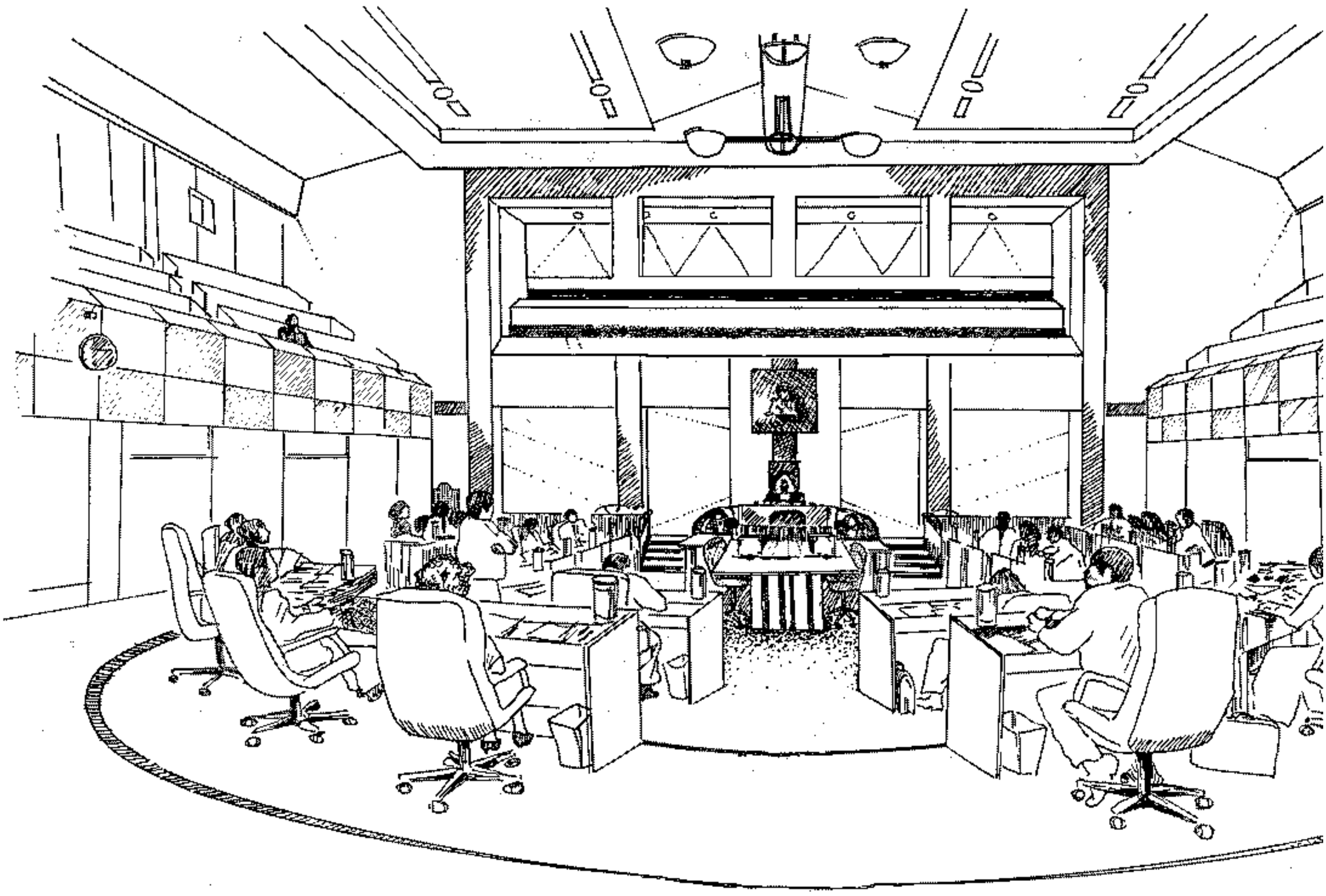
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

