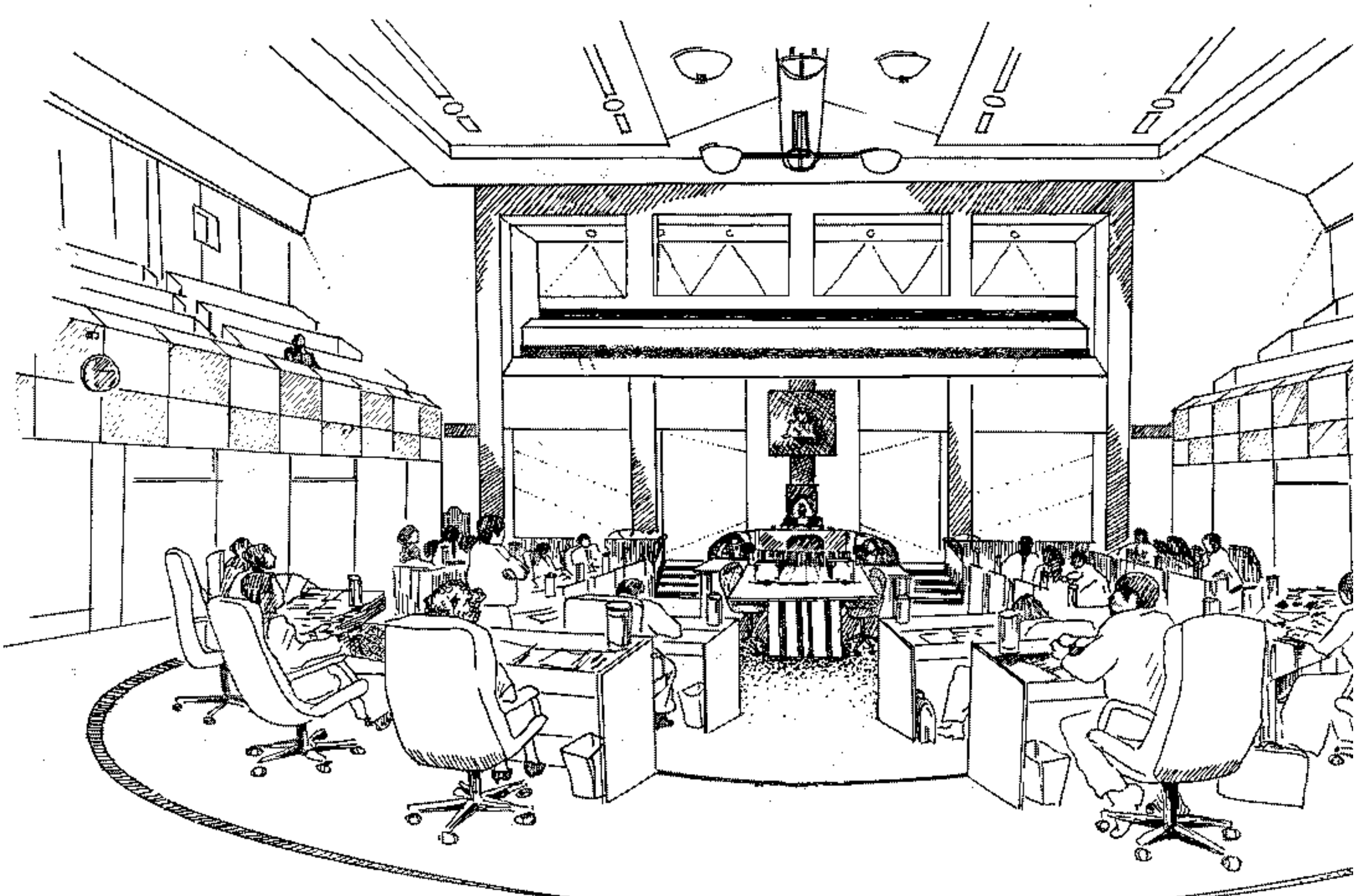
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

OCTOBER 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.

Timing of Auditor-General's Reports to the Legislative Assembly

The Audit Act requires the Auditor-General to report to the Legislative Assembly at least once per year. Practice has been for reports to be submitted three times per year. The approximate timing and the contents of these reports are:

- First half of the calendar year – contains commentary on Agencies and Entities with a 30 June financial year-end being 30 June of the previous calender year. Material is included depending on when each audit is completed.

- Second half of the calendar year – contains commentary on Agencies and Entities with a 31 December year-end being 31 December of the previous year. Material is included depending on when each audit is completed.

- Second half of the calendar year – contains commentary on the Auditor-General's audit of the Treasurer's Annual Financial Statement. Timing will depend on the audit completion date.

Each report may contain findings from financial statement audits, agency compliance audits, information technology audits, controls and compliance audits, performance management system audits and findings from any special reviews conducted.

Where there are delays in Agencies or Entities completing financial statements and therefore in the subsequent audit, it is sometimes necessary to comment on these activities in the next report.

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PRINTED BY THE
LEGISLATIVE ASSEMBLY
OF THE
NORTHERN TERRITORY

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

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

7 October 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 30 June 2003.

In the main, the Report summarises the outcomes from financial attest audit work performed for the year ended 31 December 2002 and interim audit work in connection with financial statements to be prepared at 30 June 2003. Also included are the results of performance management system audits conducted.

Yours faithfully,

Mike Blake
Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 January 2003 to 30 June 2003:

+ Financial Statement Audits;
+ Agency Compliance Audits;
+ Information Technology Audits;
+ Controls and Compliance Audits; and
+ Performance Management System Audits.

In recognition of the diversity of readership of this Report and of their needs, I have attempted to adopt a 'plain English' style of writing, which is not always easy when describing technical issues.

This Report has 20 sections. Each section deals with a specific audit topic or with a particular Agency or Entity and provides a summary of key findings, my audit opinion, background information where relevant, key findings and recommendations.

In the case of a financial statement audit, an 'unqualified audit opinion' means that I am satisfied that the Agency or Entity has prepared its financial statements in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia or, in the case of acquittal audits, the relevant legislation or agreement. It also means that I believe that the report has no material errors and the scope of my audit was not limited. If any of these aspects are not met, I issue a 'qualified audit opinion' and explain why.

The audit opinion and summaries of key findings represent the more important findings. By targeting these sections, readers can quickly understand the major issues faced by a particular Agency or Entity or by the public sector more broadly. Reports following completion of financial statement audits include a financial analysis of the financial statements.

Agency compliance audits are conducted as part of my audit of the Public Account and, in general, are aimed at ensuring compliance by Agencies with the Treasurer's Directions and Procurement guidelines. Further details are set out on page 11.

Information technology audits are either stand-alone audits of key government wide or Agency systems or to test systems used in the preparation of annual financial statements.

Controls and compliance audits are conducted of specifically selected systems, account balances or projects and also assist me in my audit of the Public Account.

Performance management system audits are conducted to enable me to assess whether particular performance management systems enable Agencies or Entities to assess how well particular functions or systems are performing in meeting specified objectives and, in doing so, how well effectiveness, efficiency and economy are addressed. Further details are set out on page 101.

In reporting the outcomes from agency compliance audits, information technology audits, controls and compliance audits and performance management system audits, I have followed the same report format as for financial statement audits except that there is no financial analysis.

Agencies and Entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, Agency Responses are detailed at the end of a particular section. As I discuss my proposed comments with Agency and Entity staff during the drafting process, few ask for formal responses to be included.

Major Findings

Agency Compliance Audits and Interim Audits conducted in the six months to the 30 June 2003.

In all cases, the systems and procedures examined were considered to be generally satisfactory. The accounting and control procedures examined at selected Agencies provide reasonable assurance that the responsibilities of the Accountable Officers as set out in the Treasurer's Directions and Procurement Directions will be met, if those systems continue to operate in the manner noted during audits conducted in the March to June period of 2003.

Notwithstanding this conclusion -

+ Greater attention is needed to managing all Agency assets not just cash.
+ Insufficient attention is being paid to the completion of reconciliations between primary and subsidiary ledgers.
+ There continues to be a lack of an adequate internal audit coverage.
+ Accounting and Property Manuals still need updating.
+ Some procurement guidelines are not being complied with by Agencies.

Refer pages 10 to 16

Northern Territory Treasury/Procurement Review Boards – Use of Certificates of Exemption from Public Tender

The procurement guidelines are not completely clear as to the costs to be included in determining the various monetary thresholds applied to Certificates of Exemption relating to consulting engagements.

Consultancy engagements reviewed did not always include clear outcomes anticipated from the transactions entered into. This should become a standard requirement so that neither party is in any doubt as to what is expected of the other.

Respective responsibilities for workers compensation insurance cover are not clear with regard to employees working for consultants.

Refer pages 17 to 21

Department of Corporate and Information Services and selected Agencies – Analysis of Other Personnel Costs

During the three and a half years to 31 December 2002, the Departments of Health and Community Services; Justice; and Police, Fire and Emergency Services expended significant amounts on paying "Other Personnel Costs" to their employees. The amounts represented

Some employees are working very high levels of overtime. Such high overtime levels, over a prolonged period of time, may represent an Occupational Health and Safety risk.

Reporting to Agency management of relevant payroll related exceptions requires improvement.

Refer pages 27 to 34

Major Findings

Department of Corporate and Information Services - Property Management Services – Office Space Tender

At the time of the commencement of the office space tender, which led to the Chinatown development being selected, there were no promulgated Northern Territory Government property leasing policies or specific procurement guidelines for office space rental. Property leasing practices had developed outside the general procurement guidelines.

This lack of promulgated procurement guidelines was mitigated by the transparency afforded by the calling of expressions of interest (EOI).

The original EOI was for up to 9,000m^2 of office space. However, the decision was made to reduce the new office space requirement to between 4,000m^2 to 6,000m^2 on advice of the possible adverse effect of new developments on the vacancy rate for office buildings.

On 10 December 2002, the Government released its "Policy for the acquisition of leased property" and procurement "guidelines for implementing the NTG policy for the acquisition of leased properties".

Refer pages 35 to 39

Department of Infrastructure, Planning and Environment - Audits of the Information Technology and Financial controls of the Motor Vehicle Registry System (MOVERS)

The IT application controls and accounting and control procedures examined in MOVERS provide reasonable assurance that controls over IT applications and accounting systems are adequate.

A weakness existed in the process for following up dishonoured cheques, cancellations of registration or licences and the subsequent collection action that is instituted. The amount of dishonoured cheques outstanding at the time of the conduct of this audit was approximately $50,000.

The Agency could be making greater use of exception reports such as reports of dishonoured cheques or unmatched banking.

Refer pages 40 to 42

Department of Infrastructure, Planning and Environment - Reliability and adequacy of records of land and other fixed assets for financial reporting

The accounting and control procedures examined provide reasonable assurance that the values for land and other fixed assets in the 2001/02 Treasurer's Annual Financial Report, Schedule 8.7 were based on reliable records. However, certain transitional issues required attention including the need, when valuing infrastructure assets such as roads and bridges, to take into account factors such as asset condition, remaining useful life and development costs.

Refer pages 43 to 46

Major Findings

Northern Territory University

The NTU operated at a deficit of $8.587 million for the year ended 31 December 2002. Despite the deficit, its net asset position is almost unchanged from that in 2001 due to an upwards revaluation of its library collection by $8.185 million, which was based on an independent valuation of this asset.

On a cash basis the NTU's operations provided a positive contribution of $3.685 million towards cash holdings but, after taking into account net acquisitions of fixed assets and repayment of debt, there was a decrease in overall cash holdings of $1.416 million. This $1.416 million was funded from cash reserves.

Refer pages 50 to 54

Centralian College

A qualified audit opinion was issued on 26 March 2003. The audit opinion was qualified because comparative figures had not been audited; the College's grants received were not reported in accordance with Australian Accounting Standards and failure to accrue a material invoice for the supply of computer equipment.

Refer pages 58 to 60

Department of Employment, Education and Training (DEET) - Systems to Monitor Schools

DEET has established a performance management system which enables it to assess how well the performance of schools, both government and non-government, supports its objectives.

DEET uses different measures to assess the quality of Government School outputs compared to those of Non-Government Schools. The measure used for Non-Government Schools is more in the nature of an assessment of inputs rather than outputs.

Certain Non-Government Schools are virtually 100% Territory funded but DEET has no management relationships with them nor has it established performance expectations.

Refer pages 74 to 78

Department of Justice - Fines Recovery Unit

Management does not have sufficient information to enable it to assess whether the objectives in relation to the Fines Recovery Unit (FRU) are being achieved effectively, and with regard to efficiency and economy. As a result, a fully operational performance management system is not in place.

Of the six performance measures originally established for the FRU, targets have been established for only two. Therefore, there is no point at which actual achievement of the identified outcomes can be compared to that expected and it was not possible for the FRU to monitor its performance in terms of efficiency and effectiveness.

Refer pages 79 to 83

Major Findings

Department of Corporate and Information Services - Outsourcing of IT Services

Significant progress has been made since the previous audit with improved processes to monitor deliverables, to manage outstanding issues and to enable DCIS to audit performance reported.

Refer pages 84 to 87

Performance reporting in 2001-02 annual reports by four Agencies

The Agencies audited did not consistently report against the performance information identified in Budget Paper No. 2 2001-02.

For the performance measures reported, the degree of reliability of those measures varied between the agencies due to the:

+ variability of supporting systems and methods used to derive the data necessary to calculate the performance measure;
+ lack of attention to detail in publishing performance measures resulting in typographical errors such as reporting the target or estimate as actual or misplacing decimal points to report thousands as millions; and
+ lack of explanation of outputs reported and all output types not dealt with.

Refer pages 88 to 91

Various Agencies – Monthly Internal Reporting Systems

The Agencies selected for audit have monthly internal reporting systems in place with monthly financial reports being prepared on an accruals basis. However, there are no uniform requirements or standards for internal reporting and potential exists for improvements in monthly internal reporting not only for the Selected Agencies, but also across the Northern Territory Public Sector.

Refer pages 92 to 95

Matters arising from auditing the Public Account and other accounts

Auditing the Public Account and other accounts

Summary of Agency Compliance Audits and Interim Audits conducted in the six months to the 30 June 2003.

KEY FINDINGS

In all cases, the systems and procedures examined were considered to be generally satisfactory. The accounting and control procedures examined at selected Agencies provide reasonable assurance that the responsibilities of the Accountable Officers as set out in the Treasurer's Directions and Procurement Directions will be met, if those systems continue to operate in the manner noted during audits conducted in the March to June period of 2003.

Notwithstanding this conclusion -

+ Greater attention is needed to managing all Agency assets not just cash.
+ Insufficient attention is being paid to the completion of reconciliations between primary and subsidiary ledgers.
+ There continues to be a lack of an adequate internal audit coverage.
+ Accounting and Property Manuals still need updating.
+ Some procurement guidelines are not being complied with by Agencies.
+ Registers of losses and negotiable instruments are not always being maintained.

Background

This section of the Report summarises internal control and other weaknesses in management and accounting systems and practices identified during the course of audit work conducted in the six months to 30 June 2003. Individual findings are not reported because my focus is on the more common findings which when considered collectively; suggest the need for attention from a broader public sector perspective.

Findings reported are based on completion of Agency Compliance Audits and Interim Financial Statement Audits.

Auditing the Public Account and other accounts
Summary of Agency Compliance Audits and Interim Audits

Background continued

Agency Compliance Audits - as part of my audit of the Public Account, in each March to June period, I conduct Agency Compliance Audits (ACAs) at the large Agencies each year and at selected smaller Agencies on a rotational basis.

The primary audit objectives of an ACA are:

+ To assist me in forming an audit opinion on the Treasurer’s Annual Financial Statement; and
+ To assess and test, with reference to a representative number of transactions or other suitable evidence, the adequacy of the systems developed by Accountable Officers to achieve compliance with their accountability and control requirements.

The ACAs examine selected aspects of the systems in use required by Treasurer’s Direction Part 3, Section 1, which deal with the responsibilities of accountable officers and the various rules covering procurement. Audit work is also performed following up matters reported at previous audits.

ACAs are also aimed at assisting Accountable Officers to ensure that the internal control systems operating within their Agencies include certain necessary features. ACAs provide an opportunity to identify shortcomings in the internal control systems, which Accountable Officers may need to address prior to forming their own opinions on their Agencies’ systems at the end of each financial year.

Interim Financial Statement Audits - audits at larger agencies/entities are often conducted in two parts – an interim audit prior to year-end and a final audit after year-end once financial statements have been prepared. Generally interim audits focus on testing systems and transactions with only a limited review of balances.

The objectives of interim audits will vary depending on the particular circumstances of each Agency or Entity (Government Business Division, Government Owned Corporation, other). However, the objectives will often include:

+ To facilitate the end of financial year audit;

+ To follow-up on other matters noted in the prior year’s interim and final audits and assess whether these matters have been adequately addressed; and

+ In accordance with Section 13 of the Audit Act address any control/compliance issues arising from an examination of the accounts and records.

