimise the Government's cost of borrowings for the year and consequently the total cost of borrowed funds.

The Corporation achieved a cost of borrowing during the year of 5.7% (6.1% in 2001) which resulted in the Corporation's total cost of funds falling from 8.4% in 2001 to 7.4% in 2002. New on-lending of $112 million was made to the Northern Territory of Australia during the year. As determined by policy, the interest rate differential on these new on-lendings was ten basis points.

Auditing the Public Account - NT Treasury Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002 $'000	2001 $'000
Revenue from ordinary activities:		
Interest	195,237	186,219
Other Revenue	662	5,613
Total revenue from ordinary activities	**195,899**	**191,832**
Less expenditure on ordinary activities:		
Interest	167,562	175,267
Other expenses	142	615
Administration	2,062	2,262
Total expenditure	**169,766**	**178,144**
Profit from ordinary activities before income tax expense	**26,133**	**13,688**
Income tax attributable to ordinary activities	7,840	-
Net profit before dividend	**18,293**	**13,688**
Less Dividend	**9,146**	**13,688**
Retained profit	**9,147**	**-**

The profit from ordinary activities before tax increased by $12.4 million this financial year, from $13.7 million to $26.1 million. This primarily resulted from further reductions in the cost of new borrowings and increased interest revenue resulting from the additional on-lending to the Northern Territory of Australia over the past two years.

As a result of the Corporation becoming a GBD, it entered the Tax Equivalent Regime, which has lead to an income tax expense of $7.84 million being recognised in the financial statements of the Corporation for the first time.

In addition, the change of status to a GBD lead to a change in the Corporation's dividend policy. The Corporation's previous dividend policy was to pay a dividend equal to 100% of the operating profit (a dividend of $13.688 million for 2001). The new policy is to pay a dividend equal to 50% of the Corporation's after tax profit (a dividend of $9.146 million for 2002).

Auditing the Public Account - NT Treasury Corporation

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Assets	2,480,786	2,413,130
Less Liabilities	2,438,001	2,379,492
Excess of assets over liabilities	**42,785**	**33,638**
Represented by:		
Total Equity	**42,785**	**33,638**

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Power and Water Authority

KEY FINDINGS

- **The profit before income tax of the consolidated entity of $18.56 million is down by $0.89 million or 4.56% on the prior year result of $19.45 million. This result should be viewed in light of the significant one-off expense items incurred in the prior year, such as the write offs in 2000/01 on the acquisition of the Darwin to Katherine Transmission Line.**
- **Adjusting for these one-off items the operating result for the consolidated entity declined by $8.9 million or 35% from the prior year.**
- **Conversion onto a new financial system caused difficulties and delays in financial reporting at 30 June 2002.**

Audit opinion

The audit of Power and Water Authority (PAWA) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 27 November 2002.

Background

PAWA is the primary provider of electricity generation and distribution services, and the sole provider of water and sewerage services in the Northern Territory.

On 1 July 2002 the Authority's name was changed to Power and Water Corporation and it became a government owned corporation under the *Government Owned Corporations Act.*

These financial statements were prepared under the *Financial Management Act*. Future reporting will be under the *Government Owned Corporations Act*.

Auditing the Public Account - Power and Water Authority

Key issues

Introduction of a new Financial Management System and its impact on timeliness of reporting

In April 2002, PAWA ceased to maintain its general ledger on the Government Accounting System and converted to its own financial management system. The changeover had some initial conversion problems that resulted in a number of audit issues that were reported to the PAWA's management. Examples included:

- Some general ledger accounts had not been reconciled to subsidiary ledgers. In the case of creditors, a number of adjustments were required post financial year end; and
- Inventory transactions recorded in the new financial system were not updated in the Works Information Management System.

As the conversion was close to year-end, financial services staff were still becoming conversant with the operations of the new system while also producing the annual financial statements. This, together with a change in the general ledger classifications and codings, provided difficulties for the year end reporting process and subsequently to conduct of the audit resulting in PAWA's annual report being tabled on 28 November 2002.

Whilst tabling on 28 November 2002 satisfied PAWA's reporting obligations in terms of "timeliness", a significant improvement is called for in 2002/03 when the new Corporation must complete its annual financial statements by 31 August under the new Government Owned Corporation regime. It is pleasing to note that the Corporation has taken steps to prepare for this earlier reporting.

Auditing the Public Account - Power and Water Authority

Financial results of the Consolidated entity

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	**2001**
	$'000	**$'000**
Revenue from ordinary activities	389,780	384,612
Less expenditure from ordinary activities:		
Raw materials and consumables used	167,684	173,151
Repairs and maintenance	31,186	26,776
Employee expenses	44,574	43,509
Property costs	2,555	2,350
Information technology and communications	11,686	10,272
Other	36,169	35,013
Borrowing costs	21,519	21,504
Depreciation and amortisation	55,847	52,590
Total expenditure	371,220	365,165
Net profit from ordinary activities before income tax expense	18,560	19,447
Less income tax expense	-	22
Net profit from ordinary activities after income tax expense	18,560	19,425
Less Dividends	9,227	8,613
Net increase in retained profits	**9,333**	**10,812**

The profit before income tax of $18.56 million is down by $0.89 million or 4.56% on the prior year result of $19.45 million. This result must be viewed in light of certain significant one-off expenses incurred in the prior year, namely the write-off of the $4.8 million excess in the purchase price over the fair value of the Darwin to Katherine transmission line and the $0.92 million loss on determination of the NT Power Trust. Also, the $2.28 million benefit gained in the current year from the revision of the estimate for accrued gas purchases in prior years boosted the 2001/02 result.

Adjusting for the above the operating result declined by $8.9 million or 35% from the prior year.

Auditing the Public Account - Power and Water Authority

Financial results continued

While revenue increased only marginally by $5.2 million or 1.3%, expenses increased by $14.1 million or 4.4%. Major contributors to the increased expenses were:

- depreciation and amortisation up by $3.26 million primarily due to the accelerated amortisation of deferred development expenditure;
- employee costs up by $1.06 million due to a number of factors including voluntary redundancies, increased allowance and benefits from an Enterprise Bargaining Agreement and a $200,000 increase in overtime payments;
- repairs and maintenance up by $4.4 million due to various projects such the continuation of the program for replacement of insulators on power lines throughout the Territory;
- information technology and communication expenses up by $1.4 million due to installation, testing and implementation of the new financial management system; and
- cost of sales in the subsidiary Gasgo Pty Ltd up by $2.5 million.

Abridged Statement of Financial Position at 30 June 2002

	notes	**2002 $'000**	**2001 $'000**
Current assets	*1, 2, 3 & 4*	120,328	95,567
Less Current Liabilities		86,646	95,834
Working capital		33,682	(267)
Add Non Current Assets	*5 & 6*	892,441	828,773
		926,123	828,506
Less Non Current Liabilities	*7*	265,541	235,891
Net Assets		**660,582**	**592,615**
Represented by:			
Reserves	*5*	381,770	323,136
Retained profits		278,812	269,479
Total Equity		**660,582**	**592,615**

The significant changes in the consolidated Statement of Financial Position are:

1. Cash, which increased by $24 million or 79.3%. This was as a result of a combination of cash generated from operations exceeding the investment in non-current assets and new borrowings for capital acquisitions exceeding repayments.

2. Receivables have increased by $1.57 million or 3% due to an increase in Service Debtors.

Auditing the Public Account - Power and Water Authority

Financial results continued

3. Prepayments that have increased by $1.45 million or 71.8% due primarily to the overpayment of Superannuation during the 2002 year which will be recovered.

4. Inventory has decreased by $2.28 million or 18.69% due to the benefits of the inventory outsourcing exercise.

5. A net upward revaluation of property, plant and equipment by $65.49 million or 8.1% is the main reason for the increase in non-current assets. This resulted in a similar increase in the Asset Revaluation Reserve.

6. A reduction in other non-current assets of $1.83 million or 8.7% was due to the accelerated amortisation of deferred development expenditure recorded in Gasgo's accounts.

7. An increase in liabilities due largely to an increase in interest bearing liabilities of $23.51 million, or 9.1%, utilised to fund capital works and contributing to the high cash holdings at financial year-end.

The Power and Water Corporation has commented:

As has been highlighted at page 26 of the Report, the Authority incurred significant increases in certain expenditures in 2001-2002 that were not included in the prior year. These expenses need to be considered when making comparisons to the prior year's results. Examples of these expenditures include:

- *Depreciation and amortisation expense of $3.26 million, $1.75 million relating to development expenditure in the Authority's wholly owned subsidiary Gasgo Pty Ltd. (There is no net increase in revenues for Gasgo as a result of the increase in amortisation expense; similarly, no material increases in Power and Water Authority revenues directly relating to the additional depreciation expense.)*

- *Information technology and communication expenses are an additional $1.4 million in 2001-2002 primarily due to the implementation of a new financial system. (No increase in revenue as a result of this additional expense.)*

- *Employee costs have increased by $1.06 million. This includes a 3% Enterprise Bargaining Agreement wage rise. (No increases in revenue as a result of this additional expense.)*

- *Repairs and maintenance expenses have increased by $4.4 million due to a number of significant projects. (No direct increase in revenue as a result of this additional expenditure.)*

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Darwin Port Corporation

KEY FINDINGS

- **The development of East Arm Wharf Stage 2 was projected at 30 June 2002 to have little or no impact on the anticipated future income flows of the Darwin Port Corporation, leading to a write down in this asset at 30 June of $29.9 million and potential for further write downs in the future of $50 million. The methodology adopted to determine the written down values for Stage 2 was similar to that adopted for Stage 1.**
- **These write downs do not, however, impact the service potential of these Port assets.**
- **The Corporation's net worth fell by a further $3.8 million to $14.7 million as infrastructure assets were again written down.**
- **Independent assessments of the carrying value of Port assets have resulted in asset write downs totalling $102 million over the last four years.**

Audit opinion

The audit of Darwin Port Corporation (the Corporation) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 16 October 2002.

Background

The Corporation is the Government Business Division which manages a portfolio of wharf and other marine assets in Darwin, including the infrastructure developed for the new facilities at East Arm in Darwin Harbour. Stage 1 of the East Arm facility was officially opened in February 2000 and Stage 2 is currently under construction. In time the facility at East Arm is expected to handle all industrial port requirements. The former wharf infrastructure adjacent to the Darwin central business district is to be reserved for cruise ships, visiting naval vessels and other tourism related activities.

Auditing the Public Account - Darwin Port Corporation

Key issues

Accounting for Stage 2 of East Arm Wharf

Construction of Stage 2 of East Arm Wharf continued during the year with completion now anticipated in 2004. Construction is being funded and managed by the Department of Infrastructure, Planning and Environment with work in progress transferred to the Corporation annually and treated as an equity injection. During the 2001/02 financial year, $29.9 million was spent on East Arm Wharf Stage 2 and the Corporation is committed to spending a further $50 million on this development.

Qualified audit opinion – 30 June 2001

The audit opinion on the 30 June 2001 annual financial statement was qualified in that it included reference to an inability to form a view on the carrying value of the Stokes Hill Wharf in an amount of $3.89 million. The Board of Directors of the Corporation re-evaluated the carrying value of Stokes Hill Wharf during 2001/02 and amended it to zero resulting in the lifting of the qualification.

Fort Hill, Iron Ore and Mooring Basin Wharves

The Board re-assessed the useful economic lives of these wharves during 2001/02 particularly in view of any impact that the new East Arm Wharf will have on their future use. This re-assessment was subjected to audit and it was concluded that no material misstatement existed at 30 June 2002. However, re-assessment of the economic lives of these wharves will require regular updating by the Board. This is particularly so for the Fort Hill Wharf once the crane and related infrastructure is relocated to East Arm.

Carrying value of East Arm Wharf Stages 1 and 2 and impact on Net Worth of the Corporation

Accounting Standards in Australia require business entities that trade “for profit” to record assets at cost or valuation and for the resulting cost or valuation to not exceed the asset’s “recoverable amount”. Recoverable amount is normally assessed as being the net present value of the future earning capacity of the asset concerned. The Board of the the Corporation applies the accounting standards in preparing its financial statements.

The Corporation has made significant investments on the East Arm Wharf over recent years and independent assessments of the carrying value of this and other Port assets have resulted in the write down of assets to recoverable amount over the last four years as follows:

	1999	2000	2001	2002	Total
			$ millions		
Assets written down to recoverable amount by		60.6	6.7	34.7	102.0
Net worth	73.4	26.3	18.5	14.7	N/A

Auditing the Public Account - Darwin Port Corporation

Key issues continued

The write downs in 2001/02 include the expenditure on East Arm Wharf Stage 2 of $29.9 million, because this development was projected, at 30 June 2002, to have little or no impact on anticipated future income streams. Given the continuation of the policy of recording Corporation assets at their recoverable amount, the $50 million committed to works on East Arm Wharf Stage 2 will probably be written down in the future. This will, however, depend on regular assessment of future earnings projected for the wharf. The methodology that has been adopted to determine the written down values for Stage 2 is similar to that adopted for Stage 1.

