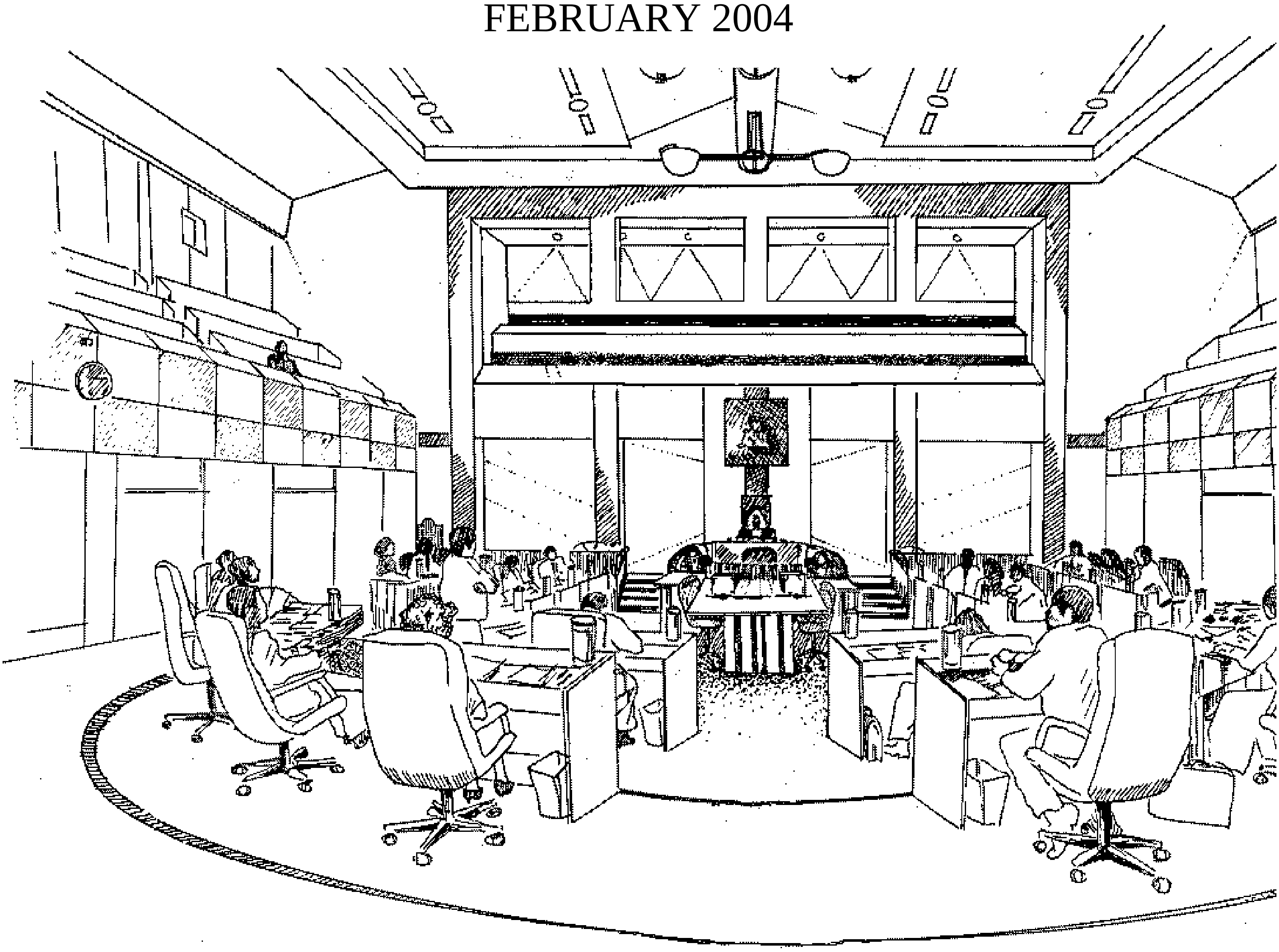
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

ANALYSIS OF THE 2002/2003 TREASURER'S ANNUAL FINANCIAL STATEMENT

REPORT TO THE LEGISLATIVE ASSEMBLY
FEBRUARY 2004



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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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

24 February 2004

Madam,

I request that you table this report today in the Legislative Assembly. It contains comments and analysis arising from my audit of the 2002/03 Treasurer's Annual Financial Statement (TAFS).

The Report is provided so Members of the Legislative Assembly have available to them a source of independent analysis about information in the TAFS and in the Treasurer's Annual Financial Report (TAFR). The TAFS is the audited section of the wider scope TAFR, which was tabled in the Legislative Assembly on 16 October 2003.

My Report includes analysis of unaudited information within the TAFR particularly the Overview section.

In view of the significance to the Territory of the performance of Government Business Divisions and Government Owned Corporations, I continue to include a separate section analysing the financial results of that sector.

Yours faithfully,

Mike Blake
Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of my audit and analysis of the Treasurer's Annual Financial Statement for the financial year ended 30 June 2003.

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 14 sections including an executive summary and a section noting major findings. Following these two sections I have documented:

- The reporting framework used to prepare the TAFS;
- My audit opinion on the TAFS, why there are two parts to the opinion and how they should be interpreted;
- A summary of the Northern Territory's operating results as reported in the TAFS;
- Various sections in which I analyse the Northern Territory's fiscal position and strategies;
- An assessment of the differences between financial statements prepared on the Government Financial Statistics basis as against the Australian Accounting Standards basis;
- The reconciliation between the accrual net operating balance and results on a cash flows basis;
- Adjustments made to the unaudited accrual financial statements at 30 June 2002;
- An assessment of the financial performance of Government Business Divisions, Government Owned Corporations and of other relevant trading arms of Government; and
- Matters arising from my audit and relevant topical issues for the information of Members.

Where relevant, 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.

Executive Summary

This Report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2003. TAFS forms part of the Treasurer's Annual Financial Report (TAFR).

This is the first year that the Northern Territory Government's (NTG) budget and the TAFS have been prepared based on the reporting standards of the Australian Bureau of Statistics' (ABS) Government Financial Statistics accrual based Uniform Presentation Framework. This financial reporting framework is envisaged by the *Fiscal Integrity and Transparency Act* (FITA) which requires the NTG to report on a basis consistent with external reporting standards.

The TAFS has not, however, been prepared on a basis consistent with Australian Accounting Standards.

The TAFR provides information about the financial performance, financial position and cash flows of the Northern Territory Government with the principal objectives of providing informative, comprehensive and clear information on financial outcomes. The Members of the Legislative Assembly represent the Territory community in scrutinising this performance information and have the opportunity to directly question the Government about its financial stewardship and management.

The Legislative Assembly, through the *Financial Management Act (FMA)* and the *Fiscal Integrity and Transparency Act (FITA)*, requires the Treasurer to account for the Government's stewardship of the financial resources made available to it each year through the budget allocations in the *Appropriation Act*. While Section 9 of the *FMA* sets out broad areas to be reported upon, it allows the Treasurer discretion in how those matters will be reported.

I have issued an unqualified audit opinion on the TAFS format prescribed by the Treasurer.

The Treasurer is commended for preparing the first accrual financial statements for the Northern Territory Government (NTG). Their preparation was a significant exercise to which many people contributed. There is, however, still much to do and this Report highlights some of the areas still to be addressed including the need for the Treasurer to consider the use of a broader range of accrual based fiscal measures and targets rather than, or preferably, in addition to, cash based targets.

Understandably, the change to an accrual based TAFR has resulted in reporting less trend information in that the current TAFS only provides data for two years. However, this makes it difficult to assess comparative performance but this will be overcome with time. It is therefore important for the Treasurer to establish constant measures of financial performance and condition.

My analysis of the Territory's overall financial condition shows that it is improving. The deficit has reduced as has net debt. However, some vulnerabilities remain which will continue to require careful management. These vulnerabilities include:

- High net debt resulting in high interest costs. Interest costs have been dropping in the recent past and this will require continuous monitoring if interest rates continue to rise.

- Growing employee liabilities including unfunded superannuation. NT Treasury has projected the implications of the unfunded superannuation well into the future, but, as far as I am aware, no funds have been set aside from the annual appropriation to respond to this funding need.

- The NTG's exposure to "long tail" classes of insurance, in particular workers compensation and motor vehicle third party, has been highlighted by the consolidation of TIO into the whole of government financial report.

- Generally GBD's are not achieving budgeted levels of profitability, although the profitability, and consequently the net deficit and net debt positions, has improved due to the strong results at Power Water Corporation and NT Treasury Corporation.

- The Territory's net worth has dropped although this is partly due to accounting adjustments and asset revaluations.

The overview in the TAFR and Part 10 of the 2001/02 TAFR report the outcomes of the Government's fiscal strategy for the 2002/03 and 2001/02 financial years. The bases for measuring fiscal outcomes have changed as follows:

- 2001/02 – based on five elements. These elements were not discussed in the 2002/03 TAFR; and

- 2002/03 – based on three measures – sustainable government services, competitive tax environment and prudent management of liabilities.

Whilst it is encouraging that the Territory's overall financial condition, as reflected in the TAFR, has improved, NT Treasury should ensure that consistent measures of fiscal performance are adopted from one year to the next in order that achievement against these measures can be accurately assessed and trend analysis conducted.

Northern Territory Treasury has commented:

The change in the Fiscal Strategy from the 2001-02 TAFR to the 2002-03 TAFR occurred with the change from a cash framework in 2001-02 to an accrual framework in 2002-03.

The current Fiscal Strategy targets broadly align with the intent of the elements of the previous Fiscal Strategy.

The summary of major findings on pages 7 to 9 of this report outline the significant matters that are described in more detail later in the report.

Major Findings

Status of matters raised in 2001/02

At 30 June 2002 I reported that:

- The inclusion in the Treasurer's Annual Financial Report (TAFR) of financial results in varying financial formats made it difficult for the reader to assess the Northern Territory Government's performance in meeting its deficit reduction objective and that the move to full accrual reporting from 1 July 2002 provided the opportunity to settle on a single reporting framework, enabling reports to be prepared on a basis consistent with relevant standards. Both of these matters were resolved by the preparation of accrual based financial statements at 30 June 2003.

- The impact of not bringing to account a decrease in the market value of equities held in the Conditions of Service Reserve at 30 June 2002 was to understate the reported net debt by $17.7 million. This Reserve was revalued to market value at 30 June 2003. Net debt has been correctly adjusted.

Refer to page 21 for further comments

Summary of operating results and financial position

- In almost all cases revenues exceeded those earned in 2001/2 and original budget.
- The Northern Territory Government is managing costs reasonably effectively with total expenditure, on a General Government Sector basis, up 2.4% on prior year and less than 1% above budget.
- Net worth, on a Non-Financial Public Sector basis, is down $238 million due mainly to the downward revaluations of certain non-current assets (predominantly roads and bridges) and increases in unfunded superannuation and outstanding claims (Territory Insurance Office) liabilities.

Northern Territory Treasury has commented:

As stated, the decrease in net worth is largely the result of downward revaluations of certain non-current assets. This revaluation was a direct result of the introduction of accrual accounting in 2002-03 and the decision by Government to ensure that significant assets were appropriately valued by an independent source.

Refer to pages 23 to 30 for further comments

Major Findings

Analysis of fiscal management and of the financial condition of the Northern Territory

- The Northern Territory Government on a General Government Sector basis reported a cash surplus of $9 million as against a budgeted cash deficit of $94 million.
- Net debt on a Non-Financial Public Sector level stands at $1,723 million at 30 June 2003 which represents a reduction of $143 million over that budgeted and $30 million over that reported in the prior year.
- Total employee related liabilities on a Total Public Sector basis have risen from $1,688 million at 30 June 2002 to $1,761 million at 30 June 2003 predominantly as a result of an increase of $69 million in unfunded superannuation liabilities.

Refer to pages 31 to 36 for further comments

Analysis of fiscal strategies and of the management and of the financial condition of the Northern Territory

- In addition to the existing measures used by the Northern Territory Government to assess its fiscal performance and condition, consideration should be given to utilising and reporting measures of sustainability, flexibility and vulnerability.
- These measures, taken with the three measures now adopted by the Northern Territory Government, confirm the importance of the deficit reduction strategy that has been embarked upon.
- The Territory's overall financial condition has improved since last year. Both the net debt and the deficit have reduced since 2001/02. However, some of the vulnerabilities identified at that time, for example growing superannuation liabilities, remain and ongoing careful fiscal management is needed.

Refer to pages 37 to 48 for further comments

Comparative assessment – Government Finance Statistics (GFS) versus Australian Accounting Standard (AAS) 31

Under an Australian Accounting Standards approach the Territory's net operating result on a Total Public Sector basis would have been a deficit of $326.9 million as opposed to the $15.8 million deficit recorded in the TAFS under the GFS. However, some significant accounting adjustments made following reassessment of asset lives and corrections of prior year errors adversely impacted the 2002/03 financial year.

Refer to pages 49 to 50 for further comments

Reconciliation of the net operating balance and operating cash flows

At the Total Public Sector level there has been a net decrease in cash held of $61.6 million since 30 June 2002.

Refer to pages 51 to 52 for further comments

Adjustments to unaudited opening balances

Revisions were made to the unaudited accrual based numbers reported in the 2001/02 TAFR resulting in an overall reduction of $28.1 million in the total public sector net worth.

Refer to pages 53 to 54 for further comments

Financial performance of Government Business Divisions, Government Owned Corporations and other relevant trading arms of Government

Generally GBD's are not achieving budgeted levels of profitability, although the profitability, and consequently the net deficit and net debt positions, has improved due to the strong results at Power Water and NT Treasury Corporation.

Refer to pages 55 to 60 for further comments

Matters arising from the Audit and Format of the TAFS

- Certain assets and liabilities such as those of government schools, works of art, museum collections and library collections have not been included within the 2002/03 TAFS.

***Northern Territory Treasury has commented*:**

Work has commenced to bring these assets and liabilities onto the Government's Balance Sheet. However, given the complexity of the issues that need to be resolved, particularly the consolidation of all government schools by the Department of Employment Education and Training, it is anticipated that this issue will not be finalised for two to three years.

- Control over $427.5 million of infrastructure assets recognised in AustralAsia Railway Corporation's (AARC) statement of financial position at 30 June 2003 is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003/04 for no consideration. Under Statement of Accounting Concepts 4, in the event that an entity cannot control an asset and manage it to achieve the entity's objectives, the asset fails to meet the recognition criteria. Failure to meet the asset recognition criteria could result in AARC recording the asset at nil value with a consequent impact on TAFS to reflect this loss of control by the Territory.

- My Office does not currently audit the following entities included within the scope of the TAFS but outside the scope of the *Financial Management Act*:

- AustralAsia Railway Corporation; and

- Nominal Insurer's Fund.

Refer to pages 61 to 63 for further comments

Entities referred to in this Report

The following entities are referred to in substantive audit comments in this Report. Entity representatives were invited to provide responses on those matters for inclusion in this Report. These and other entities may also have been referred to in incidental ways in other parts of this Report.

Northern Territory Treasury, as the Agency responsible for preparation of the TAFS, and the Department of the Chief Minister were also invited to provide comments on the Report as a whole.

The entities in this Report are those units of administration in existence at 30 June 2003.

Reporting framework and audit thereof

The section headed "Reporting Framework" commencing on page 19 of the TAFR details the reporting basis used.

Reporting Framework

This is the first year that the NTG's budget and the TAFS have been prepared based on the reporting standards of the Australian Bureau of Statistics' (ABS) Government Financial Statistics accrual based Uniform Presentation Framework. This financial reporting framework is envisaged by the *Fiscal Integrity and Transparency Act* (FITA) which requires the NTG to report on a basis consistent with external reporting standards.

There are at least two relevant external reporting standards:

- Government Financial Statistics (GFS) accrual based Uniform Presentation Framework (UPF) (referred to throughout this Report as GFS); and
- Australian Accounting Standards (AAS), which are all accrual based, and in particular:
  - AAS 31 – Financial Reporting by Governments; and
  - AAS 24 – Consolidated Financial Reports.

My analysis on the following pages concentrates on the GFS as this is the external reporting basis adopted by the NTG and provides a brief section commenting on the reconciliation between these two accounting frameworks.

The primary financial statements emanating from these two forms of reporting are similar being the:

- Operating Statement (in AAS this is the Statement of Financial Performance);
- Balance Sheet (in AAS this is the Statement of Financial Position); and
- Cash Flow Statement (in AAS this is the Statement of Cash Flows).