MARCH 2004 REPORT

TO THE LEGISLATIVE ASSEMBLY



Auditing for Parliament...
providing independent analysis

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

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

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

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

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

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

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

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

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

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

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

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

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PRINTED BY THE
LEGISLATIVE ASSEMBLY
OF THE
NORTHERN TERRITORY

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

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Contents

Northern Territory Auditor-General's Office

Level 12, Northern Territory House
22 Mitchell Street
Darwin NT 0800

GPO Box 4594
Darwin NT 0801
Australia

Telephone: (08) 8999 7155
Facsimile: (08) 8999 7144
http://www.nt.gov.au/ago
e-mail: nt.audit@nt.gov.au

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

30 March 2004

Madam,

I request that you table today in the Legislative Assembly my report on matters arising from audits conducted during the six months to 31 December 2003.

In the main, the Report summarises the outcomes from financial attest audit work performed for the financial year ended 30 June 2003. Also included are the results of performance management systems audits conducted.

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

Yours faithfully,

Mike Blake
Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 July 2003 to 31 December 2003:

- Financial Statement Audits;
- End of Year Reviews;
- Information Technology Audits;
- Controls and Compliance Audits; and
- Performance Management System Audits.

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

This Report has 30 sections. Each section deals with a specific audit topic or with a particular Agency or Entity and provides a summary of key findings, my audit opinion, background information where relevant, key findings and recommendations.

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

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

The **end of year review** has been introduced to provide an audit focus on year-end balances particularly within Agencies. The nature of the review is determined annually whilst planning the audit of the Treasurer’s Annual Financial Statement. The review includes testing of transactions around year-end and it replaces the previous End of Year Compliance audit, which was applicable under a cash based reporting framework.

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 135.

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

Executive Summary

This Report outlines the results of audits conducted during the period 1 July 2003 to 31 December 2003.

It contains 30 separate reports most of which deal with the outcomes of audits and financial analysis of Agencies and Entities with 30 June 2003 financial year ends. June 2003 was the first time that Agencies had to prepare accrual based financial statements, which, while still not separately subjected to audit, were reviewed as part of my audit of the Public Account and of the Treasurer's Annual Financial Statement. This has been a significant change and Agencies are commended for the positive approach taken to this initiative.

Included in this report is a section headed "Timeliness of financial reporting" which summarises how Agencies, Government Business Divisions (GBDs) and other Entities performed in meeting specified deadlines in preparing their 30 June 2003 financial statements. Whilst further improvement is needed it is pleasing to report that completion was generally in advance of the position 12 months before which facilitated completion by the Treasurer of his Annual Financial Statement almost six weeks earlier than in 2002.

The move to accrual accounting has, however, highlighted the need for improvements in certain areas of accounting such as reconciliations, managing assets and accounting for liabilities. Other areas that senior management in Agencies/Entities need to address include the need to:

- introduce formal monitoring and reporting arrangements within the Northern Territory Government's information technology governance framework;
- ensure that operating costs associated with new capital works are identified and estimated prior to approval for construction to commence;
- minimise the number of system administrators and support staff having access to process electronic payments;
- review delegations and improve controls associated with payments made outside the normal accounts payable system via the Westpac DeskBank application; and
- review the security of the location used to store the Forensic Group's backup data.

While this Report identifies some accounting and control practices that require development, it is pleasing to note that no material control weaknesses were identified and that accrual accounting was effectively introduced by Agencies.

Major Findings

Issues and trends arising from the End of Year Reviews

- **No material weaknesses in controls were found during these reviews and the accounting and control procedures examined were found to be generally satisfactory and compliant with the accountability requirements.**
- **Agencies have responded well to the introduction of accrual accounting.**
- **However, improvements are needed in:**
  - **Documenting support for balances recognised in financial statements;**
  - **Completing effective reconciliations between underlying and primary records (including bank reconciliations);**
  - **Recording and managing assets; and**
  - **Bringing to account all liabilities.**