It is noted, however, that the accounting treatments applied have no impact on the service potential of the East Arm Wharf assets.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002 $'000	**2001 $'000**
Revenue from ordinary activities:		
Rendering services	11,606	11,092
Other revenue from ordinary activities	5,119	3,932
Total revenue from ordinary activities	**16,725**	**15,024**
Less expenditure on ordinary activities:		
Employee expenses	4,210	4,433
Operational expenses	4,262	3,625
Repairs and maintenance expenses	2,899	1,836
Depreciation expenses	887	884
Borrowing expenses	2,616	2,717
Total expenditure before asset valuation decrement	14,874	13,495
Net operating profit before asset valuation decrement	1,851	1,529
Less Decrement in valuation of non-current assets	34,664	6,725
(Loss) from ordinary activities before related income tax expense	**(32,813)**	**(5,196)**
Income tax (expense)/benefit relating to ordinary activities	(879)	362
Net (loss)	**(33,692)**	**(4,834)**

The Corporation continues to generate profit before asset write downs. During this period it received revenue from Community Service Obligations of $4.7 million in 2002 ($3.4 million in 2001) principally related to cruise shipping support and the wharf precinct activities.

Auditing the Public Account - Darwin Port Corporation

Financial results continued

The CSO revenues provided by Government determine the level of service provided by the Corporation. Those revenues represent the recovery of avoidable costs incurred by the Corporation in providing CSOs and neither a loss nor profit is generated as a result.

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Current assets	14,329	12,182
Less Current Liabilities	7,109	6,733
Net Current Assets	7,220	5,449
Add Non Current Assets	41,031	46,605
	48,251	52,054
Less Non Current Liabilities	33,545	33,521
Excess of assets over liabilities	**14,706**	**18,533**
Represented by:		
Total Equity	**14,706**	**18,533**

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Territory Housing Business Services

KEY FINDINGS

- **The operating result shows a loss from ordinary activities for the financial year ended 30 June 2002 of $17.9 million.**
- **Revenues were insufficient to fully fund capital replacements without drawing on cash reserves, a trend that has developed over the last 2 years.**

Audit opinion

The audit of Territory Housing Business Services for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 22 November 2002.

Background

This GBD controls and manages the Government's rental housing stocks and the mortgage assets arising from sales of the housing stocks.

In previous years, this GBD had incurred significant levels of operating losses, because of low Community Service Obligation (CSO) funding and a high debt burden. However, in 1999/2000 an operating surplus was achieved for the first time because CSO funding was increased and the high debt burden was reduced. Its host agency is the Department of Community Development, Sport and Cultural Affairs.

Key issues

Operating Losses

The operating result shows a loss from ordinary activities for the financial year ended 30 June 2002 of $17.9 million compared to the loss of $5.5 million in the financial year ended 30 June 2001. The loss illustrates that revenues were insufficient to fully fund capital replacements without drawing on cash reserves, a trend that has developed over the past two financial years.

Auditing the Public Account - Territory Housing Business Services

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002 $'000	2001 $'000
Revenue from ordinary activities:		
Rendering of services	37,231	37,951
Community Service Obligations (CSO)	30,119	30,485
Other revenues from ordinary activities	40,873	43,557
Total revenue from ordinary activities	**108,223**	**111,993**
Less expenditure on ordinary activities:		
Employee expenses	8,594	7,769
Rates	13,388	14,425
Repairs and maintenance	23,293	19,389
Depreciation and amortisation	18,225	17,895
Borrowing costs	25,411	25,778
Other expenses on ordinary activities	37,256	32,270
Total expenditure	**126,167**	**117,526**
Net (loss)	**(17,944)**	**(5,533)**

The $17.9 million loss from ordinary activities for the financial year ended 30 June 2002 was mainly attributable to a $1.7 million decrease in interest revenue, a $1.4 million decrease in proceeds on sale of assets, and an overall increase of $12.3 million in total expenses.

The decrease in interest revenue of $1.7 million was primarily due to a fall of $7.2 million in cash and Territory Insurance Office (TIO) loan balances. The decrease in TIO loan balances (loans to home purchasers) was the result of a higher number of discharged loans in 2001/02, a 6.8% increase when compared to that in 2000/01. Territory Housing Business Services have advised that this was attributable to the weaker economic conditions in 2001/02, which contributed to the rise in default loans this financial year and hence an increase in the number of home ownership properties sold in 2001/02.

The overall rise of $12.3 million in expenses was the result of a general increase in employee and operational expenses throughout Territory Housing Business Services. This was consistent with the increase in number of employees during the financial year following the restructuring of the Department in November 2001. New departmental policies were implemented as part of the restructure and these contributed to the high expenditure spent on Community Housing and Crisis Accommodation Programs (grants and subsidies expenses) of $3.2 million in 2001/02 compared to $0.75 million in 2000/01 as rolled over funds from prior years were required to be spent in 2001/02. Repairs and maintenance expenses increased by $3.1 million due to cyclical painting and the installation of security screens undertaken during the financial year ended 30 June 2002.

Auditing the Public Account - Territory Housing Business Services

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Current Assets	47,939	52,485
Less Current Liabilities	12,315	11,001
Net Current Assets	35,624	41,484
Add Non Current Assets		
Advances Paid	183,363	186,622
Property, Plant and Equipment	789,997	757,856
Investments	31,965	27,538
Total non-current assets	1,005,325	972,016
	1,040,949	1,013,500
Less Non Current Liabilities		
Advances Received	338,974	344,902
Other payables and provisions	2,535	2,520
Total non-current liabilities	341,509	347,422
Excess of assets over liabilities	**699,440**	**666,078**
Represented by:		
Total Equity	**699,440**	**666,078**

The decrease in current assets primarily reflects the draw down of cash reserves as cash on hand was used to fund operations and as a supplement to reduced revenues.

The increase in non current assets primarily reflects the results of the revaluation of Territory Housing Business Services rental dwelling assets, whilst the reduction in non current liabilities is mainly due to repayment of debt sourced from the higher number of discharged home loans during the 2001/02 financial year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Territory Wildlife Parks

KEY FINDINGS

- **Revenues received to fund Community Service Obligations (CSO) increased this year by $310,000 which, along with reduced levels of expenditure, contributed to a reduced operating loss of $18,000.**
- **The increase in the CSO funding was required to be included as part of a $1.1 million equity repayment to the Government.**
- **The Community Service Obligation funding for the year was $8.5 million, which was 81.2% of the GBD's total revenue. This illustrates that it continues to be unable to attain the commercial characteristics required of a GBD.**

Audit opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 25 October 2002.

Background

This GBD includes the Territory Wildlife Park near Darwin and the Alice Springs Desert Park. The GBD has always required substantial funding from the Government which has been characterised as Community Service Obligation (CSO) funding, but which is arguably more an operating subsidy.

The host Agency is the Department of Infrastructure, Planning and Environment.

Key issues

Going concern

Community Service Obligation (CSO) funding of $8.5 million ($8.2 million in 2001) contributed to 81.2% of the GBD's total revenue. This appears to be more in the nature of an operating subsidy rather than the Government meeting costs of CSO. A definition of a CSO is:

> *"activities or policies that (the GBD) would not choose to pursue on the same conditions if acting solely on commercial principles" (Australian Journal of Public Administration, Volume 60, No.4 – December 2001).*

Auditing the Public Account - Territory Wildlife Parks

Key issues continued

Territory Wildlife Parks cannot continue to operate without Government support and the 2002/03 budget includes a further CSO of $8.526 million or 81% of budgeted operating revenue.

As highlighted in previous Auditor-General Reports, a GBD is expected:

> *"to operate as a fully commercial business, undertaking only those activities that it would ordinarily undertake for commercial reasons."* (*Source: Budget Paper No. 3, 2000-01, page 118)*

Territory Wildlife Parks continues to be unable to attain the commercial characteristics required of a GBD.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Revenue from ordinary activities (excluding CSO)	1,972	2,130
Less expenditure from ordinary activities:		
Botany	1,206	1,096
Commercial services	4,329	3,751
Technical services	510	392
Zoology	3,022	4,405
Depreciation and amortisation	1,452	1,483
Total expenditure	10,519	11,127
Operating loss before CSO	(8,547)	(8,997)
Community Service Obligation funding	8,529	8,219
Net (loss) from ordinary activities	**(18)**	**(778)**

The operating loss of the GBD decreased from $778,000 in 2000/01 to $18,000 in 2001/02. A $310,000 increase in CSO funding offset by a $125,000 decrease in operating revenue and a $608,000 reduction in expenses achieved the improved operating result.

Operating revenue decreased due to reduced visitor numbers attributed to reduced tourist numbers as a result of the September 11 incident and the collapse of Ansett Airlines. Park entry fees remained unchanged.

Auditing the Public Account - Territory Wildlife Parks

Financial results continued

The reduction in expenses was due to improved cost management highlighted by the following:

- Service Level Agreement expenditure decreased by $195,000 mainly due to the agreement between Territory Wildlife Parks and the Northern Territory Tourist Commission ceasing in December 2001. The Department of Corporate and Information Services was also able to reduce its charges as a result of internal efficiencies.
- Consumable and other equipment expenditure decreased by $311,000. This was achieved over a number of different areas as a consequence of tighter controls.
- Motor Vehicles expenditure decreased by $80,000 being the outcome of the introduction of a car pool arrangement during the year and one visitor train no longer required due to the reduced visitor numbers.

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Current assets	736	526
Less Current Liabilities	857	1,001
Net Current Liabilities	(121)	(475)
Add Non Current Assets (primarily buildings and utilities)	20,289	21,735
	20,168	21,260
Less Non Current Liabilities	130	93
Net Assets	**20,038**	**21,167**
Represented by:		
Retained profits	4,358	4,376
Contributed equity	15,680	16,791
Total Equity	**20,038**	**21,167**

As the CSO funding to the GBD has been calculated to achieve a breakeven position on an accruals basis, the non-cash expenses of Depreciation and Amortisation result in a cash flow surplus from operating activities. However, the GBD was required to pay this cash flow surplus back to Consolidated Revenue by a return of equity of $1.11 million ($1.09 million in 2000/01). As a consequence any significant replacement or refurbishment of property, plant and equipment will most probably require a re-injection of equity into the GBD at some later date.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Territory Discoveries

KEY FINDINGS

- **Territory Discoveries cannot continue to operate without Government support and the 2002/03 budget includes a further CSO of $805,000 or 39% of its budgeted operating revenue.**

Audit opinion

The audit of Territory Discoveries for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 7 October 2002.

Background

Territory Discoveries was established to increase the exposure of, and potential economic returns to, the NT tourism industry, particularly small to medium sized operators. Territory Discoveries develops travel, tour and accommodation packages for sale in the domestic market place. It promotes the sale of these packages through the retail travel network and direct to the consumer via a range of advertising and marketing mechanisms including brochure production, Internet sites, trade and consumer shows etc. Territory Discoveries' revenue is generated from the commissions earned on the sale of its holiday packages. It also receives Community Service Obligation funding for undertaking services that do not normally form part of a commercial wholesale operation. Its host Agency is the Northern Territory Tourist Commission.

Key issues

Going Concern

Territory Discoveries continues to operate at a loss despite receipt of Community Service Obligation (CSO) funding of $791,000 ($779,000 in 2001) representing 39% (42% in 2001) of its total revenue. This appears to be more in the nature of an operating subsidy rather than the Government meeting costs of a CSO. A definition of a CSO is:

> *"activities or policies that (the GBD) would not choose to pursue on the same conditions if acting solely on commercial principles" (Australian Journal of Public Administration, Volume 60, No.4 – December 2001).*

Territory Discoveries cannot continue to operate without Government support and the 2002/03 budget includes a further CSO of $805,000 or 39% of budgeted operating revenue.