A significant component of financial statements prepared under AAS is the inclusion of explanatory notes. There is no such requirement to provide notes under the GFS framework and it is pleasing to see that the Treasurer has chosen to provide notes on a basis consistent with AAS. The notes to the TAFS set out on pages 39 to 74 provide useful explanatory information to readers.

Reporting by Sectors and by Whole of Government (Total Public Sector)

A key aspect of the GFS is the identification of different sectors, recognising that Territory and State Government operations cover a wide range of activities. Three sectors (which are then consolidated into two additional sectors) of government activity are reported according to the following:

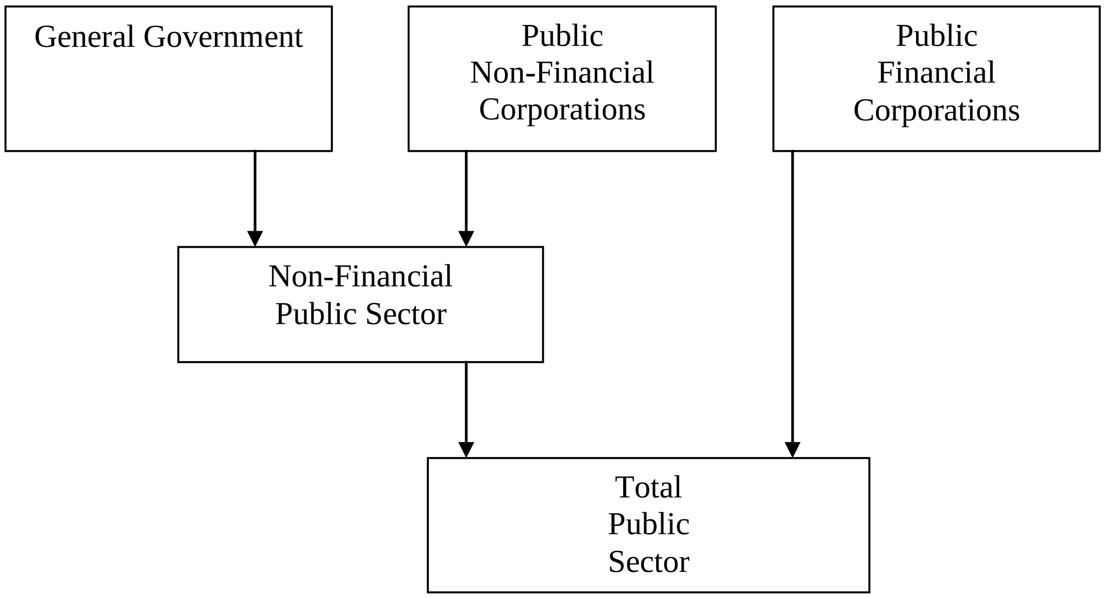

Table 1 outlines the key elements of the NTG as a reporting entity.

Table 1 – Northern Territory Government reporting entity (a)

General Government Sector	***Public Non-Financial Corporations***	***Public Financial Corporations***
Includes: All government departments (DEET, DHCS, DBIRD etc); Other administrative units such as the NT Police, Fire and Emergency Services and the Office of the Commissioner for Public Employment; and Other entities that provide services that are mainly non-market in nature, for the collective consumption by other Agencies or by the community (Construction Division, Territory Discoveries, NT Fleet etc).	*Comprises:* Power and Water Corporation and its subsidiary companies; Darwin Bus Service; Darwin Port Corporation; and Department of Community Development, Sport and Cultural Affairs:Housing Business Services.	*Comprises*: Northern Territory Treasury Corporation Territory Insurance Office

(a) A full list of Northern Territory public sector agencies, which separates them into their respective Sectors, is disclosed in Appendix B on page 119 of the TAFR.

In summary the three sectors and their consolidation are defined as:

General Government Sector (GGS) – all budget dependent Agencies providing services free of charge or at prices at below their cost of production or service cost. Therefore, they are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. For this reason, this sector tends to be the focus of fiscal targets – for example the deficit or surplus.

Public Non-Financial Corporations (PNFCs) – trading enterprises mainly engaged in the production of goods and services of a non-financial nature for sale in the market place at prices that aim to recover all or most of the costs involved.

Non-financial public sector (NFPS) - the sector formed through a consolidation of the general government and public non-financial corporation sub-sectors. This sector provides the focus for the determination of net debt.

Public Financial Corporations (PFCs) – public enterprises mainly engaged in acquiring financial assets and incurring liabilities in the financial market on their own account.

Total Public Sector – comprises the consolidation of the Non-Financial Public Sector and the Public Financial Corporations and represents the "whole of Territory financial statements".

Entities not consolidated into any of the above sectors

The Total Public Sector consolidated financial statements comprise all agencies, Government Business Divisions (GBDs), Government Owned Corporations (GOCs), TIO and other entities controlled by the NTG. The following are excluded from the consolidation on the basis that they are not controlled by the NTG:

- Charles Darwin University (formerly Northern Territory University) and its associated entities
- Menzies School of Health Research
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board
- Nitmiluk (Katherine Gorge) National Park Board
- Surveyors Board of the NT
- Northern Territory Grants Commission
- Northern Territory Government and Public Authorities Employees' Superannuation Fund
- Legislative Assembly Members' Superannuation Trust
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local Government/Regional Councils

These entities have not been consolidated into the TAFS on the basis that they are not controlled by the NTG or their net assets are not available to the NTG (for example the superannuation funds). The TAFS does however include the unfunded superannuation liabilities.

In addition, with the exception of payroll costs and land and buildings, the TAFS excluded revenues, costs, assets and liabilities of Territory schools. This requires review particularly as bank accounts managed by schools at 31 December 2002 exceeded $20 million.

Entities brought to account for the first time

The first time application of accrual accounting in preparing the TAFS, which required the adoption of the "control" test in assessing which entities are, or are not, controlled by the NTG, has resulted in the identification of entities which are controlled by the NTG and which have been consolidated into the TAFS for the first time.

The key entities involved are:

Entity	Impact on GGS net operating result balance $	Impact on GGS cash deficit $	Impact on NFPS net worth $	Impact on NFPS net debt $
Nominal Insurer's Fund	621,931	492,908	87	Nil
Territory Motor Sports Board Limited	(53,190)	(24,375)	543,497	Nil
Territory Insurance Office (a) –				
GGS	Nil	Nil	Nil	Nil
Total Public Sector	(29,430,632)	15,516,403	1,059,837	Nil

(a) – while the TIO has been consolidated in full, inclusive of the MACA, the assets of the MACA (which totalled $2,077,633 at 30 June 2003) are not available to fund NTG programs.

Entities consolidated in 2002/03 but which may be excluded in 2003/04

Centralian College (Centralian)

Note 28 on page 73 of the TAFS details that subsequent to 30 June 2003 Centralian College will transfer to the Charles Darwin University (CDU). This transfer took place on 5 November 2003 when the establishment of CDU was gazetted. The transfer is "for no consideration" and, as indicated in Note 28, will reduce the whole of government net assets by $32 million. This amount is, however, not adjusted for long service leave liabilities that will transfer to the CDU nor does it include the amount of unfunded superannuation that will transfer to CDU.

Entities consolidated in 2002/03 the future consolidation of which is to be determined

AustralAsia Railway Corporation (AARC)

Note 15 (c) on page 55 of the TAFS details that control of the net assets totalling $428 million in AARC is likely to be transferred, for no consideration, to the Asia Pacific Transport Corporation during the course of the 2003/04 financial year. This could have significant implications for the Territory's net worth and early attention to the accounting within AARC of the railway assets in 2004 is needed.

Unaudited parts of the TAFR

The TAFR again includes on pages 83 to 115 an unaudited component referred to as Additional Financial Information, which compares budget and actual results for each Agency/GBD. I have not referred to this unaudited financial information in this Report.

Conclusions on the Reporting Framework

The reporting framework used in the 2002/03 TAFR is a significant improvement on that applied in prior years. Further development of the TAFR will now depend upon:

- Aligning AAS and GFS – this is a project that the Australian Accounting Standards Board is presently working on and is discussed further on page 64;

- The inclusion of whole of government performance information aligned to Building a Better Territory which is discussed further on page 62; and

- The adoption by the Treasurer of consistent measures applied to assessing the NTG's fiscal performance which is discussed further on pages 37 to 48.

Audit opinion on the TAFS and audit and analysis thereof

KEY ISSUES

My audit opinion on the Treasurer's Annual Financial Statement (TAFS) continues to comprise two parts:

- **One dealing with compliance of the TAFS with the Treasurer's prescribed reporting format. I issued an unqualified opinion noting that the TAFS was prepared from proper accounts and records and that the TAFS was presented fairly in accordance with the requirements of the *Financial Management Act* and with the prescribed format.**
- **A second dealing with the prescribed reporting format's lack of compliance with Australian Accounting Standards. I issued a qualified opinion noting that the "prescribed reporting format" adopted by the Treasurer does not satisfy the requirements of AAS 31, "Financial Reporting by Governments", and I concluded that the TAFS does not present fairly, in accordance with applicable accounting standards, the financial position of the Northern Territory Government as at 30 June 2003, its financial performance and its cash flows for the year ended on that date.**

Introduction

The TAFS is reported on pages 19 to 79 of the larger report entitled the TAFR which was signed by the Treasurer on 10 October 2003 and tabled in the Legislative Assembly on 16 October 2003. Only the information on pages 19 to 79 is audited.

This Report explains the audit process and provides further analysis of the TAFR. A copy of my opinion follows:

AUDITOR-GENERAL

AUDITOR-GENERAL'S REPORT
TO THE TREASURER
ON THE TREASURER'S ANNUAL FINANCIAL STATEMENT

YEAR ENDED 30 JUNE 2003

Scope

I have audited the Treasurer's Annual Financial Statement (the Statement) for the year ended 30 June 2003, set out on pages 19 to 79, as received by me in accordance with section 25 of the Audit Act. The Treasurer is responsible for preparing and presenting the Statement and the information it contains in accordance with the requirements of section 9 of the *Financial Management Act*. This allows the Treasurer to prescribe the form of the Statement, including the accounting policies to be used, and these are detailed in the Reporting Framework. The Treasurer's prescribed format does not require the application of Australian Accounting Standard AAS 31, "Financial Reporting by Governments". I have performed an independent audit of the Statement in order to express an opinion upon it to the Treasurer.

My audit has been conducted in accordance with Australian Auditing Standards, which include a requirement that I consider whether the Statement complies with Accounting Standards and other mandatory professional reporting requirements in Australia. My audit is also intended to provide reasonable assurance as to whether the Statement is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Statement and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether the Statement is prepared from proper accounts and records and, in all material respects, the Statement is presented fairly in accordance with the prescribed format, as well as with Accounting Standards and other mandatory reporting requirements in Australia.

My audit opinions have been formed on the above basis.

Unqualified Audit Opinion on prescribed reporting format

In my opinion, the Treasurer's Annual Financial Statement has been prepared from proper accounts and records and is presented fairly in accordance with the requirements of the *Financial Management Act* and the Treasurer's prescribed format.

Qualified Audit Opinion – variance of the reporting format from Accounting Standards

The financial report has not been prepared to include the information required by Australian Accounting Standard AAS 31 to meet the objectives of a general purpose financial report, but rather has been prepared to present the information required by section 9 of the *Financial Management Act* and the Treasurer's prescribed format. I am unable to provide the disclosures required by AAS 31 as financial records have been prepared on a basis consistent with meeting the reporting requirements of the *Financial Management Act* and the Treasurer's prescribed format, rather than AAS 31.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the Treasurer's Annual Financial Statement does not present fairly, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Northern Territory Government as at 30 June 2003, its financial performance and its cash flows for the year then ended.

H M Blake
Auditor-General for the Northern Territory
13 October 2003

Darwin
Northern Territory

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The purpose and structure of my audit report on the TAFS

My audit report on the TAFS was signed on 13 October 2003 and is set out on page 17 of the TAFR. The purpose of an audit report on a financial report is to enhance the credibility of the financial information presented in relation to an entity's financial performance, financial position and cash flows and, where relevant, advise readers of problems in the financial report. The audit report is structured to clearly define the financial report being audited, the person(s) responsible for preparing the financial report, explain the scope of the audit and present the auditor's opinion on the financial report.

The extent or scope of the audit

The first paragraph of my audit report details that my audit of the TAFS is in accordance with section 25 of the *Audit Act*. The Treasurer is responsible for preparing and presenting the TAFS and the

information it contains in accordance with the requirements of section 9 of the *FMA*. This section allows the Treasurer to prescribe the form of the TAFS, including the accounting policies to be used, and these are detailed in the Reporting Framework. The Treasurer's prescribed format does not require the application of Australian Accounting Standard AAS 31, "Financial Reporting by Governments".

In the next paragraph of the audit report, the nature and extent of the audit work is described. I indicate that my audit was conducted in accordance with Australian Auditing Standards, which include a requirement that I consider whether the TAFS complies with Accounting Standards and other mandatory professional reporting requirements in Australia. The Auditing Standards applied provide professional guidance that is required to be followed to ensure the appropriateness and quality of the audit work and the reliability of the audit opinion.

My audit report indicates that the audit procedures are performed to provide reasonable assurance as to whether the TAFS is free of material misstatement and is prepared from proper accounts and records and, in all material respects, is presented fairly. The audit provides a high, but not absolute, level of assurance. Absolute assurance in auditing is not attainable because of such factors as the use of judgements and estimates in the preparation of financial reports, the use of testing and sampling for gathering and evaluating evidence, the inherent limitations of systems of internal control and the fact that much of the evidence available to auditors is persuasive rather than conclusive in nature.

An audit is not designed to detect all errors in the vast number of transactions that make up a financial report, but the audit procedures are designed to ensure that the aggregate of any errors detected do not exceed a level above which the users of financial reports would have their judgement affected by that level of error.

I explain in my audit report that judgements are made evaluating significant accounting estimates included in the TAFS. Many of the significant amounts detailed in the TAFS, such as the valuation of certain assets, outstanding insurance claims liabilities and the calculation of unfunded superannuation and other employee liabilities are based on estimates made by public sector entities. In order to determine whether misstatements exist in these estimates, a review of the validity of the assumptions and the completeness of the underlying data supporting the estimates is undertaken.

Impact of materiality and audit procedures on the audit opinion

The aggregate of all misstatements in a financial report is considered material if, in light of the surrounding circumstances, it is probable that the misstatements would change or influence the decision of a person who was relying on that financial report and who had reasonable knowledge of the Northern Territory public sector and its activities. If this were the case, I would include a qualification in the audit opinion.

Australian Auditing Standards require that the audit work "provide assurance" that any misstatements aggregating to more than a predetermined level of materiality will be revealed in the audit opinion. Before commencing the audit, a judgement is made based on the Government's total revenues, expenditures, assets and liabilities as to what dollar magnitude (materiality) of misstatements in the financial report would influence the decisions of users about the allocation of scarce resources or the discharge of accountability. The dollar amount is then used as a basis for determining the nature, extent and timing of the audit work required. Materiality also involves a qualitative aspect involving judgements as to the nature of any errors and whether any omissions or misstatements have the potential to adversely affect decisions of users.

In planning the audit, risk is accepted that the audit procedures may fail to detect whether the financial report is materially misstated. This minimal risk is accepted because of the judgements involved in determining the nature, timing and extent of audit procedures, evaluating the evidence obtained and also to enable the audit to be conducted cost effectively.

However, in order to reduce this risk to an acceptable level, detailed audit procedures are performed. These procedures include, for example, understanding the business of government, obtaining an understanding of and evaluating the internal control structure and, where considered necessary, testing significant internal controls and samples of transactions and account balances, performing tests of the reasonableness of amounts and confirming year end balances with third parties.

Audit opinion

The *Audit Act* requires me to perform my duties in accordance with recognised professional standards and practices. Where adoption of a legislated reporting framework does not provide the information expected by an Australian Accounting Standard, Auditing Standards require me to make reference to this in my audit opinion on general purpose financial statements. This is the case with the TAFS.

Accordingly, my audit opinion comprised two parts. One referred to compliance with the legislated requirements, the other to the non-compliance with Australian Accounting Standard 31 "Financial Reporting by Governments". Details are:

- An unqualified opinion on the "prescribed reporting format". Section 9 of the *Financial Management Act* requires the Treasurer to report a statement of certain financial information *"in such form as the Treasurer thinks fit"*. The TAFS is comprised of pages 19 to 79 of the TAFR. My audit opinion on this statement, prepared in the format prescribed by the Treasurer, is unqualified, it being my opinion that the TAFS was prepared from proper accounts and records and that the TAFS was presented fairly in accordance with the requirements of the *Financial Management Act* and with the Treasurer's prescribed format.