Auditing the Public Account and other accounts
Summary of Agency Compliance Audits and Interim Audits

Background continued

The table below details where ACAs and interim audits were conducted in the six months ended 30 June 2003:

Agency Compliance Audits	Interim Financial Statement Audits
Department of Business, Industry and Resource Development	Darwin Port Corporation
Department of Community Development, Sport and Cultural Affairs	Northern Territory Government and Public Authorities Superannuation Scheme
Department of Corporate and Information Services	Northern Territory Tourist Commission
Department of Employment, Education and Training	Northern Territory Treasury Corporation
Department of Health and Community Services	NT Fleet
Department of Infrastructure, Planning and Environment	Power and Water Corporation
Department of Justice	Common Funds of the Public Trustee
Department of the Legislative Assembly	Territory Insurance Office
Northern Territory Police, Fire & Emergency Services	Department of Community Development, Sport and Cultural Affairs – Housing Business Services
Office of the Commissioner for Public Employment	
Office of the Ombudsman	

Method of reporting

The findings detailed below are a summary of the main issues identified following completion of these audits. Some of the findings have been raised in previous Reports to the Legislative Assembly. Progress is, however, being made and, as a result, I have continued my practice of not naming Agencies/Entities at this time.

The findings reported do not specify whether the matters were noted during an ACA or during an interim audit and there was no evidence that the control weaknesses identified resulted in any financial losses to government.

Auditing the Public Account and other accounts
Summary of Agency Compliance Audits and Interim Audits

Overall conclusions

ACAs

Subject to the exceptions listed below, the accounting and control procedures examined provide reasonable assurance that the responsibilities of the Accountable Officers as set out in the Treasurer's Directions and Procurement Directions will be met, if those systems continue to operate in the manner noted during the various audits.

Interim audits

In all cases, the systems and procedures examined were considered to be generally satisfactory.

Key findings

Asset management

The move to accrual accounting has highlighted the need to manage all assets, not just cash. Areas where management controls could improve include:

+ Cases were noted where stock-takes were informal or had been scheduled, but not conducted. Regular stock-takes of physical assets are an essential management tool and should be properly planned and regularly conducted.

+ There remained a need to document procedures relating to safeguarding of monies collected from third parties.

+ Contrary to the requirements documented in an Accounting and Property Manual, fixed asset disposals were not being approved by the Chief Executive Officer.

+ 28% of total debtors due to an Agency exceeded 90 days.

Reconciling subsidiary and primary ledgers

Most accounting systems comprise a general ledger, which often contains a number of control accounts, supported by a series of subsidiary ledgers such as fixed assets registers and registers of receivables. An essential management tool is to ensure that:

+ General ledger control accounts are regularly reconciled to subsidiary ledgers; and

+ Reconciling items are followed up and cleared in a timely manner.

One of the most effective means of detecting errors is the prompt and regular completion of reconciliations (such as reconciling the bank account). Reconciliations of this nature are a key management control and reconciling items, if not promptly attended to, may cause monthly management accounts to be misleading.

Auditing the Public Account and other accounts
Summary of Agency Compliance Audits and Interim Audits

Key Findings continued

Audit findings noted a number of instances where effective reconciliation procedures were absent including:

+ No evidence of a reconciliation between receipts and bankings. One case was noted where an officer was responsible for both the issuing of receipts and depositing of cash into the bank. Where there is a lack of segregation of functions, as was the case here, such a reconciliation is essential as is the need to:
  - Conduct regular independent cash counts – in this case no count had been conducted for the past three years, and
  - Immediately cross cheques received 'not negotiable'.
+ Accountable Officer's Trust Accounts - for example, a trust account balance had not been updated in the trial balance since 30 June 2002 resulting in the trust account balance as at 28 February 2003 not agreeing to the trial balance at this date.
+ Inadequate bank reconciliations - for example, at one audit it was established that the April 2003 bank reconciliation did not balance to the ledger by $290,473.80 and various reconciling items had been missed during the reconciliation process. This error was subsequently investigated and rectified without loss to the Agency.
+ Fixed asset reconciliations for the months of July, September and October 2002 could not be sighted and the year-end fixed asset stocktake procedures had not yet been agreed.
+ Reconciliation of the fixed asset register with the general ledger in the Government Accounting System (GAS) remained outstanding and there were a number of adjustments that required posting to GAS and to the assets register in order to reconcile the two systems.
+ New funds established had not been reconciled since their inception.

Internal Audit Matters

There has been a general improvement in management approaches to internal audit since 30 June 2002 with a number of risk assessments conducted and increased activity by Audit Committees including re-assessments of their operating charters. In one case, steps were being taken to appoint a full time person to head an internal audit function. However, there are still situations where:

+ No internal audits were conducted during 2002/03;
+ There was a lack of a comprehensive internal audit program;
+ Comprehensive internal audit programs had not been sufficiently developed to address identified risks;
+ Risk assessments had been performed but remained in draft; and
+ A risk management plan had not been completed and no formal risk assessment framework that addressed and monitored all risks was used.

Key findings continued

Accounting and Property Manuals not complete or out of date

Efforts are being made to update these manuals and to make them relevant to the needs of merged Agencies. However, examples of gaps that still existed at the time of audit included:

+ Non-inclusion of recovery procedures for external receivables;

+ A manual had not been updated to record how staff should deal with receipts to the Operating Account, Trust Money and for revised procurement thresholds; and

+ Procurement procedures recorded did not always comply with the Procurement Act, regulations and guidelines.

Procurement Matters

While in general procurement practices were found to be in accordance with the various regulations and guidelines, instances were noted where:

+ Procurements had not been gazetted or there were delays in gazetting.

+ Exceptions were noted relating to a tender being offered and a Certificate of Exemption not being obtained.

+ Documentary evidence could not be provided to support:

  - the existence of a Requisition for Goods and Services, which included certification of the availability of sufficient funds before the contract for supplies was entered into; and

  - that the appropriate quotations/tenders were obtained.

+ Instances were noted where Procurement Regulation 9 (dealing with authorising of purchase orders) was not strictly adhered to.

Registers and files required by Treasurer's Directions not kept

Audit work revealed that the following registers required by the Treasurer's Directions were not always being maintained or were not up to date:

+ Register of Losses and

+ Register of Negotiable Instruments.

Outstanding creditors' invoices - completeness and timeliness of processing.

The move to accrual accounting has highlighted the need for Agencies to introduce month-end cut off procedures that will ensure all amounts due to creditors for goods and services delivered are brought to account in the relevant accounting period.

Cut off testing was performed on creditors listings and at one Agency it was noted that the February 2003 creditors balance had been understated by $123,853.

Key findings continued

It is important to process transactions with creditors in a comprehensive and timely manner at each month-end, not only at year-end. This will lead to more accurate financial reporting, improved assessments of financial performance, improved budget management and enhanced decision making by management.

Debit balances in the trust ledger

It is unusual to find debit balances in trust ledgers and their occurrence could identify overdrawn balances or defalcations. Such balances require immediate action by management to identify their cause and the taking of appropriate action. One instance was noted where debit balances in a trust ledger existed. Action was taken by management to address this.

Recommendations

Reports to Agencies/Entities have recommended that the above matters be addressed and, in general, it has been recommended that management should:

+ introduce measures that will facilitate effective management of all assets;
+ ensure that bank and other reconciliations are completed and reviewed in a timely manner with all reconciling items followed up and cleared promptly;
+ continue to develop their internal audit functions;
+ continue to update Accounting and Property Manuals;
+ ensure that procurement guidelines are complied with in full;
+ ensure that amounts due to creditors are properly brought to account at each month end and not just at financial year-end; and
+ immediately investigate debit balances in trust accounts.

Auditing the Public Account and other accounts

Northern Territory Treasury/Procurement Review Boards – Use of Certificates of Exemption from Public Tender

KEY FINDINGS

+ Key procedures over the use of Certificates of Exemption in the cases selected for review were found to have operated. The review did, however, identify a number of issues for further consideration.
+ The procurement guidelines are not completely clear as to the costs to be included in determining the various monetary thresholds applied to Certificates of Exemption relating to consulting engagements.
+ Consultancy engagements reviewed did not always include clear outcomes anticipated from the transactions entered into. This should become a standard requirement so that neither party is in any doubt as to what is expected of the other.
+ Respective responsibilities for workers compensation insurance cover are not clear with regard to employees working for consultants.

Background

A review of Certificates of Exemption from public tender (CofEs) was conducted at the Department of Corporate and Information Services (DCIS) and at selected agencies. This report addresses system wide issues for consideration by the Procurement Review Boards (PRB) and, to some extent by the Contracts and Procurement Services (CAPS) branch of DCIS.

Audit objective and scope

This audit examined compliance by Agencies with the procurement guidelines as they relate to the awarding and use of CofEs. The audit objective was to ascertain whether:

+ the process for awarding CofEs complied with the guidelines;
+ the reasons applied for seeking the granting of a CofE were sustainable; and
+ it was in the public interest that advertisement for the services sought should not be pursued.

The audit did not examine the whole procurement process, but focused on CofEs from public tender and the related processes and approvals and was conducted prior to the recently announced Procurement Policy Reforms.

Auditing the Public Account and other accounts
Use of Certificates of Exemption from Public Tender

Audit objectives and scope continued

Thirty five CofEs were selected for review across the following Agencies:

+ Darwin Port Corporation
+ Department of Business, Industry and Resource Development
+ Department of Community Development, Sport and Cultural Affairs
+ Department of the Chief Minister
+ Department of Corporate and Information Services
+ Department of Employment, Education and Training
+ Department of Health and Community Services
+ Department of Infrastructure, Planning and Environment
+ Department of Justice
+ Northern Territory Police, Fire & Emergency Services
+ Northern Territory Treasury
+ Northern Territory Tourist Commission.

The findings noted are those considered of relevance to procurement systems as a whole.

Overall conclusion

Key procedures over the use of CofEs in the cases selected for review were found to have operated. The review did, however, identify a number of issues for further consideration, which are outlined below.

Key findings

Quantification of the cost of the service contracted for – consultants

The Procurement Review Board's (PRB) Guideline No: G17 issued in August 2002 notes that:

+ An Accountable Officer may issue Certificates of Exemption for requirements exceeding $10,000 up to and including $50,000.
+ Separate specific approval is required where Agencies are proposing to use suppliers from outside the Northern Territory. This can only be given by the PRB and must be obtained prior to inviting tenders.
+ Certificates of Exemption to dispense with the need to call public tenders for requirements over $50,000 are categorised as follows:
  - Over $50,000 up to and including $100,000, issued by the Accountable Officer after endorsement by the PRB;
  - Over $100,000 up to and including $250,000, issued by the Accountable Officer after approval by the Agency's Minister and endorsement by the PRB; or
+ Over $250,000 issued by the Minister responsible for Procurement Policy after endorsement by the Accountable Officer, approval by the Agency's Minister and endorsement by the PRB.

Auditing the Public Account and other accounts
Use of Certificates of Exemption from Public Tender

Key findings continued

What is not completely clear in the above guidelines is which costs are included in determining the various monetary thresholds referred to. In other words, in the case of consulting engagements for example, should the $50,000 be the consulting fee only or should it be the total costs inclusive of other costs incurred (travel) or facilities provided (mobile phones, computers, motor vehicles, office space) to the consultant.

The audit identified situations where such costs were excluded from assessment of the total cost and where such costs were included. There could be occasions where the inclusion of these additional costs changes the approval threshold.

Advice provided by a representative of the Procurement Reference Group in clarifying this is that the procurement cost is the GST inclusive estimate of all costs involved in delivering the required service ie, inclusive of all labour, travel, and incidentals.

Access to system wide data

At the commencement of this audit and to assist in scoping the work to be performed, access to system wide and summarised data regarding the issue of CofEs was sought. For example, the following information was requested:

+ A listing, for the past 18 months, of all CofEs by agency or by name of supplier or other combination;

+ A summary of applications submitted to the PRB, those approved and those rejected;

+ For the six months ended 31 December 2002:

    1. All tenders awarded under CofE compared to total tenders awarded by dollar and by number and in bands of less than $10,000, between $10,000 and $50,000 and above $100,000;

    2. All tenders awarded under CofE compared to total tenders awarded by dollar and by number and in bands of less than $10,000, between $10,000 and $50,000 and above $100,000 by agency; and

    3. All tenders awarded under CofE compared to total tenders awarded by dollar and by number and in bands of less than $10,000, between $10,000 and $50,000 and above $100,000 by name of supplier.

It took some time for this information to be provided and then it was in a form that was not user friendly. In one case the data had to be extracted from PRB minutes and in another a special Lotus Notes database query had to be written.

Auditing the Public Account and other accounts
Use of Certificates of Exemption from Public Tender

Key findings continued

Certificates of Exemption commonly used when procuring Consulting services

Of the 35 Certificates of Exemption selected for review, 16 or 46% were for some form of consultancy. In the main the paperwork documenting these transactions was found to be in order. However, it was on occasion difficult to assess whether or not all of the fundamental principles in the recently announced Procurement Policy Reforms would have been satisfied in each instance. The principles are:

+ Open and effective competition;
+ Value for money;
+ Enhancing the capabilities of Territory business and industry;
+ Environmental protection; and
+ Ethical behaviour and fair dealing.

Implementation of these new principles should facilitate greater transparency.

Clear specification of outcomes

The consultancy engagements reviewed did not always include clear outcomes anticipated from the transactions entered into. This should become a standard requirement so that neither party is in any doubt as to what is expected of the other.

In some cases selected for review a consultant was given sole tender status without the need to submit a tender or other proposal for evaluation prior to appointment.

Workers compensation

Occasions were noted where Agencies had entered into arrangements with consultants which resulted in:

+ The expectation that they would work in a “home office” or
+ Office accommodation being provided by the relevant Agency.

Inquiries regarding the responsibilities of the NT Government for workers compensation cover for the employees of consultants in these cases were made during this audit. No definitive response has been made available and this requires clarification.

Auditing the Public Account and other accounts
Use of Certificates of Exemption from Public Tender

Recommendations

That the Procurement Review Boards:

+ Provide clarity on what costs are to be included in assessing the various thresholds relating to consulting assignments awarded under Certificates of Exemption;

+ Develop systems and databases to facilitate regular monitoring and reporting of the use of CofEs at both an Agency and a system wide level. Such databases may also assist in responding to Freedom of Information requests;

+ Require that when engaging consultants, clear specification of outcomes be determined in advance and consultants be required to tender against such specification even in situations where a limited number of consultants are involved; and

+ Resolve respective responsibilities for workers compensation cover for employees working for consultants.

Northern Territory Treasury has commented:

+ Procurement Review Board will issue a Procurement Guideline to clarify the question on how the full cost of the service or supply is to be determined for the purposes of determining approvals required under the thresholds.

+ Treasury is developing a new database to record all requests for procurement approvals referred to the Procurement Review Board. This system will enable rapid resolution to the queries envisaged by the Auditor-General.

+ Proper procurement planning is a crucial element of the procurement reform agenda.. Agencies will be required to clearly articulate the objectives of each individual procurement activity. This will enable the preparation of adequate consultant briefs which properly define the target outcomes.

+ Treasury will liaise with the Commissioner for Public Employment to clarify the distinction between a consultant service contract and a consultant employment contract and the relative requirements for Workers Compensation insurance.

Auditing the Public Account and other accounts

Office of the Commissioner for Public Employment

Early termination payments to Chief Executive Officers and Executive Contract Officers

KEY FINDINGS

+ For the majority of separations reviewed, payments to Chief Executive Officers and to Executive Contract Officers, following early termination of their employment, were in accordance with their Contracts of Employment.
+ While the standard of documentation had improved, instances were still noted of a lack of documentation to explain particular courses of action.
+ While this audit was focussed on “termination” payments, evidence reviewed suggests that there was a policy and disclosure gap as it relates to setting remuneration rates for inclusion in employment contracts negotiated with CEOs.
+ Treasurer’s Directions should be amended to include disclosure of remuneration of Senior Officers in the notes to financial statements consistent with the International Federation of Accountant’s public sector accounting standards.

Background

This is a follow up of a similar audit completed in January 2002 that reviewed terminations during the period 1 July 2000 to 31 December 2001, with the findings included in the February 2002 Report to the Legislative Assembly.

The key finding of the 2002 audit was:

> “For the majority of separations reviewed, payments to Chief Executive Officers and Executive Contract Officers during the 2000/01 and 2001/02 financial years, following early termination of their employment, involved payments in excess of their Contracts of Employment.
>
> There is still insufficient documentation identifying why payments in excess of contract terms are being made to early terminating CEOs and other ECOs.”

The issue was subsequently taken up by the Public Accounts Committee (PAC), which conducted a public hearing with the Commissioner for Public Employment (the Commissioner) to ascertain his response to the issue raised. Prior to finalising their report the PAC asked me to revisit the Office of the Commissioner for Public Employment (OCPE) to ascertain the effectiveness of procedures now in place which address the concerns raised in the February 2002 Report.

Auditing the Public Account and other accounts
OCPE - Early termination payments to CEOs and ECOs

Background continued

This audit specifically looked for an improvement in the documentation preceding separation payments. In this regard it is noted that:

+ Section 7 of the Information Booklet on Executive Contract Employment of the Northern Territory Public Sector issued in March 2001 sets out the conditions expected to be included in CEO and ECO contracts.