Auditing the Public Account - Territory Discoveries

Key issues continued

As highlighted in previous Auditor-General Reports, a GBD is expected:

> *"to operate as a fully commercial business, undertaking only those activities that it would ordinarily undertake for commercial reasons."* (*Source: Budget Paper No. 3, 2000-01, page 118)*

Territory Discoveries continues to be unable to attain the commercial characteristics required of a GBD. This is further highlighted by the fact that, despite receipt of an equity injection from the Commission of $954,000 in 2001/02, Territory Discoveries' liabilities exceeded its assets at 30 June 2002. In addition to the $805,000 CSO referred to above, the 2002/03 budget anticipates payment of a further equity injection of $815,000 which is budgeted to return it to a surplus of assets position by 30 June 2003.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

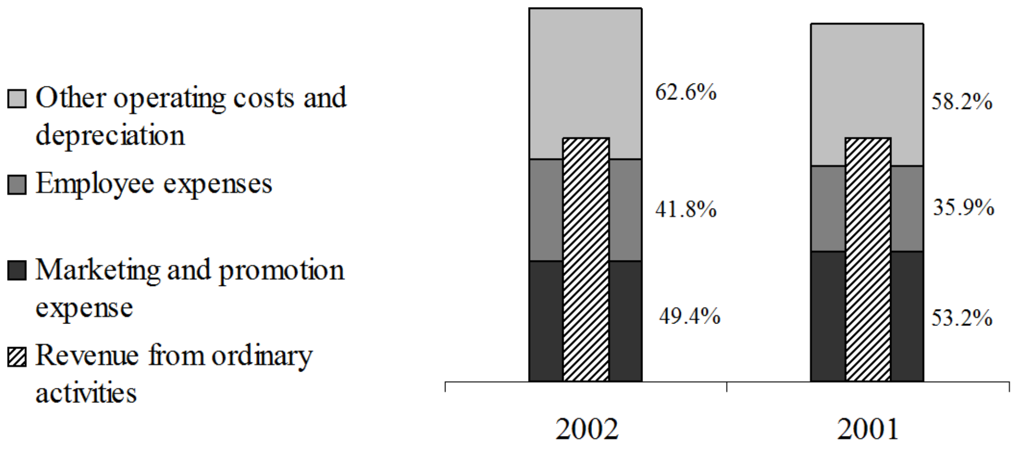
	2002	**2001**
	$'000	**$'000**
Revenue from ordinary activities:		
Rendering services and other revenue	1,236	1,075
Community Service Obligation	791	802
Total revenue from ordinary activities	**2,027**	**1,877**
Less expenditure on ordinary activities:		
Marketing and promotion	1,001	999
Employee expenses	848	673
Other operating and other costs	1,269	1,079
Depreciation and amortisation	1	14
Total expenditure	**3,119**	**2,765**
Net (loss)	**(1,092)**	**(888)**

Employee expenses increased principally as a result of additional superannuation costs and higher provisions for recreation leave and long service leave. The increase in other operating costs reflects an increase in IT expenditure.

Auditing the Public Account - Territory Discoveries

Financial results continued

Another way to compare expenditure is to express it as a percentage of revenue as follows:



The above percentages confirm the higher than normal employee costs already explained and the ongoing need for CSO funding to bridge the shortfall in revenue earned by Territory Discoveries.

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Current assets	218	325
Less Current Liabilities	288	263
Net Current (Liabilities)/Assets	(70)	62
Add Non Current Assets	-	8
	(70)	70
Less Non Current Liabilities	11	13
Excess of (liabilities over assets)/assets over liabilities	**(81)**	**57**
Represented by:		
(Accumulated losses)/Equity	**(81)**	**57**

Territory Discoveries net current assets (working capital) position deteriorated during the year to a negative position, reflecting the continued losses it incurs.

Northern Territory Tourist Commission has commented:

During 2001/02 the role of Territory Discoveries was reviewed as part of the NT Tourism Strategic Plan 2003 -2007. On 10 October 2002, the NT Government announced its decision to retain Territory Discoveries. As part of the decision, the NT Tourist Commission was instructed to work with NT Treasury to develop a new, more transparent financial relationship for the business. Additionally, Government instructed Territory Discoveries to become more commercially orientated, with a view to reduce its dependency on NT Government funding in the longer-term. It was envisioned that this new framework would encompass an appropriate level of Community Service Obligation funding. The new framework is anticipated to be introduced for the 2003/04 financial year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Darwin Bus Service

KEY FINDINGS

- **The net profit for the year from ordinary activities before income tax was $500,000 compared to $479,000 in the prior year.**

Audit opinion

The audit of Darwin Bus Service for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 25 October 2002.

Background

The Darwin Bus Service, together with private sector operators, contracts for the provision of buses to the Northern Territory Government in the Darwin and rural area. The Darwin Bus Service earns its revenue from charging the Department of Infrastructure, Planning and Environment (DIPE) on a 'kilometres provided' basis. Bus fares are collected on behalf of DIPE and are revenues of that Agency. The GBD earns revenues from DIPE at its contracted rate even when it provides free services to the public for special occasions, at the direction of Government.

The host Agency of this GBD is the Department of Infrastructure, Planning and Environment.

Auditing the Public Account - Darwin Bus Service

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Revenue from ordinary activities:		
Rendering services	5,956	5,501
Other revenues from ordinary activities	373	363
Total revenue from ordinary activities	**6,329**	**5,864**
Less expenditure on ordinary activities:		
Employee expenses	3,035	2,900
Depreciation expenses	713	655
Other expenses on ordinary activities	2,081	1,830
Total expenditure	**5,829**	**5,385**
Profit from ordinary activities before related income tax expense	**500**	**479**
Income tax (expense) relating to ordinary activities	(150)	(163)
Net profit	**350**	**316**
Dividend	**175**	**158**
Retained profit	**175**	**158**

Revenue increased marginally by $455,000 or 8.3%. This reflects the increase in kilometres travelled combined with the impact of increases in contract rates charged to the Public Transport Branch.

Costs increased by $444,000 or 8.2%. This is primarily attributable to the increase in motor vehicle expenses reflecting the cost incurred on air conditioners and maintenance of the lower floor ramps on the new buses and the purchase of an engine for $28,000. In addition, depreciation charges increased reflecting the impact of the upgraded bus fleet.

$188,000 was received as proceeds on the disposal of three buses.

Auditing the Public Account - Darwin Bus Service

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Current assets	2,754	2,626
Less Current Liabilities	1,173	1,021
Net Current Assets	1,581	1,605
Add Non Current Assets	6,592	6,378
	8,173	7,983
Less Non Current Liabilities	73	58
Excess of assets over liabilities	**8,100**	**7,925**
Represented by:		
Total Equity	**8,100**	**7,925**

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Construction Division

KEY FINDINGS

- **The operating result was a net loss for 2001/02 of $1.18 million compared to a profit of $1.97 million in the prior financial year.**

Audit opinion

The audit of Construction Division for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 25 October 2002.

Background

Construction Division is responsible for the project management of the Government's capital works and repairs and maintenance programs.

The GBD does not receive Community Service Obligation funding from Government.

The host Agency of this GBD is the Department of Infrastructure, Planning and Environment.

Key issues

Operating results

The operating result was a net loss for 2002 of $1.18 million compared to a profit of $1.97 million in the 2001 financial year.

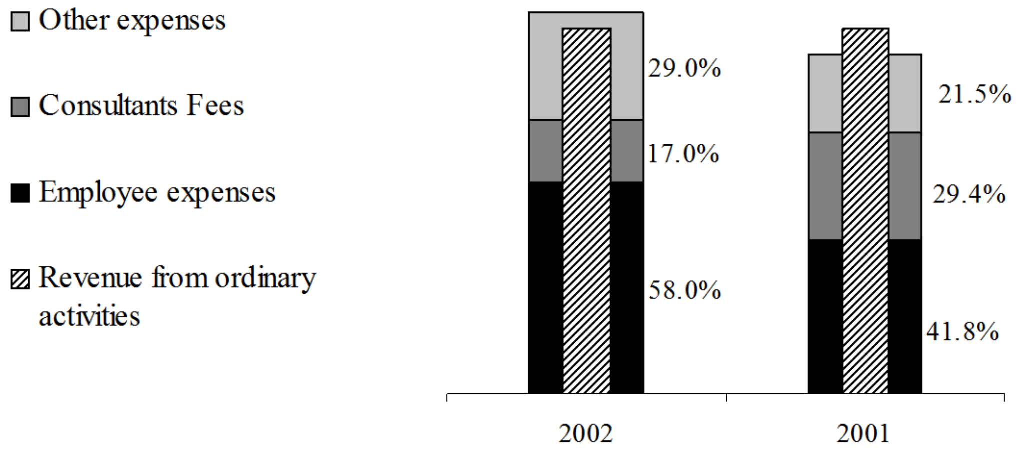
Auditing the Public Account - Construction Division

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002 $'000	2001 $'000
Revenue from ordinary activities:		
Rendering services	29,610	40,310
Other revenues from ordinary activities	191	390
Total revenue from ordinary activities	**29,801**	**40,700**
Less expenditure on ordinary activities:		
Employee expenses	17,293	17,020
Depreciation and amortisation expenses	64	170
Borrowing costs	139	167
Consultants fees	5,067	11,974
Other expenses on ordinary activities	8,417	8,388
Total expenditure	**30,980**	**37,719**
(Loss)/profit from ordinary activities before related income tax expense	**(1,179)**	**2,981**
Income tax expense relating to ordinary activities	-	1,014
Net (loss)/profit	**(1,179)**	**1,967**

Another way to compare expenditure is to express the above as a percentage of revenue as follows:



Auditing the Public Account - Construction Division

Financial results continued

Revenue from billings to client agencies decreased by $10.7 million to $29.6 million. Revenue was $4.3 million less than the Mini Budget, and $1.5 million below the estimate included in the 2002/03 Budget Papers. This mainly reflected the late approval of the 2001/02 Design List, decreased consultancy income from other agencies and the additional flood work undertaken in 2000/01.

Operating expenditure for the year decreased by $6.6 million compared to the prior year, and was $1 million less than the Mini Budget. This reflects the lower consultancy costs relating to the late approval of the Design List noted above.

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Current assets	6,135	9,292
Less Current Liabilities	6,907	8,887
Net Current (Liabilities)/Assets	(772)	405
Add Non Current Assets	4,515	4,500
	3,743	4,905
Less Non Current Liabilities	2,827	2,810
Excess of assets over liabilities	**916**	**2,095**
Represented by:		
Total Equity	**916**	**2,095**

The operations of the Agency during the year incurred a net outflow of cash of $2.894 million compared to a deficit of $0.282 million for the 2000/01 year. The net outflow for the year was $0.481 million more than the Mini Budget. This is reflective of employee costs that have risen slightly despite the decrease in receipts.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

NT Fleet

KEY FINDINGS

- **The profit from ordinary activities before income tax expense of \$5.3 million is down on the previous year's result by \$1.3 million. This is directly attributable to the fundamental error from prior years of \$1.1 million, which was shown as a deduction to revenue in the current period.**
- **The fundamental error of \$1.1 million arose, over a number of years, as a result of 'options' attached to vehicles not being recorded as disposed of when the vehicle was sold. This accounting entry adjusts for an overstatement of profit on sale of fixed assets recorded in prior years.**

Audit opinion

The audit of NT Fleet for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 25 November 2002.

Background

NT Fleet was established in 1993 to manage the motor vehicles of the NT Government and in 1995 became a GBD. All but a few Agencies have their motor vehicles supplied through NT Fleet. Police, Fire and Emergency Services is one significant Agency which does not use NT Fleet.

The GBD does not receive direct funding from Government, other than for a minor Community Service Obligation contribution. Its revenues are derived from rental charges levied to Agencies for vehicles supplied and maintained.

As a result of the November 2001 public sector restructure the host Agency of this GBD for 2001/02 was the Department of Corporate and Information Services. Previously the GBD was part of the Department of Transport and Works.

Key issues

Error in accounting for 'options' added to vehicles

The statement of financial performance discloses an accounting error of \$1.104 million. In view of the materiality of this error it is referred to, consistent with accounting standards in Australia, as a "fundamental error". The error arose over a number of years and because 'options' attached to vehicles were not being recorded as disposed of when the vehicle was sold. The result of this was a \$1.104 million overstatement of profit on sale of vehicles during prior years.

Auditing the Public Account - NT Fleet

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Revenue from ordinary activities	27,195	26,534
Less expenditure from ordinary activities:		
Operational costs	8,551	9,131
Employee expenses	1,897	1,987
Depreciation and amortisation	10,053	8,319
Borrowing costs	293	463
Total expenditure	20,794	19,900
Operating profit before fundamental error	6,401	6,634
Correction of fundamental error	(1,104)	-
Profit from ordinary activities before income tax expense	5,297	6,634
Less income tax expense	1,589	2,256
Net profit from ordinary activities after income tax expense	3,708	4,378
Less Dividends	1,854	2,189
Retained profits	**1,854**	**2,189**

The profit from ordinary activities before income tax expense of $5.3 million is down on the previous year's result by $1.3 million. This is directly attributable to the fundamental error from prior years of $1.1 million, which was shown as a deduction to revenue in the current period. Although not calculated it is probable that some of this error was incurred in 2000/01 and would have reduced the operating result for that year.

Abridged Statement of Financial Position at 30 June 2002	**2002**	**2001**
	$'000	**$'000**
Current assets	5,401	6,018
Less Current Liabilities	7,881	11,367
Deficiency in working capital	(2,480)	(5,349)
Add Non Current Assets	64,234	65,244
	61,754	59,895
Less Non Current Liabilities	2,282	2,277
Net Assets	**59,472**	**57,618**
Represented by:		
Total Equity	**59,472**	**57,618**

Auditing the Public Account - NT Fleet

Financial results continued

Additions of $28 million to NT Fleet's vehicle stock were financed by proceeds from assets sales of $19 million with the balance of $9 million being generated by NT Fleet operations. During the year NT Fleet retired debt of $3.3 million as well as paying a dividend of $2.2 million. The statement of financial position indicates that NT Fleet's liquidity is poor because of the significant working capital deficiency, however vehicles are held for relatively short periods and vehicle sales contribute significantly to cash resources enabling timely payment of current liabilities.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Information Technology Management Services

KEY FINDINGS

- **The net profit from ordinary activities before income tax for the year of $2.93 million compares to the previous year's net loss of $2.14 million. The fluctuating result of the GBD is directly attributable to the financial transactions associated with the IT outsourcing contracts.**
- **Excluding the financial transactions associated with the IT outsourcing contracts, there was a negative turnaround of $1.16 million in core operating result.**

Audit opinion

The audit of Information Technology Management Services (ITMS) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 22 November 2002.