- A qualified audit opinion as it relates to the "prescribed reporting format's" lack of compliance with Accounting Standards. Australian Accounting Standard 31 (AAS 31) "Financial Reporting by Governments" details the reporting requirements needed to satisfy the objectives for the preparation of a general purpose financial report. The "prescribed reporting format" adopted by the Treasurer does not satisfy the requirements of AAS 31 and I concluded that the TAFS does not present fairly, in accordance with applicable accounting standards, the financial position of the Northern Territory Government at 30 June 2003, its financial performance and its cash flows for the year ended on that date.

This "dual opinion" continues to apply despite the significant strides made by the Treasurer in reporting on an accrual accounting basis. It is difficult to quantify the financial impacts of the two differing approaches. These differences are discussed further on page 49 of this Report.

What the audit opinion does not provide

The audit opinion is not designed to consider whether the resources used by the NTG were applied efficiently, economically or effectively nor is my work designed to provide assurance that all the transactions of the NTG are in compliance with laws and regulations, except for those that impact on the information presented in the TAFS.

My audit of the public account

My audit of the Public Account assists considerably in forming a view on the TAFS. However, Members are reminded that I do not separately audit the financial statements of Agencies.

The audit analysis

This Report provides an analysis of the three primary statements comparing the original budget with actual results for 2003 and comparing actual for 2003 with actual for 2002 focussing on:

- The GGS as it relates to the deficit/surplus and the cash flow statement;
- The GGS as it relates to the accrual operating result and therefore the accrual surplus/ deficit and comparison with AAS;
- The NFPS sector as it relates to net debt; and
- The Total Public Account as it relates to other balance sheet accounts and comparison with AAS.

When analysing GFS accrual financial statements, the key measures include:

- Net operating balance (GGS basis) – the excess of revenues over expenses.
- Gross fixed capital formation – being the net acquisition of non-financial assets including movements in inventory.
- Net lending/borrowing (or fiscal balance) (GGS basis) – measures a Government's investment saving balance and includes net capital expenditure but not the use of capital (ie depreciation). It indicates whether a Government is saving more than enough to finance all of its investment spending and is not therefore contributing directly to the current account deficit.
- Net increase/decrease in cash held (GGS basis) – net cash flows from operating activities less net payments for non-financial assets (fixed assets), less net payments for financial assets made for policy and liquidity purposes less net cash flows from financing/borrowings.
- The cash surplus/deficit (GGS basis).
- Net worth (NFPS basis) – a financial position measure that comprises total assets (financial and non-financial) less total liabilities less any contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances.
- Net financial worth (NFPS basis) – a similar measure to net debt – calculated from the balance sheet as total financial assets less total liabilities.
- Net debt (NFPS basis) – comprises gross financial liabilities less the stock of gross financial assets.

Fiscal measures and targets

The NTG's stated fiscal targets and associated measures are detailed in the 2002/03 budget papers. The reported results are analysed in this Report. The most significant target is to reduce the Territory's cash based deficit which is being achieved.

New analyses this year

To assist Members in their analysis of the TAFS, I have built upon two important components of the TAFR this year:

- The Cash Flow Reconciliation on page 69 of the TAFS. This note and my analysis on page 51 is intended to assist Members in bridging the differences between cash and accrual accounting as far as the operating results and cash flows are concerned; and

- The reconciliation between GFS and AAS. Appendix A on page 117 of the TAFR provides a reconciliation between the operating results determined under the two different bases of accounting. My analysis on page 49 explains these and other variations between these two accounting methodologies.

Issues raised in the 2001/02 analysis of the TAFR and how dealt with

My report on the 2001/02 TAFS included the following conclusions:

- *The inclusion in the Treasurer's Annual Financial Report (TAFR) of financial results in varying financial formats makes it difficult for the reader to assess the Northern Territory Government's performance in meeting its deficit reduction objective. It is recognised, however, that this is transitional and the inclusion of accrual-based information for the first time is a positive step.*
- *The move to full accrual reporting from 1 July 2002 provides the opportunity to settle on a single reporting framework, enabling reports to be prepared on a basis consistent with relevant standards. Preliminary discussion with Northern Territory Treasury indicates that this is the intention.*

These two matters have been resolved with the adoption of a single GFS accrual reporting format for the TAFR.

- *The impact of not bringing to account a decrease in the market value of equities held in the Conditions of Service Reserve was to understate the reported net debt by $17.7 million.*

The Conditions of Service Reserve was revalued to market value at 30 June 2003 and at 30 June 2002. Net debt has been correctly adjusted.

- *It is important that the bases used to measure the deficit and the net debt not be varied over time, thus enabling comparative assessment on a consistent basis.*

The bases used at 30 June 2003 to measure the deficit and the net debt are the same as those adopted a year ago thus facilitating comparability.

- *In addition to the existing measures used by the Northern Territory Government to assess its fiscal performance and condition, consideration should be given to utilising and reporting measures of sustainability, flexibility and vulnerability.*

These reporting measures have not been adopted. As a result, I have again included them in my analysis - see page 41. It is also noted that the Treasurer has introduced new fiscal measures which are not the same as the five elements reported in 2001/02. I have included commentary on the new measures as well as those applied last year.

- *The Northern Territory Government's deficit reduction strategy is critical to achieving sound fiscal management*

- *Net debt has increased by 40% since 30 June 1999 with the increase in the annual interest cost over this period being $17.6 million. The increase in 2001/02 was primarily due to the need to fund the deficit (which included capital investment).*
- *As a result of the increase in debt since 30 June 2001, it is estimated that the NT Government is paying extra interest, at 6%, of approximately $15.8 million a year. The success of the Government's deficit reduction strategy is critical to reducing this debt and interest cost burden on the Territory.*

Net debt has reduced by $30 million compared to the position at 30 June 2002.

- *The profitability of GBDs has declined since the 1999/2000 financial year resulting in lower dividends and taxes paid by them to the Government.*

Other than Power Water Corporation, NT Fleet and NT Treasury Corporation, whose profits increased significantly this year, in the main GBDs continue to make operating losses.

- *The cost of the ultimate underlying asset supporting the investment in AARC could be reliably measured at 30 June 2002.*
- *However, subject to certain conditions being satisfied, control over $409.5 million of infrastructure assets recognised in AARC's statement of financial position at 30 June 2002 is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003/04 for no consideration. After transfer, control of these infrastructure assets will be replaced by a "right" to own the railway line in the future, although it may be 50 years before this "right" crystallises and the underlying assets eventuate. It is not possible to reliably measure the value of Government's "right" to this railway asset in 50 years time. The underlying "right" may be greater or less than the $409.5 million currently ascribed to this infrastructure asset.*

The future of AARC remains unchanged and as outlined on page 61 of this Report this could have significant implications for the Territory's net worth and early attention to the accounting within AARC of the railway assets in 2004 is needed.

Summary of operating results and financial position

KEY ISSUES

- **In almost all cases revenues exceeded those earned in 2001/2 and originally budgeted.**
- **The Northern Territory Government (NTG) is managing costs reasonably effectively with total expenditure, on a General Government Sector basis, up 2.4% on prior year and less than 1% above budget.**
- **Net worth, on a Non-Financial Public Sector basis, is down $238M due mainly to the downward revaluations of certain non-current assets (predominantly roads and bridges) and increases in unfunded superannuation and outstanding claims (Territory Insurance Office) liabilities.**
- **The fact that the NTG's Net Lending out-turn is a deficit of $73 million on a General Government Sector basis and $46 million on a Non-Financial Public Sector basis suggests that the NTG may not be saving enough to fund its investment program.**

Introduction

As noted previously, the TAFS reports the financial results of the NTG by sector. In reviewing the financial performance of the NTG regard must be had to its accrual based budgets by sector. This part of my Report analyses the financial performance for the year ended 30 June 2003 and the financial position at that date. Later in this report I provide a high level analysis of the "financial condition" of the Northern Territory Government.

The introduction of accrual financial reporting adds to the measures available thus providing Members of the Legislative Assembly with additional avenues for assessing performance. This part of my report will examine key GFS financial aggregates and other movements in revenues, expenses, assets and liabilities. Unless otherwise stated, my analysis is of the accrual results and all analysis is inclusive of AARC.

The Treasurer's analysis of the NTG results, set out in the "Overview" in the TAFR, makes reference to an "Actual Underlying Outcome". I have not considered this component of the TAFR.

Summary of key GFS financial aggregates

Set out in table 2 below is a summary of the key GFS financial aggregates as reported in the TAFS. When reviewing the results reported below, regard should be had to the definitions of the various terms noted on page 20 of this Report. In table 2 below:

- Financial performance – is assessed by reference to revenues, expenses, net operating balance, net lending/borrowing, gross fixed capital formation and cash surplus/deficit; and

Table 2 – Summary of key GFS financial aggregates for 2002/03 ($ million) In all cases "Budget" below refers to the original budget as in the 2002/03 Budget Paper number 2.

GFS Category	Note	GGS			NFPS		
		Budget	Actual 02/03	Actual 01/02	Budget	Actual 02/03	Actual 01/02
Revenues	**1**	2,313	2,361	2,290	2,684	2,679	2,609
Expenses	**2**	2,342	2,362	2,307	2,697	2,653	2,629
Net operating balance	**3**	(29)	(1)	(17)	(13)	27	(20)
Gross fixed capital formation (acquisition of non financial assets)	**4**	(236)	(224)	(468	(300)	(316)	(549)
Net lending/borrowing	**5**	(134)	(73)	(331)	(120)	(46)	(325)
Cash surplus/(deficit)	**6**	(94)	9	(234)	(109)	49	(232)
Net worth (for NFPS - shares and other contributed capital)	**7**	1,879	1,910	2,147	1,879	1,910	2,148
Net financial worth	**8**	(1,825)	(1,670)	(1,583)	(3,480)	(3,443)	(3,355)
Net debt	**9**	(1,440)	(1,344)	(1,389)	(1,866)	(1,723)	(1,753)

Movements in the above aggregates are briefly explained below. More detailed analysis follows.

1. Revenues – GGS revenues are up $48 million on budget and $71 million on the prior year and are due to additional "own source" revenues – up $41.5 million on budget and $51.5 million on prior year – and due to additional current and capital grants from the Commonwealth – up $6.2 million on budget and $19.7 million on the prior year. Table 3 on page 26 provides further detail.

2. Expenditure – GGS operating expenses increased by $55 million (or 2.4%) on prior year and by $20 million (or 0.9%) on budget. In the main these increases relate to additional payroll costs – further detail is provided in table 5 on page 26.

3. Net operating balance (GGS basis) – the excess of revenues over expenses. The additional revenues offset by a smaller increase in expenditure has given rise to an almost break even net operating balance.

4. Gross fixed capital formation (GGS basis). GGS expenditure on capital was less than budget primarily due to a $12 million underspend on non-financial assets and because revenues from asset sales exceeded budget by $29 million. Expenditure is significantly less than the prior year when expenditure on the Railway was greater.

5. Net lending/borrowing (or fiscal balance) (GGS basis) – measures a Government's investment saving balance and includes net capital expenditure but not the use of capital (ie depreciation). It indicates whether a Government is saving more than enough to finance all of its investment spending and is not therefore contributing directly to the current account deficit. The improved net lending/borrowing position has arisen due to the generation of additional revenues, controls over operating costs and lower net investment in non-financial assets. However, the fact that the out-turn is a deficit of $73 million on a GGS basis and $46 million on a NFPS basis suggests that the NTG may not be saving enough to fund this investment program.

6. Net increase/decrease in cash held (GGS basis) (also referred to as the net deficit/surplus) – net cash flows from operating activities less net payments for non-financial assets (fixed assets), less net payments for financial assets made for policy and liquidity purposes less net cash flows from financing/borrowings. Pages four and five of the TAFR provide explanations for the improved deficit of $103 million. In the main the improvement is due to a combination of factors including:

- improved revenue collections;
- controlling operating outlays;
- lower than budgeted investment in non-financial assets; and
- higher than anticipated deposit receipts.

Further analysis is provided in table 9 on page 32 of this Report.

7. Net worth (NFPS basis) – a financial position measure that comprises total assets (financial and non-financial) less total liabilities less any contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances. The NTG's net worth has decreased by $238 million primarily due to:

   - A downward revaluation of $178 million in non-financial assets, primarily relating to a revaluation of roads and bridges resulting from a re-assessment of the remaining useful life of these assets. This was partially offset by $109 million upwards revaluations primarily to buildings;
   - Net acquisitions of non-financial assets totalling $116 million which, after deducting depreciation of $195 million resulted in a reduction in net worth of $79 million; and
   - An increase in borrowings and other liabilities of $77 million.

8. Net financial worth (NFPS basis) – a similar measure to net debt – calculated from the balance sheet as total assets minus total liabilities. Despite the improvement by $30 million in the NTG's net debt, its net financial worth has deteriorated by $88 million predominantly due to increases in unfunded superannuation of $69 million.

9. Net debt (NFPS basis) – comprises gross financial liabilities less the stock of gross financial assets. Net debt has improved by $30 million compared to the position at 30 June 2002 the reasons for which are analysed in greater detail on page 33 of this Report.

Revenue

The GGS accrual revenue earned this year compared to budget and the prior year is detailed in table 3.

Table 3 Revenue (accrual based)

Revenue sources	Actual 2002/03 $million	Actual 2001/02 $million	2002/03 Budget $million
Taxation revenue (Own source) - total	**246.3**	**227.2**	**226.9**
Payroll tax	93.8	90.1	93.8
Property taxes	57.6	51.1	43.3
Taxes on gambling and insurance	56.5	49.9	50.7
Motor vehicle registration fees	38.4	36.1	39.1
Current grants and subsidies (Commonwealth) being:	1,805.0	1,679.3	1,798.4
Capital grants	84.0	190.0	84.4
Sales of goods and services	81.2	79.7	73.9
Interest income	17.7	15.4	14.0
Other revenue	126.7	98.1	115.6
Total revenue	**2,360.9**	**2,289.7**	**2,313.2**

In almost all cases revenues exceeded those earned in 2001/02 and exceeded original budget with the largest gains being:

- stamp duties up $7.8 million on 2001/02 (18.9%) and up $14.0 million on original budget (40.1%);
- current revenues from the Commonwealth up $125.7 million (7.5%) on 2001/02 and up $6.6 million on original budget which is less than 1%;
- capital grants are down due to the receipt in 2001/02 of $110 million associated with AARC not repeated this year;
- other revenues are up $28.6 million on 2001/02 or 29.2% and up $11.1 million on original budget or 9.6% primarily due to an increase in dividends received of $27.3 million.
- In total, after adjusting for the $110 million AARC revenue in 2001/02, revenues have increased by $181.2 million since 2001/02 or 8.3% and by $47.7 million on original budget or 2.1%.

Analysis of Revenues received from the Commonwealth

Table 4 summarises further the revenues earned from the Commonwealth.

Table 4 – Revenues earned from the Commonwealth – reported on a GGS accrual basis

	Actual 2002/03	Actual 2001/02	Actual 2000/01	Actual 1999/00	Budget 2002/03
	$ million	$ million	$ million	$ million	$ million
Commonwealth Grants					
GST Related Revenue	1,514.5	1,402.0	1,277.4	1,073.8	1,521.9
Other revenues from the Commonwealth	374.6	467.3	439.8	423.5	360.9
Total Commonwealth Grants	**1,889.1**	**1,869.3**	**1,717.2**	**1,497.3**	**1,882.8**
Total Revenue	**2,360.9**	**2,289.7**	**2,047.0**	**1,832.7**	**2,313.2**

Notes - Budget, 2002/03 and 2001/02 are accrual, prior years are cash. In 1999/2000 prior to the introduction of the GST, the GST related revenue grant was known as the Financial Assistance Grant.

- Whilst titled "Commonwealth Grants", grants and subsidies includes small amounts received from private organisations and NGO's for participating in investment projects.

Observations include:

- Revenues from the Commonwealth have continued to rise in comparison to previous years, particularly in relation to GST related revenue.

- Other revenues in 2001/02 include a capital grant of $110 million for the Railway.

Expenditure (GGS)

The GGS expenditure earned this year compared to budget and the prior year is detailed in table 5.