+ CEO and ECO contracts usually identify a payment benefit limit, usually to a maximum of six months of Total Employee Cost, in cases of early employer initiated terminations and retrenchments. This is intended to limit the financial exposure of the Northern Territory Government.

+ Early terminations at the employee's initiation require only accrued entitlements to the date of termination to be met.

Audit objective and scope

The objective of the audit was to:

+ examine whether payments to CEOs and ECOs, after 1 January 2002, following early termination of their employment, were in accordance with their Contracts of Employment, or if not, whether variations were assessed as achieving an improved outcome for the public benefit; and

+ follow-up previous audits, in particular recommendations made regarding insufficient documentation on files to support decisions made.

My audit examined eleven terminations (four CEOs and seven ECOs) over the period 1 January 2002 to 30 January 2003.

Audit findings

Opinion

For the majority of separations reviewed termination payments to CEOs and ECOs, following early termination of their employment, were in accordance with their Contracts of Employment.

> Office of the Commissioner for Public Employment has commented:
>
> > Agrees with the audit finding.

While some issues noted concern the period prior to the appointment of the current Commissioner on 1 July 2002, issues concerning three terminating employees arose during the current Commissioner's tenure. However, processes and negotiations for these three terminations commenced prior to his appointment.

There has been improvement in the standard of documentation filed in support of termination decisions.

Auditing the Public Account and other accounts
OCPE - Early termination payments to CEOs and ECOs

Audit findings continued

Documentation could still be improved

Previous reports by my Office noted instances of a lack of documentation to support decisions made for the NT Government to meet certain costs. While there has been improvement, and in all cases reviewed the payments made were appropriately authorised, this continues to be a finding. For example:

+ There was no documentation on file to explain why a departing contract officer was paid four weeks in lieu of notice when the early termination payment was calculated using the ECO's total employment cost and

+ There was no advice on file from CEOs of the relevant Agencies for two departing contract officers that these employees were surplus to requirements.

Office of the Commissioner for Public Employment has commented:

> While accepting the document trail was less than perfect in the instances identified, the faults were of detail rather than substance. Consistent with your recommendation, an agency checklist is being implemented to ensure that all appropriate documentation is on file before a terminating contract officer's file is closed.

Employment contracts negotiated with CEOs

While not initially part of the scope of this assignment one transaction audited resulted in a review of two separate contracts of employment entered into with one CEO from which it was concluded that a policy gap exists as it relates to remuneration arrangements with CEOs. In this case, non-standard remuneration arrangements had been entered into, but the relevant file was not held by the Commissioner, potentially making him unaware of the arrangements.

The audit identified that the NT Government has established an Executive Remuneration Review Panel (ERRP) which provides advice to the Commissioner on remuneration rates for ECOs. The ERRP also scrutinises and provides advice on remuneration arrangements for CEOs. However, it only took on the latter function from 15 March 2003.

Not involving the ERRP or the Commissioner in remuneration arrangements with CEOs could result in fluctuating remuneration and other conditions of service being entered into and the setting of precedents. This also indicates a possible gap in policy as it relates to remuneration arrangements entered into with CEOs. The new provisions adopted by the ERRP on 15 March 2003 should adequately address this gap.

Office of the Commissioner for Public Employment has commented:

> It should be noted that this relates to one case which occurred in January 2002 which, due to the policy at the time, was not handled by OCPE. Since 1 July 2002, OCPE has resumed a role in managing all executive contracts.

Audit findings continued

Public disclosure of remuneration arrangements with Senior Officers

Consistent with Australian Accounting Standards, the financial statements of NT Government entities are not required to disclose remuneration paid to senior officers. However, such disclosure is regarded as best practice and would enhance transparency and accountability. It is a requirement of accounting standards issued by the Public Sector Committee of the International Federation of Accountants (IFAC) that annual financial statements disclose remuneration paid to senior officers. IFAC's accounting standards do not currently apply to Australia, although their influence in Australia is likely to become more significant as Australia adopts international accounting standards.

Non-disclosure of remuneration arrangements with Senior Officers is inconsistent with practice in the private sector, as it relates to listed companies, and reduces transparency and accountability.

Recommendations

That:

+ A checklist or other completion aide-memoir be used to ensure that all appropriate documentation is on file before a terminating contract officer's file is closed. In particular the reasoning behind decisions to make variations to an Executive Officer's contract conditions should be noted on the file.

  Office of the Commissioner for Public Employment has commented:

  > An agency checklist is being implemented to ensure that all appropriate documentation is on file before a terminating contract officer's file is closed.

+ Clear policy regarding remuneration arrangements for CEOs be developed and the Commissioner be included in the development and implementation of such policy even though CEOs are not "employees" under the Public Sector Employment and Management Act;

  Office of the Commissioner for Public Employment has commented:

  > The OCPE and ERRP have been operating under general policy guidelines since July 2002 with written procedures, advised to CEOs, since April 2003.

+ The ERRP's revised terms of reference, which now includes the review of non-standard remuneration arrangements, be applied in all cases; and

  Office of the Commissioner for Public Employment has commented:

  > Since 1 July 2002, OCPE has resumed a role in managing all executive contracts. Formal procedures for ERRP have been in place since 12 May 2003.

Recommendations continued

+ Consideration be given to including in the Treasurer's Directions a requirement that the remuneration of Senior Officers be disclosed in the notes to financial statements consistent with IFAC's public sector accounting standards.

  Office of the Commissioner for Public Employment has commented:

  > This is being investigated in conjunction with NT Treasury. Consistent with improvements in financial reporting and as part of the 'Working for Outcomes' framework, consideration will be given to appropriate reporting of remuneration details.

Auditing the Public Account and other accounts

Department of Corporate and Information Services and selected Agencies – Analysis of "Other Personnel Costs"

KEY FINDINGS

+ During the three and a half years to 31 December 2002, the selected Agencies expended significant amounts on paying "Other Personnel Costs" to their employees. The amounts represented between 11% and 15% of total employee costs.
+ The analysis of "Other Personnel Costs" indicated that in all three Agencies reviewed, some employees are working very high levels of overtime. Such high overtime levels, over a prolonged period of time, may represent an Occupational Health and Safety risk.
+ Reporting to Agency management of relevant payroll related exceptions requires improvement. Examples of information which should be reported include employees who have:
  - worked excessive overtime;
  - not taken leave for a certain period of time;
  - unusual consolidated or responsibility allowance payments; and
  - unusual patterns of overtime, sick leave and other payments.

Background

For the three financial years ended 30 June 2002 the annual reports of Agencies reporting under a cash framework contained details of expenditure on personnel costs. This included payment of "Other Personnel Costs" to employees such as:

+ Higher Duties Allowances – defined as temporary performance of the duties of a designation which has a higher attainable maximum salary than the substantive designation occupied;
+ Consolidated Allowances – is an allowance payable to Police and Prison Officers in lieu of entitlements that they therefore do not receive. The allowance includes First Aid Allowance, Leave Loading, Meal Allowance, On-Call Allowance and more as determined by the Office of the Commissioner for Public Employment;
+ Responsibility Allowances – payment in recognition of performing additional duties and/or assuming additional responsibilities as part of normal duties;

Auditing the Public Account and other accounts
DCIS and selected Agencies – Analysis of "Other Personnel Costs"

Background continued

+ Overtime – after an employee works overtime, he/she is entitled to either time off in lieu, or remuneration by way of a payment calculated at the person's current salary rate of pay. The payment is also based on the nature of the overtime (continuous to normal duty, call out, emergency, etc.) and minimum periods of payment may apply; and

+ Penalty Payments – a shift worker is entitled to be paid an additional payment at the appropriate rate in relation to shift work. Depending on the classification of the employee, and the time the shift is worked, workers will be due a percentage of their ordinary rate of pay for the additional payment.

Payment of these "Other Personnel Costs" is made through the Personal Information and Payroll System (PIPS) managed by the Department of Corporate and Information Services (DCIS). As part of this process DCIS performs a checking function based on authorisations provided by Agencies.

This is an audit pursuant to Section 13 of the Audit Act. It complements Agency Compliance Audits and other audits of Agencies, and contributes to the audits of the Public Account and the Treasurer's Annual Financial Statement.

Audit objectives and scope

The objective of this audit was to ensure that Agencies are applying effective systems of internal control for payroll functions associated with "Other Personnel Costs" including:

+ Assessing whether payments were made in accordance with relevant terms and conditions of employment;

+ Whether such expenditures were authorised in advance;

+ Whether there was evidence that the work was performed;

+ Whether the allowances granted were consistent with both Agency guidelines and with guidelines issued by the Commissioner for Public Sector Employment; and

+ Whether Agency management received regular reports detailing amounts spent on such activities.

The scope of this audit was to conduct an analysis of payroll information in PIPS focusing on "Other Personnel Costs" for the period 1 July 1999 to 31 December 2002 to identify any unusual trends and fluctuations in "Other Personnel Costs"; and if so note the Agencies involved and for each Agency select the ten largest payees of such "Other Personnel Costs" for detailed testing to ensure that payment was appropriately authorised.

Auditing the Public Account and other accounts
DCIS and selected Agencies – Analysis of "Other Personnel Costs"

Audit objectives and scope continued

Agencies at which this audit was conducted were:

+ Department of Corporate and Information Services (DCIS - audit of centralised functions only)
+ Department of Health and Community Services (DHCS)
+ Department of Justice (DOJ) and
+ Police, Fire and Emergency Services (PFES).

Audit Opinion

The "Other Personnel Costs" examined were found generally to be appropriately paid and complied substantially with Agency guidelines and with guidelines issued by the Commissioner for Pubic Sector Employment.

Key Findings

"Other Personnel Costs"

During the three and a half years ended 31 December 2002 the selected Agencies expended significant amounts on paying "Other Personnel Costs" to their employees. The amounts represented between 11% and 15% of total employee costs. Details are analysed by selected Agency on the following pages.

Overtime

The analysis indicates that in all three Agencies reviewed, some employees are working very high levels of overtime. Such high overtime levels, over a prolonged period of time, may represent an Occupational Health and Safety risk. There may also be occasions where it could be more cost effective to recruit additional full time staff (assuming that they can be recruited) rather than pay the overtime and penalty costs currently being incurred. This requires further analysis by Agencies.

Instances were also noted where employees were submitting their time sheets in batches. For example, one employee submitted timesheets for 21 November 2001, 5 December 2001 and 19 December 2001 on 20 December 2001. This may adversely impact on their supervisors' capability to appropriately review the timesheets.

Consolidated allowance

Errors were noted within the payment of consolidated allowances. One error was repeated in more than nine pay periods. These errors were identified and corrected and where there were overpayments, they were subsequently recovered.

Reporting

In all three Agencies visited, it was noted that management received payroll activity reports from DCIS. These reports are long and detailed and are time consuming to review. Agencies would benefit by developing exception reports, for example reports detailing employees who have worked excessive overtime, have not taken leave for a certain period of time, or who have unusual consolidated or responsibility allowance payments and reports detailing patterns of overtime, sick leave and other payments.

Auditing the Public Account and other accounts
DCIS and selected Agencies – Analysis of “Other Personnel Costs”

Analysis of trends in the payment of “Other Personnel Costs”

Payment of “Other Personnel Costs” for the three and a half years ended 31 December 2002 are analysed by Agency below - these amounts are unaudited and have been extracted directly from the Government Accounting System:

Department of Health and Community Services

	30 June 2000 (12 months)	30 June 2001 (12 months)	30 June 2002 (12 months)	31 Dec 2002 (6 months)
	$’000	$’000	$’000	$’000
Higher duties allowance	2,654	2,633	2,593	1,474
Responsibility allowance	18	7	12	2
Penalty payments	14,037	14,940	16,072	7,437
Overtime	11,933	12,658	14,373	7,917
Total allowances	28,642	30,238	33,050	16,830
Expressed as a % of total Personnel costs	12.5%	12.5%	12.8%	11.9%

It is noted that:

+ Over the three years ended 30 June 2002 penalty payments and overtime increased by 14.5% and 20.4% respectively;

+ During this three year period the number of employees receiving penalty payments increased by 4.3% with 474 FTE each receiving more than $10,000 per annum in the year ended 30 June 2002;

+ On top of normal salaries, in the year ended 30 June 2002 the top ten earners of the following types of “Other Personnel Costs” earned in the ranges:
  - Higher duties - $16,000 to $25,000 per annum;
  - Penalties - $19,000 to $24,000 per annum; and
  - Overtime - $60,000 to $75,000 per annum.

+ Four employees chosen for detailed testing each worked between 45 and 85 hours overtime in a fortnight during the year ended 30 June 2002. This overtime was in addition to the 78 normal working hours; and

+ Nine of the ten employees listed as receiving higher duties allowance during the year ended 30 June 2002 appear to have received higher duties allowances for the entire financial year.

Auditing the Public Account and other accounts
DCIS and selected Agencies – Analysis of "Other Personnel Costs"

Analysis of trends in the payment of "Other Personnel Costs" continued

Department of Justice

	30 June 2000 (12 months)	30 June 2001 (12 months)	30 June 2002 (12 months)	31 Dec 2002 (6 months)
	$'000	$'000	$'000	$'000
Higher duties allowance	835	621	701	349
Consolidated allowance	2,883	2,948	3,039	1,537
Responsibility allowance	658	669	719	361
Penalty payments	263	273	294	145
Overtime	2,032	1,595	1,713	1,130
Total allowances	6,671	6,106	6,466	3,522
Expressed as a % of total Personnel costs	13.0%	11.4%	11.0%	11.3%

It is noted that:

+ The number of employees receiving the consolidated allowance over this three year period has remained constant at around 290 FTE with about 215 FTE each receiving in excess of $10,000 per annum in each of the three years;
+ On top of normal salaries, in the year ended 30 June 2002 the top ten earners of the following types of "Other Personnel Costs" earned in the ranges:
  - Consolidated allowance - $13,400 to $13,750 per annum;
  - Responsibility allowance - $12,900 to $15,600 per annum; and
  - Overtime - $15,400 to $22,300 per annum; and
+ An analytical review of the overtime paid during the 30 June 2002 financial year indicates that the ten largest payees worked an average of 21 hours overtime each fortnight for the year. Two employees chosen for detailed testing worked 68 hours and 79 hours overtime each in a fortnight. This overtime is in addition to the 78 normal working hours per fortnight

Analysis of trends in the payment of "Other Personnel Costs" continued

Police, Fire and Emergency Services

	30 June 2000 (12 months)	30 June 2001 (12 months)	30 June 2002 (12 months)	31 Dec 2002 (6 months)
	$'000	$'000	$'000	$'000
Higher duties allowance	849	837	857	507
Consolidated allowance	6,346	6,731	7,348	3,675
Penalty payments	519	571	609	158
Overtime	4,678	5,459	6,165	3,544
Total allowances	12,392	13,598	14,979	7,884
Expressed as a % of total Personnel costs	14.1%	14.6%	15.3%	15.5%

It is noted that:

+ These costs are representing an increasing component of total employee related costs;
+ Over the three years ended 30 June 2002 the consolidated allowance and overtime payments increased by 15.8% and 31.8% respectively;
+ During this three year period, the number of employees receiving the consolidated allowance increased by 4.3%, with 847 FTE each receiving more than $5,000 per annum in the year ended 30 June 2002;
+ The number of employees receiving overtime has increased by 4.9% with 478 FTE each receiving in excess of $5,000 during the year ended 30 June 2002;
+ On top of normal salaries, in the year ended 30 June 2002 the top ten earners of the following types of "Other Personnel Costs" earned in the ranges:
  - Higher duties - $16,300 to $25,400 per annum;
  - Consolidated allowance - $11,500 to $15,300 per annum; and
  - Overtime - $21,900 to $31,000 per annum; and
+ Three employees chosen for detailed testing respectively worked 94 hours overtime over three fortnights, 67 hours overtime over two fortnights and 86.75 hours overtime over two fortnights. This overtime is in addition to their normal working hours of 78 hours per fortnight.

Auditing the Public Account and other accounts
DCIS and selected Agencies – Analysis of "Other Personnel Costs"

Recommendations

That:

+ Exception reports are provided to Agencies by DCIS. Exception reports could consist of reports highlighting a variety of staff related exceptions. For example, but not limited to, details of staff members:
  - Who have not taken annual leave for 12 months;
  - Receiving more than 20 hours overtime in a pay period;
  - Receiving consistently more than 10 hours overtime in each pay period for the preceding 6 months;
  - Receiving Higher Duties Allowances for over 6 months;
  - Receiving an unusual amount of penalties in one pay (for example, in excess of $800 in a fortnight); and
  - Receiving unusual amounts of Consolidated or Responsibility Allowances (for example, in excess of $700 in a fortnight).
+ Where high overtime levels are identified, management should conduct further analysis of information such as patterns of sick leave, sick leave being replaced by overtime, days of the week that any sick leave is taken and roster days off.
+ Systems be introduced requiring employees to submit their time sheets in a timely manner particularly where overtime or other additional allowances are being claimed.

