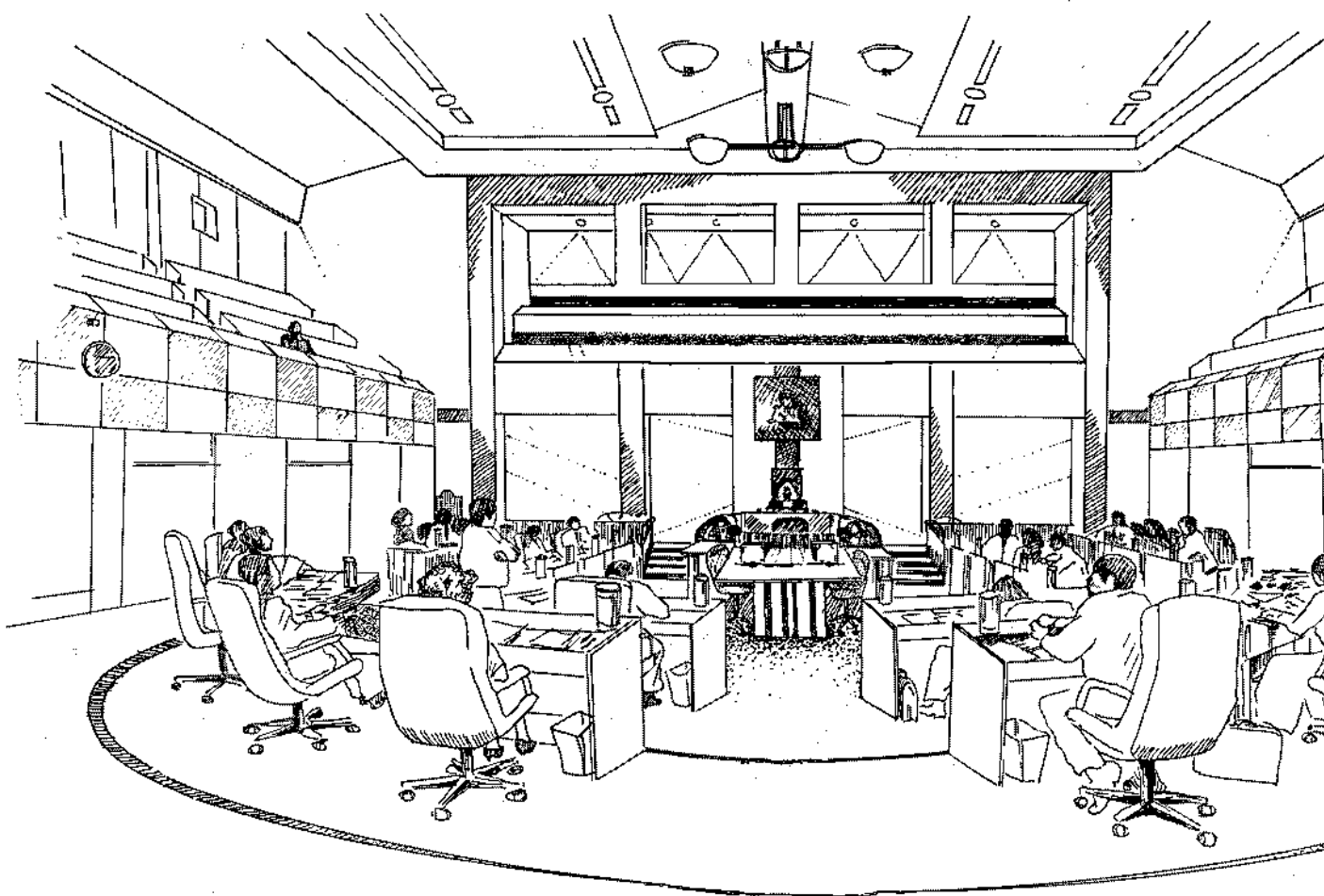




**AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY**

AUGUST 2004 REPORT

TO THE LEGISLATIVE ASSEMBLY



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

Auditing for Parliament...
providing independent analysis

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

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

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

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

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

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 calendar 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.

ORDERED TO BE
PRINTED BY THE
LEGISLATIVE ASSEMBLY
OF THE
NORTHERN TERRITORY

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

ISSN 1323-7128

Contents

	Page/s
Transmittal letter to the Speaker	2
Guide to using this Report	3
Entities referred to in this Report	4
Major Findings	5 - 6
Matters arising from auditing the Public Account and other accounts	7 - 32
Matters arising from performance management system audits	33 - 60
<i>Appendix 1 Audit opinion reports issued since 31 December 2003</i>	61
<i>Appendix 2 Status of audits which were identified to be conducted in the six months to 30 June 2004</i>	62
<i>Appendix 3 Proposed audit activity in the six months ending 31 December 2004</i>	63
<i>Appendix 4 Overview of the approach to auditing the Public Account and other accounts</i>	64 - 65
<i>Appendix 5 Overview of the approach to auditing performance management systems</i>	66
<i>Appendix 6 Agencies not audited</i>	67
<i>Appendix 7 Abbreviations</i>	68
<i>Index of matters reported</i>	69

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

17 August 2004

Madam,

The matters arising in this Report are issues that emerged during the tenure of Mr Mike Blake up to his resignation on 30 April 2004 and during my time as Acting Auditor-General.

I request that you table today in the Legislative Assembly my Report on matters arising from audits conducted during the six months to 30 June 2004.

In the main, the Report summarises the outcomes from financial attest audit work performed for the year ended 31 December 2003 and interim audit work in connection with financial statements to be prepared at 30 June 2004. Also included are the results of performance management system audits conducted.

Yours faithfully,

Ken Simpson
Acting Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 January 2004 to 30 June 2004:

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

In recognition of the diversity of readership of this Report and of their needs, a 'plain English' style of writing has been adopted, which is not always easy when describing technical issues.

This Report has 14 sections. Each section deals with a specific audit topic or with a particular Agency or Entity and provides a summary of key findings, audit opinion, background information where relevant, key findings and recommendations.

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

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

Agency compliance audits are conducted as part of my audit of the Public Account and, in general, are aimed at ensuring compliance by Agencies with the Treasurer's Directions and Procurement Guidelines. Further details are set out on page 8.

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

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

Performance management system audits are conducted to enable me to assess whether particular performance management systems enable Agencies or Entities to assess how well particular functions or systems are performing in meeting specified objectives and, in doing so, how well effectiveness, efficiency and economy are addressed. Further details are set out on page 66.

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

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

Entities referred to in this Report

<i>By Ministerial Portfolio:</i>	<i>Page(s)</i>
Chief Minister	
Chief Minister, Department of the	20 - 23
Legislative Assembly, Department of the	15 - 19
Minister for Employment, Education and Training	
Batchelor Institute of Indigenous Tertiary Education	29 - 30
Charles Darwin University	26 - 28
Employment, Education and Training, Department of	43 - 45
Minister for Health; Minister for Family and Community Services	
Health and Community Services, Department of	12 - 14, 34 - 39, 46 - 50
Menzies School of Health Research	24 - 25
Minister for Corporate and Information Services; Minister for Police, Fire and Emergency Services	
Corporate and Information Services, Department of	58 - 60
Northern Territory Police Fire and Emergency Services	40 - 42, 51 - 57
Minister for Local Government	
Jabiru Town Development Authority	31 - 32

Major Findings

Department of Health and Community Service

Procurement – Tendering and roll over of contracts

- A tender request with a certificate of exemption did not have evidence of an approval by the Minister responsible for Procurement Policy, which is a requirement for contract values in excess of \$250,000.

Refer pages 12 to 14

Department of the Legislative Assembly

Members' entitlements – travel and expenditure upgrading members' electorate offices

- Members' travel is generally well maintained and complies with the Remuneration Tribunal Determination although some observations for improvement were noted.
- Decisions to upgrade, refurbish or relocate a member's electorate office are undertaken to satisfy an identified need. Major refurbishments or relocations are subject to a formal approval process within the Minor New Works Program. Contracts to complete the works are let in accordance with the Procurement Act, Regulations and Guidelines.

Refer pages 15 to 19

Department of the Chief Minister

Ministerial expenses – travel

- Procedures for the initiation, booking and recording of Claimants' international and interstate travel are sound and adhered to in practice
- The travel entitlements paid to Claimants during the period 1 January 2002 to 31 December 2002 were in accordance with the relevant Remuneration Tribunal Determinations

Refer pages 20 to 23

Major Findings

Department of Health and Community Services (DHCS)

Management of Non Government Organisations in the Delivery of Health Services

- **DHCS has been conscientiously seeking refinements in its NGO process management. However, for DHCS' performance management systems to be sufficient for it to assess whether its objectives in relation to the utilisation of NGOs are being achieved effectively, and with regard to efficiency and economy, a number of areas need improvement.**

Refer pages 34 to 39

Northern Territory Police Fire and Emergency Services

PROMIS

- **A number of weaknesses were found in the System Development Life Cycle process for the PROMIS system. It was however pleasing to note that performance of the PROMIS system has significantly improved since its implementation.**

Refer pages 40 to 42

Department of Employment, Education and Training (DEET)

Learning and Technology in Schools (LATIS)

- **As the LATIS program has progressed over the past three years, DEET now has an established performance management system for the LATIS program which:**
 - **enables it to assess how well the LATIS program is performing and meeting the program's (and DEET's) objectives; and**
 - **is linked to its business plan, to adequately monitor the performance of the LATIS program.**

Refer pages 43 to 45

Matters arising from auditing the Public Account and other accounts

	Pages
Summary of Agency Compliance Audits and Interim Audits conducted in the six months to the 30 June 2004.	8 - 11
Department of Health and Community Services – Tendering and roll over of contracts	12 - 14
Department of the Legislative Assembly – Members’ entitlements - travel & Expenditure upgrading Members’ electorate offices	15 - 19
Department of the Chief Minister – Ministerial expenses	20 - 23
Audit Findings and Analysis of the financial statements of:	
♦ Menzies School of Health Research	24 - 25
♦ Charles Darwin University	26 - 28
♦ Batchelor Institute of Indigenous Tertiary Education	29 - 30
♦ Jabiru Town Development Authority	31 - 32

Auditing the Public Account and other accounts

Summary of Agency Compliance Audits and Interim Audits conducted in the six months to the 30 June 2004.

KEY FINDINGS

- ◆ **The accounting and control procedures examined at selected Agencies provide reasonable assurance that the responsibilities of the Accountable Officers as set out in the Treasurer's Directions and Procurement Directions will be met, if those systems continue to operate in the manner noted during audits conducted in the March to June period of 2004. Notwithstanding this conclusion a number of areas for improvement were noted and recommendations conveyed to the relevant agencies.**

Background

This section of the Report summarises internal control and other weaknesses in management and accounting systems and practices identified during the course of audit work conducted in the six months to 30 June 2004. Individual findings are not reported because the focus is on the more common findings which when considered collectively; suggest the need for attention from a broader public sector perspective.

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

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

The primary audit objectives of an ACA are:

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

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

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

<p>Auditing the Public Account and other accounts Summary of Agency Compliance Audits and Interim Audits</p>

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

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

- ◆ To facilitate the end of financial year audit;
- ◆ To follow-up on other matters noted in the prior year’s interim and final audits and assess whether these matters have been adequately addressed; and
- ◆ In accordance with Section 13 of the *Audit Act* address any control/compliance issues arising from an examination of the accounts and records.

The table below details where ACAs and interim audits were conducted in the six months ended 30 June 2004:

Agency Compliance Audits

Interim Financial Statement Audits

Aboriginal Areas Protection Authority

Darwin Port Corporation

Department of Business, Industry and Resource Development

Northern Territory Government and Public Authorities Superannuation Scheme

Department of Community Development, Sport and Cultural Affairs

Northern Territory Treasury Corporation

Department of Employment, Education and Training

NT Fleet

Department of Health and Community Services

Power and Water Corporation

Department of Infrastructure, Planning and Environment

Common Funds of the Public Trustee

Department of Justice

Territory Insurance Office

Department of the Chief Minister

Department of Community Development, Sport and Cultural Affairs – Housing Business Services

Northern Territory Police, Fire & Emergency Services

Northern Territory Tourist Commission

Northern Territory Treasury

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

Method of reporting

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

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

Overall conclusions

ACAs

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

Interim audits

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

Key findings

Asset Management

While there has been a general improvement in the management of physical assets for some agencies areas for improvement were noted.

Internal Audit

There continues to be a general improvement in management approaches to internal audit since June 2003. However, it was noted for two agencies that whilst audit committees had been established and risk assessments performed, the internal audit process had yet to reach its full capacity in that an internal audit program had not been established to ensure that the identified risks were addressed.