Table 5 Expenditure (GGS)

Expense category	Actual 2002/03 $million	Actual 2001/02 $million	2002/03 Budget $million
Employee expenses	936.9	927.6	896.9
Other operating expenses	600.3	580.4	608.4
Current transfers	413.6	369.7	417.3
Other interest expense	144.2	151.5	154.5
Depreciation	124.6	127.0	129.5
Nominal superannuation interest expense	81.7	77.7	81.7
Capital transfers	60.2	73.3	53.4
Other property expenses	0.3	0.0	0.0
Total expenditure	**2,361.8**	**2,307.2**	**2,341.7**

Analysis of these expenditures indicates that the NTG is managing costs reasonably effectively with total expenditure up 2.4% on prior year and less than 1% over budget. Specific observations include:

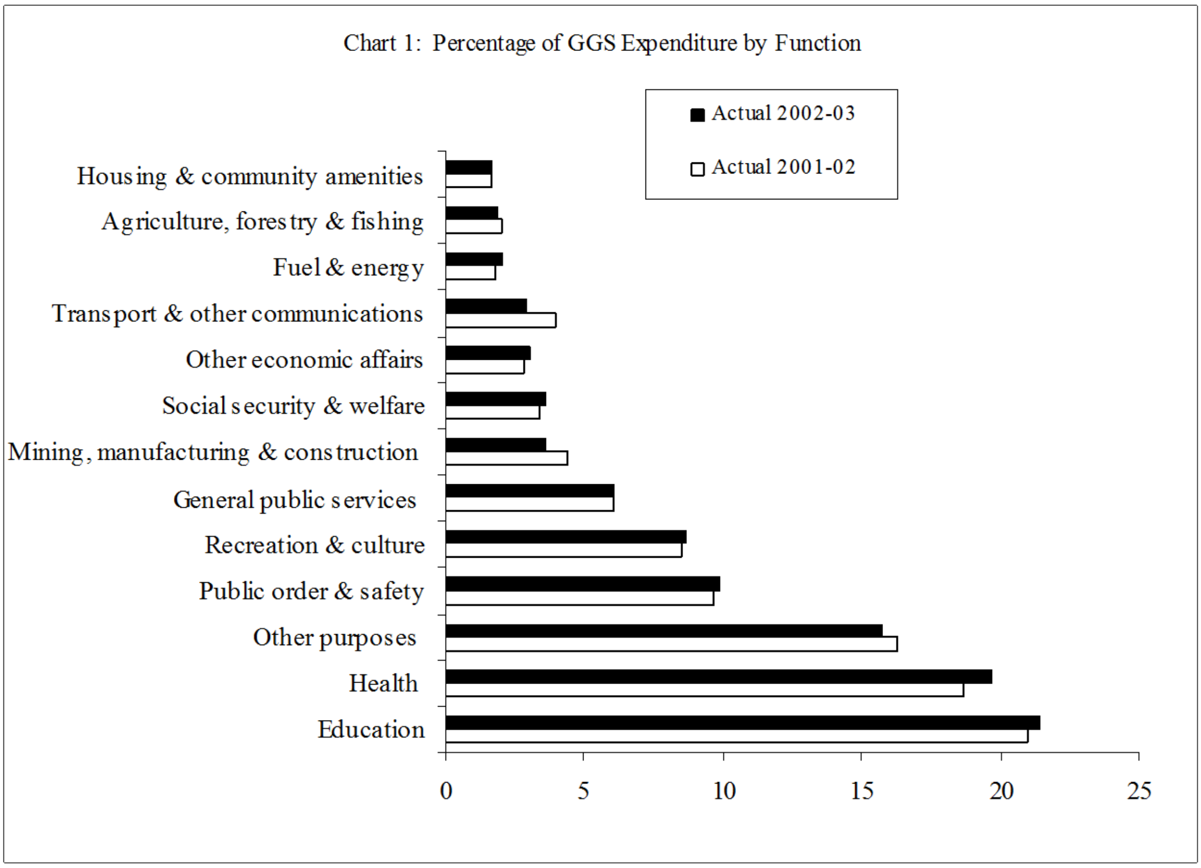
- Employee expenses continue to be a significant cost for Agencies to manage. They represent 39.7% of recurrent expenditure and increased by $40 million over original budget or 4.5%. This is above inflation and is a cost Agencies must manage if budgets are to be adhered to. However, the NT Public Sector would appear to be managing Full Time Equivalent (FTE) staffing growth – during the period 2001 to 2003 FTE (excluding TIO) has dropped from 14,590 by 179 FTE to 14,411 with the average cost per employee only growing by 1.9%.

- The downward movement in interest cost is encouraging reflecting lower interest rates and lower net debt. However, the high level of net debt requires monitoring particularly in view of the recent trend towards increasing interest rates.

Table 5 above should be viewed alongside the discussion below on expenditure by function.

Expenses by function (GGS)

General government expenditure is focussed on the delivery of core services to the community. The chart below shows how the NTG's $2,362 million (2001/02 - $2,307 million) was spent.



Analysis of this chart indicates that:

- The investment in health and education continues to grow being up by 7.80% and 4.15% respectively on the prior year; and

- Total expenditure exceeded the original budget by $20.1 million, which is less than 1% and is not considered significant.

Capital expenditure analysis

To properly assess the capital transactions result requires an analysis of the elements contributing to the overall budget variation. Table 6 illustrates these elements and details results on a Non-Financial Public Sector (NFPS) basis.

Table 6 Summary of capital expenditure during the 2002/03 financial year on a NFPS basis.

	Actual 2002/03	Budget 2002/03	Actual 2001/02
	$ million	**$ million**	**$ million**
Capital Expenditure			
Comprising:			
New Fixed Assets	316	300	550
Capital Grants	84	84	190
Total	**400**	**384**	**740**

Expenditure is in line with budget and down on the prior year reflecting the cessation of funding for the Railway. The $190 million capital grants in 2001/02 included $110 million for the Railway.

Changes in key components of the balance sheet – Total Public Sector

The analysis below is of the Total Public Sector balance sheet set out on page 35 of the TAFS. I have chosen to review this statement in greater detail in view of the enhanced disclosure provided in the TAFS in the form of notes to the statements. The balance sheet analysis above has been of the NFPS which therefore excluded the Public Financial Corporations (TIO and NT Treasury Corporation) which are, however, included in the Total Public Sector. The primary balance sheet accounts and movements therein are detailed in table 7 – note that there is no budget at the total public account level. Amounts in brackets are liabilities.

Table 7 Movements in primary balance sheet accounts ($ million)

Type of account	At June 2003	At June 2002	Difference
Financial assets	1,404	1,271	133
Other non-equity assets	230	328	(98)
Equity	20	1	19
Land and other fixed assets	5,358	5,507	(149)
Deposits held	(380)	(304)	(76)
Advances received	(309)	(300)	(9)
Borrowings	(2,024)	(2,087)	63
Superannuation	(1,438)	(1,369)	(69)
Other employee liabilities and provisions	(700)	(656)	(44)
Other non-equity liabilities	(251)	(243)	(8)
Net worth	**1,910**	**2,148**	**(238)**

Net Worth is down by $238 million or 11% on 2001/02 principally due to:

- Reduction in land and fixed assets of $149 million as previously analysed on page 25 of this Report.
- Continued growth in unfunded superannuation, being 5% higher than the previous year.
- Increased outstanding claims provisions relating to TIO of $48 million, which resulted in a $29 million decrease in TIO's total net worth.

Conclusions

In summary, on a GGS basis revenues were $47.7 million higher than the original budget whilst expenditure exceeded original budget by $20.1 million resulting in a reduced deficit for the 2002/03financial year of $1 million against an original budget of a $28 million deficit.

On both a total Public Sector and a NFPS basis net worth has decreased by $238 million.

Analysis of fiscal management and of the financial condition of the Northern Territory

KEY ISSUES

- **The NTG on a GGS basis reported a cash surplus of $9 million as against a budgeted cash deficit of $94 million.**
- **Net debt on a NFPS level stood at $1,723 million at 30 June 2003 which represented a reduction of $143 million over that budgeted and $30 million over that reported in the prior year.**
- **Total employee related liabilities on a Total Public Sector basis have risen from $1,688 million at 30 June 2002 to $1,761 million at 30 June 2003 predominantly as a result of an increase of $69 million in unfunded superannuation liabilities.**

The TAFR is a complex document providing a great deal of information about the financial performance of the Northern Territory Public Sector for the year ended 30 June 2003. In order to facilitate an understanding of the TAFR and this Report, a glossary of technical terms is included in Appendix 1 on pages 65 to 68 of this Report.

Results used in this analysis

To assist evaluation of the financial results reported in the TAFR, reference must be made to the 2002/03 Budget, which adopted the following as its budget focus:

1. ***For the budget deficit or surplus*** **–** as measured for the GGS on a GFS basis. This continues to be a cash based measure.

   Therefore, in this overview the results of the GGS have been used when referring to the deficit or surplus for the year ended 30 June 2003. It is argued by Treasury that it is the GGS deficit or surplus that is important in assessing Government's deficit management because it is this Sector which influences Government's taxation policies.

   Research conducted by me indicates that other Australian jurisdictions also measure their surplus/deficit on a GGS basis.

2. ***For net debt*** **–** as measured for the NFPS but on an accrual GFS basis.

   For the purposes of this analysis this basis for measuring net debt has also been accepted. Research conducted by me also indicates that other Australian jurisdictions measure net debt on the basis of the Non-Financial Public Sector.

In addition to applying the above two measures of fiscal management, this section of my Report assesses a number of other indicators of financial condition and debt management.

The Deficit - Actual GGS outcomes compared to budget

The NTG announced a deficit reduction strategy in the November 2001 Mini-Budget. The target was prepared on a Uniform Presentation Framework (UPF) cash basis for the General Government Sector. The outcome is summarised in table 8.

Table 8 – Summary of budgeted and actual cash deficits.

	General Government Sector $ million
Budgeted – 2002/03 budget paper # 2	(94)
Actual – page 24 in the TAFR	9
Variance	103

To properly assess the NTG's performance in improving on the budgeted cash deficit by $103 million requires an analysis of the full GGS cash flow statement, which is set out in table 9.

Table 9 GGS Cash Flow Statement (page 24 of the TAFR)

Nature of account		**Original Budget 2002/03 $ millions**	**Actual 2002/03 $ millions**	**Difference $millions**
Taxes received		227	245	18
Sales of goods and services		101	123	22
Grants and subsidies received		1,883	1,888	5
Other receipts		113	106	(7)
Total operating receipts	**a**	**2,324**	**2,362**	**38**
Payments for goods and services *		(1,530)	(1,544)	(14)
Grants and subsidies paid		(463)	(460)	3
Interest paid		(155)	(145)	10
Other payments		(37)	(10)	27
Total operating payments	**b**	**(2,185)**	**(2,159)**	**26**
Net cash inflows from operating activities	**c=a-b**	**139**	**203**	**64**
Net investment in fixed (non-financial) assets	**d**	(234)	(195)	39
Investment in financial assets for policy purposes	**e**	56	29	(27)
Investment in financial assets for liquidity purposes	**f**	0	(116)	(116)
Net cash flows from investing activities	**g=d+e +f**	**(178)**	**(282)**	**(104)**
Net cash flows from financing (borrowing) activities	**h**	**(55)**	**13**	**68**
Net (decrease)/increase in cash holdings	**i=c+g +h**	**(93)**	**(66)**	**27**
Finance leases	**j**	1	0	(1)
(Deficit)/Surplus	**k=c+d +j**	**(94)**	**9**	**103**

- Includes employee related expenses

The improved deficit of $103 million is due to a combination of:

- Improved operating receipts of $38 million;
- Lower expenditure on operating costs by $26 million; and
- Lower than budgeted capital expenditure by $39 million.

Table 9 also highlights the movement in the NTG's cash holdings with line (i) showing an improvement in the NTG's cash position by $27 million which will have gone some way to assisting in the $30 million reduction of the NTG's net debt.

Net debt on a NFPS basis

Movement in Net Debt

An increase in net debt arises when outlays from the Public Account exceed receipts into the Public Account. This does not include any loans made or repaid, since these are included in the financial assets from which net debt is financed. There are a number of factors to take into account when assessing net debt including the level of any deficit and in financial asset balances.

The 2002/03 Budget, when adopted by the Legislative Assembly in August 2002, approved an increase in net debt of $113 million (page 74 of Budget Paper No. 2) primarily due to budgeting for a deficit of $103 million. The out-turn reported in the TAFR is a net debt of $1,723 million as set out on table 10.

Table 10 – Movements in net debt –NFPS (Page 29 of the TAFR).

	2002/03 $ million
Net debt – 2001/02 actual	1,753
Net debt – 2002/03 Budget	1,866
Net debt– 2002/03 actual	1,723
Reduction in actual net debt over that budgeted	143
Decrease in actual net debt over prior year	30

The reduction in the net debt over that budgeted and compared to 2001/02 is primarily due to the lower than budgeted deficit and the resulting improvement in cash holdings.
Whilst the reduction in the net debt is a positive trend, it remains high and attracts a high interest burden as illustrated in table 11.

Table 11 – Movements in debt and in the associated interest cost on a NFPS basis

	1997/98 $ million	**1998/99 $ million**	**1999/2000 $ million**	**2000/01 $ million**	**2001/02 $ million**	**2002/03 $ million**
Net Debt	1,366	1,312	1,358	1,481	1,753	1,723
Net interest paid*	141.7	136.4	144.5	150.2	170.6	164.9

* - interest paid, not accrued.

Net debt has increased by $357 million, or 26%, since 30 June 1998 with the increase in net annual interest cost over this period being $23.2 million or 16%. This $23.2 million represents 5% of the NTG's own source revenues and is therefore material.

The significant increase between 2000/01 and 2001/02 of $272M was specifically attributable to infrastructure developments, such as the railway, and the deficit incurred to 30 June 2002.

It is estimated that, at 6%, the Northern Territory Government is paying extra interest as a result of the increase in debt since 30 June 2001 of approximately $14.5 million on a full year basis. The ongoing success of the NTG's deficit reduction strategy previously referred to continues to be critical to reducing this debt and interest cost burden on the Territory. This is particularly pertinent in an environment of increasing interest rates.

Components of net debt - Gross debt and financial assets

Net debt equals the sum of gross debt less financial assets where:

- Gross debt equals deposits held, advances received and borrowings (therefore excluding employee annual and other recreation leave entitlements, superannuation and workers compensation liabilities); and
- Financial assets equals cash and deposits, advances paid and investment loans and placements.

Table 12 summarises the components of gross debt and financial assets and details movements between periods/budget.

Table 12 – Movements in gross debt and financial assets on a GFS NFPS basis

	2002/03 Actual	2001/02 Actual	2000/01 Actual	1999/2000 Actual	2002/03 Budget
	$ million	$ million	$ million	$ million	$ million
Financial Assets					
Cash and Deposits	54.6	121.7	292.9	58.6	40.3
Advances Paid	222.6	225.0	248.9	236.1	212.6
Investments, loans and placements	486.4	371.9	323.8	516.8	367.5
Total financial assets	**763.6**	**718.6**	**865.6**	**811.5**	**620.4**
Gross Debt					
Deposits held	72.1	49.3	72.9	58.3	90.3
Advances Received	325.1	311.6	**	**	401.8
Borrowing	2,089.1	2,110.9	2,273.2	2,111.1	1,994.1
Total gross debt	**2,486.3**	**2,471.8**	**2,346.2**	**2,169.4**	**2,486.2**
Net Debt	**1,722.6**	**1,753.2**	**1,480.6**	**1,357.9**	**1,865.8**

** - breakdown between advances received and borrowing in these years not available.

These results are consistent with those discussed previously and no further comment is provided here.

Employee liabilities

Employee liabilities are a significant NTG liability but are not part of the calculation of net debt. They are therefore analysed separately in table 13.

Table 13 – Employee liabilities on a Total Public Sector Basis

Type of liability	2002/03 $ millions	2001/02 $ millions	2000/01 $ millions	1999/2000 $ millions
Unfunded superannuation	1,438	1,369	1,317	1,072
Accrued employee entitlements	260	251	241	240
Workers' compensation	63	68	59	64
Total employee related liabilities	**1,761**	**1,688**	**1,617**	**1,376**

In reviewing this table it is noted that the 2002/03 balances include TIO employees for the first time. With this in mind, this table indicates that, despite a small drop in the number of public sector employees:

- Unfunded superannuation continues to grow, it being 34% greater than at 30 June 2000;
- Employee recreation entitlements have grown by 8% over the above four year period; and
- Exposures to workers compensation liabilities appear to have stabilised.

These liabilities are significant and require careful management by the NTG.

Additional quantifiable contingent liabilities

Note 24 on page 63 of the TAFR documents the NTG's exposure to quantifiable contingent liabilities, expressed as their equivalent values as at 30 June 2003 in table 14.