Northern Territory Police, Fire and Emergency Services has commented:

Consolidated Allowance

The increased payments for consolidated allowance paid to Northern Territory Police members is directly linked to increased staffing numbers and three salary increases resulting from the Northern Territory Police Certified Agreement, which were implemented over the period analysed. Given the size of the consolidated allowance and the predominance of police officers within the organisation, this outcome is to be expected as police officer's salaries have risen more than those of other classes of employees during the period examined.

The specific issue of the number of employees receiving the consolidated allowance reflects the increase in the number of police officers employed over the period.

Northern Territory Police, Fire and Emergency Services has commented continued:

Overtime

Major incidents including the Falconio investigation, Litchfield National Park search and the Pine Gap exercises all occurred during the reporting period and were major contributing factors influencing overtime payments. These types of major incidents tax the capacity of the police force and, as a matter of course, generate large amounts of overtime payments.

In relation to those employees identified as working excessive overtime, it is noted that in these particular instances the overtime related to members who were stationed at two-man stations in remote localities. In one of the identified instances, this situation has now been rectified with an additional staff member being placed at that location.

It is inherent in the nature of policing in remote localities that occasional relatively major events will occur that will require members to undertake long periods of overtime, either due to the nature of the event itself or because the response requires considerable travel. This will mean that there will be periods of time in which members undertake considerable overtime over a short period. However, in accordance with Government's commitment and the recommendations resulting from the O'Sullivan review, the organisation will in future be better placed to absorb these types of event.

It is also important to note, that given the provisions of the Police Arbitral Tribunal Determination, overtime hours paid does not necessarily reflect the hours that have been worked. Much overtime at remote localities is worked on a 'call-out' basis and each episode of overtime attracts a minimum two-hour payment, even if the work undertaken only takes a short time. Some programmed overtime (for court, for instance) attracts a minimum four-hour payment.

Higher Duties Allowance

The payment of higher duties allowance is influenced by those positions that are identified at the rank of Brevet Sergeant. The rank of Brevet Sergeant was identified as part of a developmental process for Senior Constables and postings to these positions are generally for a two-year period. Payment is made to these members through Higher Duties.

The recommendation of improving reporting to Agency management on these issues through development of a system of exception reports is strongly supported and will be pursued with the responsible agency, DCIS.

Department of Justice has commented:

All of the exceptional reports recommended are now being produced and analysed on a regular basis. In addition, the Minister for Justice has announced a major review of custodial services in the Northern Territory and it is anticipated that this review will be making recommendations that will impact on issues such as the levels of overtime worked.

Department of Corporate and Information Services has commented:

DCIS supports the recommendation to provide payroll related exception reports. An exception reporting capacity is being included in the specification for a PIPS Management reporting facility, which is currently being developed in conjunction with agencies. However, it will be up to agencies to determine which exception reports they will find useful.

Department of Corporate and Information Services

Property Management Services – Office Space Tender

KEY FINDINGS

- At the time of the commencement of the office space tender, which led to the Chinatown development being selected, there were no promulgated Northern Territory Government property leasing policies or specific procurement guidelines for office space rental. Property leasing practices had developed outside the general procurement guidelines.
- This lack of promulgated procurement guidelines was mitigated by the transparency afforded by the calling of expressions of interest (EOI).
- The original EOI was for up to 9,000m^2 of office space. However, the decision was made to reduce the new office space requirement to between 4,000m^2 to 6,000m^2 on advice of the possible adverse effect of new developments on the vacancy rate for office buildings.
- On 10 December 2002, the Government released its "Policy for the acquisition of leased property" and procurement "guidelines for implementing the NTG policy for the acquisition of leased properties".

Background

On 21 May 2002, the Government announced that the Leeon Consortium was the preferred developer for the provision of public sector office space. The NT Government's commitment was identified as requiring 4,300m^2 of public sector office space from the Chinatown development. The Government also announced that it would begin lease negotiations with the consortium.

The announcement was the culmination of a process that commenced on 12 November 2001 when the then Commissioner for Public Employment, at that time responsible for Property Management Services (PMS), provided a briefing memo to the Minister for Employment, Education and Training which noted that around 9,000m^2 of current leases for office space by government agencies would expire in late 2003.

The memo recommended the calling of "Expressions of Interest" to assess pre commitment options.

Auditing the Public Account and other accounts
DCIS - Property Management Services – Office Space Tender

Background continued

The November 2001 restructure of public sector agencies resulted in responsibility for Property Management Services moving from the Office of the Commissioner for Public Employment to the Department of Corporate and Information Services (DCIS).

Outcomes from previous audit

An audit of leased property was last completed in 2001 and reported to the Legislative Assembly in the Auditor-General's August 2001 Report. The opinions drawn at that time included:

> "The process for the procurement of leased property provides reasonable assurance that there was compliance with prescribed requirements.
>
> The Agency had systems in place to ensure the leasing of property from the private sector provided value for money and matched the needs of Government Agencies".

The above opinion was based on the processes existing at that time.

Importantly, those processes did not include the need for a business case to be prepared in advance of the process nor was there a specific requirement to appoint a probity auditor or to seek expressions of interest.

Audit objectives and scope

This was a compliance audit, which specifically examined the processes around the office space tender awarded to the Chinatown developers.

The audit objectives were to ascertain whether:

+ the process for the procurement of leased property provided reasonable assurance that there was compliance with prescribed requirements; and

+ DCIS had systems in place to ensure the leasing of property from the private sector provided value for money and matched the needs of government agencies.

Auditing the Public Account and other accounts
DCIS - Property Management Services – Office Space Tender

Opinions

Procurement process - at the time of the commencement of the office space tender, which led to the Chinatown development being selected, there were no promulgated Northern Territory Government property leasing policies or specific procurement guidelines for office space rental. Property leasing practices had developed outside the general procurement guidelines. Despite this, and subject to the findings below, a transparent process was followed.

Value for money and matching agencies' needs – neither value for money nor needs of agencies could be assessed because at the time of conducting this audit, there was no requirement for the preparation of a business case.

Key Findings

Calling for Expressions of Interest and developing assessment criteria

The processes existing in November 2001 did not require calling for expressions of interest (EOI). The fact that DCIS initiated an EOI was an important control feature and it resulted in a more transparent process.

However the assessment criteria used to evaluate EOIs were developed after the EOIs were received although the criteria subsequently developed were consistent with the documentation issued when calling for the EOIs.

Role of the Probity Auditor

The initial terms of reference limited the scope of the probity audit to advice from the time that the evaluation of EOIs commenced up to the submission by the Evaluation Committee to Government of the recommended short listed respondents. The Probity Auditor was, however, also appointed for stage two of the process enabling him to assess probity throughout the process other than, as would be expected, the Government decision making process.

Change to floor space requirement

The request for EOI advertised in November 2001 was for the supply of approximately 9,000m^2 of office floor space. This area was subsequently redefined down to 4,000m^2 to 6,000m^2 in March 2002 due to the potential negative impact on the office vacancy rate in the Darwin CBD of proceeding with the total 9,000m$^{2.}$

As a result, the assessment criteria were amended accordingly.

Auditing the Public Account and other accounts
DCIS - Property Management Services – Office Space Tender

Key findings continued

Preparation of a business case

The process followed in this office space tender was broadly similar to the general procurement guidelines. However, and as noted from the above extract from a previous Auditor-General's report, there was not a requirement for the preparation of a business case and one was not prepared. It is pleasing to note that preparation of a business case is now a requirement – see comments under "Procurement Guidelines and NTG Leasing policy" below.

Impact on costs

Initially the Office of the Commissioner for Public Employment and later DCIS clearly identified to Government that the proposal to move agencies from lessor accommodation to new accommodation would result in higher annual rental cost and would incur other costs associated with relocating offices.

By May 2002 DCIS identified that the move to the Chinatown development would incur initial costs totalling $1.55 million and ongoing increased rentals of $0.51 million per annum. However, this extra cost was accepted on the basis of the anticipated investment leverage that this transaction was expected to bring to the Northern Territory economy as a whole. It is difficult to quantify any investment leverage in advance although every effort should be made to do so and normally as part of a business case.

Procurement guidelines and NTG leasing policy

On 10 December 2002, the NT Government released its "Policy for the acquisition of leased property" and procurement "guidelines for implementing the NTG policy for the acquisition of leased properties". Leases less than 500m^2 are excluded from the guidelines.

The guidelines require the preparation of a business case to renew an existing lease or seek registrations of interest on expiry of a lease, or to increase space by more than 25% in the same building. The business case is to be prepared by DCIS in conjunction with the tenant Agency and Treasury and is required to be submitted to the Procurement Review Board for endorsement before being submitted to the Minister for Corporate and Information Services for approval.

The NTG policy requires in relation to the registration of interest process, that the standard documentation package provided to industry include a brief description of project/background, space required, standard of accommodation required, preferred location and proposed tenant. The package is also required to detail the selection criteria specific to the acquisition along with other relevant acquisition requirements.

Compliance with these guidelines and policy should address some of the matters raised in this Report.

Auditing the Public Account and other accounts
DCIS - Property Management Services – Office Space Tender

Recommendation

That the new guidelines and policy be complied with in full.

Department of Corporate and Information Services has commented:

Procurement guideline G34: Acquisition of leased property was issued by the Procurement Review Board in June 2003 and is being complied with in full on all new and renewed leases. It is a requirement that the effectiveness of the new processes be reviewed after 12 month's operation, and we shall be seeking to do so in conjunction with NT Treasury

Auditing the Public Account and other accounts

Department of Infrastructure, Planning and Environment

Audits of the Information Technology and Financial controls of the Motor Vehicle Registry System (MOVERS)

KEY FINDINGS

+ The accounting and control procedures examined in the Motor Vehicle Registry (MVR) section of the Department provide reasonable assurance that the financial controls over accounting and material financial transactions are adequate.
+ The IT application controls of MOVERS examined during the audit were considered to be generally satisfactory.
+ A weakness existed in the process for following up dishonoured cheques, cancellations of registration or licences and the subsequent collection action that is instituted. The amount of dishonoured cheques outstanding at the time of the conduct of this audit was approximately $50,000.
+ The Agency could be making greater use of exception reports such as reports of dishonoured cheques or unmatched bankings.
+ Prior to the commencement of this audit, break-ins occurred at the MVR's Goyder Road office. As a consequence procedures were amended to strengthen controls over cash. The revised procedures were reviewed and are considered to be adequate.

Background

MOVERS was initially implemented in 1993 and was designed and developed “in-house” to become one of the Department of Infrastructure, Planning and Environment's (the Department) core systems supporting the regulatory function of motor vehicle licensing and Territory revenue raising.

Since its inception, MOVERS has undergone continual improvements to enhance its functionality and service capabilities, including the development of subsidiary programs such as the National Electronic Vehicle and Driver Information System (NEVDIS) and interfacing with the National Vehicles of Interest database.

The Motor Vehicle Registry (MVR - a function within the Department) is responsible for the administration of the regulatory function of motor vehicle licensing and Territory revenue raising.

Auditing the Public Account and other accounts
DIPE - Audits of the Motor Vehicle Registry System (MOVERS)

Background continued

The main office is located in Goyder Road, Darwin, where most of the transactions either emanate, or where transactions in the smaller or outlying sub-offices are ultimately processed. Consequently, the importance of internal controls in this office cannot be overestimated.

As part of the audit, the customer service offices at Goyder Road, Darwin, Casuarina, Palmerston and Energy House, Cavenagh Street, Darwin were visited. These four offices process the major part of all transactions through MOVERS. The remaining offices located in Alice Springs, Jabiru, Katherine, Nhulunbuy, Tennant Creek and Yulara were not included in this audit.

Audit objectives and scope

The objective of the audit was to examine the adequacy of controls in the MVR section of the Department. The scope of the audit included:

+ identifying the key financial controls surrounding MOVERS;
+ testing those controls considered to be important;
+ ensuring consistency in the application of control processes in the major customer service centres; and
+ examining the adequacy of IT controls in connection with the MOVERS application.

Audit findings

Opinion- financial controls

The accounting and control procedures examined in the MVR section of the Department provide reasonable assurance that the financial controls over accounting and material financial transactions were adequate.

Prior to the commencement of this audit, break-ins occurred at the MVR's Goyder Road office. As a consequence management introduced procedures to strengthen controls over cash. In particular, amounts received are now collected from the offices and banked each day thereby minimising the amounts kept overnight at the Goyder Road office.

The revised procedures were reviewed and are considered to be adequate.

Dishonoured cheques

The procedures relating to dishonoured cheques as laid down in the MVR manual appeared to have been followed. However, a weakness existed in the process for following up any dishonoured cheques, cancellations of registration or licences and the subsequent collection action that is instituted. The amount of dishonoured cheques outstanding at the time of the conduct of this audit was approximately $50,000.

Audit findings continued

Opinion- IT controls

The application controls of the MOVERS system examined during the audit were considered to be generally satisfactory.

User access controls

The user access controls currently in place to protect access rights to MOVERS were identified as requiring improvement. Testing of the controls identified weaknesses in creation, maintenance of user accounts and the revocation processes. However, the identified control weaknesses are in part mitigated by automated system controls designed to revoke access after a fixed period of inactivity by the user.

Promptly responding to issues raised in exception reports

MOVERS produces exception reports which were not always being taken advantage of by management. The resolution of exceptions reported by MOVERS, specifically in connection with dishonoured cheques, cashier discrepancies and non-deposited monies, were not being resolved in a timely manner or cleared from the MOVERS exception reports once closed. A revision of the process currently in place to manage the elevation of outstanding exceptions should be considered by management, as the current process cannot be considered effective in supporting the timely resolution of the identified exceptions.

Recommendations

That management:

+ improve processes for following up dishonoured cheques, cancellations of registrations and licences; and

+ review and action matters identified from exception reports.

Auditing the Public Account and other accounts

Department of Infrastructure, Planning and Environment

Reliability and adequacy of records of land and other fixed assets for financial reporting

KEY FINDINGS

The audit concluded that the accounting and control procedures examined provide reasonable assurance that the values for land and other fixed assets in the 2001/02 Treasurer's Annual Financial Report, Schedule 8.7 were based on reliable records. However, certain transitional issues required attention including the need, when valuing infrastructure assets such as roads and bridges, to take into account factors such as asset condition, remaining useful life and development costs.

Background

The unaudited carrying value of Non-Financial Public Sector land and other fixed assets (excluding AustralAsia Railway Corporation) in Schedule 8.7 of the 2001/02 Treasurer's Annual Financial Report (TAFR) was $5,109 million. Of this $1,774 million, or 34.7%, was audited in the financial statements of Government Business Divisions (GBDs) or other government entities at 30 June 2002.

Based on an asset listing obtained from Treasury, the unaudited balance of assets, $3,334.7 million, comprised assets controlled by the following Agencies:

	$,000
Department of the Legislative Assembly	137,225
Northern Territory Police, Fire and Emergency Services	132,286
Department of Employment, Education and Training	639,295
Department of Community Development, Sport and Cultural Affairs	102,374
Department of Health and Community Services	373,495
Department of Infrastructure, Planning and Environment	1,605,541
Department of Justice	129,060
Various Smaller Agencies	213,580
Department of Business, Industry and Resource Development	1,870
Total unaudited assets at 30 June 2002	3,334,726

Auditing the Public Account and other accounts
DIPE - Reliability and adequacy of records of land and other fixed assets

Background continued

Of this total, the Department of Infrastructure, Planning and Environment (DIPE) was responsible for the recording of fixed assets (including land and buildings) totalling $3,208 million, or approximately 96.2% of the unaudited assets at 30 June 2002.

In view of the significance of DIPE's role in asset recording and management and in anticipation of the adoption of accrual accounting an audit of fixed assets balances at 30 June 2002 was conducted.

Audit Scope and Objectives

The audit objectives were to:

+ ascertain whether the values for land and other fixed assets in the 2001/02 TAFR, Schedule 8.7 were based on reliable records; and

+ assess the adequacy of the records of land and other fixed assets for accrual financial reporting purposes.

This audit also followed up findings from a similar audit conducted in 2001 and reported to Agency management at that time.

Audit Opinion

The audit concluded that the accounting and control procedures examined provide reasonable assurance that the values for land and other fixed assets in the 2001/02 TAFR, Schedule 8.7 were based on reliable records. However, certain transitional issues required attention.

Key Findings

Issues identified in the previous audit relating to Land Assets

The previous audit identified the following:

1. Use of the Unimproved Capital Value (UCV) as a basis for valuation of land which ignored any improvements that may be on the land. This has been addressed.

2. Approximately 1500 to 2000 pockets or parcels of land identified in the Land Administration Information System (LAIS) as owned by Government for which no valuation had been applied. This matter remains unresolved. In the main these parcels are in remote areas and the land is understood to have limited value.

3. Parcels of Crown land that had been transferred to, and is currently held by, the NT Land Corporation and the NT Conservation Land Corporation. This matter remains unresolved and such land assets were not included in the TAFR.

4. Land under roads was not valued and therefore not brought to account. This treatment remains unchanged, but is consistent with current Australian Accounting Standards.