Accounting and Property Manuals not complete or out of date

While generally manuals are well maintained the following instances were noted:

- Accounting and Property Manual in draft with some sections incomplete;
- No policies in regard to ex-gratia payments;
- Reference in manuals to superseded Treasurer's Direction; and
- Procedures in place differed to those documented in the manual.

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

Registers required by Treasurer's Directions not kept

Audits identified that for a number of agencies the following registers required by Treasurer's Directions were not always maintained or were not up to date:

- Register of losses;
- Register of contingent liabilities; and
- Register of fees and charges.

Procurement Matters

While in general procurement practices were found to be in accordance with the various regulations and guidelines, instances were noted where procurements had not been gazetted.

Accountable Officer's Trust Accounts (AOTA)

Instances were noted where the reconciliation of the AOTA was not balanced or was difficult to interpret.

Auditing the Public Account and other accounts

Department of Health and Community Service

Procurement – Tendering and roll over of contracts

KEY FINDINGS

- ◆ **A tender request with a certificate of exemption did not have evidence of an approval by the Minister responsible for Procurement Policy, which is a requirement for contract values in excess of \$250,000.**

Background

This audit is a follow on from the 2003 procurement audit on the use of certificate of exemption from open tender by Agencies, which was reported to the Legislative Assembly in the October 2003 Report.

Audit objective and scope

The objective of the audit was to assess whether internal controls over the procurement process at the Department of Health and Community Services (DHCS) provide reasonable assurance that there is compliance with prescribed requirements.

The audit also assessed whether the records demonstrate accountability and ethical practice and in particular whether the records demonstrate valid reasons for making decisions, when approvals were obtained and covered:

- Why the particular procurement method was chosen (if not open competition);
- The suppliers approached, if not open competition; (information on their technical, physical and financial capacity to meet the Agency' needs) – identify approved certificates of exemption from tendering;
- Purchase decisions including basis for selection of successful tender, details of price, discounts (if any), special offers and other value for money considerations;
- Record of acceptance issued, along with notification to unsuccessful tenderers;
- Records of receipt of supplies or services and compliance with specifications; and
- Comment by the Agency on the performance of the contractor, including, if relevant, any communications issued regarding poor performance.

Key findings

Opinion

In general the internal controls over the procurement process provide reasonable assurance that there is compliance with prescribed requirements. However, issues relating to certain procurement procedures within DHCS required attention.

Auditing the Public Account and other accounts
DHCS Procurement – Tendering and roll over of contracts

Specific findings

Ministerial approval

A tender request with a certificate of exemption did not have evidence of an approval by the Minister responsible for Procurement Policy, which is a requirement for contract values in excess of \$250,000.

For the tender in question the physical quantity requirements were based on prior years information, which resulted in an estimated contract value of less than \$250,000. All required approvals were obtained on this basis. However, during the tender assessment process the physical quantities were amended to reflect current usage and the revised contract value was in excess of \$250,000. The additional approval by the Minister responsible for Procurement for tenders in excess of \$250,000 was not obtained. (*refer recommendation 1*)

Contract and Procurement Services were not used for all contracts in excess of \$10,000

A small number of contracts with values in excess of \$10,000 were gazetted but were not processed by Contract and Procurement Services. (*refer recommendation 2*)

CAL accreditation requirement

The system of industry accreditation utilised by the Northern Territory Government is administered by Contractor Accreditation Limited (CAL). This is a private sector company, limited by guarantee, the incorporation of which is owned by the Chamber of Commerce NT, Small Business Association NT and the Territory Construction Association. Accreditation is a form of industry based self-regulation, and operates with a view to engendering professionalism and confidence in local contractors.

During the audit it was noted that the CAL accreditation requirements for a particular tender were not satisfied by a prospective tenderer and on this basis their tender was excluded by DHCS. It was noted that the particular tenderer was the existing service provider prior to the contract renewal and due to variations in the new contract the requirement for CAL accreditation was now required. DHCS correctly applied all of the tender requirements and initially excluded the prospective tenderer.

The prospective tenderer appealed to the Procurement Review Board (PRB) on the basis that they were initially unaware of the CAL accreditation requirement and did not have sufficient time to obtain the accreditation. The PRB appeal process is independent of DHCS. The PRB upheld the appeal and included the tender, which was later awarded the contract. (*refer recommendation 3*)

**Auditing the Public Account and other accounts
DHCS Procurement – Tendering and roll over of contracts**

Recommendations

1. Where tender values are revised, approval requirements must be reviewed to ensure that all of the required approvals are obtained prior to the contract being awarded.
2. All tenders in excess of \$10,000 should be processed by Contract and Procurement Services.
3. Where tenders are advertised with specific requirements and during the tender assessment process there is, for whatever reason, some variation to those requirements, consideration needs to be given to re-advertising the tender. It is possible that some prospective tenderers would not have shown interest because they did not meet the original requirements, but may have tendered under the amended requirements. Re-advertising the tender would ensure a fair and consistent process of tender selection as the tender requirements would be consistently applied to all prospective tenderers.

DHCS has commented:

The Department takes breaches of established protocols and procedures for procurement very seriously. Our internal audit branch is conducting a detailed audit into asset management and procurement across the agency. Deficiencies in contract management, non-compliance and procedural issues will be dealt with seriously.

To ensure better procurement outcomes a central contracts coordination unit has been established which will be responsible for liaison between Contract and Procurement Services (DCIS), the Procurement Review Board and Departmental Requesting Officers. All tenders will be channelled through this unit and an increased audit focus on procurement activity will be undertaken.

Auditing the Public Account and other accounts

Department of the Legislative Assembly

Members' entitlements – travel and expenditure upgrading members' electorate offices

KEY FINDINGS

- ◆ **Members' travel is generally well maintained and complies with the RTD although some observations for improvement were noted.**
- ◆ **Decisions to upgrade, refurbish or relocate a member's electorate office are undertaken to satisfy an identified need. Major refurbishments or relocations are subject to a formal approval process within the Minor New Works Program. Contracts to complete the works are let in accordance with the Procurement Act, Regulations and Guidelines.**

Background

An audit of members' entitlements was last completed in 1998. An audit of members' travel entitlements was originally scheduled for 2003 but was deferred pending an internal audit on the same topic being completed by the Department of the Legislative Assembly (DLA). The question of expenditure on upgrading Members' electorate offices was identified as a topical area for audit in 2004. As both audits concern entitlements to Members under the provisions of the Remuneration Tribunal Determination (RTD) it was decided to combine them into one audit.

Audit objective and scope

The objectives of this audit were:

Re: Members' Entitlements – Travel

- to verify that the payment of Members' entitlements, specifically travel, complies with the RTD.

Re: Expenditure Upgrading Members' Electorate Offices

- to quantify and verify the expenditure by DLA in the upgrading, refurbishment or relocating of Members' electorate offices with particular emphasis on identifying whether the upgrade, refurbishment or relocation was preceded by a needs analysis; and
- assess whether the transactions adhere to the requirements of the *Procurement Act, Regulations and Guidelines*.

The audits examined expenditure from 1 January 2003 to 10 March 2004 in relation to travel and from 1 July 2002 to 10 March 2004 in relation to electorate offices.

Auditing the Public Account and other accounts
Department of the Legislative Assembly – Members’ entitlements

Audit findings

Opinion

Members’ travel is generally well maintained and complies with the RTD although some observations for improvement were noted.

Decisions to upgrade, refurbish or relocate a member’s electorate office are undertaken to satisfy an identified need. Major refurbishments or relocations are subject to a formal approval process within the Minor New Works Program. Contracts to complete the works are let in accordance with the Procurement Act, Regulations and Guidelines.

Specific findings

Members’ Entitlements – Travel

Members’ Entitlements Travel System (METS)

METS is a Lotus Notes database that records Members of the Legislative Assembly (MLAs) travel entitlements and requests. A new database is created in January of each year to reflect the latest RTD issued on 31 October of the prior year. The 2004 update of METS also included an automatic facility to limit travel requests to within the maximum allowed by the relevant RTD.

Guidance and training for users

DLA has drafted a METS user manual and reference brochure to provide guidance to users. The brochure is less comprehensive than the manual and will be directed at providing specific guidance to MLAs and their electorate officers. It is understood that a training session for users is also proposed.

DLA’s efforts in developing METS are acknowledged and the issue of guidance material and the provision of training to users is supported.

Reason for travel

For the Members’ travel selected for testing it was noted that the MLA does not always provide the reason for the travel. This is particularly so for interstate travel where the RTD allows each MLA one trip by air outside of the Northern Territory with the condition that such travel entitlement shall not be applied to holiday travel. (*refer recommendation 1*)

Acquittal of travel

MLAs are prompted to acquit travel each month by sign off (hard copy or electronic) of a schedule of travel produced by METS. Notwithstanding some members are slow to acquit travel.

**Auditing the Public Account and other accounts
Department of the Legislative Assembly – Members’ entitlements**

Specific findings – continued

The travel acquittal requires the MLAs to provide receipts or to certify that they have receipts to support TA at commercial rate. At the request of audit DLA asked Members to supply receipts and invoices to support nine individual travel movements. Two Members did not supply receipts notwithstanding their certification while a third Member supplied receipts for only part of the travel. It was recommended that DLA should on a random basis throughout the year test the certification by requesting receipts. Failure by a Member to supply appropriate receipts should result in a repayment of the difference between the TA at the commercial and non-commercial rates. (*refer recommendation 2*)

The DLA was advised that the provision of credit card statements was not considered to be an acceptable form of acquittal if the statement does not provide details of the date and place of the MLA’s accommodation. An instance was noted where a MLA was paid TA at a capital city rate when the acquittal documentation indicated accommodation was outside the capital city which attracts a lesser rate. (*refer recommendation 3*)

Interpretation of RTD

For one MLA travel by spouse or nominee accompanying the Member was broken between two trips by the Member. This kept the number of return airfares to four the maximum allowed in the RTD but TA was paid for five trips by the Member. This would appear to be an overpayment of TA.

Frequent Flyer points (FFPs)

DLA has no system in place to account for FFPs. The onus is totally on Members to utilise FFPs in accordance with the RTD. For the audit test sample there was no evidence that FFPs were utilised. (*refer recommendation 4*)

Comments on the RTD

▪ *Effective date*

The effective date for each year’s RTD is in the most part 31 October. DLA however accounts for Members’ travel through METS on a calendar year in accordance with RTD 9.4. A problem that arises from the RTD’s effective date of 31 October lies with DLA not receiving the RTD until some time after 31 October. In this intervening period Members’ travel entitlements are calculated at the rates in the expired RTD which may be different to the new RTD. As a consequence the travel officer is required to adjust the TA calculations for this period which can result in a number of relatively small additional payments to the MLA.

It would be more administratively convenient for DLA if the RTD was delivered on or about 31 October with the new or changed entitlement rates coming into effect on 1 January of the following year. This proposal should be put to the Remuneration Tribunal.

▪ *Retain receipts*

The RTD requirement for members to retain receipts for presentation on demand should be expanded to include the related tax invoice as a receipt is not always sufficient to identify accommodation details and adequately acquit the travel.

Auditing the Public Account and other accounts Department of the Legislative Assembly – Members’ entitlements
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Expenditure Upgrading Members’ Electorate Offices*Summary of Expenditure*

Electorate Office	2002/03	2003/04#
	\$	\$
Johnston	5,110	-
Nelson	17,604	-
Barkly	8,290	-
Karama	84,304	-
Katherine	8,200	2,039
Stuart	48,768	-
Millner	101,675	-
Macdonnell	15,397	-
Casuarina	6,377	-
Other (less than \$5,000)	<u>20,773</u>	<u>16,334</u>
	<u>316,498</u>	<u>18,373</u>

Expenditure to 11 March 2004 – Budget allocation \$190,000

Cyclical nature of upgrades, refurbishment or relocation

The timing of major upgrades, refurbishment or relocation of electorate offices follows a cyclical pattern closely related to the change in Members following an election or the expiry of a lease for an electorate office.

Major refurbishments or relocations are subject to a formal approval process within the Minor New Works (MNW) program.

Adherence to Procurement Act, Regulations and PRB Guidelines

For the MNW selected for audit review sufficient evidence was sighted to confirm that the requirements of the *Procurement Act*, regulations and PRB guidelines were met.