Background

ITMS is responsible for the delivery of IT services to Agencies. However, because of the outsourcing of IT service delivery to private sector providers for e-mail services, advanced communications, desktop and LAN services, and mainframe and non mainframe applications, the GBD now only has responsibility for:

- mainframe management;
- management of various whole of Government IT functions; such as Lotus Notes licensing; and
- operation of the Data Centre in the Chan Building.

The host Agency is the Department of Corporate and Information Services. Another unit within that Department, ITNT, manages the outsourcing contracts.

Auditing the Public Account - ITMS

Key issues

Implementing the government's outsourcing policy

The fluctuating result of the GBD is directly attributable to the financial transactions associated with the IT outsourcing contracts. The costs incurred during the year from implementing the government's outsourcing policy was $3.45 million ($2.08 million in 2001). This was offset by additional funding from the NT Government of $6.84 million resulting in a surplus on this transaction of $3.39 million in 2001/02 and a surplus of $1.31 million over the two years ended 30 June 2002.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Revenue from ordinary activities	18,970	39,227
Less expenditure from ordinary activities:		
Operational costs	14,269	25,901
Employee expenses	2,508	10,240
Depreciation and amortisation	2,490	2,180
Borrowing costs	170	221
Total expenditure	19,437	38,542
Operating (loss)/profit before accounting for benefit/(cost) from implementing IT outsourcing policy	(467)	685
Benefit (Cost) from implementing IT outsourcing policy	3,394	(2,830)
Net profit (loss) from ordinary activities before income tax expense	2,927	(2,145)
Less income tax expense	234	-
Net profit/(loss) from ordinary activities after income tax expense	2,693	(2,145)
Less Dividends	1,346	-
Retained profits/(losses)	**1,347**	**(2,145)**

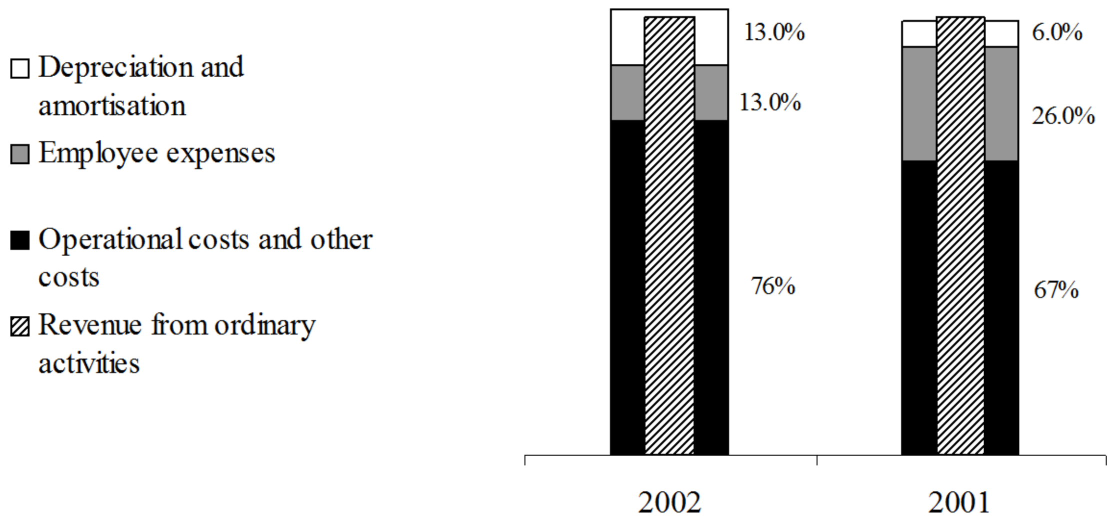
The net profit from ordinary activities before income tax for the year of $2.93 million compares to the previous year's net loss of $2.14 million. The fluctuating result of the GBD is directly attributable to the financial transactions associated with the IT outsourcing contracts.

The operating result, excluding the financial transactions associated with the IT outsourcing contracts, is a loss of $0.47 million for the year compared to a profit of $0.69 million in the prior year, which is a negative turnaround in core business of $1.16 million. Management will need to address the relatively high operating costs if it is to return to a profitable position.

Auditing the Public Account - ITMS

Financial results continued

Revenue from rendering of services for the year declined significantly from $39.17 million in the prior year to $18.99 million this year. This is to be expected with the outsourcing of many of the GBD's operating activities. The reduced revenue was also affected by $0.51 million of credit adjustments processed at year end attributable to the prior year. Operating expenses, particularly employee costs, did not reduce in line with the reduction in revenue as is illustrated below:



Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Current assets	5,072	9,154
Less Current Liabilities	5,128	11,729
Deficiency in working capital	(56)	(2,575)
Add Non Current Assets	2,731	4,202
	2,675	1,627
Less Non Current Liabilities	1,208	1,507
Net Assets	**1,467**	**120**
Represented by:		
Retained profits	**1,467**	**120**

Auditing the Public Account - ITMS

Financial results continued

ITMS' cash flows from operating activities generated $126,000. The reduction in cash reserves is due to finance lease payments of $2.4 million. Receivables are down due to a write back of $514,539 in intra sector debts due at 30 June 2001 and due to less business from services previously provided in house that are now outsourced. The same explanation applies to the significant decrease in creditors.

Non-current assets, which comprise leased plant and equipment, are lower due to the amortisation by $2.3 million of leased plant with additions only totalling $1.2 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Government Business Divisions (GBDs)

Government Printing Office

KEY FINDING

- **In the past few years there has been a general fall in the level of demand for the traditional products sold by the Government Printing Office.**
- **The Government Printing Office managed to achieve a breakeven result for the year in comparison to the loss of $186,000 in the prior year.**

Audit opinion

The audit of the Government Printing Office (GPO) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 22 November2002.

Background

All Government Agencies are expected to use the GPO for their printing and publication needs. The GPO is required to outsource a percentage of its work to private sector providers.

The host Agency is the Department of Corporate and Information Services.

Key issues

Decline in demand for services provided by the GPO

In the past few years there has been a general fall in the level of demand for the traditional products sold by the GPO. This is considered to be due to:

- the emergence of other media on which information is more freely available, mainly the Internet;
- other government agencies purchasing their own printing equipment;
- the cessation of the printing of the Public Service Gazette; and
- fewer annual reports required to be printed.

Auditing the Public Account - Government Printing Office

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Revenue from ordinary activities	5,857	5,848
Less expenditure from ordinary activities:		
Operational costs	3,122	3,307
Employee expenses	2,469	2,384
Depreciation and amortisation	266	314
Borrowing costs	-	29
Total expenditure	5,857	6,034
Net profit (loss) from ordinary activities	**-**	**(186)**

The GPO managed to achieve a breakeven result for the year in comparison to the loss of $186,000 in the prior year.

Income from operating activities is comparable with the prior after a decrease in income in 2001 of $1,006,051 from the 2000 financial year. However, in the current year the GPO was able to adapt to changed market conditions and reduce its expenditure to ensure that losses either did not occur or were minimised.

Abridged Statement of Financial Position at 30 June 2002

	2002	2001
	$'000	$'000
Current assets	2,392	2,155
Less Current Liabilities	1,052	1,089
Working capital	1,340	1,066
Add Non Current Assets	1,186	1,445
	2,526	2,511
Less Non Current Liabilities	49	34
Net Assets	**2,477**	**2,477**
Represented by:		
Retained profits	**2,477**	**2,477**

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Superannuation Funds

Northern Territory Government and Public Authorities Employees' Superannuation Fund

KEY FINDINGS

- **The Territory agreed to meet the pre–1983 tax expense, associated with tax imposed at 15% on the fund for exiting members, of $467,796 due for the 2001 financial year. To allow for the 15% tax on employer contributions, a sum of $550,749 was paid to the fund in June 2002. A grossed-up receivable of $416,690 from the Territory was raised at 30 June 2002 in anticipation of receiving a similar payment for the 2002 financial year.**
- **A significant contributor to the poor operating result was a reduction in the net market value of investments during the current year of $14.83 million ($14.92 million appreciation in 2001). This is not inconsistent with the investment performance of other superannuation funds in Australia.**

Audit opinion

The audit of Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 3 October 2002.

Background

The Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS) was opened to new members on 1 October 1986, and closed to new members on 9 August 1999. It is a defined benefits scheme which means that the Government must provide a specified amount of benefits upon withdrawal from the Scheme, based on the members' contribution rate while in the Scheme.

The Northern Territory Government and Public Authorities Employees' Superannuation Fund is the fund established under the *Superannuation Act* for the NTGPASS.

The future liability of the Government and each year's emerging costs for providing benefits to withdrawing members is calculated by actuarial measures. Accrued Benefits are determined on the basis of the present value of expected future payments, which arise from membership of the plan up to the measurement date. The liability for Accrued Benefits is not included in the calculation of net assets. Accrued Benefits are benefits the fund is presently obliged to transfer in the future to members and beneficiaries as a result of membership of the fund up to the reporting date.

Auditing the Public Account - Northern Territory Government and Public Authorities Employees' Superannuation Fund

Background continued

The last actuarial review of the Scheme was performed as at 30 June 2001 with the results provided in the Actuary's report dated 25 January 2002. The actuarial information used in the 2001/02 financial statements was based on the 30 June 2001 position.

Key issues

Taxation Effects of the Closure of the Fund to New Members

As the average age of fund members increases, the number of exits is expected to increase. Territory contributions are paid upon exit by members from the fund and these contributions are subject to the taxation imposed on the fund at a rate of 15%. The Territory agreed to meet the pre–1983 tax expense associated with the 2001 year of $467,796 with the payment to the Fund in June 2002 of $550,349 ($467,796 grossed up for the 15% tax expense).

In anticipation that the Territory will again fund this tax, a grossed up receivable of $416,690 from the Territory was raised at 30 June 2002.

Market value of investments owned by the fund

A significant contributor to the poor operating result was a reduction in the net market value of investments during the current year of $14.83 million ($14.92 million appreciation in 2001). This is not inconsistent with the investment performance of other superannuation funds in Australia.

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2002

	2002	**2001**
	$'000	**$'000**
Net investment (deficiency)/revenue	(14,463)	15,302
Member contributions	24,018	23,047
Member surcharge payments received	145	81
Territory contributions	37,120	38,251
Transfers and rollovers	31,436	25,566
Benefits expense	(72,378)	(75,092)
Other expenses	(568)	(522)
Revenue less expenses before income tax	5,310	26,633
Income tax expense	(2,336)	(3,409)
Change in Net Assets	**2,974**	**23,224**

Auditing the Public Account - Northern Territory Government and Public Authorities Employees' Superannuation Fund

Financial results continued

The increase in net assets of the fund for the year was $2.97 million compared to $23.22 million in the previous year. As noted previously, a significant contributor to the comparative $20.25 million decrease was the reduction in net market value of investments in the current year of $14.83 million ($14.92 million appreciation in 2001). This was slightly offset by an increase in transfers and rollovers into the fund of $5.87 million. Taxation expense was $1.07 million lower than the previous year, reflecting the change in revenue and expense composition following the decline in investment returns. A superannuation surcharge expense of $517,000 was recognised in the statement of financial performance, which is marginally higher than the $433,000 recognised in 2001.

The Scheme received a return for 2001/02 of negative 4.5%. This is comparable to other fund returns. The Mercer Survey median return for pooled funds was negative 4.1%.

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Cash at bank and other assets	9,122	10,410
Investments	326,251	324,681
Total assets	335,373	335,091
Liabilities	20,684	23,376
Net Assets	**314,689**	**311,715**
Vested Benefits	751,100	704,900
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Investments at year end were held with MLC, Credit Suisse and Vanguard Investments in accordance with the investment strategy adopted by the trustees of the fund in the previous year. Consistent with normal accounting practice for superannuation funds, investments are stated at market value at 30 June 2002.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Superannuation Funds

Legislative Assembly Members' Superannuation Trust

KEY FINDINGS

- **Government contributions to the Trust in the year were increased to $2 million from $1.28 million in the prior year.**
- **An independent review of the benefits and conditions of the Trust is currently being completed by a former Northern Territory Under Treasurer.**

Audit opinion

The audit of Legislative Assembly Members' Superannuation Trust for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 2 October 2002.