Key findings continued

Issues identified in the previous audit relating to Building Assets

In general buildings had been valued using a formula derived from average building costs per square metre Australia wide adjusted for local and remote factors. Special valuations were obtained from the Australian Valuation Office (AVO) for the larger assets such as Parliament House and Government House where it was anticipated that there would be a significant difference between their UCV and fair value. The total value of these assets was $383,043,900 or 11.5% of the total unaudited assets.

Issues identified in the previous audit relating to Roads and Infrastructure Assets

These included:

+ Development and design costs were not explicitly included in road construction costs. This issue remains unresolved. Road construction costs have been valued at their replacement cost, based on the average cost to replace one kilometre of road of each type. Development and design costs were not explicitly included as they were considered to be factored into the construction costs.

+ Bridges and culverts were valued using an average cost of construction as opposed to the actual cost of construction of the individual infrastructure assets. This issue remains unresolved. Bridges and culverts are still valued at the average costs of construction.

None of the following key factors were taken into account in assessing the values to be applied to road construction costs or to bridges and culverts:

+ Condition of the asset;

+ Estimated remaining useful life of the asset;

+ Differing types of construction for similar structures which would result in differing construction costs (eg. no assessment of differing widths of roads or differing lengths or widths of bridges);

+ Development costs (eg. Architect/designer fees etc) to be included in values applied; and

+ Regarding bridges and culverts only, variations to be made for any capital improvements conducted (eg. Adelaide River Bridge).

The valuation methodology needed to be changed to address the above key factors. By not taking these factors into account, depreciation charges may be understated.

Throughout 2002-03, DIPE conducted an extensive review of the valuation of these infrastructure assets, which was conducted in consultation with the AVO. The new values are to be brought to account as at 30 June 2003.

Auditing the Public Account and other accounts
DIPE - Reliability and adequacy of records of land and other fixed assets

Key findings from the current audit

Asset valuation policy

The issue of new Treasurer's Directions has resulted in the establishment of a Government wide asset valuation policy which is consistent with Statement of Accounting Standard AASB 1041 "Revaluation of Non-Current Assets".

Recommendation

That in valuing infrastructure assets all of the key factors listed are properly taken into account.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2002 of:

Menzies School of Health Research

KEY FINDINGS

+ The net surplus from ordinary activities correctly includes grants income as revenue when received notwithstanding that the projects for which the funding was received will impose future commitments for the School. The School's financial reports should include a note disclosing the total of these ongoing commitments.

Audit opinion

The audit of the financial statements of Menzies School of Health Research (the School) for the year ended 31 December 2002 resulted in an unqualified independent audit opinion that was issued on 4 April 2003.

Background

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

Key issues

Matters arising from an interim audit

Interim and IT audits conducted in late 2002 resulted in recommendations made to strengthen various controls over IT systems including the need to develop a business continuity plan, store backup tapes offsite, develop security policies and enhance password security.

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

Financial analysis

Abridged Statement of Financial Performance

	2002 12 months	2001 6 months
	$'000	$'000
Revenue from ordinary activities before impact of change in accounting policy in bringing grants received into account	9,941	4,573
Less expenses from ordinary activities		
Employee benefits	5,471	3,077
Administration, operational and other expenses	2,954	1,368
Total expenses from ordinary activities	8,425	4,445
Operating surplus before change in accounting policy	1,516	128
Impact of change in accounting policy	-	1,543
Net surplus from ordinary activities	1,516	1,671

Grant income for the year was $8.87 million, or 89.2% of total operational revenue. A comparison to the prior period can be misleading as the prior reporting period was for six months, due to a change in the year-end reporting date, and included the effect of a change in accounting policy concerning the recognition of grant income as revenue.

The net surplus from ordinary activities correctly includes grant income as revenue when received notwithstanding that the projects for which the funding was received will impose future commitments for the School. I have recommended to the School that financial reports include a note disclosing the total of these ongoing commitments.

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

Financial Analysis continued

Abridged Statement of Financial Position

	2002	2001
	$'000	$'000
Current assets	6,542	6,062
Non-current assets – Property, plant and equipment	762	688
Total assets	7,304	6,750
Current liabilities	1,371	2,325
Non-current liabilities	115	131
Total liabilities	1,486	2,456
Net assets	5,818	4,294
Represented by accumulated funds		
Retained earnings	5,468	4,294
Capital Equipment Reserve	343	-
Investment Revaluation Reserve	7	-
	5,818	4,294

The School's net asset position of $5.8 million might suggest that it has substantial unallocated funds. As previously noted, the retained earnings are substantially from revenue relating to projects which will impose future commitments for the School.

Recommendation

That the School include in future financial reports a note disclosing the total of its funds already committed to research projects.

Audit findings and Analysis of the financial statements for the year ended 31 December 2002 of:

Northern Territory University

KEY FINDINGS

- The NTU operated at a deficit of $8.587 million for the year ended 31 December 2002 primarily caused by:
  - Increase in staff costs of $5.463 million due to a 4% increase in salaries as part of an Enterprise Bargaining Agreement and payment and accrual of outstanding benefits due to a staff restructure in late 2002;
  - Increase in other expenses from ordinary activities of $5.869 million mainly attributed to increased ground maintenance expenditure and on university materials; partly offset by
  - A net increase in revenue of $3.008 million.
- Despite the deficit of $8.587 million, the NTU's asset position is almost unchanged from that in 2001 due to an upwards revaluation of its library collection by $8.185 million, which was based on an independent valuation of this asset.
- On a cash basis the NTU's operations provided a positive contribution of $3.685 million towards cash holdings but, after taking into account net acquisitions of fixed assets and repayment of debt, there was a decrease in overall cash holdings of $1.416 million. This $1.416 million was funded from cash reserves.

Audit opinion

The audit of the financial statements of the Northern Territory University (NTU) for the year ended 31 December 2002 resulted in an unqualified independent audit opinion, which was issued on 26 June 2003.

Background

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

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

Auditing the Public Account and other accounts
Northern Territory University

Key issues

Credit balances within the debtors ledger

A significant number of credit balances remain in the debtors' ledger in connection with monies payable to students. Analysis of these balances indicates there are 8,473 student accounts in credit, amounting to $574,680. Approximately 70% of the accounts (5,959) have balances with less than thirty dollars owing, whilst 0.6% of the accounts contribute 35% of the credit balance value ($199,941).

This matter was also noted during the 2001 financial audit and it is likely that NTU's current policy of not refunding balances less than $30 to students is a significant factor in the continuation of this issue. It was recommended that NTU review the continuation of this arrangement and consider implementing a policy that would transfer these balances to revenue after the expiration of a fixed period of time.

Concept application control weaknesses

During a review of the application control environment of the Concept payroll system three main areas of control weaknesses were noted:

+ There was no documentation available that outlined the necessary procedures to follow for the various functions and tasks that are required to be performed during payroll processing. It was further noted that a "Buddy System" is used as the primary means of training and transferring knowledge to new staff.

+ Payroll officers were provided with checklists to ensure all relevant payroll-processing steps and checks are performed for each pay run, however the checklists were not signed by the completing officer, nor filed to maintain an appropriate audit trail.

+ Inspection of the current users with access to the payroll application identified that the users included in the highest access group (Master Users Group) included IT Support users (system maintenance focus) as well as front end super users (payroll operations focus). In this circumstance, each user group clearly has differing requirements and focus, therefore it would seem inappropriate for the same level of system access to be granted to both user groups.

Recommendations

That the NTU:

+ review its policy regarding the management of credit balances in its debtors ledgers; and

+ with regard to the Concept Payroll system, document payroll processing procedures, require officers completing payroll processing checklists to sign as evidence of completing such steps, file such checklists and review levels of system access to payroll applications by user groups.

Auditing the Public Account and other accounts
Northern Territory University

Financial analysis

Abridged Statement of Financial Performance– NTU only – excluding controlled entities

	Notes	2002	2001
		$'000	$'000
Revenue from ordinary activities			
Financial assistance from the Commonwealth		30,487	29,821
Financial assistance from the NT Government	1	28,055	29,253
Other revenue (HECS, fees, interest, etc)		33,071	29,531
Total revenue from ordinary activities		91,613	88,605
Less expenses from ordinary activities			
Employee related costs		56,727	51,264
Expenses relating to joint venture operations		8,527	10,415
Administration, operational and other expenses		34,946	29,077
Total expenses from ordinary activities		100,200	90,756
Operating (deficit) from ordinary activities	2	(8,587)	(2,151)

In reviewing the NTU's financial performance it is noted that:

1. In both 2002 and 2001 the NT Government provided an additional $5.5 million in financial assistance.

2. The loss of $8.587 million resulted mainly due to the following:

   + Increase in staff costs of $5.463 million due to a 4% increase in salaries as part of an Enterprise Bargaining Agreement and payment and accrual of outstanding benefits due to a staff restructure in late 2002;

   + Increase in other expenses from ordinary activities of $5.869 million mainly attributed to increased ground maintenance expenditure and on university materials; partly offset by

   + A net increase in revenue of $3.008 million.

Auditing the Public Account and other accounts
Northern Territory University

Financial analysis continued

It is noted, however, that on a cash basis the operating result is closer to break even. This more favourable cash based result is primarily due to the removal of the impact of non-cash items, depreciation and bad and doubtful debts, which totalled $8.148 million (2001 -$7.668 million) and which are not funded. On a cash basis, in summary, the results were:

	2002 $'000	2001 $'000
Cash (expended on) provided by operating activities	(1,815)	11,324
Add late receipt of NT Government funding (a receivable at year end)	5,500	-
Adjusted cash provided by operating activities	3,685	11,324
Net assets acquired	(4,841)	(6,757)
Borrowings repaid	(260)	(846)
Net (decrease) increase in cash held	(1,416)	3,721

The NTU was able to fund this decrease in cash holdings from cash reserves built up in prior years.

Abridged Statement of Financial Position – NTU only – excluding controlled entities

	Notes	2002 $'000	2001 $'000
Current assets			
Bank, and short term investments	1	12,583	19,499
Receivables and other current assets	2	10,723	4,794
Less Current Liabilities		(16,301)	(15,961)
Net Current Assets		7,005	8,332
Add Non Current Assets	3	150,484	149,819
		157,489	158,151
Less Non Current Liabilities		(3,904)	(4,164)
Net assets	3	153,585	153,987
Represented by:			
Equity (reserves, restricted and accumulated funds)	3	153,585	153,987

Auditing the Public Account and other accounts
Northern Territory University

Financial analysis continued

Notes:

1. The NTU's cash holdings have decreased by $6.916 million due to:

   + The delay in receipt of $5.5 million from the NT Government – see 2 below;
   + On going investment in property plant and equipment of $4.841 million;
   + Repayment of debt by $0.260 million; offset by
   + Increases in net operating cash receipts (after adjusting for the delay in receipt of the $5.5 million from the NT Government) of $3.685 million.

2. Receivables are high because it included $5.5 million due at 31 December 2002 by the NT Government which was subsequently received.

3. The NTU net asset position is almost unchanged from that in 2001 despite the operating loss of $8.857 million. Based on an independent valuation the non-current assets and reserves increased due to an upwards revaluation of the NTU's library collection by $8.185 million.

The Northern Territory University has commented:

The points noted by the Auditor-General in his analysis, as they relate to NTU entity only, are consistent with the financial summary provided by the Council in the NTU's 2002 Annual Report.

Importantly, however, the NTU is funded and managed on a cash basis and it has consistently operated within the annual cash budgets made available to it. This is highlighted by the fact that the operating deficit shown in the Annual Financial Report results primarily from the impact of depreciation charges (the main contributor) and/or the legitimate use of monies received in advance in previous years and placed in reserves for use in the current and subsequent years. This is further evidenced by the NTU's large cash holdings which totalled $12.6 million or $18.1 million if the late receipt of $5.5 million from the NT Government is included as cash and not receivables (2001 - $19.5 million).

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2002 of:

Batchelor Institute of Indigenous Tertiary Education

KEY FINDINGS

- At the time of the audit it appeared unlikely that the Institute would meet its targets under the Resource Agreement with the Department of Employment, Education and Training. A liability provision of $421,000 was raised in recognition of this.
- The Audit Committee has met more regularly during the current financial year. However, no internal audits were conducted this year.

Audit Opinion

The audit of the financial statements of Batchelor Institute of Indigenous Tertiary Education (the Institute) for the year ended 31 December 2002 resulted in an unqualified independent audit opinion, which was issued on 26 June 2003.

Background

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

Audit findings

New Apprenticeships funding

At the time of the audit, the Institute had not met its targets under the Resource Agreement with the Department of Employment, Education and Training (DEET). Under the Agreement DEET reserves the right to request a refund of some or all of any overpayment resulting from resource agreement targets not being met. An amount of $421,000 was recognised as a liability on the Intitute's Statement of Financial Position at 31 December 2002.

Status of prior year management letter points – Internal Audit and the Audit Committee

It is pleasing to note that, following adverse audit comment last year, the audit committee met more regularly during the current financial year. However, a risk assessment conducted three years ago identified the need for eight internal audits to be conducted. To date only two have been undertaken with no internal audits conducted this year.

The lack of internal audits in the year reflects an inadequate internal audit capacity at the Institute. The re-establishment of an internal audit program as soon as practical is encouraged.

Recommendation

That the Institute initiate a risk based program of internal audits reporting to the Audit Committee.

Financial analysis

Abridged Statement of Financial Performance

	Notes	2002 $'000	2001 $'000
Revenue from ordinary activities			
Financial assistance from the Commonwealth		21,432	21,387
Financial assistance from the Territory Government		9,169	8,098
HECS		1,237	1,295
Other Revenue	1	16,702	1,242
Total revenue from ordinary activities		48,540	32,022
Expenses from ordinary activities			
Employee benefits		17,797	16,907
Buildings and grounds maintenance		2,783	2,803
Travel and other expenses		10,909	10,925
Total expenses from ordinary activities		31,489	30,635
Operating result from ordinary activities	1	17,051	1,387

Notes:

1. Other revenue includes a "once off" gift of land and buildings to the Institute by the Northern Territory Government in the sum of $15.399 million. When this "once off" gift is adjusted for, the "normalised" net operating result for the year is $1.652 million which is comparable to the 2001 net operating result of $1.387 million.

Financial Analysis continued

Abridged Statement of Financial Position

	Notes	2002 $'000	2001 $'000
Current assets		6,970	6,124
Non-current assets	1	18,165	2,239
Total assets	1	25,135	8,363
Current liabilities		3,416	3,628
Non-current liabilities		450	476
Total liabilities		3,866	4,104
Net assets	1	21,269	4,259
Represented by Equity (reserves and accumulated funds)		21,269	4,259

Notes:

1. The increase in the Institute's assets at 31 December 2002 is predominantly due to the operating surplus of $1.652 million and the "gifted" asset recorded at a value of $15.399 million.

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

Centralian College

KEY FINDINGS

+ A qualified audit opinion was issued on 26 March 2003. The audit opinion was qualified in respect of
  - Comparative figures
  - The accounting treatment applied to the College's grants received and
  - Failure to accrue a material invoice for the supply of computer equipment.

Audit Opinion

The audit of the financial statements of Centralian College (the College) for the year ended 30 June 2002 resulted in a qualified audit opinion, which was issued on 26 March 2003.

Background

The College was established as a college under the Education Act in 1995 and is located at Alice Springs. An annual audit of the financial statements is not mandatory and, whilst financial statement audits were performed prior to 1995, no financial statement audits have been performed for the years between 1995 and 2002.

Explanation for the qualified audit opinion

An audit of the College had not been scheduled in my 2002/03 work program. Late in 2002 management of the College requested that I conduct an audit of their 2002 financial report, which had already been printed and included in the tabled annual report.

In summary the audit opinion was qualified because:

1. The financial report for the period ended 30 June 2001 had not been subjected to audit. As a result, in doing the audit for the year ended 30 June 2002, I was not in a position to express an opinion on the comparative information reported other than that relating to the Statement of Financial Position.

2. Note 14 to the financial report disclosed that grants received of $179,808 during the reporting period were shown in the Statement of Financial Position as liabilities – "Unexpended Grants". This treatment as Unexpended Grants represented a departure from Australian Accounting Standard AAS 15 "Revenue", which requires recognition of such grants as revenue in the period in which they are received.

Auditing the Public Account and other accounts
Centralian College

Explanation for the qualified audit opinion continued

3. An invoice amounting to $83,554 for the supply of computer equipment during the reporting period was not accrued at 30 June 2002. As the individual items of computer equipment cost less than $5,000, and would be expensed rather than being capitalised, the operating deficit for the year and creditors at year end were materially effected by this non-accrual.

The effects of these errors are detailed within the full audit opinion. The qualifications noted in points two and three above could have been avoided had an audit been conducted prior to finalisation by management of the financial report.

Recommendation

That a further audit of the College be performed for the period ending immediately before it is merged with the Charles Darwin University.