Table 14 - Quantifiable contingent liabilities – on a Total Public Sector basis

	2002/03 $ millions	2001/2002 $ million	2000/2001 $ million
Amadeus Basin to Darwin Gas Pipeline	0	293	313
Electricity and Gas supply to Pine Creek and McArthur River Power Stations	106	109	110
Darwin to Alice Springs Railway	25	43	43
Total	**131**	**445**	**466**

The reduction in quantifiable contingent liabilities between 2001/02 and 2002/03 specifically relates to:

- Contingent Liabilities previously reported relating to the NTG's support for the Amadeus Basin to Darwin Gas Pipeline arrangements are now reported as commitments in note 23 (d) on page 62 of the TAFS; and
- The Territory has paid $17.7 million in 2002/03 of its commitment in relation to the Railway.

Conclusions

Overall the trend in the financial position of the NTG is encouraging with 2002/03 reporting a decreasing deficit and reduced levels of net debt and contingent liabilities.

However, net debt remains at relatively high levels and the NTG's exposure to recently increasing interest rates remains high.

As previously indicated the continuance of the NTG's deficit reduction strategy is critical to reducing this debt and interest cost burden on the Territory.

Analysis of fiscal strategies

KEY ISSUES

- **In addition to the existing measures used by the Northern Territory Government to assess its fiscal performance and condition, consideration should be given to utilising and reporting measures of sustainability, flexibility and vulnerability.**
- **These measures, taken with the three measures now adopted by the Northern Territory Government, confirm the importance of the deficit reduction strategy that has been embarked upon.**
- **The Territory's overall financial condition has improved since last year. Both the net debt and the deficit have reduced since 2001/02. However, some of the vulnerabilities identified at that time, for example growing superannuation liabilities, remain and ongoing careful fiscal management is needed.**

Fiscal strategy

The overview in the TAFR and Part 10 of the 2001/02 TAFR report the outcomes of the Government's fiscal strategy for the 2002/03 and 2001/02 financial years. The bases for measuring fiscal outcomes have changed as follows:

- 2001/02 – based on five elements. These elements were not discussed in the 2002/03 TAFR; and
- 2002/03 – based on three measures – sustainable government services, competitive tax environment and prudent management of liabilities.

This section of my Report analyses the NTG's performance in managing its fiscal targets.

Meeting the Government's Fiscal commitments for 2002/03

The government has progressed steadily in achieving its fiscal commitments established under the FITA. Analysis is reported in table 15.

Table 15 – Achievement by the NTG of its fiscal targets

Fiscal strategy	Indicator and target	Achievement
Sustainable government services - achieve an underlying cash surplus by 2004/05 and a positive GFS (accrual) operating balance within ten years (both in the GGS). – maintain NTG capital investment on service delivery and economic development.	♦ GGS cash surplus by 2004/05. Forecast for 2002/03 was a cash deficit of $94 million. Actual was a cash surplus of $9 million with an underlying cash deficit of $31 million. ♦ GGS GFS net operating balance (surplus) within 10 years (a net operating balance (surplus) measures whether the NTG has enough revenue to meet operating (non-capital) costs). The original 2002/03 budget was for a net operating deficit of $28 million with the actual result being a deficit of $1 million. ♦ Maintain a capital investment strategy based on service delivery and economic development requirements. Excluding transactions in the AARC, the investment in 2002/03 of $224 million in non-financial (fixed) assets was $45 million more than in 2001/02 but $38 million less than the original budget.	Yes Too early in the introduction of accrual accounting to assess. Below budget due to delays in construction and reclassifications.
Competitive tax environment – the NTG is committed to maintaining taxation at levels competitive with the other States and Territories	♦ The level of taxation revenue per capita (pc) compared to target and other states/territories (based on the GGS). The 2002/03 outcome was $1,248 pc which is 11% higher than the original budget ($1,122 pc) and 8.5% higher than that achieved in 2001/02 ($1,150 pc). This outcome is 45.5% below the six state average of $1,816 pc. ♦ The level of revenue raising capacity and effort compared to the Australian average of 100%. The achievements were – taxing capacity – in the range 74% to 86%, and taxing effort – in the range 92%to 97%.	Per capita tax revenues higher than target due to increased activity in the commercial sector and the full year effect of the Temporary Budget Improvement Levy. Achievements were – Territorians are paying taxes at levels below the Australian average and the Territory has a lower than average tax raising capacity although this is not due to a lack of effort in raising taxes and generating own source revenues.

Prudent management of liabilities – based on the NFPS – requires the NTG to manage its liabilities with a focus on targeting, monitoring and ultimately reducing net debt.	♦ Net debt – the original budget anticipated growth in net debt by 7% from $1,753 million to $1,866 million primarily to fund the forecast cash deficit of $94 million. The outcome was net debt of $1,723 million with the improvement primarily due to the cash surplus of $9 million – an improvement of $103 million compared to the budgeted deficit of $94 million. This improved net debt resulted in an improvement from 67% to 64% in the ratio of net debt to revenue. However, this is higher than the six state average which was 21% at 30 June 2003.	Achieved
	♦ Employee liabilities – the addition of employee liabilities to net debt enables a broader assessment of the NTG's total liabilities. This measure has grown by 1.6% to $3,508 million at 30 June 2003 compared to $3,453 million a year earlier primarily caused by increases in provisions for superannuation. This result is less than the original budget of $3,616 million.	Achieved

The above table is summarised further in table 16.

Table 16 – Performance against fiscal targets – General Government Sector (NFPS sector re net debt and net debt plus employee liabilities)

Measure	Target set 2001/02	Target set 2002/03	Achieved 2001/02	Achieved 2002/03	Note
	$ millions				
Sustainable government services					
GGS cash surplus by 2004/05	(286)	(94)	(233)	9	**1**
GGS GFS Net operating balance in surplus within 10 years from 2002/03	N/a	(28)	(17)	(1)	**2**
Maintain a capital investment strategy based on service delivery and economic development requirements (gross fixed capital formation – GGS basis)	201	236	167***	224	**3**
Prudent management of liabilities					
Net debt	1,763*	1,866	1,753	1,723	**4**
Net debt plus Employee liabilities	**	3,616	3,453	3,508	**5**
A competitive tax environment					
Ensure Territory taxes and charges are competitive with the average of the States – taxation revenue per capita (in $, not $ million)	$1,084	$1,122	$1,150	$1,248	**6**

* Taken from mini-budget 2001/2. ** Target not available. *** Excludes AARC.

	2000/01 Capacity %	2000/1 Effort %	2001/02 Capacity %	2001/02 Effort %	
Revenue raising capacity and effort:					
-Total Taxation	77	95	74	97	**7**
-Total Own-source revenue	84	92	86	92	**7**

Notes:

1. In 2002/03 the Territory recorded a cash surplus of $9 million, being a $103 million improvement on the target set of a $94 million cash deficit. Due to the underlying improvement in the cash position, the target of recording a cash surplus by 2004/05 appears to be achievable.

2. It is too early in the introduction of accrual accounting to assess whether this is achievable but early signs are encouraging with the $1 million recorded deficit being a $27 million improvement on budget and a $16 million improvement on the 2001/02 outcome.

3. Excluding expenditure on AARC, the actual expenditure on non-financial assets increased by $57 million between 2001/02 and 2002/03 but decreased by $12 million from the original budget due to reclassifications and delays in construction. The NTG's strategy of maintaining its capital investment strategy based on service delivery and economic development requirements has almost been maintained.

4. Territory debt levels are high relative to the States. However, due to the cash surplus achieved in 2002/03, Territory non-financial public sector net debt decreased from $1,753 million in 2001/02 to $1,723 million in 2002/03.

5. Net debt plus employee liabilities as at 30 June 2003 for the non-financial public sector were $3,508 million. This comprised $1,723 million in net debt and $1,785 million in employee liabilities. Recently, net debt plus employee liabilities have steadily grown, with significant increases in both net debt and employee liabilities occurring from June 2000. Increases in employee liabilities are mainly attributed to superannuation liabilities.

6. In 2002/03, most governments (including the Territory) forecast subdued rates of growth in taxation revenue. However, high levels of activity continued throughout 2002/03, which in turn benefited State and Territory taxation receipts. Taxation revenue per capita for the six States increased from $1,707 per capita in 2001/02 to $1,816 per capita in 2002/03. The Territory's taxation revenue per capita also increased from $1,150 to $1,248 respectively. This was due to the combined effect of increased activity in the commercial sector and the introduction of the Temporary Budget Improvement Levy in the 2001 Mini Budget.

7. The Commonwealth Grants Commission's assessment shows that the Territory's tax effort (97%) is much closer to the Australian average (100%) than the simple per capita measure implies. Considering that the Territory's total taxation effort also included the effect of the Temporary Budget Improvement Levy (which was introduced in November 2001 Mini Budget but ceased on 1 July 2003), this shows that Territorians are paying taxes at a level that is slightly below the Australian average. It also shows that the low per capita measure is largely due to the Territory's low tax raising capacity, rather than a lack of effort. Considering total own-source revenue, the Territory's revenue effort is 92% of the Australian average.

Achievements against measures set previously

In the 2001/02 TAFR the Treasurer reported against five elements set as the strategies for assessing fiscal performance at that time. These are set out in table 17.

Table 17 Assessment against measures and targets set previously

Strategy or element	Treasurer's conclusion in 2001/02	Projected Outcome in 2002/03
Element 1 – Maintain current expenditure to growth consistent with inflation and population growth.	No specific conclusion drawn [1]	No specific conclusion drawn [1]
Element 2 – Maintain a surplus in current revenue over current expenditure, except in exceptional circumstances (such as a natural disaster).	Strategy met[2]	Strategy met on a NFPS basis – Page 28 of the TAFR
Element 3 – Maintain Territory taxes, fees and charges to comparable State-like levels.	Strategy met	Strategy partially met
Element 4 – Adopt a transparent, equitable, counter-cyclical capital works program that complements activity in the private sector to stabilise employment in the construction sector through each economic cycle.	Strategy met	Strategy partially met
Element 5 – Reduce net debt as a proportion of economic activity over time.	Strategy not met	Strategy met

1 Results reported in 2001/02 suggested that expenditure growth was reasonably in line with inflation and with population growth. No specific conclusion can be drawn for 2002/03 as no information was available in order to draw any firm conclusions.

2 Performance in 2001/02 was recorded for the non-financial public sector excluding AARC. The discussion concluded that the target had been met because the actual outcome for the year was a small surplus of $3 million against a targeted deficit of $48 million.

Alternative measures for assessing fiscal performance

Other measures are available to assess a government's finances in particular its financial condition. I introduced these measures in my 2001/02 financial analysis and update these measures below.

Sustainability – indicating movements in the degree to which Government can maintain existing programs and operations, and meet existing operational liabilities, without increasing Government debt levels.

Flexibility – indicating movements in the degree to which the Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

Vulnerability – indicating movements in the degree to which the Government is dependent on, and therefore vulnerable to sources of funding outside its direct control or influence.

Where relevant, these measures should be based on actual accrual results.

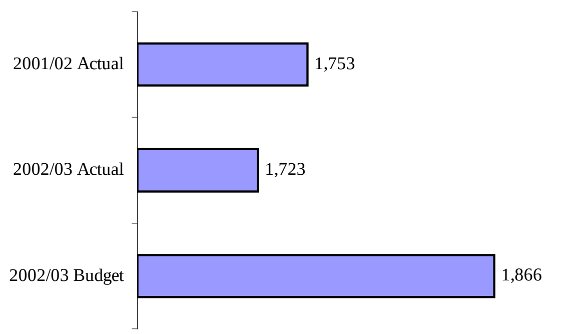
Assessment of Government's fiscal performance based on the measures of Sustainability, Flexibility and Vulnerability.

A number of indicators are used to assess each of the above measures and some of these indicators are calculated below. Data utilised is drawn from the accrual information where available and, where not, on the cash information reported in the TAFR. In general a five year trend in each indicator is a minimum to help assess financial condition. However, in view of the changes in recent years from cash to accrual reporting this analysis is based on two years data (2001/02 and 2002/03) along with the original accrual budget for the financial year ended 30 June 2003 (where available).

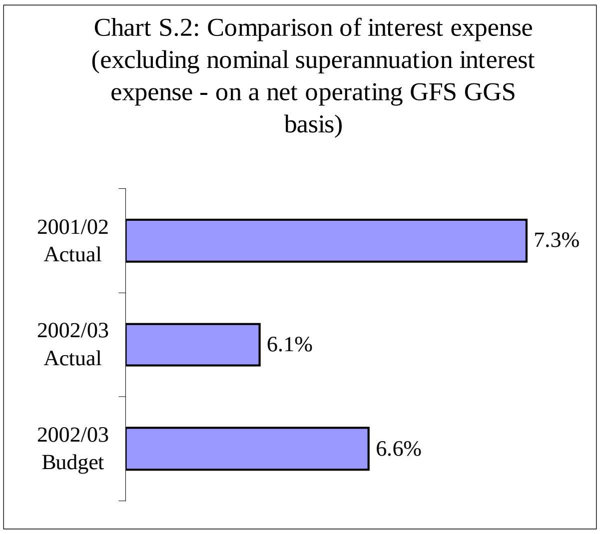
The data used from TAFR has not been adjusted.

SUSTAINABILITY – there are seven measures to consider -

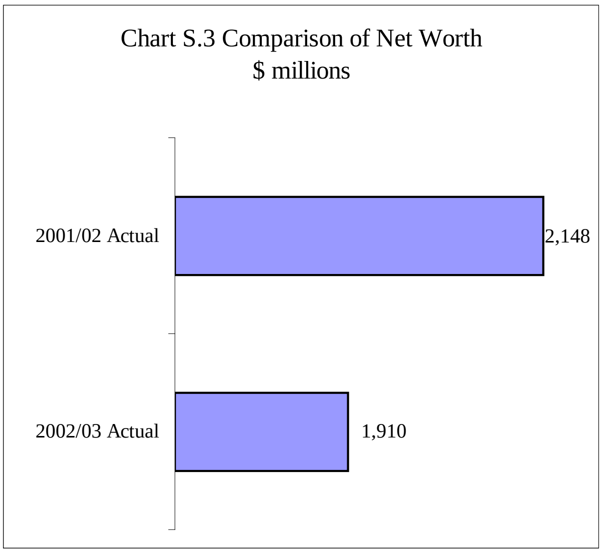
Chart S.1: Comparison of the level of net debt (on a GFS basis)
$ millions



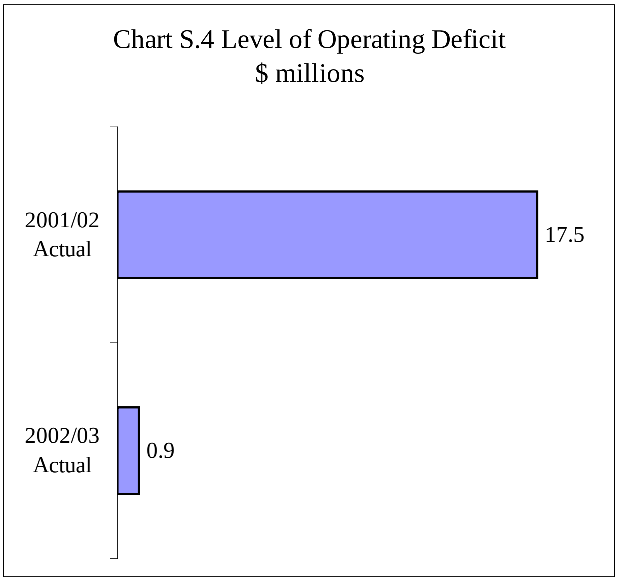
Comparison of the level of net debt (on a GFS basis – see NFPS balance sheet on page 29 of the TAFR) - Actual is $1.723 million (budget was $1.866 million) – The reduction over that budgeted and 2001/02 is primarily due to the lower than budgeted deficit and the resulting improvement in cash holdings.