Background

This is the only ‘fully’ funded superannuation scheme administered by the Government. That is, the vested benefit liabilities of the Trust until this year were matched by the assets held by the Trust. These assets are established from Members and Government contributions, and from investment returns earned on the funds, less payments of lump sums or pensions to retiring members. When benefits to members were increased in 1998, the Government re-commenced making contributions of public funds. Investment earnings in the several years prior to 1998, together with Members' contributions, had been sufficient to fund the emerging liabilities.

The general election held on 18 August 2001 resulted in 11 members being eligible for benefits from the scheme.

The triennial Actuarial Review for the year ended 30 June 2001 was delivered on 8 December 2001 and took into account the pension and lump sum requirements of the members retiring in August 2001.

The Actuary recommended that the contribution rate be raised to 70% of basic and additional salaries for the 3 years to 30 June 2004. This is an increase from the 50% recommend at the 1998 review. The Actuary estimates that, at the new level of contributions, the funding level which is currently 93% of accrued liabilities will increase to about 95% over the 3 years when the position will be re-assessed.

Auditing the Public Account
Legislative Assembly Members' Superannuation Trust

Key issues

Increase in Government Contributions to the fund

Government contributions to the Trust in the year were increased to $2 million from $1.28 million in the prior year.

Review of the fund

An independent review of the benefits and conditions of the Trust is currently being completed by a former Northern Territory Under Treasurer.

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2002

	2002 $'000	2001 $'000
Net investment (deficiency)/revenue	(1,168)	1,746
Member contributions	334	327
Territory contributions	2,000	1,280
Benefits paid	(3,548)	(1,119)
Superannuation contribution surcharge	(202)	(350)
Other expenses	(6)	(6)
(Deficit)/Surplus before income tax	(2,590)	1,878
Income tax expense	(303)	(196)
Change in Net Assets	**(2,893)**	**1,682**

The decrease in net assets of the fund for the year was $2.9 million compared to a $1.7 million increase in the previous year. Significant contributors to the current year decrease were:

- a $1.3 million decrease in the market value of investments compared to an increase of $1.6 million during the prior year; and
- a $2.4 million increase in benefit payments in the current year due to 11 members becoming eligible for benefits as a consequence of the August 2001 elections. The increase in benefit payments was offset by an increase in employer contributions from the Territory of $720,000 acting on the Actuary's advice.

The investment return is not inconsistent with that achieved by superannuation funds in Australia during 2001/02.

Auditing the Public Account
Legislative Assembly Members' Superannuation Trust

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Cash at bank and other assets	779	144
Investments	30,242	33,653
Total assets	31,021	33,797
Liabilities	702	585
Net assets	**30,319**	**33,212**
Vested benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	36,388	31,756

As a consequence of the negative investment result and the increased benefits paid the vested benefits now exceed the net assets of the Trust. The increased annual Territory contributions recommended by the Actuary are estimated to reduce this gap to 95% by 30 June 2004.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of Superannuation Funds

Northern Territory Police Supplementary Benefit Scheme

Audit opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme (NTPSBS) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 9 October 2002.

Background

The NTPSBS supplements the pension payable from the Commonwealth Superannuation Scheme (CSS) for members of the Northern Territory Police, Fire and Emergency Services.

The NT Government and Public Authorities Scheme replaced the CSS and the NTPSBS for police recruited after 1 January 1988. The NTPSBS is now a closed scheme with a slowly diminishing membership. At 30 June 2001 there were 214 (227 in 2000) members and 71 (62 in 2000) pensioners.

Although NTPSBS is closed to new members and contributory membership has reduced considerable benefits will be paid from the Consolidated Revenue Account for many years.

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Net investment (deficiency)/revenue	(103)	183
Member contributions	144	146
Benefits		
Refunds of accumulated contributions	(57)	(31)
Payment of accumulated contributions to the Territory	(230)	(176)
Superannuation contribution surcharge	(8)	(6)
Other expenses	(4)	(2)
(Deficit)/Surplus before income tax	(258)	114
Income tax expense	-	(1)
Change in Net Assets	**(258)**	**113**

Members are required to contribute 1 percent of their salary to the fund. The annual increase in salary rates of members, which would increase contributions to the fund, is more than offset by the annual reduction in membership numbers.

Auditing the Public Account
Northern Territory Police Supplementary Benefit Scheme

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Cash at bank and other assets	60	56
Investments	3,154	3,399
Total assets	3,214	3,455
Liabilities	128	111
Net Assets	**3,086**	**3,344**
Vested Benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	21,900	21,090

Consistent with the markets generally the Scheme experienced a fall in the value of investments held.

The Scheme applied a final interest rate of negative 3.0 percent to members accumulation accounts for 2001/02. This is comparable to other fund returns. The Mercer Survey median return for pooled funds was negative 4.1%.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of:

Territory Insurance Office

KEY FINDINGS

- **TIO, excluding MACA, incurred an operating loss after tax of $1.06 million for 2001/02 in comparison with the operating loss after tax of $1.65 million in 2000/01. The loss arose primarily due to deterioration in investment income.**
- **MACA incurred a loss for the year of $10.26 million in comparison to the prior year profit of $10.44 million. This was primarily due to a significant increase in the level of claims provisioning during the year, giving rise to an increase in claims expense, which mainly resulted from changes to economic assumptions applied to claims provisioning.**
- **Adoption by TIO of the new Australian Prudential Regulation Authority regulations is recommended as compliance will facilitate consistency and comparative performance and assist both management and the Parliament in their assessment of the financial performance and position of TIO.**

Audit opinion

The audit of the Territory Insurance Office (TIO) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 21 November 2002.

Background

TIO is a wholly owned entity of the NT Government. It operates under its own act, with its own Governing Board, but can take direction from the Government. Its mandate from the Government allows it to only write insurance business in the Northern Territory. TIO manages the NT Government's motor vehicle third party insurance arrangements under the *Motor Accidents (Compensation) Act* (MACA).

Key issues

Compliance with governing legislation and Australian Accounting Standards

From a financial reporting perspective TIO complies with its governing legislation and with current accounting standards.

Auditing the Public Account - TIO

Key issues continued

Anticipated changes to determining prudential margins and actuarial assessments and compliance with APRA Standards

A key component of the financial performance of insurance businesses is the estimation of outstanding claims which involves a degree of uncertainty and actuarial judgement and requires the application of assumptions and projections for the portfolios being valued. Under current standards the Governing Board of TIO must ensure that it is at least 50% confident that the estimate for the liability for outstanding claims will be adequate in meeting the actual amount of claim liability. The audit concluded that the methodology applied and the resulting claims liability presents fairly the financial position at 30 June 2002. Discussions have however been held with senior management and with the Audit Committee regarding the application by TIO of the more stringent claims provisioning arrangements now required by the Australian Prudential Regulation Authority (APRA). Whilst recognising that TIO does not fall under APRA supervision, management have advised that the Governing Board is reviewing application of these requirements.

Application by TIO of the new Australian Prudential Regulation Authority regulations is recommended as compliance will facilitate consistency, comparative performance and assist both management and the Parliament in their assessment of the financial performance and position of TIO.

Allocation of expenses and cross charging between (MACA) and other TIO activities

TIO’s governing legislation requires that costs be allocated between TIO and MACA on a reasonable basis. The manner of allocating group expenses between TIO and MACA was again considered during the current audit because of the potential impact on the operating results if the allocation basis should be unreasonable. In addition, Audit has reviewed the price charged to MACA by TIO for reinsurance protection.

The current bases for allocating costs and cross charging have been noted. The Governing Board needs to continue to ensure that prices charged and costs allocated reasonably reflect operational performance.

Timeliness of financial reporting

The audited financial statements of TIO were completed and submitted to the Treasurer on 12 November 2002, which satisfied legislative requirements. It is considered however that a major trading business such as TIO should aim at earlier completion and it is pleasing to report management’s intention of earlier reporting in 2003. A timetable to facilitate this is to be developed. Earlier reporting will facilitate more prompt evaluation by the Parliament of TIO’s financial performance.

Segment reporting

The major components of TIO’s business are general insurance (workers compensation, liability, property, etc), MACA, financial services and banking and corporate support. Readers of the financial statements of TIO would be in a better position to assess its performance if the segment note currently in the financial statements included a breakdown of these major business classes at both a statement of performance and statement of financial

Auditing the Public Account - TIO

Key issues continued

position level. Some of the information is presently available in the annual financial statements but not in one place.

TIO Management have agreed to enhanced disclosure in future which will further assist Parliamentary evaluation.

Financial results

Summarised operating results for the year ended 30 June 2002

	notes	TIO 2002	TIO 2001	MACA 2002	MACA 2001	Total 2002	Total 2001
		$ millions		$ millions		$ millions	
Underwriting result:							
Net Premium revenue		41	36	33	32	74	68
Net Claims expense	*1*	(38)	(36)	(40)	(24)	(78)	(60)
Acquisition costs		(7)	(7)	(1)	(1)	(8)	(8)
Underwriting result (loss)	*2*	(4)	(7)	(8)	7	(12)	-
Other revenues and expenses:							
Interest receivable						29	27
Change in value of investments						(10)	(1)
Other investment income						12	11
Total investment revenue	*3*	28	29	3	8	31	37
Borrowing costs		(13)	(12)	-	-	(13)	(12)
Other costs and depreciation		(13)	(12)	(5)	(5)	(18)	(17)
Net other revenues and expenses		2	5	(2)	3	-	8
Net (loss) profit before tax		**(2)**	**(2)**	**(10)**	**10**	**(12)**	**8**

When comparing the reported net loss before tax of $12.0 million this year with the prior year's net profit before tax of $8.4 million, the 2001/02 operating loss of MACA of $10.3 million ($10.4 million profit in 2000/01) should be taken into account. TIO, excluding MACA, incurred a net loss before tax of $1.74 million for 2001/02, marginally better than the prior year's net loss before tax of $2.04 million.

MACA incurred a loss for the year of $10.3 million in comparison to the prior year profit of $10.4 million (a $20.7 million negative turnaround), as a result of a significant increase in claims expense during the year. The increase in expense included an increase in the provision for outstanding claims of $25.8 million, which arose from the application of revised economic assumptions and actuarial assessments.

Auditing the Public Account - TIO

Financial results continued

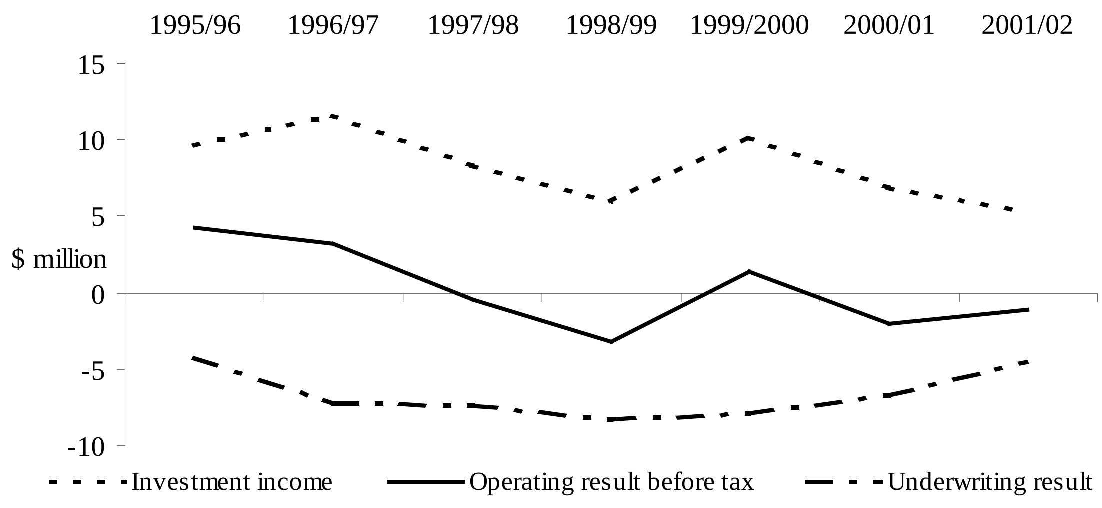
A more detailed analysis of selected items from the summary on page 66 follows:

1. Net claims expense for MACA increased significantly to $40 million compared to $24 million last year. The claims expense is related to the provisioning for outstanding claims based on updated actuarial calculations and assumptions. $13 million of the net claims expense relates to a reassessment of the risks borne in previous reporting periods.

2. The turnaround in the underwriting result for MACA is due primarily to the increase in the claims provision. MACA business is "long-tail" and results in any year will be influenced by a number of factors, including an assessment of the length of time taken to settle claims and an estimate of future economic conditions such as investment markets and inflation. Therefore, any assessment of the performance of the portfolio should not be confined to reviewing one year's results. In addition, any change in premium rates takes up to two years from the date of change to flow through into the results.