Refer pages 13 to 18 for further comments

Issues arising from the Audit of the Treasurer's Annual Financial Statement

- **The unaudited results of the Nominal Insurer were consolidated into the TAFS. However, adjustments were made to the Nominal Insurer's financial statements upon consolidation to recognise a receivable equivalent to the outstanding claims liability at 30 June 2003. The Nominal Insurer needs to re-consider the manner in which it accounts for this receivable when preparing its financial statements at 30 June 2004.**

Refer pages 19 to 23 for further comments

Timeliness of financial reporting

- **Completion times for 2003 reporting were generally an improvement over the prior year.**
- **However, signed completed financial statements were not received within the due time for a number of Government Business Divisions and other reporting entities.**

Refer pages 24 to 26 for further comments

Major Findings

The Northern Territory Government's Information Technology Governance Framework

- **An informal Information Technology (IT) governance framework exists within the Northern Territory Government. This does not preclude the IT governance framework from being effective.**
- **However, the informal nature of the IT governance framework poses risks, both in the present and future, that require monitoring mechanisms to be in place.**

Refer pages 27 to 30 for further comments

Royal Darwin Hospital Redevelopment

- **Government approved the Accident & Emergency development in 1999 with advice from the Department of Health and Community Services (DHCS) that the effect on recurrent funding was unable to be quantified at that time. It was not until 15 July 2002 (which was two years after the tender for the construction was awarded) that DHCS' Finance Standing Committee was informed that initial research indicated that an additional $4 million per annum would be needed to effectively operate the new facility. Until this time budget forecasts did not include this additional operational funding requirement.**

Refer pages 31 to 34 for further comments

Department of Corporate and Information Services - Information Technology audit of electronic payment systems

- **Opportunities were identified to further improve preventative controls to minimise risks associated with administrators and support personnel having access to process payment transactions.**
- **At the time of concluding this audit, DCIS banking services, a division within DCIS, could authorise through DeskBank, EFT payments of up to $99 million. Documentation provided in support of payment requests through DeskBank does not have to be original documentation.**

Refer pages 35 to 38 for further comments

Northern Territory Treasury - Superannuation Office - Information Technology audit of electronic payment systems

- **Opportunities were identified to further improve preventative controls to minimise risks associated with administrators and support personnel having access to process payment transactions.**

Refer pages 39 to 41 for further comments

Major Findings

Northern Territory Treasury - Community Benefit Fund

- **Transactions through the Community Benefit Fund complied with the requirements of the *Gaming Control Act* and the *Gaming Machine Act* and Regulations. In particular the processes now in place for the calling for grant applications, assessment, approval and payment are open and accountable and have addressed the issues identified in the 2001 audit.**

Refer pages 42 to 45 for further comments

Analysis of the 30 June 2003 audited financial statements of

Darwin Port Corporation

- **The development of East Arm Wharf Stage 2 was again projected at 30 June 2003 to have little or no impact on the anticipated future income flows of the Darwin Port Corporation, leading to a write down in the value of this asset at 30 June of $42.9 million and potential for further write downs in the future of $23 million. The methodology adopted to determine the written down values for Stage 2 was similar to that adopted for Stage 1.**
- **Independent and Directors' assessments of the carrying value of Port assets have resulted in asset write-downs totalling $146.1 million over the last five years.**
- **These asset write downs have not, however, impacted on the service potential of these Port assets.**

Refer pages 56 to 59 for further comments

Department of Community Development Sport and Cultural Affairs: Housing Business Services

- **The 2003/04 Budget strategies for Housing Business Services (HBS) are only sustainable for a period, following which the business will require new capital or must become profitable to sustain the current levels of activity.**
- **HBS is generating insufficient profits to cover annual interest payments of in excess of $25 million.**

Refer pages 63 to 69 for further comments

Major Findings

Government Printing Office

- **The audit of the Government Printing Office (GPO) for the year ended 30 June 2003 resulted in a qualified independent audit opinion.**
- **In my opinion, management of the GPO had not satisfied the "virtual certainty" test prescribed by Australian Accounting Standards Board Accounting Standard 1020 "Income taxes" and consequently, the deferred tax asset of $166,000 should not have been recognised in the statement of financial position.**
- **My qualified audit opinion on the financial statements of the GPO for the year ended 30 June 2003 was incorrectly reproduced in the Department of Corporate and Information Services (DCIS) 2002/03 annual report. Rather than show the actual report with the qualification, an extract from the covering letter returning the financial report to DCIS was included. As a result, the responsible Minister will have tabled the incorrect opinion.**