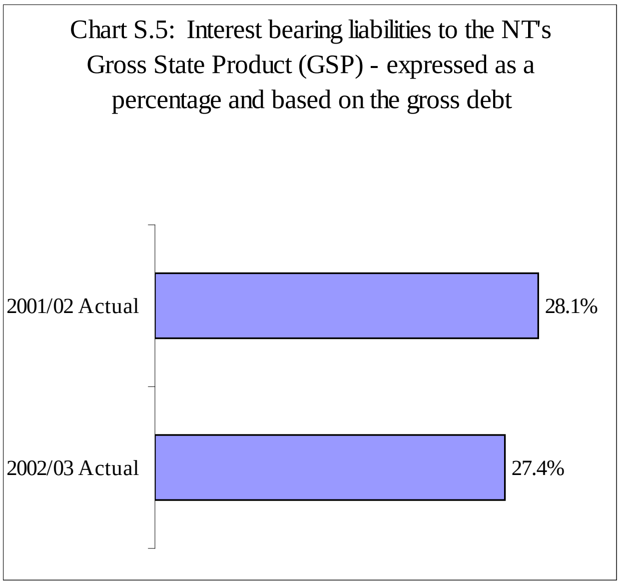
Comparison of interest expense (excluding nominal superannuation interest expense) to total current expenditure (on a net operating balance GFS GGS basis – operating statement on page 22 of the TAFR) – Interest expense (excluding nominal interest on superannuation debt) is 6.1% (2002 7.3%) of total expenditure. This is a reflection of both low interest rates and the slight reduction in net debt.



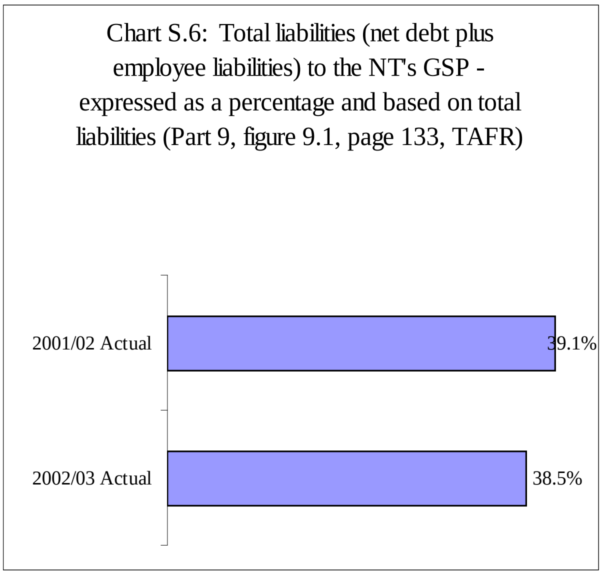
Comparison of net worth - The net worth at 30 June 2003, measured on a GFS NFPS accrual basis, was $1,910.3 million (2002 - $2,148.2 million). This decrease is explained in table 7 on page 30 of this Report.



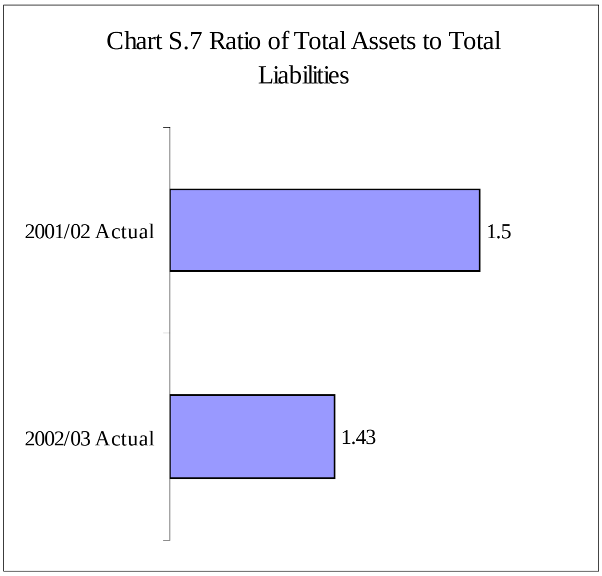
Level of operating deficit - The operating result for the year ended 30 June 2003, measured on a GFS GGS accrual basis, was a deficit of $0.9 million (2002 - $17.5 million and budget was $28.4 million deficit). This variation is explained in table 2, notes 1 to 3 on page 24 of this Report.



Interest bearing liabilities to the Northern Territory's Gross State Product (GSP) – expressed as a percentage and based on the gross debt (where gross debt is as determined on page 33 of this Report) - There are no targets for this measure. However, the percentage must be monitored over time with increases representing pressure on sustainability of existing programs.



Total liabilities (net debt plus employee liabilities as determined on page 33 of this Report) to the Northern Territory's GSP – expressed as a percentage and based on total liabilities. - The lower the percentage the better the financial condition.



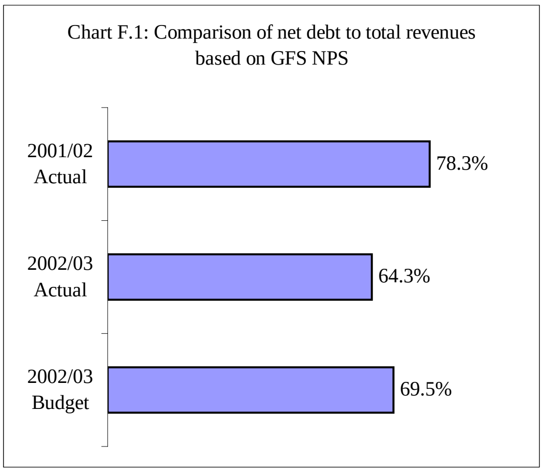
Total assets to total liabilities - The ratio of total assets to total liabilities based on the GFS NFPS (Page 29 of the TAFR) position at 30 June 2003 was 1.43:1 being total assets of $6.315 billion to total liabilities of $4.405 billion (2002 - 1.50:1, being total assets of $6.477 billion and total liabilities of $4.329 billion) confirming that total assets comfortably exceed total liabilities. However, the ratio has worsened primarily due to:

- Assets being overstated by $246 million at 30 June 2002. The adjusted ratio would have been 1.44:1; and
- Increased unfunded superannuation liabilities of $69 million

Conclusion regarding sustainability

Taken as a whole, these measures indicate a decrease in the interest burden due to decreasing debt in line with the Government's deficit reduction strategy thus reducing the pressure on sustainability.

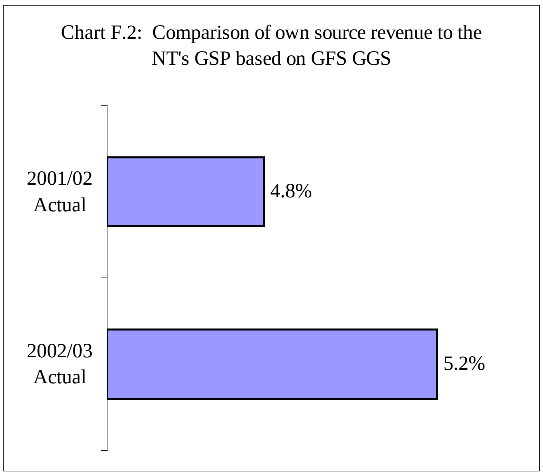
FLEXIBILITY – there are five measures to consider.



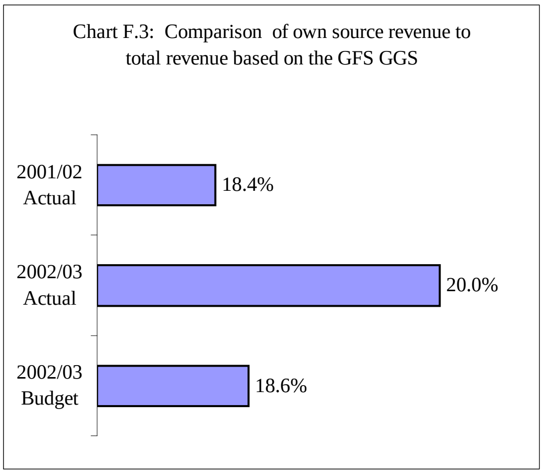
Comparison of net debt to total revenues based on the GFS NFPS (Pages 28 and 29 of the TAFR) - Net debt is now 64.3% which is a significant improvement on prior year (67.19%) and on original budget (69.52%) and is due to the combined positive effects of:

- revenue being up on prior year by 2.68% (revenue was in line with original budget);
- net debt being $30 million below 2002 and $143 million below budget.

These are positive trends.



Comparison of own source revenue to the Northern Territory's GSP based on the GFS GGS (Page 22 of the TAFR) - This increase from 4.8% to 5.2% is a positive trend.



Comparison of the own source revenue to total revenue based on the GFS GGS (Page 22 of the TAFR) – the increasing percentage of own source revenues is a positive trend indicating less reliance on Commonwealth funding.

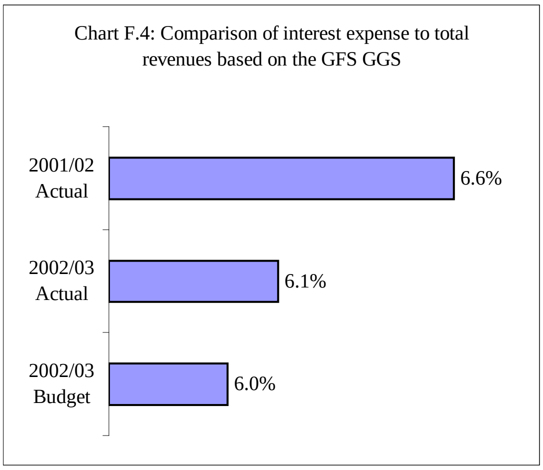


Chart F.4: Comparison of interest expense to total revenues based on the GFS GGS

Comparison of interest expense to total revenues based on the GFS GGS (Page 22 of the TAFR) – the decreasing relative interest cost is a positive trend but will require monitoring as interest rates rise.

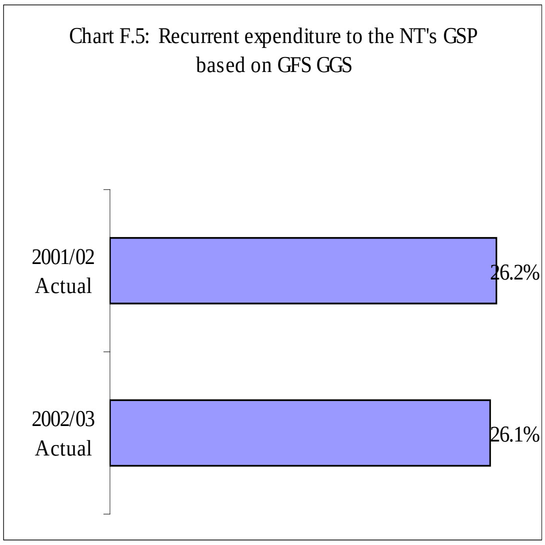


Chart F.5: Recurrent expenditure to the NT's GSP based on GFS GGS

Recurrent expenditure to the Northern Territory's GSP based on GFS GGS (Page 22 of the TAFR) – Levels of recurrent expenditure compared to GSP have remained constant.

Conclusion regarding flexibility

Indicators suggest that the Government has moved to a "higher flexibility" position as local revenue sources are on a rising trend and the net debt is now $30 million lower than the previous year and significantly lower than that budgeted.

VULNERABILITY– there are three measures to consider.

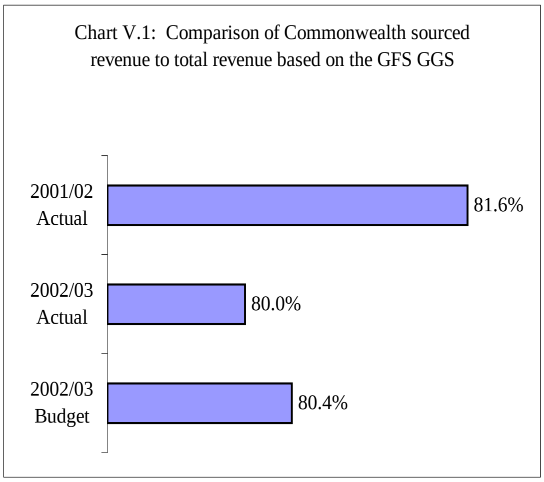
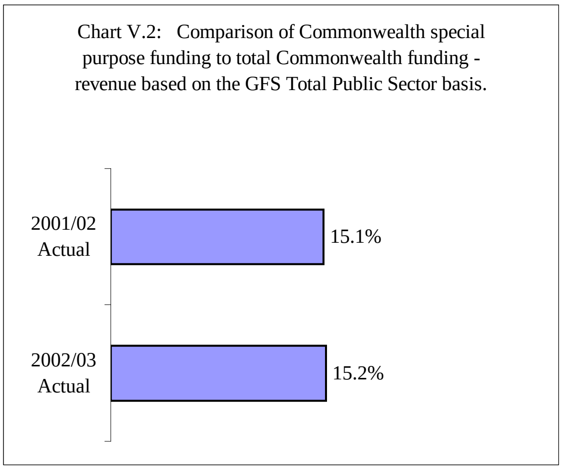
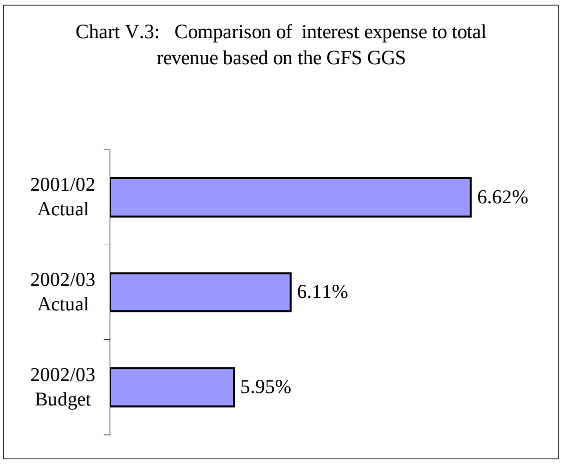


Chart V.1: Comparison of Commonwealth sourced revenue to total revenue based on the GFS GGS

Comparison of Commonwealth sourced revenue to total revenue based on the GFS GGS (Page 22 of the TAFR) – The slight reduction is encouraging in that the Government is now increasing its own sourced revenue, due in the main to improved taxation revenue.



Comparison of Commonwealth special purpose funding to total Commonwealth funding – revenue based on the GFS Total Public Sector basis (Note 3 on page 49 of the TAFR) - The percentage has remained constant in recent years.



Comparison of interest expense to total revenue based on the GFS GGS (Page 22 of the TAFR) - Interest expense is decreasing due to a combination of lower interest rates and lower net debt.

Conclusion regarding vulnerability

Taken together these measures indicate that the Northern Territory economy is less vulnerable although the impact of increasing interest rates requires monitoring.

Overall conclusion arising from these additional measures of fiscal performance

My analysis of the Territory's overall financial condition shows that this has improved since last year but some of the vulnerabilities identified at that time remain and ongoing careful fiscal management is needed.

The measures of sustainability, flexibility and vulnerability, taken with the three elements now adopted by the Northern Territory Government, confirm the importance of the deficit reduction strategy that has been embarked upon. They also highlight the impact on funding sources of the Commonwealth's fiscal equalisation arrangements that determine untied funding levels.

It is recommended that Government adopt a selection of these measures for assessing its fiscal management performance and in future reporting thereof.

Comparative assessment – GFS versus AAS 31

KEY ISSUES

Under an Australian Accounting Standards approach the Territory's net operating result on a Total Public Sector basis would have been a deficit of $326.9M as opposed to the $15.8M deficit recorded in the TAFS under the GFS on a Total Public Sector basis. However, some significant accounting adjustments made following reassessment of asset lives and corrections of prior year errors adversely impacted the 2002/03 financial year.

Introduction

As indicated previously the TAFS has been prepared on a GFS basis rather than on an AAS approach using Generally Accepted Accounting Principles (GAAP). Table 18, which repeats the information reported in appendix 1 on page 117 of the TAFR, outlines the significant differing treatments between both frameworks and highlights the differing net operating results.

Table 18 Reconciliation of audited GFS net operating balance with the unaudited GAAP operating result*

	Notes	Total PS	GGS	PNFCs	NFPS	PFCs
		$ millions				
Audited GFS Net operating balance (as per audited TAFS)		**(15.8)**	**(0.9)**	**14.5**	**26.6**	**(39.9)**
Add Capitalised interest		-	-	-	-	-
Add/(less) doubtful debts expense		(0.5)	0.6	(1.1)	(0.5)	-
Gain/(loss) on financial assets (derivatives)		-	-	-	-	-
Gain/(loss) on financial assets (securities marked to market)	**1**	(3.5)	(3.5)	-	(3.5)	-
Gains/(losses) on non-financial assets	**2**	(307.1)	(248.9)	(58.3)	(307.2)	0.1
Add dividends paid/payable		-	-	20.2	-	25.7
Unaudited GAAP Net operating result		**(326.9)**	**(252.7**	**(24.7)**	**(284.6)**	**(14.1)**

* It should be noted that the GAAP Net operating result figures are unaudited and these figures, together with the reconciling items represent an indication only of the likely operating result that would be recorded under an AAS approach.