3. Investment income overall decreased notwithstanding the general increase in assets invested. The fall in the market value of investments (mostly securities) of $10 million is in line with the poor performance of the investment markets generally The following chart show the operating results, underwriting results and investment income for TIO, excluding MACA, and reflects how sensitive the performance of TIO is to the investment result:

TIO Operating Results



Source: Territory Insurance Office Annual Reports

Auditing the Public Account - TIO

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	notes	2002 $ million	2001 $ million
Assets			
Cash assets	*1*	75	113
Receivables		41	36
Investments	*2*	533	413
Reinsurance and other recoveries receivable	*3*	42	25
Other assets		24	23
Total Assets		**715**	**610**
Liabilities			
Outstanding claims	*3*	280	242
Unearned premiums		57	53
Interest bearing liabilities	*4*	293	225
Payables		22	18
Other liabilities		33	30
Total Liabilities		**685**	**568**
Net Assets		**30**	**42**
Represented by:			
Retained profits		6	8
MACA reserve		24	34
Total Equity		**30**	**42**

Total assets of the combined TIO and MACA group increased during the year by $105.2 million to $715.2 million, while total liabilities increased by $116.5 million to $684.7 million. The overall decrease in net assets of $11.3 million to $30.5 million is mostly due to the change in the financial position for MACA, which now accounts for $24 million or 78.7% (last year 82%) of the combined net assets. However, these funds are reserved for purposes established for MACA, and cannot be used for other claims or liabilities of TIO.

The portion of the net worth applicable to TIO by itself has reduced by $1.1 million to $6.5 million. The Northern Territory Government acts as the guarantor for claims on TIO.

A more detailed analysis of selected items from the statement of financial position follows:

1. Cash assets decreased by $38 million primarily due to net investment activities of $128 million being only partially funded by increased customer deposits of $67 million and a net cash surplus from operating activities of $24 million. The allocation between cash and other classes of investment of an insurance and financial services business will vary from time to time as the Governing Board’s Investment Committee makes allocation decisions based on rprevailing economic conditions and prudential requirements.

Auditing the Public Account - TIO

Financial results continued

2. Notwithstanding the fall in the market value of investments the total value of investments increased by $120 million due to the purchase of a further $88 million in investments and $40 million of additional loans to customers.

3. As previously noted, the estimation of outstanding claims involves a degree of uncertainty and actuarial judgement and is applied to develop assumptions and projections for the insurance portfolios (motor vehicle, workers compensation, MACA etc) being valued. In relation to MACA, a reassessment of the assumptions in relation to the claims incurred in previous years increased the provision by $27 million, of which $14 million was expected to be recovered through reinsurance arrangements. Hence the increase in the asset class “Reinsurance and other recoveries receivable” from $25 million to $42 million.

4. The increase in interest bearing liabilities from $225 million to $293 million is mostly due to a net increase in savings and other deposit accounts of $67 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of:

Northern Territory Legal Aid Commission

KEY FINDINGS

- **A qualified audit opinion was issued on 26 November 2002.**
- **The qualification concerned Audit's inability to form an opinion on the validity of the provision for Grants In Aid reported within the financial statements.**

Audit opinion

The audit of Northern Territory Legal Aid Commission (the Commission) for the year ended 30 June 2002 resulted in a qualified independent audit opinion, which was issued on 26 November 2002.

Audit Qualification

Provision for Grants in Aid

The Commission has reported in Note 11 to its financial statements, a provision for Grants In Aid of $360,915. Grants in Aid represents an estimate of the unbilled time incurred by legal practitioners.

The Commission's estimate is based on a number of assumptions and is an accounting estimate of the value of unbilled work completed by legal firms on behalf of the Commission at financial year-end. Audit was unable to conclude on the validity of assumptions used in calculating the provision. Audit testing of the current year's provision using three different methodologies resulted in a range of distinctly different results. It was not possible, therefore, to obtain sufficient appropriate audit evidence to support the provision raised by the Commission.

The Commission was advised that without a comprehensive review of the commitments on the assigned cases report, the degree of uncertainty associated with each calculation method suggests that it may be unreasonable to place reliance on their estimate. The audit opinion was qualified as a result noting the inability to form an opinion on that account balance and the expenses associated with the provision.

Management of the Commission needs to re-visit its Grants in Aid provision and to adopt a methodology that fairly reflects the nature of this liability. A thorough analysis of the "commitments on assigned cases" report should be conducted if the provision continues to be calculated on the current basis. Confirmation may be obtained through:

- requesting confirmation of work unbilled at 30 June from solicitors;
- performance of an actuarial review to determine the provision for Grants in Aid;
- monitoring of invoices received during a defined period after year end; or
- a detailed review of a randomly selected sample of cases in progress.

Auditing the Public Account – NT Legal Aid Commission

Background

The NT Legal Aid Commission is established under the *Legal Aid Act*.

During 1998 its status was redefined and the Commission was no longer an agency under either the *Financial Management Act* or the *Public Sector Employment and Management Act*.

Changes to the *Legal Aid Act* (sections 42C and 42D) require the Commission to provide audited commercially based financial statements.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Revenue from ordinary activities	5,836	4,940
Less expenditure from ordinary activities:		
Depreciation	46	63
Salaries and employee benefits	2,315	2,379
Legal	1,614	1,486
Administration	827	595
Other	374	310
Total expenditure	5,176	4,833
Net profit from ordinary activities	**660**	**107**

The operating surplus for the year was $0.7 million, compared to a surplus of $0.1 million in the previous year. The Commission earned an additional $0.9 million (18%) in operating revenue to report total revenue of $5.8 million. This increase relates to an increase in grant income received from the Northern Territory Government (up by $0.1 million to $2 million) and from the Commonwealth (up $0.5 million to $3 million) and from recovered costs being National Legal Aid reimbursement for staff seconded to the Commission.

Total rendering of services revenue (comprising client contributions and recovered costs) has increased by 60%, from $0.3 million in 2000/01 to $0.6 million in the current year. Furthermore $0.2 million relating to the payment of the Commission's first Quarter Part Payment for 2002/2003 from the Commonwealth Attorney-General's Department was received during the year. This was recognised as revenue upon receipt in accordance with the Commission's accounting policy.

Total expenses have increased by $0.3 million (7%), from $4.8 million last year to $5.2 million. This increase is mainly attributable to a $0.2 million rise in administration costs and a $0.1 million rise in legal costs.

Auditing the Public Account – NT Legal Aid Commission

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Current assets	4,101	3,481
Less Current Liabilities	995	874
Net Current Assets	3,106	2,607
Add Non Current Assets	673	510
	3,779	3,117
Less Non Current Liabilities	72	70
Net Assets	**3,707**	**3,047**
Represented by:		
Reserves	3,300	3,047
Accumulated funds	407	-
Total Equity	**3,707**	**3,047**

A $0.9 million cash flow surplus from operating activities offset by $0.2 million paid for additions to plant and equipment has contributed to the Commission's increase in cash at bank to $3.4 million , which accounts for the increase in net assets.

Cash and investments totalling $3.9 million are held to fund the following reserves:

	$ 000
– NT expensive civil cases reserve	850
– IT development and replacement reserve	400
– NT expensive criminal cases reserve	1,500
– Premises replacement and maintenance reserve	550
	3,300

The NT Legal Aid Commission has commented:

The NT Legal Aid Commission recognises the audit difficulties of verifying a fair estimate for the complex provision of Grants in Aid. The Commission has commenced a review of the methodology used to calculate this provision.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 audited financial statements of:

Common Fund of the Public Trustee

KEY FINDING

- **The preparation of general purpose financial statements on an accruals basis in accordance with Australian Accounting Standards should provide better information to readers and enable improved comparability and accountability.**

Audit opinion

The audit of the Common Fund of the Public Trustee for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 27 November 2002.

Background

The Public Trustee is required under the *Public Trustee Act* to establish and maintain a Common Fund. The Public Trustee, through the Common Fund, is required to invest any monies that are received on behalf of trusts and estates.

Section 19(3) of the *Public Trustee Act* requires the Auditor-General to report to the Attorney-General once in each year on the results of the inspection and audit carried out under Section 19(2) of that Act. In practice, this report is provided after completion of the audit of the financial statements for the Common Fund included in the Annual Report of the Public Trustee.

The Northern Territory Government, at no cost to the Public Trustee, pays the operating costs of the Public Trustee, which includes costs related to the administration of the Common Fund. For 2001/02 the total operating costs of the Public Trustee amounted to $897,000 ($1.02 million in 2000/01).

The Department of Justice is the host Agency administering the Public Trustee and the Common Fund.

Key issues

Fund Administrator

At 30 June 2002 the Public Trustee was using a single Fund Administrator as part of a strategy to comply with the “Prudent Person Principle” contained within the then proposed amendment to the *Public Trustee Act*. Vanguard Fund Manager was chosen via tender. The Public Trustee invested a further $10.8 million of the Common Fund with Vanguard Fund Manager during the year in anticipation of the implementation of the “Prudent Person Principle”. This increased investment was mainly funded with monies formerly invested in Treasury Loans ($2.3 million), repayment of Mortgage Loans ($6 million) and the calling in of loans for estate and trust files.

Auditing the Public Account - Common Fund of the Public Trustee

Key issues continued

Thus at 30 June 2002, $21.8 million, representing 91% of the Fund's assets, was invested with one fund manager. It is essential that the Public Trustee closely monitor Vanguard's performance and consider diversification across other fund managers to reduce the risks that flow from exposure to just one fund manager.

Variation in property valuation

As was the case in 2001, the Public Trustee's Investment Board (PTIB) is aware of a variation of $650,000 between two independent valuations of a property (one for $1 million and a second for $1.65 million) provided as security for a mortgage loan of $1.2 million. At the time of the audit the mortgagor was meeting loan commitments and the PTIB continued to closely monitor this debt.

Annual financial reporting

The financial statements of the Common Fund of the Public Trustee are special purpose financial statements, prepared on a cash basis, consisting of a Statement of Receipts and Payments and a Statement of Financial Position. The Public Trustee should give due consideration to preparing future financial statements on an accrual basis. The Northern Territory Government implemented accrual accounting on 1 July 2002 as a whole of government initiative. By adopting accrual accounting, the Public Trustee will benefit through improved financial reporting as a basis for decision making, and through direct comparability with other functional entities across the Northern Territory Government.

Financial results

Abridged Statement of Receipts and Payments for the year ended 30 June 2002

	2002 $'000	2001 $'000
Receipts		
Receipts from Trusts and Estates into the Common Fund	8,385	9,179
Interest on Investments	1,385	1,316
Other receipts	42	25
Total Receipts	**9,812**	**10,520**
Less Payments:		
Payments to Trusts and Estates from the Common Fund	7,195	7,128
Payments to Consolidated Revenue Account	797	765
Other payments	17	30
Total Payments	**8,009**	**7,923**
Net receipts for the year	**1,803**	**2,597**

Auditing the Public Account - Common Fund of the Public Trustee

Financial results continued

Payments to the Consolidated Revenue Account increased from $765,252 in the prior year to $797,146. The increase is the result of higher commission and fees due to the increase in funds retained in the Common Fund and an increase in excess interest earned on the Common Fund.

Abridged Statement of Financial Position at 30 June 2002

	2002	**2001**
	$'000	**$'000**
Assets		
Fund manager	21,784	11,000
Other investments	2,161	11,142
Total Assets	**23,945**	**22,142**
Represented by:		
Estates' and Trust Funds	**23,945**	**22,142**

The Department of Justice has commented:

The investment of the moneys in the Common Fund is controlled by the Pubic Trustee Investment Board and the matters raised in the Report will be referred to the Board for it to take action, as it considers appropriate.

Auditing the Public Account and other accounts

Analysis of the 30 June 2002 financial report of:

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 $654,225.**
- **As at 30 June 2002 the Company's liabilities exceeded its assets by $65,874. By 30 June 2002, $30,000 received in advance for the Tropical Garden Spectacular held after year-end, was partly used to meet current costs. This highlights the Company's dependency on the Northern Territory Government for ongoing funding.**

Audit opinion

The audit of Northern Territory Major Events Company Pty Ltd (the Company) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 18 December 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.

Key issues

Liabilities exceed assets

As at 30 June 2002 the Company's liabilities exceeded its assets by $65,874. Current assets of $44,223 were insufficient to meet payables of $89,464. By 30 June 2002, $30,000 received in advance for the Tropical Garden Spectacular held after year-end, was partly used to meet current costs. This highlights the Company's dependency on the Northern Territory Government, from whom $500,000 was received on 10 July 2002, for ongoing funding.

Financial Reporting

I am pleased to note the improvement in the timeliness of the annual reporting for this year compared to the previous year when the financial statements were signed by the Board some 13 months after year end. However, further improvement is possible.