Refer pages 70 to 72 for further comments

Territory Insurance Office (TIO)

- **The TIO Board is commended for taking the step of appointing its Actuary as the equivalent of an actuary approved by the Australian Prudential Regulation Authority. This had the effect of improving the actuarial processes and documentation.**
- **As a consequence of the loss for the year the total liabilities of TIO, excluding the *Motor Accident (Compensation) Act* (MACA) scheme, exceeded total assets by $1.02m. As at 30 June 2003 TIO did not meet its solvency requirements.**
- **In recognition of this position and to improve the net asset position of TIO (excluding MACA), the Northern Territory Government on 26 September 2003 approved the transfer of $16.49 million, the balance of the Territory Self-Insurance Fund (the Fund), to contributed equity. Prior to this transfer, the Fund was recognised on TIO's Statement of Financial Position as a liability.**

Refer pages 96 to 102 for further comments

Major Findings

Northern Territory Legal Aid Commission

- **My audit opinion for the prior year was qualified on the basis that I was unable to obtain sufficient appropriate audit evidence to support the provision for grants in aid totalling $360,945, the estimate of which was based on a number of assumptions. Significant effort was made by the Commission's staff this year to accurately quantify the value of the provision for grants in aid which enabled me to remove the qualification. This year the provision was $124,512.**

Refer pages 103 to 105 for further comments

Performance Management Systems Audit – Information Technology controls over the Privacy of Data

- **The Forensics Group within Northern Territory Police, Fire and Emergency Services produces an unencrypted backup Compact Disc of all NTPFES forensic information systems data on a monthly basis. However, the security of the backup location is uncertain.**

Refer pages 114 to 122 for further comments

Reporting on audits conducted in the six months ended 31 December 2003

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 31 December 2003, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

Records of Parliamentary debates, requests and suggestions to the Auditor-General by Members, and public interest in issues, influence the decisions on the selection of audit topics, and matters to be reported. Matters in the Report include compliance by public sector managers with legislative requirements for financial and performance management; analysis of financial and other performance information; as well as general comment on matters arising from audits conducted.

Members have the opportunity to use the information in reviewing the performance of public sector administration, for which the Executive Government is responsible to the Parliament.

What other reporting arises from audits?

More detailed findings from audits are included in reports issued to the appropriate chief executive officer after each audit.

How is this Report to the Legislative Assembly structured?

This Report presents findings in relation to the audit mandate provided by the *Audit Act*, that is:

- audits of the Public Account and other accounts (described in Appendix 4), and
- audits of performance management systems (described in Appendix 5).

Are entities able to include their responses in the Report?

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

Matters Arising from auditing the Public Account and other accounts

Auditing the Public Account and other accounts

Issues and trends arising from End of Year Reviews

KEY FINDINGS

- **No material weaknesses in controls were found during these reviews and the accounting and control procedures examined were found to be generally satisfactory and compliant with the accountability requirements.**
- **Agencies have responded well to the introduction of accrual accounting.**
- **However, improvements are needed in:**
  - **Documenting support for balances recognised in financial statements;**
  - **Completing effective reconciliations between underlying and primary records (including bank reconciliations);**
  - **Recording and managing assets; and**
  - **Bringing to account all liabilities.**
- **Northern Territory Police, Fire and Emergency Services incorrectly provided for leave fares of $1.57 million.**

RECOMMENDATIONS

- **Working paper files supporting balances recognised in annual financial statements should be prepared by Agencies.**
- **Agencies complete effective reconciliations between underlying and primary records and investigate and clear reconciling items.**
- **Agencies introduce accounting procedures that will ensure all assets and liabilities are brought to account.**

Audit objective and scope

The audit objective of an end of year review is to assess the adequacy of selected aspects of end of financial year controls over accounting and material financial transactions and balances.