The significant differences between the two approaches are as follows:

- Allowances for bad and doubtful debts are not recognised in the GFS operating statement and therefore the GFS net operating balance will be greater than a AAS result;

- Gains/losses on securities marked to market are not recognised in the GFS operating statement;

- Gains/losses on revaluation or write downs of non-financial assets are not recognised in the GFS operating statement; and

- Dividends are disclosed before GFS net operating balance as an expense. Dividends received from GOC's/GBD's are eliminated on consolidation at the Total Public Sector level.

The following notes provide analysis of the significant underlying transactions within each category:

1. Includes a further write down of the Conditions of Service Reserve investments of $3.953 million on the investments being marked to market.

2. Includes:

    - Reassessment of the estimated useful lives of roads and bridges infrastructure resulting in a downward revaluation of $194 million;

    - Asset incorrectly recorded twice at 30 June 2002 of $52 million;

    - Downward revaluation of East Arm Port of $43 million;

    - Write down of Power and Water Corporation assets in remote communities of $12 million; and

    - Loss on disposal of land and buildings transferred to Batchelor Institute of Indigenous Tertiary Education of $10 million.

It is noted, therefore, that under an AAS approach the operating results of the Territory would be considerably worsened by in excess of $300 million. However, some significant accounting adjustments made following reassessment of asset lives and corrections of prior year errors adversely impacted the 2002/03 financial year.

Although the above reconciliation only deals with the operating result and not with the balance sheet it is worth noting that the overall net worth of the Territory would remain relatively unchanged since the effects of the revaluation increments/decrements are not reflected in the operating statement under a GFS approach, asset values are adjusted accordingly within the GFS balance sheet.

Reconciliation of the net operating balance and operating cash flows

KEY ISSUES

- **Despite a large surplus in cash flows from operations, overall the cash reserves of the Northern Territory Government have been depleted by $61.6 million in the year due to significant investments in financial and non-financial assets.**

Introduction

As previously reported, 2002/3 is the first year the TAFR has been prepared on an accrual basis. Despite this cash measures continue to provide a useful indication of a government's need to call on financial markets to meet its budget obligations.

Reconciling accrual operating results to operating cash results

In order to assist Members in comparing cash to accrual based operating results, the TAFR includes a reconciliation between these two financial measures. This reconciliation, prepared by sector, is recorded in note 26 on page 69 of the TAFR and is reproduced in table 19 below.

For purposes of this reconciliation, cash includes cash at bank, cash on hand and cash on call or on short term deposit (described as "Cash and Deposits" on the various balance sheets in the TAFR).

Table 19 Reconciliation of the GFS net operating balance and operating cash flows

	Total PS	**GGS**	**PNFCs**	**NFPS**	**PFCs**
			$ million		
GFS net operating balance (a)	**(15.8)**	**(0.9)**	**14.5**	**26.6**	**(39.9)**
Non cash movements:					
Provision for depreciation	195.1	124.6	69.2	193.8	1.4
Employee related provisions	73.8	82.0	(2.3)	73.4	0
Increase in other provisions	0.9	0	33.9	0.9	30.2
Assets acquired below fair value	(12.1)	(2.3)	(9.8)	(12.1)	0
Assets donated	1.5	0.5	0.9	1.5	0
Write offs and losses	3.4	1.5	1.9	3.4	0
Changes in assets and liabilities:					
Change in inventories	1.6	(0.1)	1.7	1.6	0
Increase in payables/borrowings	(5.8)	(21.5)	(26.8)	(48.7)	42.6
Increase in receivables/investments	97.3	19.3	29.3	66.1	15.7
Cash flows generated by operations (b)	**339.9**	**203.1**	**112.6**	**306.5**	**50.4**

(a) This is the accrual operating result as reported on the various segment operating statements.

(b) This approximates the operating results on a cash flow basis and is as reported in the various segment cash flow statements. Note that the cash position is before payments for fixed assets or to reduce debt.

To gain an understanding of how these positive cash flows are generated would require an analysis of the annual financial statements of each Agency, GBD or GOC. For example, of the $306.5 million cash generated by the NFPS sector, $100.2 million was contributed by Power Water Corporation.

The main differences between the accrual operating result and the cash result are:

- Depreciation - a charge to the operating result which does not involve a cash outflow;
- Increases in amounts owed to employees which have not been paid; and
- Increases in amounts due to Government Agencies not yet recovered or converted to cash.

Reconciliation of movements in cash positions between financial periods

It is of assistance to Members to know that the TAFR reports the movements in "Cash and Deposits", at a Total Public Sector level, between 2002 and 2003 – see note 26 on page 69 of the TAFR. Such a reconciliation is available by sector as follows:

Table 20 Reconciliation movements in "Cash and Deposits" (referred to as "cash" below

	Note	**Total PS**	**GGS**	**PNFCs**	**NFPS**	**PFCs**
		$ million				
Cash at 30 June 2002		196.9	118.0	110.5	121.7	107.2
Net increase/(decrease) in cash held	**(a)**	(61.6)	(66.2)	28.3	(67.1)	22.3
Cash at 30 June 2003		135.3	51.8	138.8	54.6	129.5

(a) Despite a large surplus in cash flows from operations, overall the cash reserves of the NTG have been depleted by $61.6 million in the year due to significant investments in financial and non-financial assets.

Adjustments to unaudited opening balances

KEY ISSUES

- **Revisions were made to the unaudited accrual based numbers reported in the 2001/02 TAFR resulting in an overall reduction of $28.1 million in the total public sector net worth.**

Introduction

The 2001/02 TAFR included unaudited accrual based financial reports for the first time. Further work carried out by NT Treasury along with audit work conducted on opening balances identified errors in the 2001/02 reported results. The errors in no way reflect on poor accounting practices in the past and arose primarily due to the availability of improved information.

Summary of adjustments identified

Table 21 Summary of adjustments by sector made to balances previously reported at 30 June 2002 ($ Million)

	GGS		PNFCs		NFPS		PFCs	
	Reported	Amended	Reported	Amended	Reported	Amended	Reported	Amended
Net operating balance	(9)	(17)	(7)	(3)	(12)	(20)	(2)	(2)
Net lending/ borrowing	(326)	(330)	2	5	(320)	(325)	(1)	(2)
Cash surplus/ (deficit)	(229)	(234)	2	2	(227)	(232)	40	40
Net worth	2,177	2,147	1,384	1,384	2,177	2,148	73	73
Net financial worth	(1,568)	(1,583)	(390)	(390)	(3,342)	(3,355)	70	70
Net debt	(1,379)	(1,389)	(365)	365	(1,743)	(1,753)	(13)	(333)

The impact of the revisions resulted in an overall reduction of $28.1 million in the total public sector net worth.

The main variations related to:

- an unrealised loss of $8.7 million not recognised as at 30 June 2002, relating to the Conditions of Service Reserve investment as at 30 June 2002; and
- duplicate recording of construction works in progress of $14.7 million.

Further adjustments in relation to the duplication of assets of $52 million and the re-assessment of the estimated useful lives of roads and bridges infrastructure, resulting in a downward revaluation of $194 million were reflected in the 2002/3 TAFS rather than being restated at 30 June 2002.

Treatment of Territory Insurance Office (TIO)

The financial results of TIO were included in the unaudited accrual sections of the 2001/02 TAFR reported in Part 8 and, specifically, as part of the Public Financial Corporations schedules along with Northern Territory Treasury Corporation. While TIO operated at an accrual loss in 2001/02, its assets exceeded its liabilities by $30.5. TIO, along with Northern Territory Treasury Corporation, is part of the Public Financial Corporations (PFC) sector and does not, therefore, contribute to net debt.

When assessing these results, care needs to be taken in dealing with the results of the Motor Accident Compensation Scheme (MACA) and of its residual assets because any monies standing to the credit of this Scheme can only be used to operate it or to promote road safety. It is anticipated that TIO, as a "controlled entity", will continue to be consolidated into whole of government financial statements prepared in accordance with GFS in future years. This restriction on the MACA assets will therefore need further consideration when preparing these financial reports.

Financial performance of Government Business Divisions (GBDs), Government Owned Corporations (GOCs) and other relevant trading arms of Government

KEY ISSUE

Generally GBDs are not achieving budgeted levels of profitability although the profitability, and consequently the net cash deficit and net debt positions, have improved due to the strong results at Power Water and NT Treasury Corporation.

Background

The audited financial statements of GBDs, GOCs and other Government trading businesses, such as Territory Insurance Office, should provide information about how well each entity is meeting the commercial performance expectations of the Government. Budgets prepared for each entity set financial performance targets, against which to assess results. Expectations are also established in the form of dividends Government anticipates receiving which are generally based on 50% of annual net profits.

Audit findings

Tables 22, 23, 24 and 25 summarise the profitability, dividend and tax payments, net worth and cash flows respectively.

As noted in the 2001/02 analysis, as a minimum GBDs should be tasked with generating an acceptable return on capital invested, requiring the application of pricing and other business practices to achieve this. Acceptable levels of profitability continue to be essential to Government achieving its deficit and net debt reduction strategies with performance in 2002/03 showing an upward trend in profitability and associated dividend and tax payments, mainly due to the strong results achieved at Power Water and NT Treasury Corporation.

As was the case with the 2002/03 budget, it is noted that the 2003/04 budget anticipates an improvement in the operating results of GBDs.

Financial performance

The financial performance of trading businesses reporting on an accruals basis can be assessed in a number of ways. The analysis below looks at four primary measures being:

- profitability;
- dividends and taxes paid;
- cash flow; and
- net worth

and compares the current year's results with prior years and against original budgets where budgets are available.

Profitability

Comparison of the expected, actual and comparative financial performance is detailed in Table 22 below.

Table 22 – Net profit or (loss) before taxation and dividends

GBD/GOC/Other	Actual 2002/03 $'000	Budget 2002/03 $'000	Actual 2001/02 $'000	Budget 2003/04 $'000
Construction Division	980	1,836	(1,179)	(83)
Government Printing Office	(368)	276	0	59
Data Centre Services (formerly ITMS) [2]	1,600	1,570	2,927	1,844
NT Fleet	6,737	6,524	5,297	6,439
Territory Discoveries	(1,734)	(456)	(1,092)	(1,988)
Territory Wildlife Parks	(1,025)	(590)	(18)	(32)
GGS	**6,190**	**9,160**	**5,935**	**6,239**
Darwin Bus Service	580	112	500	110
Darwin Port Corporation[1]	(44)	3,485	1,850	4,508
Housing Business Services	(14,380)	(7,713)	(17,944)	(12,024)
Power and Water Corporation. [3]	45,772	N/A [4]	18,560	N/A
PNFC	**31,928**		**2,966**	
NT Treasury Corporation	23,570	31,051	26,133	20,849
Territory Insurance Office [3]	(33,197)	N/A	(12,004)	N/A
PFC	**(9,627)**		**14,129**	
Total PS	**28,491**		**23,030**	

[1] This is before asset write downs of $44.1 million and $34.7 million in 2002/03 and in 2001/02 respectively. Also, the 2002/03 and 2003/04 budgets exclude budgeted asset write downs of $39.5 million and $23 million respectively.

[2] Formerly Information Technology Management Services.

[3] No budget included in the 2002/03 Budget Paper No. 3 as Power and Water Corporation became the Territory's first Government Owned Corporation on 1 July 2002 and as such, is now no longer classified as a budget dependent agency. The Corporation's Statement of Corporate Intent for 2002/03 was tabled in the Legislative Assembly in August 2002 by the Treasurer. This document contains the Corporation's projected financial performance over the 2002/03 to 2004/05 period.

Generally GBDs are not achieving budgeted levels of profitability although the profitability, and consequently the net cash deficit and net debt positions, have improved due to the strong results at Power Water and NT Treasury Corporation

The Department of Corporate and Information Services (DCIS) has commented:

DCIS has 3 GBDs mentioned in this report. The actual financial performance in 2002/2003 for NT Fleet and Data Centre Services was slightly above budget. The GPO's actual financial performance was below budget expectations due to a reduction in the amount of work undertaken during the year. This resulted in revenue falling from $5.8M to $5.1M, while a majority of the GPO costs are fixed. Measures have been put in place to improve the performance in 2003/2004.

Northern Territory Tourist Commission has commented:

On page 56 the column "Budget 2002/03" contains figures taken from the 2002/03 Budget Paper and for Territory Discoveries shows a $456,000 budgeted loss. This figure was developed and reported when the NT Holiday Centre (NTHC) was part of the NTTC.

Figures "Actual 2002/03" and "Budget 2003/04" incorporate the NT Holiday Centre as part of Territory Discoveries. As such particularly for 2002/03 the figures are perhaps a little misleading in their current form as a figure with the NTHC included is being compared to a figure with the NTHC excluded. It would be more correct to replace the Budget 2002/03 figure with the "Estimate 2002/03" loss of $2.84M as reported in the 2003/04 Budget Paper.

When looking at the currently reported figures on page 56 of the Auditor-General's report, it appears Territory Discoveries performed much less profitably than budgeted, with a $1.73M loss compared to a $0.456 budgeted loss. However, when comparing the final estimated budget figures for 02/03 to the actual figures for 02/03 which both include the Holiday Centre, the opposite is demonstrated and the GBD performed more strongly than budgeted (ie $1.73M loss compared to $2.849M loss budgeted).

Dividends and taxes paid

Comparison of the actual and comparative dividends and taxes paid are detailed in Table 23 below.

Table 23 – Dividends and taxes receivable from GBDs/GOCs

GBD/GOC/Other	Actual 2002/03 $000	Budget 2002/03 $'000	Actual 2001/02 $'000	Budget 2003/04 $'000
Construction Division	490	1,194	0	0
Government Printing Office	(166)	163	0	39
Data Centre Services (formerly ITMS)	1,040	1,021	1,580	1,199
NT Fleet	4,379	4,241	3,443	4,153
Territory Discoveries	0	0	0	0
Territory Wildlife Parks	0	0	0	0
GGS	**5,743**	**6,619**	**5,023**	**5,391**
Darwin Bus Service	377	73	325	72
Darwin Port Corporation	(865)	3,326	879	1,342
Housing Business Services	0	0	0	0
Power and Water Corp.	20,000	N/A	9,227	N/A
PNFC	**19,512**		**10,431**	
NT Treasury Corporation	32,717	21,196	9,146	13,553
Territory Insurance Office	(3,767)	N/A	(680)	N/A
PFC	**28,950**		**8,466**	
Total PS	**54,205**		**23,920**	

Power and Water Corporation, NT Fleet and NT Treasury Corporation continue to make up the bulk of the NTG's revenues from this source.

The dividends and taxes detailed above have been extracted from annual financial statements of these GBDs which may not reflect the timing of payments by them or the timing of receipts by Treasury. Taxes could also include deferred taxes determined under the tax equivalents regime.

Net worth

Comparison of the actual net worth, where net worth is the difference between audited assets and audited liabilities (also referred to as equity where assets exceed liabilities or net liabilities where liabilities exceed assets) is detailed in Table 24 below.

Table 24 – Net worth

GBD/GOC/Other	Actual 2002/03 $'000	Budget 2002/03 $'000	Actual 2001/02 $'000	Budget 2003/04 $'000
Construction Division	1,406	5,319	916	1,481
Government Printing Office	2,648	2,932	2,477	2,729
Data Centre Services (formerly ITMS)	2,352	2,667	1,467	3,058
NT Fleet	62,335	62,294	59,472	64,578
Territory Discoveries	892	250	(81)	(151)
Territory Wildlife Parks	36,029	18,563	20,038	17,745
GGS	**105,662**	**92,025**	**84,289**	**89,440**
Darwin Bus Service	8,650	8,151	8,100	8,572
Darwin Port Corporation[1]	17,684	21,118	14,706	20,298
Housing Business Services	708,419	639,044	699,440	679,734
Power and Water Corp.	610,058	N/A	660,582	N/A
PNFC	**1,344,811**		**1,382,828**	
NT Treasury Corporation	33,714	52,091	42,785	26,009
Territory Insurance Office	1,060	N/A	30,490	N/A
PFC	**34,774**		**73,275**	
Total PS	**1,485,247**		**1,540,392**	

[1] This is after asset write downs of $44.1 million and $34.7 million in 2002/03 and in 2001/02 respectively.