Auditing the Public Account - Major Events Company Pty Ltd

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2002

	2002	**2001**
	$'000	**$'000**
Revenue from ordinary activities before government grants	22	11
Less expenditure from ordinary activities:		
Employee expenses	431	380
Depreciation	3	11
Other	792	334
Total expenditure	1,226	725
Net (loss) from ordinary activities before government grants	(1,204)	(714)
Add Government grants	1,155	566
Net (loss) from ordinary activities	**(49)**	**(148)**

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 events:

Event	**2002**	**2001**
	$'000	**$'000**
The Main Event	157	-
Grease	313	-
60th Anniversary of the Bombing of Darwin	86	-
Australian Safari	6	125
Tenant Creek Go Karts	42	35
Finke Desert Race	49	28
Royal Darwin Show	1	21
	654	**209**

Auditing the Public Account - Major Events Company Pty Ltd

Financial results continued

Abridged Statement of Financial Position at 30 June 2002

	2002 $'000	2001 $'000
Current assets	44	336
Less Current Liabilities	119	377
Net Current Liabilities	(75)	(41)
Add Non Current Assets	9	24
Net Liabilities	**(66)**	**(17)**
Represented by:		
Contributed equity ($2)	-	-
Accumulated losses	(66)	(17)
Deficiency in assets	**(66)**	**(17)**

As a consequence of the operating loss for the year, the Company's excess of liabilities over assets at 30 June 2002 had increased to $65,876. Current assets of $44,223 at 30 June 2002 were insufficient to meet payables of $89,464. As noted previously, by 30 June 2002 some of the advance receipt of $30,000, received for the Tropical Garden Spectacular held after 30 June 2002, had already been used to meet other costs.

The Department of the Chief Minister has commented:

The Company's high level of dependency on Government funding is acknowledged and while its liabilities exceeded assets on 30 June 2002, I understand it was able to meet all liabilities that were due and payable. The company also received $500,000 in Government funding on 10 July. Your comments about meeting current costs using funds provided for specific activities is noted and will be brought to the attention of the Board.

Auditing the Public Account and other accounts

Analysis of the 31 October 2002 financial report of:

ACN 080 894 800 Pty Ltd – formerly known as Hidden Valley Promotions Pty Ltd

KEY FINDINGS

- **Following the 2002 event, it was decided by government to consolidate the activities of Northern Territory Major Events Company Pty Ltd (Major Events) and Hidden Valley Promotions Pty Ltd (Hidden Valley) by assigning the obligation to run the Northern Territory round of the V8 Supercar Championship series from Hidden Valley to Major Events.**

Audit opinion

The audit of ACN 080 894 800 Pty Ltd, formerly Hidden Valley Promotions Pty Ltd, (the Company) for the ten month period ended 31 October 2002 resulted in an unqualified independent audit opinion, which was issued on 18 December 2002.

Background

The Company was established in 1997 with the sole purpose to promote and facilitate the running of the Northern Territory round of the V8 Supercar Championship series at the Hidden Valley Circuit in Darwin.

The financial statements of the Company for the period ended 31 October 2002 included the operations of the fifth such annual event at the Hidden Valley Circuit in May 2002. The preparation of financial statements as at 31 October 2002 and the change in the Company's name are a prelude to the Company ceasing to trade.

Key issues

Transfer of activities to Northern Territory Major Events Company Pty Ltd

Following the 2002 event it was decided by government to consolidate the activities of Northern Territory Major Events Company Pty Ltd (Major Events) and the Company by assigning the obligation to run the Northern Territory round of the V8 Supercar Championship series from the Company to Major Events. As a consequence of the assignment all the assets and liabilities of the Company were transferred at no consideration to Major Events in October 2002.

Major Events will continue to promote the Northern Territory round of the V8 Supercar Championship series under the business name 'Hidden Valley Promotions'.

Assessment of the benefits to the Northern Territory of holding the event

As reported in the Auditor-General's November 2002 Report to the Legislative Assembly management had advised that an exercise was under way to estimate the benefits to the Northern Territory of holding the event. The results of the exercise were not available at the time of this audit.

Auditing the Public Account - ACN 080 894 800 Pty Ltd

Financial results

Abridged Statement of Financial Performance for the year ended 31 October 2002

	10 months to 31 October 2002	Year to 31 December 2001
	$'000	$'000
Revenue from ordinary activities before government grants	1,309	1,259
Less expenditure from ordinary activities:		
Administration expenses	160	139
Marketing and publicity expenses	591	497
AVESCO/TEGA expenses	500	485
Other expenses	710	982
Total expenditure	1,961	2,103
Operating (loss) from ordinary activities before extraordinary item and government grant	(652)	(844)
Add Extraordinary item[2]	(1,173)	-
Net (loss) before government grants	(1,825)	(844)
Add Government grants[1]	1,640	912
Net (loss) from ordinary activities	**(185)**	**68**

1 Government grants for the current period include $820,000 received for the 2003 event.

2 The loss on assignment of the obligation to run the Northern Territory round of the V8 Supercar Championship series including the transfer of assets and liabilities of the Company to Major Events Company Pty Ltd. This was calculated as follows:

	$
Assets	
Cash at bank	1,281,836
Petty cash	200
Receivables	705
Total assets	**1,282,741**
Liabilities	
Trade creditors and accruals	109,162
Total liabilities	**109,162**
Net assets transferred	**1,173,579**

Auditing the Public Account - ACN 080 894 800 Pty Ltd

Financial results continued

Abridged Statement of Financial Position at 31 October 2002

	31 October 2002	31 December 2001
	$'000	$'000
Current assets	-	223
Less Current Liabilities	-	38
Net Current Assets	**-**	**185**
Represented by:		
Contributed equity ($2)	-	-
Retained profits	-	185
Total equity	**-**	**185**

The Company had no assets or liabilities at 31 October 2002 as these had all been transferred to Major Events Company Pty Ltd.

Auditing the Public Account and other accounts

Findings from Acquittals completed in the six months to 31 December 2002

Vocational Education and Training Financial Data (AVETMIS) – Department of Employment, Education and Training

Audit opinion

The audit of the Certified Return of Elements of Vocational Education and Training Financial Data (AVETMISS) for the year ended 31 December 2001 resulted in an unqualified independent audit opinion, which was issued on 10 September 2002.

When compared to prior years, significant improvement was noted in this year's data collection process.

Australian National Training Authority (ANTA) – Department of Employment, Education and Training

Audit opinion

The audit of the 2001 Acquittal Statement to the Australian National Training Authority (ANTA) for the year ended 31 December 2001 resulted in a qualified independent audit opinion, which was issued on 30 October 2002.

The opinion was qualified because:

- DEET was not able to provide sufficient evidence that the Capital funding of $2,317,696 disclosed in the 2001 Acquittal Statement had been spent for the purposes for which it was allocated to the Northern Territory by ANTA; and

- It was not possible to verify that DEET had sought ANTA's approval, as required by the *Vocational Education and Training Funding Act*, for the carry forward beyond 31 December 2001 of the unexpended funds of $692,426 disclosed in the 2001 Acquittal Statement.

The Department of Employment, Education and Training has commented:

The Employment and Training Division of the Department has implemented changes to its systems for maintaining, accessing and retaining records which support reporting and acquittal for capital development and other types of funding. These changes will:

- *Address filing practices on the TRIM system;*
- *Ensure proper and detailed records are collected and filed in future; and*
- *Improve the capability of project managers in terms of records management.*

The Department has also requested approval from ANTA to carry forward the unexpended 2001 funds in compliance with the 2001-2003 ANTA Agreement. Simultaneously, it had requested permission to carry forward funds from the 2002 Calendar Year.

Auditing the Public Account and other accounts - Acquittals

Commonwealth State Housing Agreement – Department of Community Development, Sport and Cultural Affairs

Audit opinion

The audit of the Commonwealth State Housing Agreement (CSHA) for the year ended 30 June 2001 resulted in an unqualified independent audit opinion, which was issued on 22 August 2002.

Key issues

Capitalisation of rates and administration costs incurred in respect to land holdings

As in prior years, the accounting policies used in the financial report were not consistent with those required in that rates on land and administration expenses are not capitalised as part of the construction cost of the asset. While not material, capitalisation of such costs is the more appropriate accounting treatment.

Interstate Road Transport Acquittal – Department of Infrastructure, Planning and Environment

Audit opinions

The audits of the Statement of Revenue and the Statement of Amounts Expended or Set Aside pursuant to the *Interstate Road Transport Act 1985* for the year ended 30 June 2002 resulted in unqualified independent audit opinions, which were issued on 20 December 2002.

Auditing the Public Account and other accounts - Acquittals

Other 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:

	Audit opinion qualified or unqualified	Financial year end	Date audit opinion issued
Inter-government agreement (acquittal) audits			
Local Government Financial Assistance – Department of Community Development, Sport and Cultural Affairs	Unqualified	30 June 2002	12 November 02
Indigenous Housing Authority of the Northern Territory - Department of Community Development, Sport and Cultural Affairs [1]	Unqualified	30 June 2002	7 November 02
National Disaster Relief Arrangements – Northern Territory Treasury	Unqualified	30 June 2002	16 December 02

[1] Did not meet reporting timeframe

Matters arising from performance management system audits

Matters arising from performance management system audits

Department of Employment, Education and Training

Review of Grants and Subsidies – year ended 30 June 2001

KEY FINDINGS

- **The internal control procedures examined were found generally to be satisfactory and provided reasonable assurance that grants and subsidies were acquitted satisfactorily.**
- **Given the nature and extent of the payments processed by the former Department of Education by way of grants and subsidies, failure to include payment of grants and subsidies in the Financial Delegation Report reduced management's control over this disbursement function.**
- **Lack of uniformity in the utilisation of MYOB for reporting purposes had the effect of reducing the former Department of Education's ability to evaluate and analyse financial data received from schools.**
- **Failure by the Registered Training Organisations (RTOs) to finalise acquittal statements on a timely basis may have resulted in delays in the assessment of their performance in achieving agreed objectives.**

Audit opinion

The internal control procedures examined during the audit were found generally to be satisfactory and provided reasonable assurance that grants and subsidies were acquitted satisfactorily. However, areas where better practice could be implemented were identified.

Background

The Department of Employment, Education and Training (DEET) was formed in November 2001 by amalgamating the operations of the Department of Education (DOE) and the Northern Territory Employment and Training Authority (NTETA). Prior to their amalgamation into DEET, DOE and NTETA were responsible for the administration of significant grants and subsidies.

The audit objectives were to:

- Analyse where grants and subsidies were expended by the DOE and by NTETA in the year ended 30 June 2001;
- Compare this analysis with the data provided for the year ended 30 June 2000;

Matters arising from performance management system audits
DEET Review of Grants and Subsidies

- Assess whether internal controls provided reasonable assurance that grants and subsidies paid were acquitted satisfactorily; and

- Identify better practice examples of how accountability for use of the funds is monitored and managed.

A substantial amount of each year's outlay by the Government is in the form of grants and subsidies, mainly for recurrent purposes, but also to meet capital expenditure requirements of recipients.

Each funding Agency (in this case the former DOE and the former NTETA) has the responsibility to control the allocation of funds and to supervise the subsequent use of the funds for the intended purposes. Because the usage of the funding is not within the direct control of these Agencies, procedures to allocate funds, supervise their use and to adequately account for the use of the funds must be established by each Agency. The reliance on the recipient to provide adequate accountability information to the supervising Agency adds a dimension of risk that does not exist when the service delivery functions are managed and controlled directly by the Agency. It would also be normal practice, as part of establishing these control procedures, to detail the objectives and Key Performance Indicators to be achieved and reported by the recipients of grants and subsidies.

Executive summary

Expenditure of public monies as grants and subsidies in the 2000/01 financial year accounted for approximately 21% of total Government expenditure. A significant proportion of the grants and subsidies expenditure in 2000/01 was made by the DOE and NTETA as follows:

	Expenditure for the year ended 30 June 2001		**Expenditure for the year ended 30 June 2000**	
	Total Grants & Subsidies	**% of total grants and subsidies in the year**	**Total Grants & Subsidies**	**% of total grants and subsidies in the year**
	$ million		**$ million**	
Department of Education	107.3	24%	92.9	21%
NTETA	57.2	12%	61.8	14%
Total Government	447.0	100%	440.0	100%

Matters arising from performance management system audits
DEET Review of Grants and Subsidies

Executive summary continued

The main increases and decreases were:

Subsidy paid to	Paid by DOE Increase/(decrease) $ millions	Paid by NTETA Increase/(decrease) $ millions
Catholic Education Office	2.7	
Northern Territory University	2.7	
NT Christian Schools Association	2.1	
St. Phillips College	1.2	
Centralian College		(2.0)
Northern Territory University		(5.5)
Group Training NT		1.4
NT Rural College		1.3

The DOE grants were provided to both public and private schools throughout the Northern Territory to fund education services. Grants were also made to organisations providing educational support services.

In order to ensure that the grants and subsidies paid to the schools are utilised in a manner that enables the DOE to meet its overall objectives, the DOE had controls through the General Manager Schools and the Schools Division that monitored the programs of the various schools.

The DOE also disbursed Commonwealth Grants to various schools. The schools do not acquit the funds to the DOE but rather to the Commonwealth. DOE’s main role was that of a clearinghouse for these funds. Information about Commonwealth funding was used by the DOE for planning purposes.

NTETA funded Registered Training Organisations (RTOs) for delivering vocationally based education and training programs.