Recommendations

1. Approval for MLA’s travel not be given unless the reason for travel is provided. In providing the reason for travel Members should be encouraged to also provide a general itinerary for their trip as is currently the requirement for overseas travel (RTD 4.1(e)).
2. DLA should on a random basis throughout the year test the certification by Members by requesting receipts. Failure by a Member to supply receipts should result in a repayment of the difference between TA at the commercial and non-commercial rates.
3. Where MLAs have travelled interstate and have stayed outside the Capital City of the state visited the TA paid should only be at the lessor ‘Elsewhere in Australia’ rate.
4. DLA should complete a cost/benefit analysis to the Northern Territory of implementing procedures to register FFPs accrued by MLAs while travelling under the provisions of the RTD.

**Auditing the Public Account and other accounts
Department of the Legislative Assembly – Members’ entitlements**

DLA has commented:

In consultation with the relevant auditors the Department has implemented audit recommendations where appropriate and has developed a regime of procedures and processes to best facilitate the administration of the entitlements. Where appropriate the Department has sought clarification from the Remuneration Tribunal.

Members’ Travel Entitlements***Reason for Travel***

The requirement for an itinerary has not previously been an issue and would apply only if a Member wished to travel to more than one destination during a single travel request or is seeking approval for transport at the destination.

Acquittal of Travel

The Department has instigated random testing of certification through requesting receipts. Where required relevant repayments will be requested from Members. For the travel receipts checked in the audit, Members have been encouraged to provide further documentation. If unable to do this, refunds will be sought as recommended by the audit.

Interpretation of the RTD

There are precedents for the separate administration of travel and travelling allowances payable in respect of Members and accompanying persons and the Department believes there was validity in the logic behind the approval for the trip in question. Clarification was sought from the Tribunal who confirmed that the Department’s administration of the Member’s travel entitlements in this instance is correct. The Tribunal has advised that he will try to remove any ambiguity of this nature in his next Determination.

Frequent Flyer Points

It should be noted that not all Members necessarily subscribe to frequent flyer schemes. In fact some Members have refused this facility even though they have a prescribed entitlement of membership to airline club facilities such as QANTAS Club. However, the auditor’s recommendation has been noted and the feasibility and cost of implementing an automatic recording of FFPs is being investigated. In any case, the process of notional recording of FFPs is in the process of being instigated on a trial basis.

Effective Date of the RTD

The matter of the effective date of the RTD has been referred to the Tribunal for consideration in previous years. The latest audit recommendation will be referred to the Tribunal for consideration in his next review of Members’ entitlements.

Expenditure Upgrading Members’ Electorate Offices

It is noted that the audit report indicated that the requirements of the Procurement Act, regulations and Procurement Review Board guidelines were met.

Auditing the Public Account and other accounts

Department of the Chief Minister

Ministerial expenses – travel

KEY FINDINGS

- ♦ **Procedures for the initiation, booking and recording of Claimants’ international and interstate travel are sound and adhered to in practice**
- ♦ **The travel entitlements paid to Claimants during the period 1 January 2002 to 31 December 2002 were in accordance with the relevant Remuneration Tribunal Determinations**

Background

An audit of ‘Ministerial expenses – travel’ was last completed and reported to the Legislative Assembly in 1998. It was considered appropriate to revisit this area of expenditure.

The audit was originally scheduled for completion in 2003 but was deferred pending an internal audit of Members’ travel.

The Department of the Chief Minister (DCM) is responsible for the payment of Ministerial expenses (including those of the leader of the Opposition). The payment of Members’ travel entitlements is the responsibility of the Department of the Legislative Assembly (DLA). (refer pages 15 – 19)

Audit objectives and scope

The audit objective was to determine whether the travel entitlements paid to Ministers during the period 1 January 2002 to 31 December 2002 were in accordance with the relevant Remuneration Tribunal Determinations (RTDs).

Travel undertaken by Members of the Legislative Assembly in their capacity as Ministers or Leader of the Opposition (the Claimants) is administered by DCM and was specifically excluded from the scope of the Risk Management Services 2003 audit of Members’ travel.

All travel for the Claimants is recorded separately to that for Members and as such is not recorded on the Members Entitlements Travel System (METS) maintained by DLA. However, there is an annual reconciliation process between DLA and DCM, designed to ensure that there is no duplication of payments. This reconciliation process was examined as part of this audit.

The audit covered the payment of entitlements relating to travel undertaken during the period 1 January 2002 to 31 December 2002 and included travel by the Claimants, their spouses and dependant children as provided in the RTDs. All overseas travel and a selection of interstate travel payments were examined.

Auditing the Public Account and other accounts Department of the Chief Minister – Ministerial expenses

Audit objectives and scope – continued

Where the travel undertaken was via an airline that offered frequent flyer points/other travel incentives, then the accumulation and control of the use of these incentives by the Claimants was examined.

Audit findings*Opinion*

For the year ended 31 December 2002:

- (i) Procedures for the initiation, booking and recording of Claimants' international and interstate travel are sound and adhered to in practice;
- (ii) The travel entitlements paid to Claimants during the period 1 January 2002 to 31 December 2002 were in accordance with the relevant Remuneration Tribunal Determinations (RTDs); and
- (iii) The annual reconciliation process between DLA and DCM, which is designed to ensure that there is no duplication of payments, was performed satisfactorily.

For the year ended 31 December 2002 there was no system within DCM to record the accumulation and control of the use of frequent flyer points or other travel incentives provided to the Claimants as a result of travel by them as "Office Holders". This was still the case at the date of the audit.

Specific findings

Procedures for the initiation, booking and recording of Claimants' international and interstate travel are sound and adhered to in practice.

For all international travel:

- a project proposal document is required, specifying the purpose, nature and extent and expected outcomes of the proposed travel;
- the Chief Minister's approval is required for all international travel and this is evidenced by way of the Chief Minister signing the project proposal document; and
- when the travel is completed, a report is prepared for presentation by the Claimant in the Legislative Assembly.

For all interstate travel:

- As with international travel, a proposal document is required detailing the purpose, nature and extent of the travel;
- The approval of either the Chief Minister, the Chief of Staff or the Deputy Chief of Staff is required for all interstate travel and this is evidenced by way of signature on the proposal document; and
- Approval for some interstate travel is "automatic," for example attendance by Ministers at Ministerial Councils.

Auditing the Public Account and other accounts Department of the Chief Minister – Ministerial expenses

Specific findings – continued

The Chief Minister “self approves” the international and interstate travel and expense allowances detailed in the travel proposal documents for herself.

Travel movement vouchers summarising the details of the travel and expenditure incurred are completed for all international and interstate travel.

The results of the testing of the above procedures and testing of expenditure incurred to the RTDs were satisfactory overall, with only one matter arising relating to a delay of approximately one year in a Minister providing the documentation necessary for DCM to receive a refund for a change, initiated by the Minister, in the return leg of an international trip. (*refer recommendation 1*).

Procedures to record the use of frequent flyer points or other travel incentives provided to the Claimants as a result of travel by them as “Office Holders.”

Both of the RTDs relevant to the year ended 31 December 2002 address the use of frequent flyer points provided to the Claimants as a result of travel by them as “Office Holders.” RTD No 2 of 2002 at paragraph 6.5 states “*Frequent flyer points accrued as a result of any expense met or reimbursed by the Government should only be used to reduce the cost of future travel under the provisions of this Determination, or for class upgrade, or for further travel within the Northern Territory, by the person accruing the points.*”

For the travel expenditure tested where the travel undertaken was via an airline that offered frequent flyer points/other travel incentives it was not possible to examine the accumulation and control of the use of frequent flyer points by the Claimants as there was no system within DCM to record frequent flyer points accumulated by the Claimants as a result of travel by them as “Office Holders”.

This lack of procedures and systems within DCM to record frequent flyer points accumulated by the Claimants as a result of travel by them as “Office Holders” still existed at the date of the audit.

Based on inquiries of DCM personnel, compliance with the requirements of the RTDs relating to frequent flyer points is dependent on the Claimants applying an “honour system” to the use of frequent flyer points accumulated as a result of travel by them as “Office Holders”.

For the travel expenditure tested, no instances were noted where frequent flyer points accrued as a result of travel by the Claimants were used to reduce the cost of future travel under the provisions of the RTDs, or for class upgrade, or for further travel within the Northern Territory, by the Claimants. (*refer recommendation 2*)

**Auditing the Public Account and other accounts
Department of the Chief Minister – Ministerial expenses**

Recommendations

1. Credits for changed travel arrangements should be pursued on a timely basis and if the documentation for their support is not readily forthcoming, then this fact should be escalated within the Department.
2. A system should be introduced to allow cost effective monitoring of the accumulation of “frequent flyer” points by the Claimants as a result of travel by them as “Office Holders.” This system should also include monitoring of the relevant points usage.

DCM has commented:

I have reviewed your analysis and opinion of Ministerial travel arrangements and have the following comments in regard to your recommendations resulting from specific findings:

- *I agree that credits for travel arrangements should be pursued on a timely basis and have notified relevant staff that this is to be escalated if support documentation is not readily forthcoming;*
- *the Department maintains a travel policy and, in the same context to the RTD covering Ministerial travel, includes the use and accumulation of “Frequent Flyer” points. The policy states that “any points accrued to an employee as a result of official duty on behalf of the Northern Territory, may only be applied to subsequent official duty travel” and therefore should not benefit the individual.*

I have received advice that Ministerial Offices are fully aware of the Departmental policy and RTD, though in practice, difficulties are often experienced when attempting to book flights or upgrades using points. I will ensure that policy is regularly communicated to the Ministerial Offices and to all staff in the Department.

Memberships of the Frequent Flyer schemes is in most cases paid for by individuals. Qantas has confirmed they do not provide information on Frequent Flyer members to third parties for privacy reasons, including any information on accumulated points. This makes it impossible to verify any data recorded within an internal system, which must essentially be based on honesty of the individuals involved.

Although I am advised that it is impractical to introduce a system to monitor the accumulation of points by claimants at this time, the Department will review the outcomes of the notional recording of points being trialled by the Legislative Assembly and will determine whether such a system is worthy of further investigation.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2003 of:

Menzies School of Health Research

KEY FINDINGS

- ◆ **\$4,693,779 of retained earnings has been identified as ‘Tied Retained Earnings’, that is, the value of future commitments for research projects for which the funding revenues have been received and recognised as income.**
- ◆ **Menzies School of Health Research became a controlled entity of the Charles Darwin University from 1 January 2004.**

Audit opinion

The audit of the financial statements of Menzies School of Health Research (MSHR) for the year ended 31 December 2003 resulted in an unqualified independent audit opinion that was issued on 2 April 2004.

Background

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

Key issues

Amendments to the *Menzies School of Health Research Act* were assented to on 29 August 2003 and came into force on 1 January 2004. The Act stipulates that the Charles Darwin University will be responsible for appointing seven of the thirteen Board positions required under the Act, thereby causing MSHR to become a controlled entity of the Charles Darwin University.

MSHR is still required to furnish an annual report and audited financial statements at an Annual General Meeting, however the results will be consolidated with those of the Charles Darwin University from 1 January 2004. Therefore the audited balances of MSHR as at 31 December 2003 will become the opening balances of MSHR for consolidation for the year ended 31 December 2004.

The alignment of the accounting policies of MSHR with those of the Charles Darwin University is in the process of being addressed. It is understood that a Memorandum of Understanding has been signed between MSHR and Charles Darwin University, bearing in mind the differences between scale and function of both entities.

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

Financial analysis*Abridged Statement of Financial Performance*

	2003	2002
	\$'000	\$'000
Revenue from ordinary activities before impact of change in accounting policy in bringing grants received into account	<u>11,969</u>	<u>9,941</u>
Less expenses from ordinary activities		
Employee benefits	6,487	5,471
Administration, operational and other expenses	<u>3,497</u>	<u>2,954</u>
Total expenses from ordinary activities	<u>9,984</u>	<u>8,425</u>
Net surplus from ordinary activities	<u>1,985</u>	<u>1,516</u>

The net surplus for the year includes \$1,750,048 of future commitments for research projects for which the funding revenues have been received and recognised as income in the current year.