Financial analysis

Abridged Statement of Financial Performance

	12 months to 30 June 2002	6 months to 30 June 2001
	$'000	$'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	582	398
Financial assistance from the NT Government	10,814	5,058
Other revenue (HECS, fees, interest, etc)	1,826	984
Total revenue from ordinary activities	13,222	6,440
Less expenses from ordinary activities		
Employee related costs	9,431	4,498
Depreciation and losses on disposals of fixed assets	557	133
Administration, operational and other expenses	3,492	1,537
Total expenses from ordinary activities	13,480	6,168
Operating (deficit)/surplus from ordinary activities	(258)	272

The Operating Results for the year were comparable to the previous period, given that 2002 represents a full twelve months compared with a six month comparative period. The change from a surplus to a deficit was primarily caused by a loss on disposal of fixed assets of $423,829.

Financial Analysis continued

Abridged Statement of Financial Position

	2002	2001
	$'000	$'000
Current assets	501	539
Less Current Liabilities	2,133	2,321
Net Current (Liabilities/working capital deficiency)	(1,632)	(1,782)
Add Non Current Assets	594	993
Less Non Current Liabilities	229	219
Net liabilities	(1,267)	(1,008)
Represented by:		
Accumulated (deficit)	(1,267)	(1,008)

The College is funded predominantly by annual appropriations from the NT Government to meet operating and capital expenditures. The College's financial statements are prepared on the basis that this support will continue and that on this basis it is a going concern.

Auditing the Public Account and other accounts

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

Jabiru Town Development Authority

KEY FINDINGS

- The Authority continued to be technically insolvent at 30 June 2002 as it had a deficiency of assets of approximately $3.4 million.
- The Authority's ability to continue as a going concern is dependent on the moratorium, which has existed since 1986, on the Authority's future interest payments and repayment of loans due to the Northern Territory Government totalling $8.8 million.
- The Authority remains unable to repay in full its loan of $8.8 million from the NT Government. Based on the position at 30 June 2002, the NT Government is unlikely to receive more than $5.4 million of its loan.

Audit opinion

The audit of the financial statements of Jabiru Town Development Authority (the Authority) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 17 January 2003.

Background

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

The NT Government provided loan funds of $8.4 million for over-designed services, mainly water supply and sewerage facilities, constructed to facilitate expansion of the town to its final estimated population. During the period January 1984 to June 1986 this debt grew by $0.4 million, being net unpaid interest, to $8.8 million. In August of 1986 a moratorium, which was still in place at 30 June 2002, was granted on the Authority's future interest and loan repayments on existing loans.

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

Auditing the Public Account and other accounts
Jabiru Town Development Authority

Key issues

Timeliness of financial reporting

The Authority's financial statements were again not prepared in a timely basis and were not provided for audit within three months of the end of the financial year, ie by 30 September 2002, as required by the Jabiru Town Development Act. Timeliness has however improved with the audit opinion signed some six months earlier than in the prior year.

Recording transactions

The Authority needs to review its approach to accounting for its transactions. To date, all transactions should have been recorded on the Government Accounting System (GAS), through a Trust Account held with the Northern Territory Treasury. However, some payments are made through other departmental accounts, even though they relate to the Authority and it is possible for these to be overlooked in the preparation of its financial statements. To overcome this problem, separate accounting records should be maintained.

Solvency

The Authority was technically insolvent at 30 June 2002 as it had a deficiency of net assets of approximately $3.4 million. The ability of the Authority to continue as a going concern is dependent on the moratorium on its future interest and loan repayment due to the Northern Territory Government totalling $8.8 million.

Debts owed to the Authority

Two amounts, which do not appear to be recoverable, are currently disclosed in the notes to the financial statements as non-current receivables, with a corresponding provision against the full amount. The amounts are the balances recorded as outstanding from the Northern Territory and Commonwealth Governments for apparent shortfalls in contributions due under the Cost Sharing Agreement dated 31 December 1983 under which the costs involved in creating the Jabiru Township were allocated to the various parties involved.

Under the terms of the agreement, which was ratified on 23 August 1985, the two governments appear to have underpaid their contributions by $233,339 and $191,193 respectively. The Northern Territory Treasury has advised us that, notwithstanding the agreement and the fact that the amount in question has been recorded in the financial statements since 1984, no liability to the Authority exists.

Recommendations

That the Authority:

+ continue to improve the completeness and timeliness of its financial reporting; and

+ take steps to resolve with NT Treasury and with the Commonwealth the validity of monies apparently owing to it, but which the Authority has provided for non-recovery in full.

Auditing the Public Account and other accounts
Jabiru Town Development Authority

Financial analysis

Abridged Statement of Financial Performance

	2002 $'000	2001 $'000
Revenue from ordinary activities		
Interest earned and sundry income	154	182
Grants received	29	36
Total revenue from ordinary activities	183	218
Expenses from ordinary activities before revaluation decrement		
Grants paid	55	136
Administration and amortisation expenses	117	102
Total expenses from ordinary activities before revaluation decrement	172	238
Surplus (Deficit) before revaluation decrement	11	(20)

The operating surplus from ordinary activities for the year was $11,154 compared with an operating deficit of $19,945 in 2001. The total deficit in 2001, after recording a decrement in the value of land held for sub-lease of $1,829,075 amounted to $1,849,020. The improved position was achieved, despite a $36,094 reduction in revenue from ordinary activities, due to savings in grants paid and in administration expenses totalling $67,153.

Financial analysis continued

Abridged Statement of Financial Position

	2002 $'000	2001 $'000
Current assets (of which $3.5m (2001 - $3.4m) was cash at bank)	3,535	3,451
Non-current assets		
Land held for sub-lease	774	774
Town infrastructure and plant and equipment	1,147	1,209
Total Assets	5,456	5,434
Current Liabilities	36	26
Non-current liabilities (loans from the NT Government)	8,805	8,805
Total Liabilities	8,841	8,831
Net Liabilities (or asset deficiency)	(3,385)	(3,397)
Represented by accumulated deficits	(3,385)	(3,397)

As has been noted previously, the Authority was technically insolvent at 30 June 2002 as it had a deficiency of assets of approximately $3.4 million. As disclosed in the 2002 financial statements, the Authority's ability to continue as a going concern is dependent on the moratorium on the Authority's future interest and loan payments to the NT Government.

Based on the position at 30 June 2002, unless there is a significant turn around in the performance of the Authority's land transactions, the NT Government is unlikely to realise more than $5.4 million of its loan.

Auditing the Public Account and other accounts

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

Nitmiluk (Katherine Gorge) National Park Board

KEY FINDINGS

- The Board's financial statement reporting requirements were not met as the final signed financial statements were not made available for audit until 11 March 2003.
- The loss of $32,000 for the financial year has increased the Board's economic dependency on the Northern Territory Government.
- The Board had a deficiency of assets at 30 June 2002 of $269,000 ($237,000 at 30 June 2001).

Audit opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board (the Board) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 4 April 2003.

Background

The Board was formed in 1989 under the Nitmiluk (Katherine Gorge) National Park Act (the Act) to acknowledge and secure the right of Aboriginals who are the traditional Aboriginal owners of certain land in the Northern Territory of Australia, and certain other Aboriginals, to occupy and use that land, to establish a National park comprising that land to be known as the Nitmiluk (Katherine Gorge) National Park, to provide for the management and control of that Park and certain other land, and for related purposes.

Audit findings

Reporting

The Act requires the financial statements to be provided for audit within three months of the end of the financial year, that is, by 30 September 2002. This requirement was not met as the final signed financial statements were not made available for audit until 11 March 2003.

Recommendation

That the Board improve the completeness and timeliness of its financial reporting.

Financial Analysis

Abridged Statement of Financial Performance

	2002	2001
	$'000	$'000
Revenue from ordinary activities		
Park income	812	840
Less payments to Traditional Owners and to Parks and Wildlife	(824)	(839)
(Deficit)/Surplus on Park activities	(12)	1
NT Government funding and service provision and sundry income	1,368	1,280
Total revenue from ordinary activities	1,356	1,281
Less expenditure on ordinary activities:		
Operational expenses	714	637
Employee expenses	674	711
Total expenditure on ordinary activities	1,388	1,348
Net (deficit) from ordinary activities	(32)	(67)

The decrease in deficit primarily reflects a $100,000 increase in NT Government funding offset by a reduction in Park income by $28,000 and a $37,000 increase in expenses relating to long service leave provisions when compared to the prior year.

Abridged Statement of Financial Position

	2002	2001
	$'000	$'000
Current assets	311	277
Less Current Liabilities	555	501
Working capital (deficiency)	(244)	(224)
Add Non Current Assets	5	7
Less Non Current Liabilities	30	20
Net liabilities	(269)	(237)
Represented by:		
Accumulated deficit	(269)	(237)

Financial Analysis continued

The Board had a deficiency of assets at 30 June 2002 of $269,000 ($237,000 at 30 June 2001) and, as noted, unless the Board returns to profitability, it cannot operate without NT Government support. It is normal practice in such situations to include a note to the financial statements detailing this economic dependency.

Recommendation

That the Board include a note in its financial statements detailing its economic dependence on the NT Government.

Auditing the Public Account and other accounts

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

Cobourg Peninsula Sanctuary & Marine Park Board

KEY FINDINGS

+ The Board's financial statement reporting requirements were not met as the final signed financial statements were not made available for audit until 31 March 2003.
+ As last year, the first Plan of Management for the Board is still in preparation and has not been endorsed by it.
+ The Board has not formally adopted an income distribution policy.

Audit Opinion

The audit of the financial statements of Cobourg Peninsula Sanctuary & Marine Park Board (the Board) for the year ended 30 June 2002 resulted in an unqualified independent audit opinion, which was issued on 1 April 2003.

Background

The Board was formed under the Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park Act (the Act) in 1981 to acknowledge and secure the right of Aboriginals to occupy and use certain land on the Cobourg Peninsula in the Northern Territory of Australia, to vest that land in trustees for Aboriginals, to declare that land to be a national park, making certain provisions relating to the management of adjacent marine areas and for related purposes.

Audit findings

Reporting

The Act requires the financial statements to be provided for audit within three months of the end of the financial year, that is, by 30 September 2002. This requirement was not met as the final signed financial statements were not made available for audit until 31 March 2003.

Operational Matters – Plan of Management

As last year, the first Plan of Management for the Board is still in preparation and has not been endorsed by it.

Operational Matters – Income Distribution Policy

The Board has still not formally adopted an income distribution policy. The basis for income distribution being used is the income distribution policy contained in the proposed Plan of Management for the Park.

Auditing the Public Account and other accounts
Cobourg Peninsula Sanctuary & Marine Park Board

Recommendations

That the Board:

+ Improve the timeliness of its financial reporting; and

+ Finalise its Plan of Management and Income Distribution Policy.

Financial Analysis

Abridged Statement of Financial Performance

	2002	2001
	$'000	$'000
Revenue from ordinary activities		
Park income	296	288
Less payments to Traditional Owners	(236)	(251)
Surplus on Park activities	60	37
Services received free of charge and sundry income	76	36
Total revenue from ordinary activities	136	73
Less expenditure on ordinary activities:		
Operational expenses	28	81
Total expenditure on ordinary activities	28	81
Net Surplus/(deficit) from ordinary activities	108	(8)

For the year ended 30 June 2002, the Board's surplus from ordinary activities was $108,000 compared to a deficit in the prior year of $8,000. This increase in surplus was primarily due to reduced payments to Traditional Owners and the write back of a prior year service level agreement expense of $64,000 initially raised by the Department of Corporate and Information Services (DCIS) and accrued by the Board in its 2000/01 financial statements. In 2001/02 DCIS informed the Board that the $64,000 would not have to be paid.

Park revenue was consistent with prior years.

Financial Analysis continued

Abridged Statement of Financial Position

	2002 $'000	2001 $'000
Current assets	297	284
Less Current Liabilities	51	152
Working capital	246	132
Add Non Current Assets	1	7
Net assets	247	139
Represented by:		
Accumulated surplus	247	139

Auditing the Public Account and other accounts

Findings from Inter-Government Acquittal audits completed in the six months ended 30 June 2003

Indigenous Education Strategic Initiatives Program (IESIP) Acquittal for the year ended 31 December 2002 - Department of Employment, Education and Training (DEET)

The audit of the Indigenous Education Strategic Initiatives Program Acquittal for the year ended 31 December 2002 resulted in an unqualified independent audit opinion, which was issued on 27 March 2003. In the previous two years the audit opinion had been qualified. During 2002, DEET revised its ledger structure and procedures were put in place, which enabled it to satisfy fully its IESIP reporting obligations to the Commonwealth for the year ended 31 December 2002. I was satisfied with these changes and removed the audit qualification.

Other Audit opinions

The audits of the following entities resulted in the issue of unqualified audit opinions and do not warrant separate comment. Details of audit opinions issued are:

	Financial year end	Date audit opinion issued
Statement of amounts expended or set aside for expenditure from monies paid to the Northern Territory during the year ended 30 June 2002 pursuant to the Australian Land Transport Development Act 1988 – Department of Infrastructure, Planning and Environment.	30 June 2002	10 February 2003
Statement of amounts expended or set aside for expenditure from monies paid to the Northern Territory during the year ended 30 June 2002 pursuant to the Australian Land Transport Development Act 1988 Road Safety (Black Spot) program for 2001 – 2002 – Department of Infrastructure, Planning and Environment.	30 June 2002	10 February 2003
Commonwealth State Housing Agreement – Department of Community Development, Sport and Cultural Affairs.	30 June 2002	9 April 2003

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Matters arising from performance management system audits

Matters arising from performance management system audits

Department of Employment, Education and Training (DEET) - Systems to Monitor Schools

KEY FINDINGS

+ DEET has established a performance management system which enables it to assess how well the performance of schools, both government and non-government, supports its objectives.
+ DEET has in place a performance management system, linked to its business plan, to adequately monitor the performance of the schools in the Northern Territory for which it has ultimate responsibility.
+ DEET uses different measures to assess the quality of Government School outputs compared to those of Non-Government Schools. The measure used for Non-Government Schools is more in the nature of an assessment of inputs rather than outputs.
+ Certain Non-Government Schools are virtually 100% Territory funded but DEET has no management relationships with them nor has it established performance expectations.
+ The addition of comments on the quarterly reports by the General Managers, Schools prior to the reports being distributed to the Executive Board could help the Board's initial discussions on the results.

Background

The Department of Employment, Education and Training's (DEET's) outcomes and specific performance measures are detailed in the 2002-03 Budget Paper No 3. The outcomes are stated as:

+ For Government Education – "Improved educational outcomes for all students"; and
+ For Non-Government Education – "Quality choice of education alternatives."

Specific performance measures are identified for schools in both sectors and at different levels within the sectors. The categories of performance measures are categorised under groupings of quantity, quality, timeliness and cost.

Audit objective and scope

The audit objective was to assess whether DEET's performance management system enables it to assess how well the performance of schools, both government and non-government, supports its objectives and, in so doing, how well efficiency and economy are addressed.

Matters arising from performance management system audits
DEET - Systems to Monitor Schools

Audit findings

Opinions

DEET has established a performance management system which enables it to assess how well the performance of schools, both government and non-government, supports its objectives.

DEET has in place a performance management system, linked to its business plan, to adequately monitor the performance of the schools in the Northern Territory for which it has ultimate responsibility.

Specific findings

Performance measures

As noted, different outcomes are specified for Government Education and Non-Government Education. However, the performance measures used to assess the achievement of the outcomes by these two sectors are essentially the same and it is only in the measurement of the "Quality" indicator where there is a significant divergence in the nature of the performance measures used by DEET to assess performance.

DEET measures seven indicators of "Quality" in the Government Schools sector and only one "Quality" indicator in the Non-Government Schools sector being the "Percentage of grants administered in accordance with approved policy". It is Audit's view that:

+ The "quality" indicators applied to the Government Schools measure outputs that assist in assessing outcomes. An example is the quality measure "Percentage of non-indigenous students who achieve national benchmarks for reading Years 3 and 5"; whereas

+ The indicator "Percentage of grants administered in accordance with approved policy" measures compliance by Non-Government Schools with DEET's input criteria and does not measure the quality of the output in terms, for example of the education levels of students.

Collecting and Reporting Performance information and managing performance

Government Schools

The collection of performance data is performed by DEET's Business Planning and Information Division (the Division). DEET has centralised its data collection and provides information to relevant staff, in particular the General Managers, Schools. The Division test checks/audits the accuracy of the data provided.

2003 is the third year this process of data accumulation and verification has taken place. Trend information is beginning to emerge and school profiles are being provided to the General Managers, Schools who review the performance of school principals.

Matters arising from performance management system audits DEET - Systems to Monitor Schools

Audit findings continued

Non-Government Schools

The data collected from Non-Government Schools is the same as for Government Schools, but is not subjected to accuracy test checking/audit by DEET. However, the Non-Government Schools data is “audited” by some of the organisations to which a particular Non-Government Schools may belong.

The data received from the Non-Government Schools is reported to DEET’s Executive and is accumulated with the Government Schools’ data for national reporting purposes. However, this Non-Government Schools data is not analysed for performance management purposes. DEET ensures the enrolment numbers are correct and that funding has been spent, but no performance issues are raised.