Key issues

Delegations

The DOE has a Financial Delegation Report that provides details of the authority given to the various officers in the Department. This report covered various delegations such as approval for duty travel, hospitality expenditure, purchase orders for supplies and tenders.

Matters arising from performance management system audits DEET Review of Grants and Subsidies

Key issues continued

However, the report did not give details of the delegations for:

- ♦ Payment of Commonwealth grants to schools on receipt of the grants from Commonwealth; or
- ♦ Payment of the Devolution grants.

Given the nature and extent of the payments processed by the DOE by way of grants and subsidies, failure to include payment of grants and subsidies in the Financial Delegation Report reduced management's control over this disbursement function.

Financial reporting by grant recipients to the Department

A project evaluation handbook was introduced in 1997 to assist the DOE to supervise accountability and to monitor the achievements associated with grants. This was subsequently withdrawn in line with changed Treasurer's Directions. However, the DOE had other controls in place to supervise accountability and to monitor achievement of grant objectives including the use of MYOB software. However, inconsistencies were noted in the way MYOB was utilised to produce the financial reports. Some schools produced detailed reports with an income and expenditure account many pages long, whilst other schools summarised their incomes and expenditures, producing only a brief report.

Lack of uniformity in the utilisation of MYOB for reporting purposes had the effect of reducing the Department's ability to evaluate and analyse financial data received from schools.

Lack of acquittal statements prepared by Registered Training Organisations (RTOs)

One of the main monitoring controls over the use of the grants paid by NTETA to RTO's was the requirement for RTOs to remit an annual funding acquittal statement to NTETA. Instances were noted where there was an undue lapse of time for the receipt of the acquittal statements from the RTO's. Failure by the RTOs to finalise acquittal statements on a timely basis may have resulted in delays in the assessment by NTETA of the performance of RTOs in achieving agreed objectives. For example, the acquittal for the Institute for Aboriginal Development for the year 2000 was not finalised until 5 July 2002.

Comments from the Department of Employment, Education and Training are included on the next page.

Matters arising from performance management system audits
DEET Review of Grants and Subsidies

The Department of Employment, Education and Training has commented:

There were three Key Issues within the review:

Delegations:

> *The CEO personally approved payments in both areas listed above. There has been no subsequent reduction of management control in this disbursement area.*
>
> *New DEET Delegations will be finalised at the March Executive Group meeting and incorporate amendments covering the above areas.*

Financial reporting by grant recipients to the Department:

> *DEET has recently undertaken a review of its Working for Outcomes (WFO) obligations and received a report from its consultants. The matter of uniform reporting standards from schools has been identified within this review and projects are underway to implement a standard chart of accounts for schools, preparation of a model set of financial reports and updating of policies and procedures through* the Schools Management Handbook.

Lack of Acquittal Statements prepared by Registered Training Organisations (RTOs)

> *The controls already in place for timely acquittal of grants to RTOs have been reaffirmed, and all new agreements with RTOs contain the condition that no further grant to individual RTOs will be made while acquittals are outstanding.*
>
> *Field Officers and Contract Managers have been directed to ensure compliance with timeliness contained in agreements.*

Matters arising from performance management system audits

Department of the Chief Minister

Alice in 10 – Desert Knowledge Project

KEY FINDINGS

- **The Desert Knowledge Project (DKP) is in the establishment phase. Management is focused on the steps required to progress the project to viable development and, as such, DKP is not yet operational. The DKP's performance management systems are not yet fully mature and need to be defined and developed.**
- **The DKP is progressing reasonably well with numerous targets being achieved within the time frame set by the steering committee**
- **Other than the completion of the initial steps in progressing the project, the draft business plan does not contain quantified key result areas or measures of success.**
- **The implementation of an "Output Based Management" system needs to be effected to ensure the key performance indicators in the performance management system are more refined, with specific units of measurement and targets set and reported.**
- **Although some timelines are stipulated, it is not clear from the business plan how, what or when potential benefits are to be realised for Territorians.**

Audit opinions

The Desert Knowledge Project (DKP) is in the establishment phase. Management is focused on the steps required to progress the project to viable development and, as such, DKP is not yet operational. The DKP's performance management systems are not yet fully mature and need to be defined and developed.

Other than the completion of the initial steps in progressing the project, the draft business plan does not contain quantified key result areas or measures of success.

The implementation of an "Output Based Management" system, as part of the Government's "Working for Outcomes" project, needs to be effected to ensure the key performance indicators in the performance management system are more refined, with specific units of measurement and targets set and reported. It would be appropriate for the Steering Committee to develop these measures at this phase of the project.

Matters arising from performance management system audits
Desert Knowledge Project

Background

The DKP is an initiative of the Northern Territory Government in association with several Aboriginal, local and Commonwealth Government, and non-government bodies. The NT Government has provided a full time executive officer supported by a project officer and a

secretariat. The DKP is managed by a Steering Committee comprising over a dozen people largely drawn from community organisations, with some Government appointees. Various sub-committees are chaired by Steering Committee members from non-NT Government bodies.

The DKP is working to form an incorporated body to be called Desert Knowledge Australia, which will take the project forward. Key initiatives of the project include a cooperative research centre, a desert peoples centre, a desert knowledge precinct, an international desert innovation centre and several specialist knowledge clusters.

Objectives of the audit

As the audit was conducted during the developmental stage of the project, the examination considered both performance management systems which should be in existence and those to which the Steering Committee should give consideration.

Key issues

Progress of this project - The DKP is progressing reasonably well with numerous targets being achieved within the time frame set by the steering committee.

Project not yet operational - The DKP is not yet operational and management's current focus is on the steps necessary to secure funding, to develop a framework and to progress the project to viability.

Vision and mission statements - DKP has a draft business plan, which contains the vision statement of "thriving desert knowledge economies". The DKP business plan mission "to establish structures necessary to create desert knowledge economies" is consistent with that vision and with the Government's "Building a Better Territory" policy.

Benefits for Territorians not clear - The five objectives listed in the draft business plan form logical stepping stones to achieve the stated mission. However, although some timelines are stipulated, it is not clear from the business plan how, what or when potential benefits are to be realised for Territorians.

Key result areas and performance measures still to be developed - The draft business plan includes activities and outcomes (for example development of a bush food industry) many of which, while not inconsistent with the objectives, do not specifically and clearly link to achieving planned objectives. Other than the completion of the initial steps in progressing the project, the business plan does not contain quantified key result areas or measures of success. For example, it would be expected that a business plan would include the number of new jobs to be created by a bush food industry.

Comments from the Department of the Chief Minister are included on the next page.

Matters arising from performance management system audits
Desert Knowledge Project

The Department of the Chief Minister has commented:

The need to develop improved performance measures for the Desert Knowledge project is noted. In its early phases the project aimed to identify commercial opportunities arising from Desert Knowledge, but until the potential activities were investigated, it was difficult to assign meaningful measures to the associated benefits. One of the main activities of the project was to secure funding for a Co-operative Research Centre and now that this objective has been achieved, it will be possible to focus on areas that have the potential to deliver a measurable benefit to Territorians.

Appendix 1 - Audit opinion reports issued since 30 June 2002

	Date 2001/02 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2002	Date of Audit Report Year ended 30 June 2001
Sec 9 Financial Management Act			
Treasurer's Annual Financial Statements	28 November 02	21 November 02	19 October 01
Government Business Divisions Sec 10 Financial Management Act			
Construction Division	26 November 02	25 October 02	9 November 01
Darwin Bus Service	26 November 02	25 October 02	9 November 01
Darwin Port Corporation	26 November 02	16 October 02	5 November 01
Government Printing Office	28 November 02	22 November 02	18 October 01
Information Technology Management Services	28 November 02	22 November 02	23 October 01
NT Fleet	28 November 02	26 November 02	14 November 01
Northern Territory Treasury Corporation	17 October 02	30 September 02	28 September 01
Power and Water Authority	28 November 02	27 November 02	2 November 01
Territory Housing Business Services	28 November 02	21 November 02	14 November 01
Territory Wildlife Parks	26 November 02	25 October 02	12 November 01
Territory Discoveries	26 November 02	25 October 02	12 November 01
Entities that Sec 10 Financial Management Act applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	Not yet finalised	15 April 02
Jabiru Town Development Authority	Not yet tabled	Not yet finalised	11 June 02
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	Not yet finalised	15 April 02
NT Grants Commission	27 November 02	12 November 02	25 October 01
Surveyors Board of the NT	Not yet tabled	22 November 02	9 November 01
Territory Insurance Office	Not yet tabled	21 November 02	21 November 01

Appendix 1 - Audit opinion reports issued since 30 June 2002

	Date 2001/02 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2002	Date of Audit Report Year ended 30 June 2001
Agency Financial Statements at the request of the Agency			
Department of Infrastructure, Planning and Environment	28 November 02	25 October 02	Not applicable
NT Tourist Commission (accrual financial statements)	26 November 02	7 October 02	2 November 01
Other Entities/Separate Acts/Trust Deeds			
Legislative Assembly Members' Superannuation Trust	9 October 02	2 October 02	9 November 01
Northern Territory Government and Public Authorities Employees Superannuation Fund	9 October 02	3 October 02	1 November 01
NT Major Events Company Pty Ltd	N/A	18 December 02	9 August 02
Northern Territory Police Supplementary Benefits Scheme	N/A	9 October 02	1 November 01
NT Legal Aid Commission	Not yet tabled	26 November 02	9 November 01
Common Fund of the Public Trustee	N/A	27 November 02	4 December 01
	Deadline for submission of Audited Financial Statement	**Date of Audit Report Period ended 31 October 02**	**Date of Audit Report Year ended 31 December 01**
ACN 080 894 900 Pty Ltd (formerly known as Hidden Valley Promotions Pty Ltd)	N/A	18 December 02	9 August 02

Appendix 1 - Audit opinion reports issued since 30 June 2002

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2002	Date of Audit Report Year ended 30 June 2001
Inter-Government Statements By Legislation			
Australian Land Transport Development	31 December 02	Not yet finalised	13 February 02
Interstate Road Transport	31 December 02	20 December 02	12 October 01
Local Government Financial Assistance	ASAP	12 November 02	3 September 01
By Agreement			
Commonwealth-State Housing Agreement	31 December 02	Not yet finalised	22 August 02
Indigenous Housing Authority of the Northern Territory	30 September 02	7 November 02	21 December 01
National Disaster Relief Arrangements	31 December 02	16 December 02	31 January 02
By Agreement	**Deadline for submission of Audited Financial Statements**	**Date of Audit Report Year ended 31 December 01**	**Date of Audit Report Year ended 31 December 00**
Australian National Training Authority Agreement		30 October 02	2 October 01
By Legislation			
Vocational Education and Training Financial Data	30 September 02	10 September 02	18 April 02

Not yet finalised - as at 31 December 2002

Not yet tabled - as at 31 December 2002

N/A - Not applicable

ASAP - As soon as possible after the financial year end

Appendix 2 - Status of Audits which were identified to be conducted in the six months to 31 December 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 4 of the November 2002 Report as being scheduled for the period.

Power and Water Corporation

Review of IT support for new financial systems.	No matters to report to the Legislative Assembly

Department of Health and Community Services

An IT specialist review of Data Warehousing and performance reporting.	No matters to report to the Legislative Assembly
Performance reporting in the Agency's 2001/02 Annual Report.	In progress

Department of the Chief Minister

Alice in 10 (performance management system audit)	Refer pages 91-93

Department of Employment, Education and Training

Analysis and review of grants and subsidies. (compliance with controls audit)	Refer pages 86-90

Department of Infrastructure, Planning and Environment (previously Department of Transport and Works)

Revisit Taxi Licence buy back scheme	In progress

Appendix 3
Proposed audit activity in the six months ending 30 June 2003

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

Department of Community Development, Sport and Cultural Affairs

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

Department of Corporate and Information Services

Detailed analysis of selected payroll transactions

IT outsourcing (a follow up to previous audits)

IT review of the Fleet business system

A compliance audit of the 2002 Office Space Tender

Department of Employment, Education and Training

PMS review of systems used to monitor schools

LATIS – a PMS audit

Department of Health and Community Services

Redevelopment of Royal Darwin Hospital

Department of Infrastructure, Planning and Environment

IT review of MOVERS

A compliance audit at Motor Vehicle Registry

A compliance audit of asset records

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

Department of Justice

A PMS audit of the fines recovery unit

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

Department of the Chief Minister

Ministerial expenses - travel

Department of the Legislative Assembly

A compliance audit of members entitlements

Northern Territory Treasury

IT review of APEX

Selected agencies

A PMS review of the monthly management reporting systems

Grants and Subsidies - Detailed analysis of chart of accounts

Contracts branch - Review of system for granting Certificates of Exemption

Appendix 4 - 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:

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

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

Appendix 4 - 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 5 - 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 February 2003 Report are also available from the Northern Territory Auditor-General's Office.

The next general Report by the Auditor-General to the Legislative Assembly is will be scheduled for tabling in the August 2003 sittings.

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