Abridged Statement of Financial Position

	2003	2002
	\$'000	\$'000
Current assets	8,467	6,542
Non-current assets – Property, plant and equipment	<u>941</u>	<u>762</u>
Total assets	<u>9,408</u>	<u>7,304</u>
Current liabilities	1,362	1,371
Non-current liabilities	<u>146</u>	<u>115</u>
Total liabilities	<u>1,508</u>	<u>1,486</u>
Net assets	<u>7,900</u>	<u>5,818</u>
Represented by accumulated funds		
Retained earnings	7,116	5,468
Capital Equipment Reserve	679	343
Investment Revaluation Reserve	<u>105</u>	<u>7</u>
	<u>7,900</u>	<u>5,818</u>

The financial statements reflect an increase in net assets for the year ended 31 December 2003 of \$2,082,322 (2002: \$1,523,889). However \$4,693,779 of retained earnings has been identified as 'Tied Retained Earnings', that is, the value of future commitments for research projects for which the funding revenues have been received and recognised as income.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2003 of:

Charles Darwin University

KEY FINDINGS

- ♦ **The operating surplus from ordinary activities for the year ended 31 December 2003 resulted primarily from the non-reciprocal transfer of the assets and liabilities of both the Northern Territory Rural College and the Centralian College during the year.**
- ♦ **The operating result of Charles Darwin University excluding this one off transaction is a deficit of \$1.867 million.**
- ♦ **Notwithstanding this underlying operating deficit, Charles Darwin University continues to have a positive cash flow primarily due to the non-cash expenses of depreciation and amortisation, which totalled \$7.588 million for 2003.**

Audit opinion

The audit of the financial statements of the Charles Darwin University for the year ended 31 December 2003 resulted in an unqualified independent audit opinion, which was issued on 24 June 2004.

Background

The Charles Darwin University (CDU) is established under the *Charles Darwin University Act 2003* and is a continuation of the entity previously known as the Northern Territory University with the inclusion of the Northern Territory Rural College and the Centralian College. From the 1 January 2004 the Menzies School of Health Research became a controlled entity of CDU.

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

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

Key issues

No issues to report.

Auditing the Public Account and other accounts Charles Darwin University

Financial analysis*Abridged Statement of Financial Performance – CDU only – excluding controlled entities*

	2003	2002
	\$'000	\$'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	31,796	30,487
Financial assistance from the NT Government	79,606	28,055
Other revenue (HECS, fees, interest, etc)	<u>31,976</u>	<u>33,071</u>
Total revenue from ordinary activities	<u>143,378</u>	<u>91,613</u>
Less expenses from ordinary activities		
Employee related costs	54,296	54,216
Expenses relating to joint venture operations	3,707	8,527
Administration, operational and other expenses	<u>40,857</u>	<u>37,457</u>
Total expenses from ordinary activities	<u>98,860</u>	<u>100,200</u>
Operating surplus/(deficit) from ordinary activities	<u>44,518</u>	<u>(8,587)</u>

The operating surplus from ordinary activities for the year ended 31 December 2003 resulted primarily from the non-reciprocal transfer of the assets and liabilities of both the Northern Territory Rural College and the Centralian College during the year. These mergers resulted in the realisation of \$46.385 million in revenue on transfer of entities. The operating result of CDU excluding this one off transaction is a deficit of \$1.867 million.

Notwithstanding this underlying operating deficit, CDU continues to have a positive cash flow primarily due to the non-cash expenses of depreciation and amortisation, which totalled \$7.588 million for 2003.

Auditing the Public Account and other accounts Charles Darwin University

Financial analysis – continued*Abridged Statement of Financial Position – CDU only – excluding controlled entities*

	2003	2002
	\$'000	\$'000
Current assets		
Bank, and short term investments	24,812	12,583
Receivables and other current assets	4,102	10,723
Less Current Liabilities	<u>(16,897)</u>	<u>(16,301)</u>
Net Current Assets	12,017	7,005
Add Non Current Assets	<u>191,881</u>	<u>150,484</u>
	203,898	157,489
Less Non Current Liabilities	<u>(3,937)</u>	<u>(3,904)</u>
Net assets	<u>199,961</u>	<u>153,585</u>
Represented by:		
Equity (reserves, restricted and accumulated funds)	<u>199,961</u>	<u>153,585</u>

CDU's net assets have increased over the prior year mainly due to the \$46.385 million in revenue on transfer of entities referred to on the previous page.

The underlying operating deficit of \$1.867 million has been offset by a revaluation increment of \$1.856 million for property plant and equipment taken straight to the asset revaluation reserve.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2003 of:

Batchelor Institute of Indigenous Tertiary Education

There are no key findings

Audit Opinion

The audit of the financial statements of Batchelor Institute of Indigenous Tertiary Education (the Institute) for the year ended 31 December 2003 resulted in an unqualified independent audit opinion, which was issued on 28 June 2004.

Background

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

Audit findings

No issues to report

Financial analysis

Abridged Statement of Financial Performance

	2003	2002
	\$'000	\$'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	20,356	21,432
Financial assistance from the Territory Government	9,417	9,169
HECS	1,257	1,237
Other Revenue	<u>1,684</u>	<u>16,702</u>
Total revenue from ordinary activities	<u>32,714</u>	<u>48,540</u>
Expenses from ordinary activities		
Employee benefits	16,904	17,797
Buildings and grounds maintenance	2,196	2,783
Travel and other expenses	<u>12,288</u>	<u>10,909</u>
Total expenses from ordinary activities	<u>31,388</u>	<u>31,489</u>
Operating result from ordinary activities	<u>1,326</u>	<u>17,051</u>

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

Other revenue in 2002 included a “once off” gift of land and buildings to the Institute by the Northern Territory Government in the sum of \$15.399 million. When this “once off” gift is adjusted for, the “normalised” net operating result for the year is \$1.652 million which is comparable to the 2003 net operating result of \$1.326 million.

Abridged Statement of Financial Position

	2003	2002
	\$'000	\$'000
Current assets	9,031	6,970
Non-current assets	<u>18,599</u>	<u>18,165</u>
Total assets	<u>27,630</u>	<u>25,135</u>
Current liabilities	4,166	3,416
Non-current liabilities	<u>557</u>	<u>450</u>
Total liabilities	<u>4,723</u>	<u>3,866</u>
Net assets	<u>22,907</u>	<u>21,269</u>
Represented by Equity (reserves and accumulated funds)	<u>22,907</u>	<u>21,269</u>

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the financial year ended 30 June 2003 of:

Jabiru Town Development Authority

KEY FINDINGS

- ◆ **The Authority's ability to continue as a going concern is dependent on the moratorium on the Authority's future interest and repayment of loans due to the Northern Territory Government totalling \$8,804,916.**

Audit opinion

The audit of the financial statements of Jabiru Town Development Authority (the Authority) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 20 February 2004.

Background

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

The NT Government provided loan funds of \$8.4 million for over-designed services, mainly water supply and sewerage facilities, constructed to facilitate expansion of the town to its final estimated population. During the period January 1984 to June 1986 this debt grew by \$0.4 million, being net unpaid interest, to \$8.8 million. In August of 1986 a moratorium, which was still in place at 30 June 2003, was granted on the Authority's future interest and loan repayments on existing loans.

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

Key issues

The audit opinion report while not qualified included the following emphasis of matter paragraph:

“Without qualification to the opinion expressed above, attention is drawn to the following matter. Under the heading of Basis of Accounting and Going Concern in Note 1(a), the Authority refers to its expectation of the continuation of the moratorium on the Authority's future interest and repayment of loans due to the Northern Territory Government totalling \$8,804,916. Without this moratorium, there would be significant uncertainty whether the Authority would be able to continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.”

Auditing the Public Account and other accounts Jabiru Town Development Authority

Abridged Statement of Financial Performance

	2003 \$'000	2002 \$'000
Revenue from ordinary activities		
Interest earned and sundry income	210	154
Grants received	—	<u>29</u>
Total revenue from ordinary activities	<u>210</u>	<u>183</u>
Expenses from ordinary activities before revaluation decrement		
Grants paid	-	55
Administration and amortisation expenses	<u>109</u>	<u>117</u>
Total expenses from ordinary activities before revaluation decrement	<u>109</u>	<u>172</u>
Surplus (Deficit) before revaluation decrement	<u>101</u>	<u>11</u>

Abridged Statement of Financial Position

	2003 \$'000	2002 \$'000
Current assets (of which \$3.68m (2002 – \$3.51m) was cash at bank)	3,693	3,535
Non-current assets		
Land held for sub-lease	774	774
Town infrastructure and plant and equipment	<u>1,084</u>	<u>1,147</u>
Total Assets	<u>5,551</u>	<u>5,456</u>
Current Liabilities	30	36
Non-current liabilities (loans from the NT Government)	<u>8,805</u>	<u>8,805</u>
Total Liabilities	<u>8,835</u>	<u>8,841</u>
Net Liabilities (or asset deficiency)	<u>(3,284)</u>	<u>(3,385)</u>
Represented by accumulated deficits	<u>(3,284)</u>	<u>(3,385)</u>

Matters arising from performance management system audits

	Pages
Department of Health and Community Services – NGO management in Health	34 - 39
Northern Territory Police, Fire and Emergency Services – IT audit of PROMIS	40 - 42
Department of Employment, Education and Training – Learning and Technology in Schools	43 - 45
Department of Health and Community Services – Performance reporting in the agency's 2002/03 annual report	46 - 50
Northern Territory Police, Fire and Emergency Services – Performance reporting in the agency's 2002/03 annual report	51 - 57
Department of Corporate and Information Services – Performance reporting in the agency's 2002/03 annual report	58 - 60

Matters arising from performance management system audits

Department of Health and Community Services

Management of Non Government Organisations in the Delivery of Health Services

KEY FINDINGS

- ◆ **DHCS has been conscientiously seeking refinements in its NGO process management. However, for DHCS' performance management systems to be sufficient for it to assess whether its objectives in relation to the utilisation of NGOs are being achieved effectively, and with regard to efficiency and economy, the following areas need improvement:**
 - **the corporate objectives in respect of NGOs need to be clearly defined across all programs;**
 - **the performance measures need to be written in comprehensive and measurable terms, and aligned to each business goal; and**
 - **the methodology utilised to collate the required information for the performance measures needs to be clearly identified.**

Background

The Department of Health and Community Services (DHCS) has estimated that in 2002/03 it paid \$64.7 million to a total of 295 Non Government Organisations (NGOs).

It has been some time since the NTAGO specifically reviewed payments to NGOs by DHCS. The last audit was in 1998, which was a compliance audit of the grant acquittal process.

This audit was conducted in the context of a restructure within DHCS, a new strategy framework and a recent internal audit of contractual management of the Coordinated Care Trial provided by the Tiwi Health Board (an NGO).

Restructure within DHCS

With effect from 1 July 2003, DHCS replaced its Funder/Purchaser/Provider model with a program based structure which established three new Territory wide program divisions and four corporate divisions. These divisions and units are as follows:

Three Program Divisions

- Community Services
- Health Services
- Acute Care Services

**Matters arising from performance management system audits
DHCS – Management of NGOs in the Delivery of Health Services**

Restructure within DHCS – continued

Four Corporate Divisions

- Strategic Policy and Finance Services
- Organisation Development and Performance
- Office of Aboriginal Health
- Information Services

Under this new structure, the management of NGOs is undertaken jointly by the Community Services Division (Policy and Partnerships subdivision) and the various programs under the Community Services, Health Services and Acute Care Services Divisions.

New strategy framework

On 16 February 2004, DHCS unveiled a new 5-year (2004 to 2009) strategy framework, “Building Healthier Communities”, with the objective of delivering better health and well being for all Territorians. This framework included the identification of the following NGOs-related objectives:

- Resource community sector and peak bodies so that they can contribute their expertise to the DHCS’ joint work;
- Focus the funding priorities for non-government organisations on the contemporary needs of Territorians; and
- Work with the non-government sector to look at strategies for ensuring that it continues to deliver quality, sustainable services, including ways of enhancing training and support for workers.

Internal Audit

An internal audit was completed in 2003 to determine whether the current processes and systems within DHCS were robust enough to allow DHCS to respond to any risk arising from the Coordinated Care Trial provided by the Tiwi Health Board (an NGO). The “Assessment of the Contractual Management of Tiwi Health Board” report issued in November 2003 highlighted weaknesses in the DHCS internal administrative mechanisms relating to the process of NGO management.

Audit objective and scope

The objective of this audit was to determine whether the performance management systems of DHCS enable management to assess whether its objectives in relation to the utilisation of NGOs are being achieved effectively, and with regard to efficiency and economy.

The audit was not directed to forming an opinion on the accuracy of the reports and documentation arising from DHCS’ performance management systems.

**Matters arising from performance management system audits
DHCS – Management of NGOs in the Delivery of Health Services**

Audit findings

Opinions

DHCS has been conscientiously seeking refinements in its NGO process management. However, for DHCS' performance management systems to be sufficient for it to assess whether its objectives in relation to the utilisation of NGOs are being achieved effectively, and with regard to efficiency and economy, the following areas need improvement:

- the corporate objectives in respect of NGOs need to be clearly defined across all programs;
- the performance measures need to be written in comprehensive and measurable terms, and aligned to each business goal; and
- the methodology utilised to collate the required information for the performance measures needs to be clearly identified.