End of year reviews in respect of the financial year ended 30 June 2003 were conducted at:

- Department of Business, Industry and Resource Development (DBIRD)
- Department of Community Development, Sport and Cultural Affairs (DCDSCA)
- Department of Corporate and Information Services (DCIS)
- Department of Education, Employment and Training (DEET)
- Department of Health and Community Services (DHCS)
- Department of Infrastructure, Planning and Environment (DIPE)
- Department of Justice (DOJ)
- Northern Territory Police, Fire & Emergency Services (NTPFES).

Auditing the Public Account and other accounts
Issues and trends arising from End of Year Reviews

Background

The end of year review is new and was introduced to provide an audit focus on year-end balances particularly within Agencies. The nature of the review is determined annually whilst planning the audit of the Treasurer's Annual Financial Statement (TAFS). The review included testing of transactions around year-end and it replaced the previous End of Year Compliance audit, which was applicable under a cash based reporting framework.

Accordingly the strategy is to review the reasonableness of Agency end of financial year reporting and controls over accounting, material financial transactions and, most importantly, the Agency's end of year financial data consolidated into the TAFS by NT Treasury.

These end of year reviews may also have provided matters for Accountable Officers to consider when they prepared their representations to relevant Ministers for 2002/03.

In my previous reports dealing with cross sector issues, I have not mentioned Agencies by name. In this Report I have changed this practice mainly because some matters reported have received comment in the past.

Key issues

Overall conclusion

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

However, a number of specific findings warranted reporting.

Transition from cash to accrual accounting

With effect from 1 July 2002, Agencies changed their accounting basis from cash to accrual accounting. Significant changes were expected within Agencies in adapting to this change and I took this into account when performing the end of year reviews.

On the whole, Agencies have responded well to the change from cash to accrual based financial reporting and, at the same time, they have improved the timeliness of their reporting (see pages 24 to 26). I have however raised a number of matters of detail below because I consider they need to be addressed as part of managing assets and liabilities and ensuring appropriate controls are implemented in an accrual based framework.

Many Agencies were not completely prepared for an audit of selected components of their end of year financial data. I recommended to a number of Agencies that they ensure that reconciliations and documents supporting balances in financial statements are prepared and collated in one file before the audit commences and that the date for close off of the general ledger be strictly adhered to. While such documentation benefits the audit process, its primary purpose is as a management tool.

End of year accounting processes

i) Reconciliations

Reconciliations of control accounts provide managers with comfort that the underlying records are being properly controlled. The existence of large and regular differences is evidence of a

Auditing the Public Account and other accounts
Issues and trends arising from End of Year Reviews

End of year accounting processes (continued)

breakdown in controls and for some Agencies this needs to be the focus of work over the period between now and the end of the 2003/04 financial year. Areas of concern relating to various reconciliation processes were as follows:

- *Unreconciled differences within reconciliations*

DIPE - There were a number of account reconciliations that had unreconciled differences at the end of the financial year. The reconciliation of work in progress was incomplete and finished jobs had not been properly reclassified as fixed assets or repairs and maintenance. It was also noted that there were substantial reconciliation differences between the amounts recorded on GAS and the Asset Information System throughout the year. However, the end of year reconciliation for construction work in progress included identified reconciling items totalling $4.696m and a final unidentified reconciling difference of approximately $710,000.

DIPE - The Land Asset Information System report at 30 June 2003 was not complete in respect of items brought forward from the previous year. The ledger also recorded some properties that had not been sold or recorded on LAIS and another property that had been sold, but not removed from LAIS. The land sales recorded in GAS could not be reconciled to the listing of the actual lots sold. An unreconciled difference of $387,071 remained uncleared at the end of the audit.