It was also noted that DEET does not have a management relationship with the Non-Government Schools. Certain Non-Government Schools are virtually 100% Territory funded suggesting that these Non-Government Schools are effectively controlled by DEET. In these situations DEET management should have greater influence over the management of these Non-Government Schools and in setting performance outputs and outcomes.

Performance Information for Schools

Government Schools

Quarterly reports are produced by the Division which contain:

+ Multilevel Assessment Program (MAP) data – which the General Managers, Schools (GMS) monitor by trend, annually; and

+ Attendance data – which GMS monitor by trend, quarterly.

MAP data is available for three years enabling comparative assessment and some trend analysis.

The GMS summarise and analyse the quarterly reports for their own use and to provide overall feedback to school principals. Analysis by individual school is also available with reports provided via email and hard copy to relevant schools.

The quarterly reports are primarily for the use of DEET’s Executive Board. The GMS correlate the data provided in the quarterly reports, which are still somewhat ‘raw’ when forwarded to the Executive Board. However, these reports are provided without any comment by the GMS as to what trends may be disclosed or need highlighting. The addition of comments on the quarterly results by the GMS prior to the reports being distributed to the Executive Board could help the Board’s initial review of performance.

Non Government Schools
The data received from the Non-Government Schools is reported to DEET’s Executive Board but is not analysed for performance management purposes.

Matters arising from performance management system audits DEET - Systems to Monitor Schools

Audit findings continued

Improvements to performance monitoring systems identified – Government Schools

Improvements identified by the GMS and being implemented by DEET in the quarterly reporting aspect of the performance monitoring system include:

+ The Schools Administration Management System is still to come fully on line enabling the GMS to access student transience data, school costing data (for example what does each school cost in overtime per student), staff allocation data/forecasting and staff management issues (how principals manage their staff); and

+ Electronic data returns are not always used, with manual returns still received from schools.

GMS are responsible for the performance monitoring of all school principals allocated to them. When a GMS visits a school, the latest data and statistics relating to the school are obtained. The appraisal process uses this information, together with financial data and information obtained from the Curriculum Services Branch for comparison against the KPIs set for principals. The output from this process is an agreed action plan for each school, which in turn becomes part of the performance monitoring system for the principal.

Schools at risk, in other words, those who are not performing against required DEET standards, are monitored by the Capability Development Unit (CDU). The role of the CDU is to support and coach the schools at risk back to standard level of performance. An audit of the school is done by the CDU, the results are tabulated, an action plan is developed which is then monitored by the CDU and the relevant General Manager, Schools. The Executive Board receive reports on the CDU's progress and results.

The GMS have no Non-Government Schools involvement.

Education Sector performance information

DEET's 2001/2002 annual report contains much information relating to its performance in the Education Sector.

A Northern Territory Curriculum Framework has been developed, which includes a strategy for numeracy and literacy. This strategy is being implemented in 2003 via the advent of school literacy plans.

The Curriculum Services Branch holds regular meetings with the cluster principals and obtains their input to the curriculum policy documents. The General Manager, Schools Services is responsible for the curriculum action plan and monitors its progress via the managers in Schools Services.

The MAP testing is conducted via the Curriculum Services Branch, with both intrastate and interstate MAP result comparisons made by way of benchmarking.

Matters arising from performance management system audits
DEET - Systems to Monitor Schools

Recommendations

That DEET:

+ Align its “Quality” performance measures for Non-Government Schools with those for Government Schools and report the results in its annual report;

+ Establish management relationships with, and performance expectations of, Non-Government Schools; and

+ Require the General Managers, Schools to provide analysis and commentary on quarterly reports prior to their distribution to the Executive Board.

Department of Employment, Education and Training has commented:

The Auditor-General’s System Audit was discussed and accepted by the Department’s Audit Committee at its September 2003 meeting. Action is already underway for different non-government sectors to increase their compliance with common standards of reporting (eg in MAP testing). Further work is being undertaken to ensure that performance measures for the non-government sector are aligned with those in the Government sector.

The General Managers – Schools will expand their report structure to include areas in the Auditor-General’s recommendations.

Matters arising from performance management system audits

Department of Justice - Fines Recovery Unit

KEY FINDINGS

+ Management does not have sufficient information to enable it to assess whether the objectives in relation to the Fines Recovery Unit (FRU) are being achieved effectively, and with regard to efficiency and economy. As a result, a fully operational performance management system is not in place.
+ Of the six performance measures originally established for the FRU, targets have been established for only two.
+ Without establishing target dates, there is no point at which actual achievement of the identified outcomes can be compared to that expected and it was not possible for the FRU to monitor its performance in terms of efficiency and effectiveness.
+ The debt reported as owing by fine defaulters to the Northern Territory Government may be overstated.

Background

The Auditor-General's August 1996 report to the Legislative Assembly reported that:

> "A system did not exist to record the total of outstanding fines and fees, so as to provide information to enable assessment of whether the total was increasing or decreasing, or to allow assessment of how much was realistically collectible."

In 1999, the Public Accounts Committee (PAC) undertook an inquiry into Fees, Fines and Outstanding Debts. A recommendation arising from the review was the possible use of independent units to manage the complete collection process with responsibility for those outcomes.

The Fines and Penalties (Recovery) Bill was introduced to Parliament in October 2001.

The Fines and Penalties (Recovery) Act was enacted to establish the Fines Recovery Unit (FRU) and to provide the FRU with the power to make enforcement orders against fines defaulted and to receive and collect outstanding fines and infringements. The FRU commenced operation on 2 January 2002. Its aims included the provision of a cost efficient recovery service and ensuring that court imposed fines and infringement notices are enforced.

Matters arising from performance management system audits
Department of Justice - Fines Recovery Unit

Background continued

The Parliamentary Debate on Tuesday, 27 November 2001 identified the following Government objectives in relation to the FRU:

+ To provide flexible payment options including electronic transfer and direct debit;

+ To considerably reduce the rate of imprisonment for fine defaulters, particularly indigenous defaulters; and

+ To increase the collection rate of fines and infringements.

Audit objectives and scope

The objective of the audit was to determine whether the performance management systems of the Department of Justice enable management to assess whether the Government's policy objectives in relation to the FRU are being achieved effectively, and with regard to efficiency and economy.

Audit findings

Opinion

Management does not have sufficient information to enable it to assess whether the objectives in relation to the Fines Recovery Unit (FRU) are being achieved effectively, and with regard to efficiency and economy. As a result, a fully operational performance management system is not in place.

Key findings

Basis for the Audit Opinion

Establishing targets

A Business Plan had been prepared for the Courts Administration division that aligns with the Strategic Plan for the Department of Justice. Within the Courts Administration Business Plan, there is a section on performance measurements and targets specific to the FRU. Of the six performance measures, targets had been established for only two. Details are:

Performance Measure	Target
New enforcements processed	No target
Revenue collected	No target
Client/stakeholder satisfaction	85%
Average time to finalise enforcements	3 months
Cost per enforcement	No target
Cost recovered	No target

Matters arising from performance management system audits
Department of Justice - Fines Recovery Unit

Audit findings continued

Target dates for achievement of performance targets

The Business Plan for the FRU had aligned the Activity Result Areas with specifically referenced strategies as reported in the Department of Justice Strategic Plan. The Business Plan had also aligned the Activity Result Areas with the planned Outcomes and allocated responsibility/accountability to a particular person, such as the Director of the FRU or the Director of Courts Administration. The Business Plan allows for dates to be inserted, at which time the achievement of the performance target is expected.

The five outcomes within the Business Plan for the FRU were:

+ Informed and satisfied clients,
+ A fairer and more accessible justice system,
+ A modern and technologically smart justice system,
+ An efficient and effective justice system that meets the needs and expectations of Territorians, and
+ A committed and effective workforce that is valued by the Agency.

No target dates were set for achievement of these outcomes.

Without establishing target dates, there is no point at which actual achievement of the identified outcomes can be compared to that expected and it was not possible for the results of the FRU to be monitored in terms of efficiency and effectiveness.

Development of client service standards

Specific client service standards, and associated performance targets, have not been developed for the FRU. The FRU has not clearly articulated what constitutes a client. A "client" could include organisations such as the Darwin City Council (DCC), on whose behalf the FRU collects infringements, or a fine defaulter using the FRU to arrange and remit payment. Currently, the FRU holds draft Memorandums of Understanding with the Motor Vehicle Registry (MVR) and DCC. The MVR provides a means of enforcement, and whilst the MVR could be seen to be a "stakeholder" of the FRU, it is unlikely to meet the definition of a "client".

Further, it is intended that required client service levels are articulated within the Memorandums of Understanding to be developed with clients; however there are no performance targets or measures articulated within the existing drafts.

Matters arising from performance management system audits
Department of Justice - Fines Recovery Unit

Audit findings continued

Recoverability of outstanding fines

Total outstanding fines and penalties were reported as $20,843,153 at 5 March 2003. Of this amount, the value of outstanding fines upon which warrants had been issued was reported as $5,289,746. Prior to the establishment of the FRU, there was limited monitoring of offenders who had been imprisoned in order to clear their fine or penalty and it is possible that a portion of the above fines had been met through gaol terms or community service orders.

Without undertaking an extensive exercise to determine and contact each offender, and identify gaol terms served by each offender in the period following the issue of the warrant, it is not possible to reliably estimate the value of such fines that remain outstanding.

Management of the FRU has previously considered this matter and believe that the time taken to pursue those offenders with outstanding warrants, and determine whether they have cleared the fine or penalty through gaol terms or community service, may lead to the cost outweighing the benefit of collection.

The effect of the above is that the debt reported as owing by fine defaulters to the Northern Territory Government may be overstated. Details of the amounts outstanding are set out below.

Outstanding fines and penalties as at 5 March 2003

		Ageing*		
	Total	2003	2002	Prior years
Outstanding penalties				
Total Police, Fire and Emergency Services	4,079,739			
Total external agencies	211,500			
Total Penalties	4,291,239	428,119	1,207,977	2,655,143
Outstanding Fines				
Court Fines	6,058,562	567,347	2,034,894	3,456,321
Fines with warrants	5,289,746			
Bail Forfeiture	988,825			
External agencies	555,532			
Restitution/Compensation	3,659,249			
Total Fines	16,551,914			
Total outstanding	20,843,153			

* Year in which the fine became due and for penalties and court fines only

Matters arising from performance management system audits
Department of Justice - Fines Recovery Unit

Recommendations

That the Department of Justice:

+ Develop targets for each performance measure for the 2003/2004 financial year. Performance targets/benchmarks should be defined as measures of economy, efficiency and effectiveness and be clearly linked to corporate objectives, agreed outputs and to specific government initiatives applicable to the FRU including:
    + To provide flexible payment options including electronic transfer and direct debit;
    + To considerably reduce the rate of imprisonment for fine defaulters, particularly indigenous defaulters; and
    + To increase the collection rate of fines and infringements.
+ Develop systems to enable the compilation of data such as collection rates and imprisonment rates.
+ Set target dates for achievement of outcomes.
+ Expand reports presently available to permit reporting of actual performance levels against established targets for the FRU.
+ Finalise its determination of who are the clients of the FRU and, once having done so, finalise Memorandums of Understanding or Service Level Agreements with them.
+ Finalise a course of action in relation to those debts deemed not to be collectible.

Department of Justice has commented:

Whilst the Department acknowledges that management does not have sufficient information to enable it to fully assess the effectiveness of the operations of the FRU it should be recognised that much of the base data essential to measuring the FRU's effectiveness was not readily available from previous information systems.

However, the Report does contain a number of constructive recommendations and Courts Administration has prepared an action plan to address the issues raised. Some of the performance measures will require new IT systems to enable them to be accurately reported and others will need to be reviewed. It is anticipated it will take some time before all of the proposed measures can be fully implemented due to competing IT priorities.

Matters arising from performance management system audits

Department of Corporate and Information Services - Outsourcing of IT Services

KEY FINDINGS

Significant progress has been made since the previous audit with improved processes to monitor deliverables, to manage outstanding issues and to enable DCIS to audit performance reported.

Background

This audit was concluded in March 2003 and was a continuation of the audit commenced in October 1999 and last followed up in March 2002.

To date the following outsourcing of IT services has occurred:

1. From 1999 - Electronic Messaging and Groupware (eMAG) (although this project was initiated prior to the outsourcing strategy, it has been incorporated within the outsourcing framework. Also the contract was renewed for a further term);

2. From 2000 - Advanced Communications;

3. From 2000 - Mainframe and Non Mainframe application support; and

4. From July 2001 - Desktop and LAN services (the transition period was extended to 30 June 2002).

Audit objectives and scope

The objective of the audit was to assess the Department of Corporate and Information Services' (DCIS') approach to the outsourcing of IT services to determine whether the contracts for IT services will allow DCIS to actively manage with reference to performance and service delivery standards.

The emphasis for this audit was the Desktop and LAN services contract, which was still in the transition stage at the time of the last audit.

Audit findings

Opinion

Significant progress has been made since the previous audit with improved processes to monitor deliverables, manage outstanding issues and to enable DCIS to audit performance reported. A number of initiatives are being undertaken to improve communication between the service provider and agencies, which should result in a reduced number of outsourcing issues.

Matters arising from performance management system audits
DCIS - Outsourcing of IT Services

Specific findings

Desktop and LAN services

Improvements have been made to contract management processes and controls since the previous audit in May 2002 when the transfer of these services was in transition.

The transition period was initially extended from February 2002 to June 2002, primarily due to disagreement as to the volume of workstations to be supported. All transition milestones were achieved by July 2002 except for the resolution of the base-line volumes. These volumes were finalised in January 2003, based on volumes signed-off by all agencies but one. The total agreed baseline volume was 9,310 units, which was used to determine the unit costs based on the agreed fixed charge established at the beginning of the contract.

The final transition payment was approved and paid to the service provider in January 2003.

The DCIS IT outsourcing contract management team was restructured in mid 2002 and now includes dedicated teams for compliance management and cost management.

Cost management

A dedicated cost management team was established to monitor the level of spend across the whole of Government under each contract and to perform analysis on volumes and pricing. This team also tracks and monitors all billing disputes between agencies and the service provider.

Approximately $1.6 million of charges are currently under dispute between agencies and the service provider, which have accumulated since July 2002. A high proportion of these charges relate to volume disputes. The service provider has provided a recommendation to DCIS for a settlement based on the sign-off volumes in late 2002, to remove the need for extensive investigations and reconciliations by both Government and the service provider. This proposal is currently being considered by the DCIS CEO.

The remainder of the disputed amounts relate to non-volume issues, for example billing disputes, which are being investigated by DCIS, the Agencies and the service provider.

A number of billing disputes are a result of the service provider not having updated its billing systems to reflect the Government restructure in 2001. The service provider is currently completing changes to its systems and processes to accommodate the new billing structure. The first monthly billing run under the new structure was expected to occur in March 2003 and was expected to resolve a number of billing disputes.

The cost management team have recently calculated average unit costs per agency and are preparing to meet with agencies to help them identify opportunities for reducing unit costs where they appear high.

Matters arising from performance management system audits
DCIS - Outsourcing of IT Services

Specific findings continued

Compliance team

A compliance team was established to perform a number of key functions including:

+ Monitor the timeliness and quality of the deliverables under the contract;

+ Review contract variations to ensure that they are reviewed and signed by all necessary parties and that all appropriate supporting documentation is provided to the solicitors for variation drafting; and

+ Prepare audit and benchmarking strategies for the outsourced contracts, monitoring the implementation of audit findings and developing associated terms of references.

The role of this team is gradually being expanded. The requirement for the team to perform ongoing reconciliations of service level credits has been identified and was expected to be implemented by March 2003. Service level credits are rebates that arise if the service provider fails to attain the standards of service as specified in the contract.

Monitoring service levels

Agencies are primarily responsible for monitoring service levels using the Government reporting web site.

Service levels were also being monitored at the regular DCIS Desktop Contract Executive Council meetings, attended by members of DCIS Executive, the contract management team and management of the service provider.

With regard to the desktop contract, a number of initiatives, including workshops and presentations, were being undertaken by DCIS and the service provider to develop working relationships and understanding between agencies.

Procedures are in place to track and follow up all issues currently being handled by DCIS in relation to the Desktop contract.

Reconciling service level credits against performance reports

As noted, the primary responsibility for service level monitoring rests with each respective agency. Each agency is also required to monitor the service level credits being provided by the service provider.

The extent of agency monitoring and analysis with regards to service level credits varies across Agencies. Some Agencies perform a detailed review, while others only perform a limited high level review.

DCIS have identified this issue and plan to implement a process to reconcile service level credits on a monthly basis.

Matters arising from performance management system audits
DCIS - Outsourcing of IT Services

Specific findings continued

Internal Audit

An internal audit program has been developed for the outsourced IT contracts by the Compliance team. This program forms the basis for development of annual audit plans which are submitted to the DCIS Audit Committee for review and endorsement.

Recommendation

Processes should be implemented to provide assistance to agencies with monitoring and reconciling service level credits against performance reports.

Department of Corporate and Information Services has commented:

The recommendation is endorsed and indeed has been implemented by DCIS. It should be noted that since the audit in March 2003, the majority of volume disputes have been resolved to the satisfaction of both the service provider and agencies. Notably, the service provider wrote off a significant amount of debt in this process.