Specific findings

The audit acknowledged that DHCS has been conscientiously seeking improvements in their focus on NGO management and took this into account when performing the audit. However, the overall finding confirms the weaknesses in DHCS' internal control systems as identified by an internal audit and that DHCS has made some, but insufficient progress in its desire to implement an effective, efficient and economical NGO management system.

Factors critical to the success of NGO management in the delivery of health services are considered to include:

- The establishment of performance expectations and related performance measures of NGOs documented in agreements with them. The performance expectations would be expected to be consistent with the objective of delivering better health and well being for all Territorians;
- The mechanisms to determine the quantum of public sector funds to allocate to each NGO and the associated outputs;
- The implementation of comprehensive policies and procedures in the management of NGOs;
- The recruitment of experienced and competent personnel to manage the NGOs;
- The conduct of regular and useful training for all employees responsible for managing NGOs (including the reinforcement of compliance policies);
- The efficient and adequate monitoring of the performance of the NGOs; and
- The maintenance of accurate and timely reporting of results including performance measures.

The audit findings revolve around the above critical success factors. These findings are focused initially on the NGO process management system, including its assessment of objectives being achieved effectively, economically and efficiently. Additional NGO-related findings in relation to the organisational structure and strategic planning are summarised thereafter.

**Matters arising from performance management system audits
DHCS – Management of NGOs in the Delivery of Health Services**

NGO Process Management

The following issues in the NGO process management were identified:

- the adequacy and use of the Operating Framework governing the NGO management process were lacking in some instances;
- the Quality Control Checklists used to ascertain a high level of quality assurance of the NGO process management were not completed in some instances, nor were they completed in full in other instances;
- the custody of the service agreements was unclear for some NGOs;
- the reliability, use and completeness of the Tracking device, which is used to monitor the receipt of and the status of the required documents from the NGOs were noted to be lacking;
- the analysis of the financial statements and performance reports from the NGOs could be improved;
- the absence of establishing with the NGOs useful performance measures, which should be aligned clearly to DHCS' strategy and goals;
- the lack of formal, standardised and adequate procedures in respect of extensions provided to NGOs for the submission of their financial statements and performance reports;
- the risk of management/director override in respect of authorisation for payments in relation to already withheld payments;
- the absence of an automatic logout function within the Oracle CIAS payments system;
- the lack of a comprehensive and centralised form of communication database between DHCS and the NGOs;
- the absence of a formal key contact person at DHCS especially for NGOs with multi-programs;
- insufficient formal communication channels between DHCS and some NGOs; and
- the lack of a formal and independent program evaluation.

(refer recommendations 1 & 2)

Administrative Management of NGOs by NGO Systems and NGO Finance

All purchases of services from NGOs are required to undergo the NGO administrative checks through NGO Systems and payments through NGO Finance. NGO Systems and NGO Finance support the various programs, provide key administrative functions in relation to the administration of service agreements, payments to NGOs and maintenance and development of the processes and systems used for the purchase of services from NGOs.

**Matters arising from performance management system audits
DHCS – Management of NGOs in the Delivery of Health Services**

Administrative Management of NGOs by NGO Systems and NGO Finance – continued

However, there were instances during the financial year where some purchases of services were not internally managed by NGO Systems and/or NGO Finance. For four service providers it was noted that the quality control checks as required for service agreements were not undertaken. It was also noted that payments made to one service provider were not made through NGO Finance. These findings suggest that the NGO management process was not streamlined across all programs/divisions. These findings were consistent with the internal audit report that some purchases of services “were not required to follow any business rules”.

It was also noted that the job descriptions of the officers from NGO Systems and NGO Finance had not been fully updated to reflect the new organisational structure/titles. (*refer recommendation 3*)

Strategic planning issues relating to NGO Management

- Business Plans

With the unveiling of the new Strategy Framework, “Building Healthier Communities” in February 2004, DHCS was at the time of the audit undergoing its business planning process. Draft business and operating plans were established but not finalised. A review of some of the new/draft business and operating plans revealed the following issues:

- There were inconsistencies in the requirements of information relating to NGOs in these plans across divisions and programs;
- The objectives in the business plans were not clearly aligned with the strategy of DHCS; and
- These plans did not appear to include human resources/personnel, IT and other resource requirements.

The planning documentation also did not clearly state the NGO-related objectives and performance measures for all divisions/programs, which are involved in the management of NGOs. (*refer recommendation 4*)

- Risk Management Plan

DHCS conducted an interactive Strategic Business Risk Assessment workshop in November 2003 and drafted a risk assessment plan as a result. DHCS advised that this risk assessment would not be completed until the finalisation of the new business plans. Although the NGO-related strategic risk and corresponding risk management plan were identified in the draft risk assessment plan, there was an absence of concrete step-by-step plans (including timeframes) to achieve the objectives as stipulated in the risk assessment plan. The risk of the objectives in the risk assessment plan not being achieved may arise as a result. (*refer recommendation 5*)

**Matters arising from performance management system audits
DHCS – Management of NGOs in the Delivery of Health Services**

Reporting of Performance of NGOs in the Delivery of Health Services

The NGO-related information and performance measures reported in the Annual Reports for 2001/02 and 2002/03 did not address all NGO activities in all divisions/programs. This may reflect a lack of transparency and comprehensiveness.

Recommendations

1. DHCS should review its management of NGO process for adequacy and implement enhancements to the process on a regular basis to ensure that the risks identified are mitigated.
2. DHCS should clearly define what NGOs are and the types of purchases that require the NGO management process, such that consistency in the NGO process management is streamlined across the programs/divisions. This would allow a higher level of quality assurance and scrutiny to be achieved by DHCS.
3. DHCS should also review its organisational structure to ascertain the effectiveness of NGO Systems and NGO Finance. With the restructuring of the Department, DHCS should review all job descriptions and ensure that they have been updated to reflect the new corporate structure.
4. DHCS should ensure that the final business and operating plans are clearly aligned with the strategy as outlined in the framework and that the requirements of information in these plans are consistent across the Department. The planning documentation should clearly state the NGO-related objectives and performance measures for all divisions/programs which are involved in the management of NGOs; and
5. DHCS should ensure that the risk management plan provides sufficient details in respect of how the stipulated objectives can be attained.

DHCS has commented:

Non-Government organisations play a significant role in the delivery of health and community services in the Northern Territory and this Department is committed to improving service outcomes and clarity of mutual expectations in our relationships with these organisations.

DHCS strongly supports the Auditor-General's conclusions and will ensure that the Department's current review of the management of non-government organisations addresses all of the recommendations included in the Audit. The CEO has instructed the Assistant Secretary responsible for Community Services, in consultation with the Assistant Secretary responsible for Organisational Performance, to issue all senior managers with clear expectation of standards and procedures for the management of non-government contracts. The CEO has also made clear to senior managers that under the new program based structure they are responsible for compliance with these procedures and standards.

The Assistant Secretary of Community Services is due to report back to the Executive in August, 2004.

Matters arising from performance management system audits

Northern Territory Police Fire and Emergency Services

PROMIS

KEY FINDINGS

- ◆ **A number of weaknesses were found in the System Development Life Cycle process for the PROMIS system. It was however pleasing to note that performance of the PROMIS system has significantly improved since its implementation.**

Background

PROMIS was last subject to audit by the NTAGO in 2000.

PROMIS is a case management system developed and maintained by the Australian Federal Police (AFP) which was implemented by NTPFES in 1999.

Since PROMIS was implemented, there have been a number of significant performance issues, which have generated criticism from NTPFES users. A number of these issues were addressed during 2001 and 2002 through software upgrades and functionality enhancements provided by the Federal Police.

NTPFES identified that the underlying hardware needed to be upgraded to support the software. Hardware upgrades have continued since 2003.

Audit objectives and scope

The objective of the audit was to identify and evaluate the System Development Life Cycle (SDLC) methodology in use by NTPFES for the PROMIS system. A key focus of the audit was to consider the actions taken by NTPFES to address issues associated with PROMIS and to consider additional actions required to address performance and functionality.

Audit findings

Opinion

A number of weaknesses were found in the SDLC process for the PROMIS system. It was however pleasing to note that performance of the PROMIS system has significantly improved since its implementation.

Key findings

Post Implementation Review

There has not been any formal post implementation review performed over the PROMIS system, to assess the extent to which the system has met its objectives and to measure the success of the implementation project. The lack of a post implementation methodology as part of the SDLC was raised in an audit report in 2000. (*refer recommendations 1, 2 and 3*)

**Matters arising from performance management system audits
Northern Territory Police Fire and Emergency Services – PROMIS**

Post Implementation Review – continued

Subsequent to the finalisation of the audit NTPFES advised that a review of PROMIS had been performed by an IT service provider in November/December 2000. This information was not made available at the time of the audit, a copy of the review report has not been provided and has not been tested.

Developments Federally

The AFP has recently transitioned the PROMIS system to run within a .NET environment. This version provides improved usability and access. NTPFES are intending to adopt this upgrade path during 2004 to ensure continued version support by the AFP.

NTPFES are undertaking a project to rapidly implement patches and updates to the PROMIS system from the previous seventeen months so that the NTPFES version will be ready for transition to the .NET version. These upgrades were delayed due to a late upgrade to the underlying Oracle database (due to hardware delays) that was required in order to implement the PROMIS patches. NTPFES are expected to be up to date with patches to the .NET version by June 2004.

Adequacy of Network Performance

The most significant concern regarding performance of the PROMIS system is the adequacy of network performance between the PROMIS servers and Police branches. A number of Police branches, such as Casuarina and Alice Springs, are connected to the PROMIS environment via low bandwidth connections which are used for Internet, email, file sharing, PROMIS and other applications which slows the performance of PROMIS. There are also no network mechanisms in place to manage prioritisation of network traffic (eg thereby providing priority for PROMIS traffic over other less critical traffic).

NTPFES have expressed concerns with network performance to DCIS and Optus. DCIS are currently developing a network strategy to identify future network requirements for the NT Government. This strategy is being developed as part of the preparation for the renewal of the telecommunications outsourcing contract in mid 2005. The strategy will be implemented over a period of several years, after mid 2005, and is likely to incorporate infrastructure and software upgrades to increase the bandwidth of core network links (including links to Police Stations) throughout Government and to establish network traffic prioritisation facilities.

System customisation

NTPFES are adopting the strategy of minimising the level of customisation within PROMIS to improve compatibility with future upgrades. This also helps to minimise the support costs for the application as customisation is performed by the AFP at an hourly charge.

Change management

Robust change management processes are in place to ensure that changes to the PROMIS system and underlying Oracle database are authorised and tested prior to being implemented.

Matters arising from performance management system audits Northern Territory Police Fire and Emergency Services – PROMIS

Training in the use of PROMIS

Discussions with users and PROMIS support personnel have confirmed that user training was provided as part of the implementation project. In addition, support personnel are visiting Police branches to provide one-on-one assistance and training to personnel. There are concerns that a number of users within NTPFES have a low level of computer literacy and may not be using the application to its full potential. There is currently no program in place to hold regular refresher sessions for users to attend who are still not comfortable with the PROMIS system. (*refer recommendation 4*)

Recommendations

1. Post implementation reviews should be conducted for all significant projects and system implementations.
2. Consideration should be given to developing and endorsing a post implementation review (PIR) methodology. The PIR methodology should include, but not be limited to, the following areas:
 - Achievement of objectives (including identification, measurement and reporting on agreed performance standards or targets);
 - Benefits realised from the project;
 - Budget analysis;
 - User satisfaction;
 - Lessons learned from the project; and
 - Issues outstanding from the project.
3. In addition, evaluations of significant application systems should be performed as part of the three yearly program evaluations. This will ensure that applications are effectively supporting NTPFES on an ongoing basis.
4. A formal training program be established and ensure it is available for all users who require further training in the PROMIS application.

NTPFES has commented:

NTPFES agrees to and accepts all the recommendations contained within the report.

The implementation of the recommendations will proceed subject to resource allocation and emerging priorities. Additional PROMIS training facilities have been provided within the Peter McAulay Centre and this facility will significantly improve the provision of PROMIS training. It is intended that the Information Communications and Technology (ICT) Branch will develop the methodology inherent in recommendation (2) prior to any further post implementation review of PROMIS (or other significant ICT projects).