Reasons for movements in the balances above include:

- Despite incurring losses, the net worth of Housing Business Services has grown due to upward revaluations of its land and building stock;
- NT Treasury Corporation's net worth has dropped mainly due to the payment of taxes and dividends to the NTG;
- Power Water Corporation's net worth has dropped mainly due to a $56 million debt for equity swap entered into with the NTG; and
- The net worth of Territory Wildlife Parks has grown due to the bringing to account of a revaluation of assets on 1 July 2002.

Net cash generated

Table 25 below details the cash that GBDs have generated. The amounts recorded are after paying taxes, dividends and for fixed assets and after accounting for repayment of debt where applicable.

Table 25 – Net cash generated by GBDs/GOCs

GBD/GOC/Other	Actual 2002/03 $'000	Budget 2002/03 $'000	Actual 2001/02 $'000	Budget 2003/04 $'000
Construction Division	3,281	1,975	(2,894)	(820)
Government Printing Office	(40)	110	240	166
Data Centre Services (formerly ITMS)	680	407	(2,325)	1,174
NT Fleet	2,466	1,923	(664)	1,492
Territory Discoveries	5,746	347	4	0
Territory Wildlife Parks	1,758	(475)	234	(131)
GGS	**13,891**	**4,287**	**(5,405)**	**1,881**
Darwin Bus Service	963	(358)	283	(864)
Darwin Port Corporation	1,705	2,207	1,731	1,449
Housing Business Services	6,814	(8,033)	(3,992)	(8,915)
Power and Water Corp.	18,894	N/A	24,034	N/A
PNFC	**28,376**		**22,056**	
NT Treasury Corporation	2,466	36,756	(664)	6,027
Territory Insurance Office	15,516	N/A	(37,889)	N/A
PFC	**17,982**		**(38,553)**	
Total PS	**60,249**		**(21,902)**	

This improvement in cash flows confirms the improved net deficit and net debt positions.

Conclusions

Generally GBDs are not achieving budgeted levels of profitability although the profitability, and consequently the net cash deficit and net debt positions, have improved due to the strong results at Power Water Corporation and NT Treasury Corporation.

Matters arising from the Audit and Format of the TAFS

KEY ISSUES

- **Certain assets and liabilities such as those of government schools, works of art, museum collections and library collections have not been included within the 2002/3 TAFS.**
- **Control over $427.5 million of infrastructure assets recognized in AARC's statement of financial position at 30 June 2003 is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003-04 for no consideration. Under Statement of Accounting Concepts 4, in the event that an entity cannot control an asset and manage it to achieve the entity's objectives, the asset fails to meet the recognition criteria. Failure to meet the asset recognition criteria could result in AARC recording the asset at no value with a consequent impact in TAFS to reflect this loss of control by the Territory.**
- **My Office does not currently audit the following entities included within the scope of the TAFS but outside the scope of the FMA:**
  - **AustralAsia Railway Corporation; and**
  - **Nominal Insurer's Fund.**

This section of this Report follows up issues identified in my analysis of the 2001/02 TAFS reported to the Legislative Assembly in April 2003 and includes suggestions for improvements to future TAFS/TAFR. This section also deals with some findings identified during my audit of the TAFS. Further matters will be reported in my March 2004 Report.

Continued Improvements in the format

Last year it was reported that:

- The inclusion in the TAFR of financial results in varying financial formats makes it difficult for the reader to assess the NTG's performance in meeting its deficit reduction and other fiscal objectives. It was recognised, however, that this was transitional with the inclusion of unaudited accrual-based information for the first time being a positive step; and
- The move to full accrual reporting from 1 July 2002 provided the opportunity to settle on a single reporting framework, enabling reports to be prepared on a basis consistent with relevant standards. Preliminary discussions with Northern Territory Treasury indicated that this was the intention.

These two issues have been resolved by the preparation of a TAFR using a single accrual accounting framework. In addition, the Overview in the TAFR provided general narrative including commentary on the Territory Government's performance in meeting its fiscal objectives and unaudited schedules were provided detailing explanations between budgeted and actual results by individual Agencies.

Items that the Treasurer could consider including in future TAFRs are:

- More trend data;
- Consistency in fiscal measures used;
- Greater reconciliation between GFS and AAS;
- GOC results; and
- Output performance by Agencies, linking the results in summary format to demonstrate how the NTG is progressing in achieving the objectives noted in its "Building a Better Territory" documentation.

Completeness of assets and liabilities, such as schools' assets and liabilities and heritage assets

Certain government assets and liabilities such as those of government schools and works of art, museum collections and library collections have not been included within the 2002/03 TAFS.

The financial information available to the government has not been sufficient to allow for inclusion of assets and liabilities of schools, other than land and buildings, nor in relation to heritage assets such as works of art, museum collections and library collections.

The cumulative values of all these "remaining" assets and liabilities would be material to the consolidated TAFS figures. For example, at 31 December 2002, ninety-two government schools reported to the Department of Employment, Education and Training bank balances totalling $21.2 million.

This is also a departure from AAS31, which requires all assets and all liabilities of all controlled entities to be included in the consolidated figures.

AustralAsia Railway Corporation (AARC)

As outlined on page 14 of this Report, control of the infrastructure assets recognised in AARC's statement of financial position at 30 June 2003, while not yet certain, is likely to pass from AARC to the Asia Pacific Transport Consortium during 2003-04 for no consideration. Under Statement of Accounting Concepts 4, in the event that an entity cannot control an asset and manage it to achieve the entity's objectives, the asset fails to meet the recognition criteria.

Failure to meet the asset recognition criteria could result in AARC recording the asset at no value with a consequent impact in TAFS to reflect this loss of control by the Territory.

However, should the transfer occur, control of this asset will be replaced by a right to own the railway line in the future, although it may be 50 years before this asset crystallises and the value of this right cannot, at this point in time, be reliably measured.

This matter needs to be revisited in the coming year, pending the anticipated completion of the Railway and subsequent transfer, to assess the impact, if any, on the amounts and disclosures contained within the 2003/04 TAFS.

Audit Responsibilities

My Office does not currently audit the following entities included within the scope of the TAFS but outside the scope of the FMA:

- AustralAsia Railway Corporation; and
- Nominal Insurer's Fund.

In addition, the audits of these two entities had not been finalised at the time of my signing my opinion on the TAFS.

The audit of these entities under the auspices of my Office would enable the results of these entities to be formally reported by me to the Legislative Assembly, as is the case with other "Territory" controlled entities. Also the risk of material unaudited numbers being contained within the TAFS prior to my sign off would be negated.

The Department of the Chief Minister has commented:

Your comments in regard to AARC focus on the ongoing value of the Government's $427.5 million railway asset, as noted in pages 9, 14, 22, 61 and 62 of the Report.

Obviously there was no issue with the value of the asset recorded in TAFS as at 30 June 2003, as the rail infrastructure was at the time work in progress and correctly reported at cost in accordance with accounting conventions.

I agree with your comment in the final paragraph of page 62 of your Report, in that the ongoing value of the railway asset, for financial reporting purposes, needs to be revisted now that completion of the railway has occurred.

I understand that officers from AARC, the Department of the Chief Minister and NT Treasury have commenced discussions in regard to this issue with a view to having finalised the matter for reporting on the 2003-04 financial year.

Topical Issues

Developments in the harmonisation of GFS and AAS

Of particular relevance to the future reporting of whole of government financial information are the discussions currently in progress, under the auspices of the Australian Accounting Standards Board (AASB), reviewing the differences between the GFS and AAS bases of accounting.

The AASB has on its agenda a project to "harmonise" GFS and AAS. This is an important development strongly supported by myself and NT Treasury. A discussion paper was issued on 18 November 2003, which I shall be studying with interest. Successful harmonisation will benefit Members of the Legislative Assembly in that the confusion between differing accounting frameworks should disappear. This should facilitate confidence in financial reporting and improvements to reported information.

Why is this important?

Section 16 of the FITA requires the final fiscal results report (in effect the TAFR) to:

(a) be based on external reporting standards (the standard used currently is the GFS UPF)*;*

(b) identify, in general terms, the external reporting standards (satisfied by the explanation in the "Reporting Framework" section in the TAFR) *on which it is based and any ways in which the report departs from those standards; and*

(c) publish the financial projections in at least the level of detail required by the Uniform Presentation Framework.

The TAFR does not depart from the requirements of the GFS and so no comment within the TAFR was needed. However, because the basis used in the TAFR did not comply with AAS 31 "Financial Reporting by Governments", the Treasurer included in the TAFR (Appendix A on page 117 of the TAFR) a brief reconciliation between the AAS 31 (also referred to as GAAP or generally accepted accounting practice) and the GFS net operating results (a component of the Operating statements) for each sector. For ease of reference, this reconciliation is included on page 49 of this Report.

Transition to International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board has embarked on a program of transitioning Australian Accounting Standards to International Accounting Standards with the new "converged" standards to be effective from 1 January 2005. Changes associated with this initiative will impact financial systems (in that they may need to be reconfigured so as to generate the information anticipated by the new standards) and financial reporting. Early preparation is needed because of the need to prepare comparative information on the same basis and the important dates are:

- 31 December balance dates – annual financial reports must comply with IFRS in preparing the 31 December 2005 reports. These reports must include comparatives prepared on the same basis and, therefore, systems and reports must capture financial information in compliance with the new standards at 31 December 2004. As a result, a need exists to prepare opening balances for the transition period of 2004 at 1 January 2004; and

- 30 June balance dates – annual financial reports must comply with IFRS in preparing the 30 June 2006 reports. These reports must include comparatives prepared on the same basis and, therefore, systems and reports must capture financial information in compliance with the new standards at 30 June 2005. As a result, a need exists to prepare opening balances for the transition period of 2004 at 1 July 2004.

Appendix 1 - Explanation of terms used

This section is included as a reference point. The definitions used are those applied by the Australian Bureau of Statistics or as extracted from the glossary in the TAFR. Where relevant, application of the definition is referenced to the TAFR.

Accrual Accounting	A recording method in which revenues, expenses, lending and borrowing are recorded as they are earned, accrued or incurred regardless of when payment is made or received
Assets	Instruments or entities over which ownership rights are enforced by institutional units and from which economic benefits may be derived by holding them, or using them, over a period of time. Two types of assets are distinguished: financial and non-financial.
Australian Accounting Standards (AAS)	Specific accounting policies developed and promulgated by the Australian Accounting Standards Board (AASB) and the Public Sector Accounting Standards Board (PSASB). The principal standard applicable to the Commonwealth, State and Territory Governments is AAS 31 'Financial Reporting by Governments', issued by the PSASB.
Balance Sheet or Statement of Financial Position **(See TAFR Sch. 8.19)**	A statement of an entity's financial position at a specific point in time. Contains information on assets, liabilities and owners' equity at a specific date. Also called Statement of Assets and Liabilities.
Cash	Cash includes cash on hand and cash equivalents. Cash on hand consists of notes and coins held, and deposits held at call with a bank or financial institution. Cash equivalents are highly liquid investments, which are readily convertible to cash on hand at the investor's discretion
Cash accounting	An accounting method in which entries are recorded when cash payments are made or received.
Cash Flow Statement	The Cash Flow Statement identifies how cash is generated from, and applied to, operating, investing and financing activities of a public sector unit.
General government	All budget dependent Agencies providing services free of charge or at prices at below their cost of production or service cost. Therefore, they are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. For this reason, this sector tends to be the focus of fiscal targets – for example the deficit or surplus. This sector includes some GBDs –

	Construction Division, Data Centre Services, Government Printing Office, NT Fleet, Territory Discoveries and Territory Wildlife Parks. A GFS sector comprising resident public institutional units which are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. Goods and services are provided free of charge or at nominal charges well below costs of production.
General purpose financial reports of governments	A requirement of AAS 31 that all governments prepare and publish general purpose accrual-based financial reports for the consolidated sum of all entities controlled by each government, as well as encouragement for their dis-aggregation into each broad sector of government activity.
Government Financial Statistices (GFS)	Refers to statistics that measure the financial transactions of governments and reflect the impact of those transactions on other sectors of the economy. GFS in Australia are developed by the ABS in conjunction with all governments and are mainly based on international statistical standards developed, in consultation with member countries, by the International Monetary Fund.
GFS Expenses	Transactions which decrease Net Worth in the reporting period.
GFS Net Lending/Borrowing	Defined as the GFS Net Operating Balance less Net acquisition of non-financial assets.
GFS Net Operating Balance	Calculated as GFS Revenues minus GFS Expenses. It is equivalent to the Increase in Net Worth arising from transactions.
GFS Net Worth	Defined as Assets less Liabilities less Shares and Other Contributed Capital. For the general government sector, Net Worth is Assets less Liabilities since Shares and Contributed Capital are zero.
GFS Operating Statement or Statement of Financial Performance	A statement which presents details of transactions in revenues, expenses and the net acquisition of non-financial assets, and derives the GFS Net Operating Balance and GFS Net Lending/Borrowing measures.
GFS Revenues	Transactions which increase Net Worth in the reporting period.

Investment in financial assets for policy purposes	Statistics that are compiled by summarising the individual stocks and flows of governments and organising them into meaningful categories appropriate for analysis, planning and policy determination.
Investment in financial assets for liquidity purposes	Comprises net lending by governments with the aim of achieving government policy, as well as equity sales (eg privatizing a PNFC through the sale of equity rather than assets) and net lending to other sectors or jurisdictions.
Jurisdiction	The Commonwealth government and each of the State and Territory governments. The term also includes local governments but is used less frequently in this context.
Liabilities	Obligations to provide economic value to other institutional units.
Net Debt	The difference between selected liabilities and selected financial assets (deposits held, advances received and borrowing less cash and deposits, advances paid, and investments, loans and placements). Comprises net lending by governments other than for policy purposes.
Net Worth	The difference between the Government's total assets, both financial and infrastructure, and its total liabilities. A declining net worth is indicating that liabilities are growing faster than the increase in asset values. An increase in net worth would indicate that asset growth is exceeding liability increases.
Non-financial public sector	The sector formed through a consolidation of the general government and public non-financial corporation sub-sectors.
Public Account	Where the financial transactions of the NTG are recorded. As defined in section 4(2) of the Financial Management Act as in force at 30 June 2002, it comprises the Consolidated Revenue Account and Operating Accounts.
Public Financial Corporations	Resident public enterprises mainly engaged in acquiring financial assets and incurring liabilities in the financial market on their own account. Public enterprises mainly engaged in acquiring financial assets and incurring liabilities in the financial market on their own account. This sector comprises Northern Territory Treasury Corporation and Territory Insurance Office.

Public Non-financial Corporations	Resident public enterprises mainly engaged in the production of goods and services of a non-financial nature for sale in the market place at economically significant prices. Trading enterprises mainly engaged in the production of goods and services of a non-financial nature for sale in the market place at prices that aim to recover all or most of the costs involved. This sector includes Darwin Bus Service, Darwin Port Corporation, Department of Community Development, Sport and Cultural Affairs:Housing Business Services and Power and Water Corporation.
Surplus/Deficit Net	Cash from operating activities plus net cash from investments in non-financial assets less distributions paid less acquisitions of assets under finance leases and similar arrangements.
Uniform Presentation Framework (UPF)	A uniform reporting framework agreed by the Australian Loan Council in March 1997, which is a revision of the Agreement reached at the 1991 Premiers' Conference. It specifies that the Commonwealth Government and State and Territory Governments will present a minimum set of statistics on a standard Government Financial Statistics basis, as well as financial asset and liability data according to an agreed format specified in Loan Council reporting arrangements.

Appendix 2 - List of Abbreviations used in this Report

AARC	AustralAsia Railway Corporation
AAS	Australian Accounting Standard
ABS	Australian Bureau of Statistics
Batchelor Institute	Batchelor Institute of Indigenous Tertiary Education
COSR	Conditions of Service Reserve
DCS	Data Centre Services
DHCS	Department of Health and Community Services
FITA	*Fiscal Integrity and Transparency Act*
FMA	*Financial Management Act*
GBD	Government Business Division
GFS	Government Financial Statistics
GGS	General Government Sector
GOC	Government Owned Corporation
GSP	Gross State Product
MACA	Motor Accidents Compensation Act Scheme
NFPS	Non-Financial Public Sector
NTG	Northern Territory Government
NTTC	Northern Territory Treasury Corporation
PFCs	Public Financial Corporations
PNFCs	Public Non-Financial Corporations
TAFR	Treasurer's Annual Financial Report
TAFS	Treasurer's Annual Financial Statement
TPS	Total Public Sector
TIO	Territory Insurance Office
UPF	Uniform Presentation Framework

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

The next general Report by the Auditor-General to the Legislative Assembly is scheduled to be tabled in the March 2004 sittings.

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