Disputes currently average around 1 percent of monthly billing totals compared to last year where the total exceeded 6 percent. This should be interpreted as the service provider now meeting its obligations and acquitting services they provide to the satisfaction of agencies.

Matters arising from performance management system audits

Performance reporting in 2001-02 annual reports by four Agencies

KEY FINDINGS

+ The Agencies audited did not consistently report against the performance information identified in Budget Paper No. 2 2001-02.
+ A common reason offered was that there was no compulsion to report against the original budget for 2001-02 given the:
  - change in government;
  - delivery of the November 2001 Mini Budget which did not specify performance measures; and
  - requirement to report the performance measures to Treasury quarterly under the Working for Outcomes framework did not commence until 2002-03.
+ For the performance measures reported, the degree of reliability of those measures varied between the agencies due to the:
  - variability of supporting systems and methods used to derive the data necessary to calculate the performance measure;
  - lack of attention to detail in publishing performance measures resulting in typographical errors such as reporting the target or estimate as actual or misplacing decimal points to report thousands as millions; and
  - lack of explanation of outputs reported and all output types not dealt with.

Background

Section 28 of the Public Sector Employment and Management Act requires that annual reports include information about the Agency's operations, initiatives and achievements (including those relating to planning, efficiency, effectiveness and performance) along with its financial results.

Matters arising from performance management system audits
Performance reporting in 2001-02 annual reports by four Agencies

Audit objectives

A review of performance reporting for 2001-02 was completed for the following agencies:

+ Department of Community Development, Sport and Cultural Affairs (DCDSCA);
+ Department of Health and Community Services (DHCS);
+ Department of Infrastructure, Planning and Environment (DIPE); and
+ Department of Justice (DOJ).

The objective of the audit was to review how the selected agencies reported in their 2001-02 annual reports on the performance information identified in Budget Paper No.2 2001-02 for their respective agencies.

The audit had two distinct stages:

+ a desktop comparison of the performance measures reported to those originally included in the budget papers for 2001-02; and
+ verification of a selection of performance measures back to the agency's supporting systems.

The audit did not form an opinion as to whether the measures are appropriate. Nor did the audit verify the targets where these were provided. In general the output types to be reported included measures of quality, timeliness, quantity and cost.

Audit findings

Desktop review - reporting against documented outputs

Three of these four agencies were formed in November 2001 following the amalgamation of a number of previous agencies.

The first Budget presented to the Legislative Assembly that included the new agencies was the November 2001 Mini Budget, which presented the combined budget of the amalgamated agencies as though the new agencies had existed from 1 July 2001 together with details of the budget refinement, Government initiatives and the outcomes expected for the various output groups.

However, the November 2001 budget did not identify the expected outputs or the relevant performance measures.

DCDSCA and DHCS elected not to report against the performance measures originally listed in Budget Paper No.2 2001-02 but decided to report against the performance measures being developed for 2002-03 and listed in the budget papers for that year.

Matters arising from performance management system audits
Performance reporting in 2001-02 annual reports by four Agencies

Audit findings continued

The advice provided by these two agencies was that the development of performance measures under the Working for Outcomes reporting framework were still being developed and that there was no requirement to report against these performance measures to Northern Territory Treasury for 2001-02. Quarterly reporting against agency performance measures to Northern Territory Treasury under the Working for Outcomes reporting framework commenced in 2002-03.

DCDSCA included a clear reference in its 2001-02 annual report that this was its intention.

DHCS did not provide any indication in its annual report that it was not reporting against the originally advised performance measures.

DOJ elected to report against the performance measures originally listed in Budget Paper No.2 2001-02 although the extent of such reporting was not 100% of the originally documented performance measures.

DIPE's extent of performance measure reporting in its 2001-02 annual report was significantly impacted by the Agency amalgamations announced in November 2001 and, as a result, DIPE did not report in its 2001-02 annual report on the majority of the performance measures originally listed in Budget Paper No.2 2001-02. Of the 216 performance measures originally listed, DIPE only reported on 74. In particular, performance measures relating to quality and timeliness were not generally reported on by DIPE and, as a result, reporting on these types of performance measures needs considerable improvement.

It was also noted that DIPE's 2001-02 report contained few performance measures relating to cost.

Desktop review - explanations for variances

There was a general lack of explanation to support the performance measures listed in the annual reports. In particular, no explanation was provided to inform the reader how the performance measures were determined. This may be self-evident for the quantity performance measures but less obvious for the quality performance measures such as client awareness or satisfaction.

Agencies also failed to provide an interpretation of the significance of any variation in the 2001-02 results from the target or prior year result where this data was included in the annual report.

Matters arising from performance management system audits
Performance reporting in 2001-02 annual reports by four Agencies

Audit findings continued

Verification of selected Performance Measures

For each Agency a sample of performance measures was selected from their 2001-02 annual reports for verification back to supporting data.

A summary of the results follows:

Agency	Number of performance measures selected	Measures selected which were: verified to supporting systems	not supported	wrongly reported
DCDSCA	13	9	3	1
DHCS	13	11	-	2
DIPE	28	12	10	6
DOJ	13	10	1	2

Recommendations

That Agencies:

+ Introduce quality control mechanisms to ensure that performance reported is supported by reliable systems and data;
+ Report against all output types;
+ Explain how the performance measures were determined; and
+ Provide an interpretation of significant variations compared against target and/or prior year.

Department of Justice has commented:

These issues will be addressed where possible in the 2002/03 Department of Justice Annual Report. Further, the Department's Internal Audit Committee will undertake a major review of performance measures across the Department with the objective of providing the Executive Management Board with a report by the end of calendar year 2003.

Matters arising from performance management system audits

Various Agencies - Monthly Internal Reporting Systems

KEY FINDINGS

+ The Agencies selected for audit have monthly internal reporting systems in place with monthly financial reports being prepared on an accruals basis.
+ However, potential exists for improvements in monthly internal reporting not only for the Selected Agencies, but also across the Northern Territory Public Sector. This could be achieved by introducing uniform standards by way of a best practice guide.
+ In the Selected Agencies, there is scope for improvements in:
  - The depth of internal reporting systems;
  - Monitoring and reporting strategic and operational achievements; and
  - Report formats.

Background

Section 13 of the Financial Management Act (the Act) places a legal obligation on heads of Agencies to ensure that there is an effective system of internal control over the financial and related operations of the Agency they administer. Internal reporting is part of the system of internal control and should be a significant aid to monitoring performance, making timely decisions about the allocation of resources and to the efficient application of those resources to processes and the direction of those processes to the production of defined outputs.

Section 38 of the Act empowers the Treasurer to issue directions to Accountable Officers concerning principles, practices and procedures to be observed in the administration of financial affairs of the Territory and Agencies. A number of Treasurer's Directions prescribing detailed accounting procedures and record keeping requirements have been issued under this section.

In the past, financial information needs revolved around cash management. However, with the advent of accrual accounting, a wider suite of financial reporting systems is now needed. Internal financial reporting should typically comprise financial information on revenue, expenditure; assets and liabilities measured against budgets or pre-determined limits. But for internal financial reporting to be truly useful as a management tool, there is a need for it to contain non-financial information that supplements and where necessary elaborates on the financial information.

Matters arising from performance management system audits
Various Agencies - Monthly Internal Reporting Systems

Audit objectives and scope

The objective of the audit was to examine the monthly internal reporting systems used by Agencies for internal management purposes. The audit reviewed the monthly internal reporting practices of four Agencies within the NT public sector (the Selected Agencies) being Northern Territory Treasury, the Office of the Commissioner for Public Employment, Department of Corporate and Information Services and Department of Community Development, Sport and Cultural Affairs.

Whilst the primary purpose of my audit procedures was to obtain sufficient and appropriate audit evidence to form an opinion on the monthly internal reporting system of the Selected Agencies, the audit focused more on the financial reporting systems as opposed to internal reporting systems generally.

The accuracy of the financial reports produced as part of the Selected Agencies' monthly internal reporting was not audited.

Audit findings

Opinion

The Selected Agencies have monthly internal reporting systems in place.

However, as set out under "Specific findings", potential exists for improvement in monthly internal reporting at the Selected Agencies. Some of the observation, and associated recommendations, may have relevance to all public sector Agencies.

Specific findings

Public Sector Wide Findings

There are no uniform requirements or standards for internal reporting.

Whilst the monthly reports produced by the Department of Corporate and Information Services used a common format for the Selected Agencies, the form and content of other internal reports used by the Selected Agencies varied. Standards or a best practice guide dealing with internal financial and performance reporting by Northern Territory public sector Agencies need to be developed.

Such a guide should address the reporting of relevant outputs and other performance information.

Matters arising from performance management system audits
Various Agencies - Monthly Internal Reporting Systems

Audit findings continued

Findings at the Selected Agencies

+ Financial reports are being prepared on an accruals basis

  The financial reports are being prepared on an accruals basis, which is a positive step forward in the full implementation of the Working for Outcomes framework.

+ The depth of internal reporting system could be increased.

  The principal statement used in monthly reporting is the Statement of Financial Performance. The Statement of Financial Position and the Statement of Cash Flows need to be added and used as an integral part of the monthly reporting system.

+ Monitoring of strategic and operational achievements could be improved

  The Selected Agencies report outputs achieved to the NT Treasury as required under the Working for Outcomes framework. However, performance in achieving these outputs is not always monitored internally as they are considered inappropriate in the context of operational management.

  The Selected Agencies are currently developing new outputs for use in 2003-2004 with the intention of using these more appropriate measures for regular performance monitoring. The implementation of new outputs will limit the ability to make comparisons with the 2002-2003 performance or to understand trends. Also, this change does not address the problem of inadequacies in monitoring performance in the current year.

+ Report formats could be improved

  Reports presented for consideration by the Executive of the Selected Agencies' did not always include best practice formats by comparing monthly actuals with monthly budget, and year-to-date actuals with year-to-date budget. Instances were noted in the Selected Agencies where supporting commentary did not always sufficiently explain the anticipated effects of variances on the achievement of budget and report formats were not formalised and standardised across the Selected Agencies' business units.

  Such internal reports should also link with and address achievement of internal business plan objectives.

Matters arising from performance management system audits
Various Agencies - Monthly Internal Reporting Systems

Recommendations

That:

+ NT Treasury consider the development and issue of a best practice guide dealing with internal financial and performance reporting;

+ Internal monthly financial reports should include the Statement of Financial Position and a Cash Flow Statement; and

+ Agencies finalise their outputs and develop systems to capture and report performance on a regular basis.

Northern Territory Treasury has commented:

As part of the "Working for Outcomes" financial management framework, it is recognized that further work needs to be done to assist agencies to improve internal management reporting and analysis. A best practice guide as suggested by the Auditor-General could be part of this work.

Department of Community Development, Sport & Cultural Affairs has commented:

The Department's outputs have been revised to better reflect the Department's performance in 2003-04 and future years. The importance of linking our internal reporting system with business plan objectives is recognised. Best practice formats to achieve this will be investigated in order to develop an appropriate method of regular and meaningful reporting.

Appendix 1 - Audit opinion reports issued since 31 December 2002

	Date 2002 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2002	Date of Audit Report Year ended 31 December 2001
Entities with specific Legislation or Trust Deeds			
Northern Territory University	12 August 2003	26 June 2003	25 June 2002
NT University Foundation (a company limited by guarantee)	N/A	11 March 2003	5 April 2002
NT University Foundation Trust	N/A	11 March 2003	5 April 2002
Batchelor Institute of Indigenous Tertiary Education	12 August 2003	26 June 2003	20 June 2002
Menzies School of Health Research	20 August 2003	4 April 2003	6 June 2002
Entities that Sec 10 Financial Management Act applies as though a GBD		Year ended 30 June 2002	Year ended 30 June 2001
Cobourg Peninsula Sanctuary and Marine Park Board	27 May 2003	1 April 2003	15 April 2002
Nitmiluk (Katherine Gorge) National Park Board	27 May 2003	4 April 2003	15 April 2002
Jabiru Town Development Authority	25 February 2003	17 January 2003	11 June 2002
	Deadline for submission of Audited Financial Statement	Date of Audit Report Year ended 30 June 2002	Date of Audit Report year ended 30 June 2001
Inter-Government Statements by Agreement			
Commonwealth - State Housing Agreement	31 December 2002	8 April 2003	22 August 2002
Australian Land Transport Development	31 December 2002	10 April 2003	13 February 2002
		Year ended 31 December 2002	Year ended 31 December 2001
Northern Territory University Financial Research Data Collection Acquittal	31 August 2003	26 June 2003	17 June 2002
Indigenous Education Strategic Initiatives Program (IESIP)	31 March 2003	27 March 2003	3 June 2002

Appendix 2 - Status of Audits which were identified to be conducted in the six months to 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 were identified in Appendix 3 of the February 2003 Report as being scheduled for the period.

AGENCY	STATUS
Department of Community Development, Sport and Cultural Affairs	
Performance reporting in the Agency's 2001/02 Annual Report.	Refer page 88 to 91
Department of Corporate and Information Services	
Detailed analysis of selected payroll transactions	Refer paged 27 to 34
IT outsourcing (a follow up to previous audits)	Refer pages 84 to 87
IT review of the Fleet business system	No matters to report
A compliance audit of the 2002 Office Space Tender	Refer Pages 35 to 39
Department of Employment, Education and Training	
PMS review of systems used to monitor schools	Refer Pages 74 to 78
LATIS – a PMS audit	Deferred
Department of Health and Community Services	
Compliance audit of the redevelopment of Royal Darwin Hospital	In progress
Department of Infrastructure, Planning and Environment	
IT review of MOVERS	Refer Pages 40 to 42
A compliance audit at Motor Vehicle Registry	Refer Pages 40 to 42
A compliance audit of asset records	Refer Pages 43 to 46
Performance reporting in the Agency's 2001/02 Annual Report	Refer Pages 88 to 91
Department of Justice	
A PMS audit of the fines recovery unit	Refer Pages 79 to 83
Performance reporting in the Agency's 2001/02 Annual Report	Refer Pages 88 to 91
Department of the Chief Minister	
Ministerial expenses – travel	Deferred
Department of the Legislative Assembly	
A compliance audit of members entitlements	Deferred
Northern Territory Treasury	
IT review of APEX	No matters to report
Selected agencies	
A PMS review of the monthly management reporting systems	Refer pages 88 to 91
Grants and Subsidies - Detailed analysis of chart of accounts	Deferred
Contracts branch - Review of Certificates of Exemption systems	Refer pages 17 to 21

Appendix 3 - Proposed audit activity in the six months ending 31 December 2003

In addition to the routine audits, primarily end of year financial audits of agencies, 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

IT audit of the tenancy management system at Housing Business Services

PMS review of Housing Business Service's five year plan focussing on maintenance programs and sales of housing stock

Department of Corporate and Information Services

IT audit of electronic systems used to pay suppliers

Audit of the Northern Territory's Information Technology governance framework.

Department of the Chief Minister

PMS audit of change management at Risk Management Services and assessment of the success of its internal audit program

PMS audit of the Office of Territory Development

Northern Territory Treasury

IT review of APEX – phase 3

Follow up of the Community Benefit Fund audit

Northern Territory Police, Fire and Emergency Services

PMS audit of the fleet management system

Selected agencies

Ongoing analysis of PIPS and GAS

IT audit over the controls over privacy of information

Controls audit over the use of credit cards

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.

Appendix 6
Agencies not audited in the year ended 30 June 2003

For activities relating to the financial year ended 30 June 2003, no audits have been, or are intended to be, conducted at the following Agencies.

+ Aboriginal Areas Protection Authority
+ Trade Development Zone Authority

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

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

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

Appendix 7 - Abbreviations

Agency Compliance Audit	ACA
Australian Accounting Standards	AAS
Australian Valuation Office	AVO
Certificate of Exemption	CofE
Contract and Procurement Services	CAPS
Department of Community Development, Sport and Cultural Affairs	DCDSCA
Department of Corporate and Information Services	DCIS
Department of Employment, Education and Training	DEET
Department of Health and Community Services	DHCS
Department of Infrastructure, Planning and Environment	DIPE
Department of Justice	DOJ
Expressions of Interest	EOI
Executive Remuneration Review Panel	ERRP
Fines Recovery Unit	FRU
General Managers, Schools	GMS
Government Accounting System	GAS
Government Business Divisions	GBDs
Government Owned Corporations	GOCs
Motor Vehicle Registry	MVR
Motor Vehicle Registry System	MOVERS
Northern Territory Government	NTG
Northern Territory Police, Fire and Emergency Services	PFES
Northern Territory University	NTU
Office of the Commissioner for Public Employment	OCPE
Performance management system audit	PMS
Personal Information and Payroll system	PIPS
Procurement Review Board	PRB
Procurement Reference Group	PRG
Public Accounts Committee	PAC
Public Sector Employment and Management Act	PSEMA
Treasurer's Annual Financial Statement	TAFS
Unimproved capital value	UCV

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 October 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 will be scheduled for tabling in the November 2003 sittings.

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