Matters arising from performance management system audits
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Department of Employment, Education and Training**Learning and Technology in Schools (LATIS)****KEY FINDINGS**

- ♦ **As the LATIS program has progressed over the past three years, DEET now has an established performance management system for the LATIS program which:**
 - **enables it to assess how well the LATIS program is performing and meeting the program’s (and DEET’s) objectives; and**
 - **is linked to its business plan, to adequately monitor the performance of the LATIS program.**

Background

The LATIS program commenced in 2001 and was anticipated to run for three years. The Department of Employment, Education and Training (DEET) website documents that the purpose of the LATIS program is “to improve student access to information technology to improve learning outcomes by transforming, enhancing, enabling and amplifying education programs through the use of technology”.

In order to achieve its purpose the following LATIS program objectives were set:

- to provide training for teachers (Professional Development);
- to introduce a Territory wide online network for schools giving much improved Internet and email services, digital curricula and sharing of software (Online Curriculum, Telecommunications);
- to make sure schools have flexible options and choices for workstations and local area networks (Workstation Architecture);
- to support schools through technical and helpdesk services (Infrastructure Support);
- to join with existing compatible technology to avoid duplication or waste (Workstation Architecture); and
- to work in synchronisation with school information technology and action planning (MANTIS).

The LATIS program collected baseline information from schools in the use of IT in the learning environment prior to commencing the rollout of the program.

Audit objectives and scope

The audit objective was to assess whether the performance management system enables DEET to assess how well the LATIS program is performing and meeting the program’s (and DEET’s) objectives and, in so doing, how well efficiency, effectiveness and economy are addressed.

**Matters arising from performance management system audits
Department of Employment, Education and Training – LATIS**

Audit findings

Opinion

Initially DEET's performance management systems for the LATIS program were not adequate, leading to the perception that the LATIS program was not achieving its objectives.

However, as the LATIS program has progressed over the past three years, DEET now has an established performance management system for the LATIS program which:

- enables it to assess how well the LATIS program is performing and meeting the program's (and DEET's) objectives; and
- is linked to its business plan, to adequately monitor the performance of the LATIS program.

Specific findings

Nature and management of the LATIS project

The LATIS project is complex and has been operating for several years. At its inception in very broad terms the project's objective was to have a 10:1 student hardware ratio which would be maintained via leasing rather than owning the hardware.

In order to achieve this broad objective several sub objectives had to be met addressing:

- Roll out of technology;
- Establishing support;
- Establishing Internet access; and
- Establishing professional development regimes for teachers.

The first three of the sub objectives were also addressed for non government schools (NGS) by a separate memorandum of understanding such that the NGS were bound into the project as well.

Roll out of technology

CSM have the contract to supply the technology – servers, work stations, help desks software and change management. A service level agreement (SLA) is in place and it contains performance criteria. CSM's performance under this contract is overseen by a DEET outsource manager. CSM's performance also forms part of the responsibilities of the Department of Corporate and Information Services' operations manager for whole of government. As such DEET has a satisfactory performance management system in place to monitor the roll out of the technology.

Establishing support

Support is provided via IT Coordinators (ITCs). Every (school) site has a certified ITC. Under the requirements of the CSM/Optus contracts, CSM run courses to provide this training/certification.

**Matters arising from performance management system audits
Department of Employment, Education and Training – LATIS**

Establishing support – continued

DEET's Manager on Line Services monitors the ITCs' capabilities and performance via feedback provided by CSM (CSM wish to protect their SLA positions and therefore monitor the ITCs). Customer surveys of the teachers and principals are also carried out by DEET.

As such DEET has a satisfactory performance management system in place to monitor the levels of ongoing IT support.

Establishing Internet access

Internet access for schools and communications (email) was achieved by the establishment of the schools' network using wide area communications.

Delivery to schools is via Optus under a variation to the whole of government advance communication strategy. This specifies standard products, access and support.

Performance under the "Optus" contract is formally monitored by DCIS, but is also monitored by DEET, particularly service levels. DEET receives usage reports and also receives user feedback on speed times and turnaround.

Establishing professional development (PD) regimes for teachers.

The PD regime/requirements are divided between DEET's PD branch and LATIS project management. The funding of teachers' IT PD is controlled via LATIS with the principal aim of lifting teachers' competency levels. DEET spends approximately \$1.6 million annually on professional development (PD).

Initially the LATIS program PD was geared around teachers acquiring basic IT skills relating to the use of the hardware and the software. No skills audits were performed and no audit of the impact of the IT PD at classroom level was undertaken. The IT PD had no pedagogical foundation, it was not specifically aimed at how student outcomes could be enhanced.

A curriculum framework has now been developed which seeks to develop a learning continuum and enhance educational practice. The emphasis is now on widening the use of IT so that it is seen as an enabler, not just an information recording medium.

Collection of performance data and distribution of performance information

There are agreed escalation protocols and procedures in place for matters covered by the IT service contracts eg duration and extent of outages.

Performance is monitored through meetings between CSM, DEET IT staff and school principals. CSM are aware of DEET's changing emphasis away from IT infrastructure towards using IT as a teaching and learning tool.

Teachers' training and movements are monitored and a database by school is maintained which contains profiles for the school (people, activity and outcomes).

Aspects of the LATIS program are monitored. For example, statistics for a school's portal, - principals can see which teachers log on, frequency of use, who has used it and for how long.

Matters arising from performance management system audits

Department of Health and Community Services

Performance reporting in the Agency's 2002/03 annual report

KEY FINDINGS

- ♦ **The performance outputs for the Department of Health and Community Services (DHCS), as identified in Budget Paper No. 3 2002/03, have all been reported in its 2002/03 annual report. What is not clear, however, is how the reported outputs demonstrate achievement of DHCS aims and objectives.**

Background

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

Audit objectives

The objective of the audit was to review how the Department of Health and Community Services (DHCS) reported on its performance in its 2002/03 annual report.

The audit had two distinct stages.

- an analysis of how DHCS identified and reported in its 2002/03 annual report (the annual report) on the achievement of its performance outcomes with reference to the Report on Government Services 2004 (the 2004 Report); and
- a comparison of the performance measures reported in the annual report to those originally included in the budget papers for 2002/03.

The audit did not verify any performance measures back to the Agency's supporting systems. Nor did it form an opinion as to whether the measures were appropriate.

The audit also assessed compliance by DHCS with Treasury circular number B03-03/04 issued in August 2003 which dealt with "Reporting output performance in Agency annual reports" and assessed compliance with Section 28 of the *Public Sector Employment and Management Act*.

Audit Opinion

The performance outputs for DHCS, as identified in Budget Paper No. 3 2002/03, have all been reported in its 2002/03 annual report. What is not clear, however, is how the reported outputs demonstrate achievement of DHCS aims and objectives.

As illustrated in key findings, scope exists for DHCS to improve the reporting of its performance.

**Matters arising from performance management system audits
DHCS – Performance Reporting**

In drawing these conclusions, it was noted that at the time of the preparation of the DHCS annual report for 2002/03 the Agency had a new management team, which had still to finalise its strategic objectives.

Key Findings

Compliance with Treasury Circular B03-03/04

DHCS has complied with this circular to the extent that all of the outputs detailed in the 2002/03 Budget Paper No. 3 were reported against in the annual report. However, the annual report does not fully address the requirements of Section 28 of the *Public Sector Management and Employment Act* in that the report, whilst comprehensive, did not fully address the Agency’s efficiency and effectiveness.

These two terms are defined in Auditing Standard AUS 806 “Performance Auditing” issued by the Australian Accounting Research Foundation as follows:

- .04 “Efficiency” means the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- .05 “Effectiveness” means the achievement of the objectives or other intended effects of activities.

Efficiency

The annual report contains a number of measures of efficiency within the outputs reported in pages 61 to 139 and they can be linked to Budget Paper No. 3 and to DHCS’ seven output groups. However, the efficiency measures could not be reconciled to DHCS’ total expenditure: For example

Comprehensiveness of reporting on the efficiency of DHCS’ services

Efficiency measures reported	Output Group – Hospital Services \$’000	Output Group – Community Health Services \$’000
In Performance Reporting section:		
Output 1 WIES variable costs	42,486*	
Output 2 Non-admitted patient services	Nil**	
Total expenditure	286,950	
In Performance Reporting section:		
For the one output reported		50,002
Total expenditure		117,945
Cost of activities not reported	244,464	67,943

Weighted Inlier Equivalent Separations (WIES) is a measure of admitted inpatient activity that varies according to diagnosis and length of hospital stay.

* A large component of the cost of a weighted separation is fixed costs whereas the WIES reported includes variable costs only.

** No cost measures were reported.

DHCS should develop and report measures of cost that more comprehensively address all of the costs of providing health services. (*Refer recommendation 1*)

**Matters arising from performance management system audits
DHCS – Performance Reporting**

Effectiveness

In order for the annual report to demonstrate DHCS' achievement of its objectives or other intended effects of activities, it is necessary for the annual report to state what DHCS' objectives are. At the commencement of each of the reports on output groups, aims of each group are recorded. For example – hospital services aims “To improve the health and well being of those in the Northern Territory community who require acute or specialist care”. This has been taken to mean that this aim is the outcome intended from the activities of the output groups reported as demonstrated by the individual outputs reported.

However, not included in the annual report are:

- how the outcomes (or aims) are intended to achieve an overarching objective (or outcome) for DHCS as a whole. The annual report contains no such overarching objective;
- clear descriptions of how successful achievement of the aims is defined or how they are to be measured; or
- how the individual outputs demonstrate achievement of the recorded outcomes (aims). For example, there is no clear link as to how the information reported about acute admitted patient services and non-admitted patient services delivered achieve the aim of “improving the health and well being of those in the Northern Territory community who require acute or specialist care”.

(refer recommendation 2)

Comparison between reported performance information and the Report on Government Services 2004

In order to form a view of what, if any, additional output indicators DHCS could have reported in order to more comprehensively report its effectiveness and efficiency outputs and to enable it to more clearly draw the link between outputs and outcomes, reference has been made to indicators reported in the 2004 Report on Government Services.

A comparison was done between public hospital performance indicators reported in the DHCS annual report and those performances reported by the NT in the 2004 Report.

On the assumption that:

- a) the output indicators included in the 2004 Report are regarded nationally as representative of effectiveness, efficiency and equity; and
- b) efficiency, effectiveness and equity are valid indicators of performance in delivering objectives,

then, without going into the detail (which has been provided to DHCS) there are a number of indicators that DHCS could be reporting in its annual report, which will more clearly demonstrate:

- achievement of the aim of “improving the health and well being of those in the Northern Territory community who require acute or specialist care”; and
- which areas of health care have benefited from the total output cost of \$287 million spent on this output group.

**Matters arising from performance management system audits
DHCS – Performance Reporting**

Compliance with Treasury’s model financial statement format for Agencies

The financial statements included in the annual report did not contain a note 2 “Statement of Financial Performance by Output Groups” although reference is made to this note in the Statement of Financial Performance. Treasury’s model financial statements anticipated inclusion of this information, which is as an essential component of the outputs reporting framework. (*refer recommendation 3*)

Other Findings

During the course of conducting this PMS audit, the following matters were noted.

Budget management

The annual report includes under the Performance Reporting section regular references to variations from initial budget being

“... due to several factors which are detailed in Table 23 at the end of the Performance Reporting section”.

Table 23 provides a useful summary of budgetary changes made to the various output groups and details of the additional funding sources to meet increased expenditure. This table also shows that actual expenditure was very much in line with the amended budget. What it does not do, however, is:

- ◆ detail the extra outputs, if any, delivered from the additional spending; or
- ◆ detail the line by line impact on operating expenses. For example, how much extra was spent on salaries and wages, on grants or on repairs and maintenance.

(*refer recommendation 4*)

Structure of the Annual Report

The report contains most informative details in sections headed “Central Australian Service Network”, “Top End Service Network” and on “Aboriginal Health”. What is not clear, however, is how this information contributes to DHCS’ output groups or to its aims and objectives.

In addition, it was difficult to identify the DHCS’ total investment in Non-Government Organisations (NGOs). It is understood that NGOs are managed by various programs and output groups within DHCS. The annual report does not summarise all NGO activities in one place making it difficult to determine the full investment, to compare this with budget or to prior years.

Recommendations

1. DHCS should develop and report measures of cost that more comprehensively address all of the costs of providing health services.
2. DHCS develop aims and objectives consistent with the Northern Territory Government’s policy objectives for health and then establish performance measures that can be reported to demonstrate achievement or otherwise.
3. DHCS comply with the Treasury’s model financial statements for Agencies in full.
4. DHCS broaden the analysis of its financial performance by including more comprehensive narrative and interpretation of its financial results including performance against original budget.