- *Controls over reconciliations between the general ledger and the supporting documents*

DCDSCA – The audit identified a lack of controls over the preparation and review of reconciliations between the general ledger and the supporting documents. Details of these instances included:

- An unreconciled difference of $47,000 between the Business Activity Statement and the general ledger; and
- An unreconciled difference of $8,000 between the trial balance and the Fixed Asset Register maintained by DCIS.

No adjustment to the financial statement was made as the financial effect was considered by management to be immaterial.

- *Accountable Officers' Trust Account (AOTA) Reconciliations*

DBIRD - AOTA reconciliations have not been prepared on a monthly basis and the format of the reconciliations does not facilitate ease of interpretation. Where reconciliations are not regularly prepared errors may go undetected for an unacceptable period of time.

DBIRD has commented:

Reconciliations are carried out on a monthly basis by DCIS although it is acknowledged that some reconciliations were not finalised in 02/03. DCIS and DBIRD are working together to develop a new format to address NTAGO concerns raised in the audit.

DOJ - There were three accounts in the AOTA which were not reconciled as at 30 June 2003. These were the Alice Springs Correctional Centre Prisoners Canteen/Store, Darwin Correctional Centre Prisoners Canteen/Store and Juvenile Detention Prisoner Private Monies.

Auditing the Public Account and other accounts
Issues and trends arising from End of Year Reviews

End of year accounting processes (continued)

The Prisoners Canteen/Store trust accounts are used to record both purchases and sales for the canteens at the Darwin and Alice Springs Correctional Facilities. Darwin and Alice Springs Corrections have experienced difficulties reconciling the Prisoner Money Management System

(PMMS) to GAS. This issue was raised during previous audits. DOJ staff have advised that steps are being taken to assess the nature, purpose and use of all trust accounts within the AOTA, particularly those used by Corrections.

These Trust accounts are being used for operational purposes resulting in unreconciled items existing between GAS balances and the balances recorded on the PMMS. As a result monies may not be easily distinguishable between monies of the prisoners and those of the canteen.

DOJ has commented:

An Implementation Plan has been developed by Correctional Services Division to address the audit issues raised. The plan commenced in January 2004, will be completed by 30 June 2004 and will address each of these issues.

ii) Accounting and Control Procedures

DIPE - Motor Vehicle Registry fees amounting to $411,332 included in the clearing account since July 2002 represented receipts for the year ended 2001 and should have been taken up as revenue. Effective follow up of the clearing account is required to ensure that outstanding items are investigated and cleared on a timely basis.

Recognition and reporting of assets

- *Receivables*

DCDSCA - At 30 June 2003 the Agency recorded as a receivable $433,500 due by the Northern Territory Basketball Association (NTBA) and a payable for this amount to the Construction Division for the building of the Marrara Basketball Stadium. However, there was a lack of documentation at the Agency supporting this debt and its recoverability.

I recommended to DCDSCA that the accounting for this transaction should be considered in the light of whether additional monies will be received from the NTBA.

- *Inventories*

DCDSCA - During the audit, it was noted that the inventories balance as at 30 June 2003 of $72,843 had remained the same since 1 July 2002. Upon further enquires, it was found that no periodic stock take was performed as at 30 June 2003. This suggests that there are inadequate controls over the inventories, which are mainly located at the Museum Shop and the Australian Pearling Exhibition. It was further noted that there are no formal policies and procedures relating to inventories in the Accounting and Property Manual.

Auditing the Public Account and other accounts
Issues and trends arising from End of Year Reviews

Key issues (continued)

DHCS - Errors were identified when testing the inventory costing performed at the Pharmacy. One high value inventory item selected for testing was understated in the inventory system by $61,476.

DHCS has commented:

Inventory procedures are being redeveloped to ensure the treatment of stock, received free of charge, is correctly valued.

- *Property, Plant and Equipment*

DCDSCA - A review of the repairs and maintenance account revealed that there was an amount of $37,000 which appeared to be erroneously expensed as it related to the supply and installation of 444 seats in the Marrara Football Stadium.