**Matters arising from performance management system audits
DHCS – Performance Reporting**

DHCS has commented:

The Department is committed to delivering and reporting on health and community services outcomes in addition to the required outputs. The Departmental Executive supports the Auditor General's conclusions which led to the commissioning of the work on outcome and output reporting. Since the beginning of 2004 there has been a sub-committee of Executive working on improving our outcome reporting and importantly our linkage of output reporting to identified outcomes.

The 2004/05 budget output measures were revised to be both more meaningful and cover a higher proportion of expenditure.

There is of course a public policy issue about the relative priority to be given to the extent that output measures reflect strategic outcomes or whether they should simply cover the highest possible proportion of output costs. Ideally the improvement of measures should achieve both goals. However, sometimes it is inevitable, given the limited number of measures feasible, that to some extent a choice has to be made between these two ideal goals.

Nonetheless the Executive of the Department is committed to pursuing both goals to the fullest extent possible.

The Department's 2003-04 Annual Report will incorporate Government's new policy objectives and outcomes for health, Building Healthier Communities (launched February 2004) as well as more comprehensive narrative and interpretation of financial results.

Matters arising from performance management system audits

Northern Territory Police Fire and Emergency Services

Performance reporting in the Agency's 2002/03 annual report

KEY FINDINGS

- ◆ **The achievement of the performance outcomes for the Agency as listed on page 30 of the annual report of:**
 - ◆ **enhanced community safety and protection;**
 - ◆ **safer, fairer and expeditious handling of persons involved in the judicial system; and**
 - ◆ **road users behave safely and lawfully;**
- is not clearly articulated within the annual report.**

Background

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

Audit objectives

The objective of the audit was to review how Northern Territory Police, Fire and Emergency Services (NTPFES) reported on its performance in its 2002/03 annual report.

The audit had three distinct stages.

- an analysis of how NTPFES identified and reported in its 2002/03 annual report (the annual report) on the achievement of its performance outcomes with reference to the Report on Government Services 2004.
- a comparison of the performance measures reported in the annual report to those originally included in the budget papers for 2002/03; and
- verification of a selection of performance measures back to the Agency's supporting systems.

The audit did not form an opinion as to whether the measures were appropriate. Nor did the audit verify the targets where these were provided.

Audit Opinion

The achievement of the performance outcomes for NTPFES as listed on page 30 of the annual report of:

- enhanced community safety and protection;
 - safer, fairer and expeditious handling of persons involved in the judicial system; and
 - road users behave safely and lawfully;
- is not clearly articulated within the annual report.

**Matters arising from performance management system audits
NTPFES – Performance Reporting**

Audit Opinion – continued

Whilst many of the output quality performance indicators listed in the budget papers and the annual report are more appropriate to measuring performance outcomes this linkage is not drawn to the readers' attention. Nor is any link provided to the statistical information on pages 100 to 139 of the annual report, which could also be used in assessing performance outcomes. (*refer recommendations 1 and 5*)

Notwithstanding the significant effort by NTPFES staff to compile the output performance data reported, both quarterly to Treasury and annually, a number of deficiencies in the reporting in the annual report were noted. In particular:

- The targets for the year as shown in the annual report are the revised targets as determined during the budget review process and not the original targets as shown in the Budget Papers tabled in the Legislative Assembly. Where a change in the target has occurred no indication is provided in the annual report of the change. (*refer recommendations 2 and 6*)
- No explanation is provided in the annual report to identify the reason for significant variances between the actual, target and/or estimated actual. (*refer recommendations 3 and 4*)
- There is little to no explanation as to how the particular output contributes to the achievement of the required outcome.

Key Findings

Achievement of the NTPFES' performance outcomes is not clearly articulated within the annual report.

NTPFES clearly shows the linkage of the NT Government's social policy of "Building a Safe and Secure Community" to the performance outcomes, output groups and outputs on page 29 of the annual report. However there is no articulation of the expectation for each of the three performance outcomes and whether those expectations have been met.

The current phase of the introduction of the Working for Outcomes framework on output reporting appears to be to the detriment of outcome reporting. A look back to the NTPFES' 1998/99 annual report showed a time when the Agency provided trend and benchmark data for a number of outcome measures. This information while still needing further development attempted to comply with section 28 (2) (d) of the *Public Sector Employment and Management Act*, which requires a Chief Executive Officer of an Agency to report on the Agency's operations, initiatives and achievements (including those relating to planning, efficiency, effectiveness and performance and, where appropriate delivery of services to the community). The 2002/03 report appears to lack this emphasis.

Each of NTPFES' expected outcomes is discussed further in the following pages. The Report on Government Services 2004 was used as a reference source to identify what the industry has determined to be the relevant performance indicators to measure effectiveness for the various outcomes.

**Matters arising from performance management system audits
NTPFES – Performance Reporting**

i) Enhanced Community safety and protection

Output 1 – Community safety, crime prevention and victim support

The Report on Government Services 2004 identifies that the effectiveness of Police Services in regard to ‘Community Safety and Support’ is currently assessed across jurisdictions on a comparable basis by performance indicators that measure:

- perceptions of safety;
- perceptions of crime problem;
- reported crimes; and
- crime victimisation.

The NTPFES’ annual report includes in the list of performance indicators for output 1 two Key Performance Indicators (KPIs) that deal with the community’s perception of safety.

- Members of the public aged 18 years and over who felt safe or very safe at home alone during the day; and
- Members of the public aged 18 years and over who felt safe or very safe at home alone after dark.

For both KPIs the NT score reported in the annual report was lower than the target and the national average yet no explanation was provided to indicate the significance of this.

At the back of the annual report amongst the statistical information listed are the details of offences recorded for the current and previous year. No attempt is made to interpret this data or to link it back to the policy outcome of enhanced community safety and protection.

Output 2 – Response and recovery services

In relation to Police Services the Report on Government Services 2004 identifies satisfaction with police services as relevant to all areas of Policing and not specifically to any one output group. However, the annual report identifies the percentage of respondents who were “satisfied” or “very satisfied” with police in their most recent contact as a performance measure for output group 2.

It is within this output group that the majority of output performance indicators for fire services are listed in the annual report.

The Report on Government Services 2004 separately reports on Emergency Management, which includes fire and ambulance services, and lists the following four KPIs as relevant to the effectiveness of fire services:

- fire death rates;
- fire injury rates;
- median \$ losses from structure fire; and
- total property losses from structural fire.

Statistics for all four KPIs are listed for the NT in the Report on Government Services 2004.

**Matters arising from performance management system audits
NTPFES – Performance Reporting**

i) Enhanced Community safety and protection – continued

The annual report includes the value of total property loss due to fire with a reference to the percentage change from the previous year. The other three KPIs are not disclosed in the annual report.

ii) Safer, fairer and expeditious handling of persons involved in the judicial system

Output 3 – Investigations

The Report on Government Services 2004 identifies that the effectiveness of Police Services in regard to ‘Crime investigation’ is currently assessed across jurisdictions on a comparable basis by performance indicators that measure:

- outcomes of investigations – personal crimes; and
- outcomes of investigations – property crimes.

The annual report includes within the performance reporting for output group 3 statistics relating to both of the above KPIs. Other than comparison to the prior year national average no explanation is provided to explain the significance of the result.

Output 4 – Services to the Judicial Process

The Report on Government Services 2004 identifies that the effectiveness of Police Services in regard to ‘Services to the Judicial System’ is currently assessed across jurisdictions on a comparable basis by the performance indicator that measures:

- deaths in police custody and custody related operations.

No information is provided in the annual report on deaths in custody.

The Report on Government Services 2004 also identifies three further indicators that are not complete or strictly comparable. These are:

- proportion of lower court cases resulting in guilty plea;
- proportion of higher court cases resulting in guilty finding; and
- proportion of diversions (juvenile).

The KPI “actions which result in a guilty verdict”, is listed in the Budget Papers as a quality output measure with an expectation of 80%. However, in the annual report the target, estimated actual and actual are all identified as not available. This contradicts the 2003/04 Budget Papers, which publishes estimates for both 2002/03 and 2003/04.

The annual report includes within the performance reporting for output group 4 statistics relating to juveniles diverted from court in 2002/03. The statistics do not however provide comparison to prior years or expected results or provide any analysis of what a 48% juvenile diversion rate means to the effectiveness of the outcome.

**Matters arising from performance management system audits
NTPFES – Performance Reporting**

iii) Road users behave safely and lawfully

Output 5 – Road safety services

The Report on Government Services 2004 identifies that the effectiveness of Police Services in regard to ‘Road safety and traffic management’ is currently assessed across jurisdictions on a comparable basis by performance indicators that measure:

- use of seat belts;
- driving under the influence;
- degree of speeding;
- road deaths per 100,000 registered vehicles;
- land transport hospitalisations per registered vehicles; and
- perception of road safety problems.

The annual report includes in the list of performance indicators for output 5 the following KPIs:

- persons who wore a seat belt “most of the time’ or “always”;
- persons who indicated never driven over 0.05; and
- persons who indicated never driven 10km/h over speed limit.

For all three indicators listed the results published are less than the national average yet no analysis or explanation is provided.

On page 139 of the annual report the number of fatalities by road type user for the last five years is provided. No attempt is made to interpret this data or to link it back to the policy outcome of “road users behave safely and lawfully”.

NTPFES does include within the performance section of the annual report a table of Southern Region accident statistics for January to June 2004. No explanation is provided as to why only the Southern Region and why only six months of the year are reported.

The annual report does not appear to report on land transport hospitalisations or perception of road safety problems. The KPIs are reported for the NT at the national level although the information is one year in arrears.

**Matters arising from performance management system audits
NTPFES – Performance Reporting**

Verification of selected Performance Measures

A sample of performance measures were selected from the NTPFES 2002/03 annual report for verification back to supporting data.

Without going into the detail (which has been provided to NTPFES) the following observations were made:

- doubtful accuracy of some measures;
- data for some measures may not be complete;
- one measure was subjective;
- one instance of a difference between the reported outcome and the actual calculated outcome;
- one estimate being provided in budget papers but the annual report noting the measure was not available; and
- lack of explanation of significant differences between estimated and actual performance.

Recommendations

1. NTPFES should identify in the annual report what successful achievement of the listed outcomes would look like. Then by reference to specific outcome KPIs, relevant output KPIs and applicable crime and other statistics NTPFES should provide an assessment of its operational effectiveness.
2. The results for the year should be compared to the targets for NTPFES as originally published in the Budget Papers. If changes to output targets have been agreed with the Minister, then these changes should also be disclosed and where necessary explanations provided.
3. Any significant variances between actual and targets should be explained.
4. Where the actual fails to meet the target a notation should be provided to explain the implications, if any, on the achievement of the outcomes for NTPFES.
5. Further work needs to be done to identify those performance measures that best suit NTPFES. Once identified NTPFES needs to ensure that robust and challengeable systems are in place to collect the data required to calculate the KPI. In particular, the KPIs should be relevant as far as possible to management of the operational units so that they are more likely to take ownership of the data collected and of the performance achieved.
6. Output unit costs should be disclosed in the annual report with comparison to the estimated unit costs published in the Budget Papers with explanations provided for significant variances.

Matters arising from performance management system audits
NTPFES – Performance Reporting

NTPFES has commented:

NTPFES agrees to and accepts the recommendations in the report.

The concept of output reporting is a relatively recent initiative and with 18 months of experience behind it, the agency has convened a working party to review its performance reporting framework and recommend changes where appropriate. Examination of the current Key Performance Indicators (KPIs) will be a major task of the group, with particular reference to their suitability and the existence of systems to accurately collect the data required to calculate the KPIs.

It is anticipated that a number of the recommendations will be adopted for the 2003-04 Annual Report.

Matters arising from performance management system audits

Department of Corporate and Information Services

Performance reporting in the Agency's 2002-03 annual report

KEY FINDINGS

- ◆ **Progress made against each of the corporate strategies, as they relate to cost-effective corporate support services for Government agencies, is summarised in the annual report.**

Background

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

Audit Objective and Scope

The objective of the audit was to review how DCIS reported on its performance in its 2002/03 annual report.

The audit had three distinct stages.

- an analysis of how DCIS identified and reported in its 2002/03 annual report (the annual report) on the achievement of its performance outcomes;
- a comparison of the performance measures reported in the annual report to those originally included in the budget papers for 2002/03; and
- verification of a selection of performance measures back to the Agency's supporting systems.

The audit did not form an opinion as to whether the measures were appropriate. Nor did the audit verify the targets where these were provided.

The audit did not include DCIS' three GBDs.

Audit Opinion

The performance outcomes for DCIS as identified in Budget Paper No. 3 2002/03 are:

- cost-effective corporate support services for Government agencies; and
- cost-effective lease and facility management services to agencies.

DCIS identifies its critical success factors and corporate strategies, which include:

- value for money;
- satisfied customers;
- productive people; and
- working smarter.

**Matters arising from performance management system audits
DCIS – Performance Reporting**

Progress made against each of the corporate strategies, as they relate to cost-effective corporate support services for Government agencies, is summarised in the annual report. However, there is no specific reference to the performance outcome of “cost-effective lease and facility management services to agencies”.

Notwithstanding the significant effort by DCIS staff to compile the output performance data reported, both quarterly to Treasury and annually, a number of deficiencies in the reporting in the annual report were noted. In particular:

- The targets for the year as shown in Appendix B of the annual report are the revised targets as determined during the budget review process and not the original targets as shown in the Budget Papers tabled in the Legislative Assembly (*refer recommendations 1 and 2*);
- Different actual results for the same Key Performance Indicators (KPIs) are published in two locations in the annual report (*refer recommendation 3*); and
- Notional billing prices are reported as average unit cost.

Key Findings

There is no specific reference in the annual report to the performance outcome of “cost-effective lease and facility management services to agencies”.

Budget Paper No. 3 2002/03 clearly identifies the performance outcomes for DCIS as:

- cost-effective corporate support services for Government agencies; and
- cost-effective lease and facility management services to agencies.

The comment on page 15 of the annual report, which states that DCIS’ mission is “to add value to our customers’ business by providing responsive, quality, cost effective services throughout the Northern Territory”, is followed by a summary of the critical success factors and corporate strategies. There is no specific link within this summary to the outcome of “cost-effective lease and facility management services to agencies”.

Different actual results for the same Key Performance Indicators (KPIs) are published in two locations in the annual report.

On pages 172 to 176 of the annual report output performance measures as shown in Budget Paper No. 3 are listed with comparison of 2002/03 target (although this is the revised target), 2002/03 estimated actual and 2002/03 actual. Many of the performance measures listed are also included in the KPIs reported on pages 20 to 69. A comparison of these KPIs identified 14 reported differently in the two locations. The discrepancies in the KPI reporting could place doubt over the integrity of all of the DCIS’ performance reporting.

Notional billing prices are reported as average unit cost.

As advised at the commencement of the audit a decision was made by management to publish the notional billing prices for many of the products rather than the actual average unit cost. Not only is this a misleading labelling of the KPI it diminishes the KPI as a measure of the efficiency of the Agency in the delivery of the relevant product. Movement in the notional billing price may not necessarily reflect a similar movement in the unit cost. Any cross subsidy in the product pricing would negate the usefulness of the KPI. It is also interesting to note that 7 of the KPIs reported twice with different amounts concerned average unit costs.

Matters arising from performance management system audits DCIS – Performance Reporting

Verification of selected Performance Measures

A sample of performance measures were selected from the DCIS 2002/03 annual report for verification back to supporting data.

Without going into the detail (which has been provided to DCIS) the following observations were made:

- Performance indicators disclosed in two locations within the annual report with differing amounts shown;
- For two cases the reported outcomes could not be reconciled to the supporting data (*refer recommendation 4*);
- For three cases incorrect descriptions were given for the performance measures (*refer recommendation 5*); and
- The data for one performance measure is still being refined.

Other Findings

The information provided in pages 20 to 69 of the annual report is comprehensive and in years to come the comparative and target data should all be capable of being completed. However the following was noted:

- Computing the various quantity and cost measures did not always equal the “cost of delivering service” line; and
- Variations in results were not always explained.

Recommendations

1. For performance reporting in the annual report a clear link back to the Budget Papers should be provided.
2. The results for the year should be compared to the targets for the Agency as originally published in the Budget Papers. If changes to output targets have been agreed with the Minister, then these changes should also be disclosed and where necessary explanations provided.
3. Greater care should be taken to ensure KPIs are correctly published.
4. Further effort needs to be undertaken to refine and improve those KPIs that are not currently supported by robust systems to collate the data necessary to calculate the particular KPI.
5. The basis for the calculation of a KPI should reflect the description given for the KPI.

DCIS has commented:

On the issue of notional billing prices reported as average unit cost, DCIS believes prices are more relevant and are derived from an analysis of costs and do not include a profit margin. Treasury has since approved a change to the basis of our KPI reporting to price rather than costs.

KPI's will be correctly published in future annual reports.

**Appendix 1 – Audit opinion reports issued since
31 December 2003**

	Date 2003 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2003	Date of Audit Report Year ended 31 December 2002
Entities with specific Legislation or Trust Deeds			
Charles Darwin University	Not yet tabled	24 June 2004	26 June 2003
Charles Darwin Foundation (a company limited by guarantee)	N/A	19 March 2004	11 March 2003
Charles Darwin Foundation Trust	N/A	19 March 2004	11 March 2003
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	28 June 2004	26 June 2003
Menzies School of Health Research	Not yet tabled	2 April 2004	4 April 2003
Entities that Sec 10 Financial Management Act applies as though a GBD			
Jabiru Town Development Authority	30 March 2004	20 February 2004	17 January 2003
	Deadline for submission of Audited Financial Statement	Date of Audit Report Year ended 31 December 2003	Date of Audit Report year ended 31 December 2002
Inter-Government Statements by Agreement			
Charles Darwin University Financial Research Data Collection Acquittal	31 August 2004	8 June 2004	26 June 2003
Indigenous Education Strategic Initiatives Program (IESIP)	31 March 2004	25 March 2004	27 March 2003

Appendix 2 – Status of Audits which were identified to be conducted in the six months to 30 June 2004

In addition to the routine audits, primarily compliance audits of selected agencies, interim audits of entities requiring financial statements opinions, and follow-up of outstanding issues in previous audits, the following audits were identified in Appendix 3 of the March 2004 Report as being scheduled for the period.

Department of Business, Industry and Resource Development

Review effectiveness reporting in Agency's 2002/03 annual report Deferred

Department of Corporate and Information Services

Review effectiveness reporting in Agency's 2002/03 annual report Refer pages 58 to 60

Leave management in the public sector No matters to report

Department of Employment, Education and Training

Review effectiveness reporting in Agency's 2002/03 annual report cancelled

Department of Health and Community Services

Tendering and rollover of contracts Refer pages 12 to 14

Management of non-government organisations in the delivery of health services Refer pages 34 to 39

Review effectiveness reporting in Agency's 2002/03 annual report Refer pages 46 to 50

Department of Justice

Controls over Judges' leave and allowances Deferred pending review by Remuneration Tribunal

Department of the Legislative Assembly

Expenditure upgrading members' electorate offices Refer pages 15 to 19

Members' travel (deferred from 2003) Refer pages 15 to 19

Northern Territory Police, Fire and Emergency Services

IT audit of PROMIS Refer pages 40 to 42

The following audits were either in progress and not completed or deferred in the previous period

Department of the Chief Minister

Ministerial expenses – travel Refer pages 20 to 23

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

PMS audit of the Office of Territory Development Deferred

**Appendix 3 – Proposed audit activity in the six months ending 31
December 2004**

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

Charles Darwin University

A review of the University's spend of the additional funds advanced by the NT Government to fund salary increases

Department of the Chief Minister

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

Northern Territory Treasury

An IT audit of TAXAD

An IT audit of the systems in Racing, Gaming and Licensing

Selected Agencies

A compliance audit of ex Gratia payments and legal settlements at DHCS, DIPE and DEET

A review of IT controls over IJIS at DOJ and NTPFES

A review of one staff rostering system at DHCS and at DOJ (Corrections)

A review of fraud control arrangements at selected agencies

Engagement of Metis Consulting to provide consultancy services to NT Government Agencies

Appendix 4 – Overview of the Approach to Auditing the Public Account and other accounts

The requirements of the *Audit Act* in relation to auditing the Public Account are found in:

- ◆ Section 13, which requires the Auditor-General to audit the Public Account and other accounts, with regard to:
 - the character and effectiveness of internal control, and
 - professional standards and practices.
- ◆ Section 25, which requires the Auditor-General to issue a report to the Treasurer on the Treasurer's Annual Financial Statement.

What is the Public Account?

The Public Account is defined in the *Financial Management Act* as:

- a) the Consolidated Revenue Account, and
- b) Operating accounts of agencies and Government Business Divisions.

Audit of the Public Account

Achievement of the requirements of section 13, including the reference to the character and effectiveness of internal control, as defined, can occur through:

1. annual financial statement audits of entities defined to be within the Public Account, in particular Government Business Divisions, which have a requirement for such audits under the *Financial Management Act*;
2. an audit approach which the Northern Territory Auditor-General's Office terms the Agency Compliance Audit.

This links the existence of the required standards of internal control over the funds administered within the Public Account, to the responsibilities for compliance with required standards as defined for Accountable Officers.

Areas of internal control requiring a more indepth audit, because of materiality or risk, can also be addressed through:

3. specific topic audits of the adequacy of compliance with prescribed internal control procedures. These can be initiated as a result of Agency Compliance Audits, or pre-selected because of the materiality or inherent risk of the activity; and
4. reviews of the accounting processes used by selected agencies at the end of the financial year, to detect if any unusual or irregular processes were adopted at that time.

**Appendix 4 – Overview of the approach to
Auditing the Public Account and other accounts**

Other accounts

Although not specifically defined in the legislation, these would include financial statements of public entities not defined to be within the Public Account, as well as the Trust Accounts maintained by agencies.

Audit of the Treasurer's Annual Financial Statement

Using information about the effectiveness of internal control identified in the overall control environment review, Agency Compliance Audits and financial statement audits, an audit approach is designed and implemented to substantiate that balances disclosed in the Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

The audit report on the Statement is issued to the Treasurer. The Treasurer then tables the audited Statement to the Parliament, as a key component of the accountability of the Government to the Parliament.

Appendix 5 – Overview of the approach to Auditing performance management systems

Legislative Framework

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

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

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

Operational Framework

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

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

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

Appendix 6
Agencies not audited in the year ended 30 June 2004

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

- ◆ Ombudsman for the Northern Territory

This Agency would usually be included in audit coverage at least once every three years.

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

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

Appendix 7 – Abbreviations

Accountable Officer's Trust Account	AOTA
Australian Federal Police	AFP
Australian Accounting Standards	AAS
Certificate of Exemption	CofE
Charles Darwin University	CDU
Contract and Procurement Services	CAPS
Department of Community Development, Sport and Cultural Affairs	DCDSCA
Department of Corporate and Information Services	DCIS
Department of Employment, Education and Training	DEET
Department of Health and Community Services	DHCS
Department of Infrastructure, Planning and Environment	DIPE
Department of Justice	DOJ
Frequent Flyer Points	FFP
Government Accounting System	GAS
Key Performance Indicator	KPI
Learning and Technology in Schools	LATIS
Members' Entitlements Travel System	METS
Menzies School of Health Research	MSHR
Minor New Works	MNW
Non Government Organisation	NGO
Northern Territory Government	NTG
Northern Territory Police, Fire and Emergency Services	NTPFES
Performance management system audit	PMS audit
Procurement Review Board	PRB
Remuneration Tribunal Determination	RTD

Index of Matters Reported

	Pages
Summary of Agency Compliance Audits and Interim Audits conducted in the six months to the 30 June 2004.	8 - 11
Department of Health and Community Services – Tendering and roll over of contracts	12 - 14
Department of the Legislative Assembly – Members’ entitlements – travel & Expenditure upgrading Members’ electorate offices	15 - 19
Department of the Chief Minister – Ministerial expenses	20 - 23
Analysis of the financial statements of:	
♦ Menzies School of Health Research	24 - 25
♦ Charles Darwin University	26 - 28
♦ Batchelor Institute of Indigenous Tertiary Education	29 - 30
♦ Jabiru Town Development Authority	31 - 32
Department of Health and Community Services – NGO management in Health	34 - 39
Northern Territory Police, Fire and Emergency Services – IT audit of PROMIS	40 - 42
Department of Employment, Education and Training – Learning and Technology in Schools	43 - 45
Department of Health and Community Services – Performance reporting in the agency’s 2002/03 annual report	46 - 50
Northern Territory Police, Fire and Emergency Services – Performance reporting in the agency’s 2002/03 annual report	51 - 57
Department of Corporate and Information Services – Performance reporting in the agency’s 2002/03 annual report	58 - 60

Further information

This Report, and further information about the Northern Territory Auditor-General's Office, is available on our Homepage at:

<http://www.nt.gov.au/ago>

Further copies of the August 2004 Report are also available from the Northern Territory Auditor-General's Office.

The next general Report by the Auditor-General to the Legislative Assembly is will be scheduled for tabling in the March 2005 sittings.

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