DEET - During the year Treasury engaged the Australian Valuer-General's Office to undertake a revaluation of the Department's land and buildings. This was completed at 30 June 2003, however, a significant number of land and buildings were not included in this valuation and are currently held at a "cost" of $69 million in the Department's ledger. The Department did not comply with Treasurer's Directions and Australian Accounting Standards which require revaluations of non current assets to occur on a "class of asset" basis. However, the Agency's financial statements did disclose this treatment in the Notes to the financial statements.

DEET has commented:

When the Auditor-General had advised the Department of this matter, DEET was then undertaking negotiations with NT Treasury to complete the valuation of the class of non current assets. DEET and NTT have agreed that these omitted assets will be revalued as soon as practicably possible.

Auditing the Public Account and other accounts
Issues and trends arising from End of Year Reviews

Creditors and accruals

DCDSCA - payables and accrued wages were understated by a total of $169,000.

DEET - Audit work performed on the year-end trade creditors listing revealed material inconsistencies that raised concerns regarding the accuracy of financial statement disclosures. It was recommended to management that the system generated creditor listing be reviewed and items that have been paid matched and removed from the listing. All creditor listings should be reviewed to ensure that invoices are not included on more than one listing. These steps will assist the DEET's creditor review process.

DEET has commented:

DEET had commenced its review and matching process when the overstatement was first notified. Matching of line statements has been undertaken. Processes were reviewed to ensure that this type of error does not recur.

DBIRD - During my examination of creditor balances and the subsequent payment thereof, it was established that an invoice totalling $32,489 was recorded twice in the creditors ledger. In July 2003 the error was detected and the physical payment stopped, however, creditors remained overstated at 30 June 2003.

DBIRD has commented:

DBIRD has discussed the issue with DCIS and has been advised that the procedures that led to this issue are being reviewed. DBIRD and DCIS will work together to ensure that the error does not happen again.

Provisions

NTPFES – A provision for leave fares of $1.57 million was erroneously taken up as a liability in the financial statements of this Agency. The provision was an estimate based on the leave fares expense for the past four years, however, no documentation to support this provision was available. Subsequent investigation identified that the provision was not required.

NTPFES has commented:

NTPFES overstated its provision for recreation leave fares at the end of the 2002-03 financial year by $1.57million. The Agency will monitor utilisation of this item during 2003-04 and will make appropriate provision at year end.

DCDSCA has commented in respect of all of the above issues:

The recommendations are supported and the Department is implementing the necessary controls to ensure areas of risk are addressed.

Auditing the Public Account and other accounts

Issues arising from the audit of the Treasurer's Annual Financial Statement (TAFS)

KEY FINDINGS

- **The 30 June 2003 reconciliation of the whole of government bank account contained differences amounting to $698,607.**
- **The unfunded superannuation liabilities as they related to the Commonwealth Superannuation Scheme at 30 June 2003 were still based on the last full actuarial assessment performed in 2000.**
- **The unaudited results of the Nominal Insurer were consolidated into the TAFS. However, adjustments were made to the Nominal Insurer's financial statements upon consolidation to recognise a receivable equivalent to the outstanding claims liability at 30 June 2003. The Nominal Insurer needs to re-consider the manner in which it accounts for this receivable when preparing its financial statements at 30 June 2004.**

RECOMMENDATIONS

- **The difference of $698,607 in reconciling the whole of government bank account should be investigated and cleared. In future any reconciling differences should be investigated at the time the reconciliation is performed.**

NTT has commented:

Current reconciliation processes have been reviewed to ensure all reconciling items are identified and cleared on a timely basis. The differences identified at 30 June 2003 have been resolved and cleared accordingly.

- **The Board of the Nominal Insurer should be requested to provide signed, audited financial statements for 2003-04 for use in the TAFS consolidation process by 30 September 2004 at the latest. This will enable the audited results of the Nominal Insurer to be consolidated and facilitate early consideration of the carrying values of its outstanding claims liability at 30 June 2004 and any corresponding receivable at that date.**
- **The Board of the Nominal Insurer should ensure that it adopts accounting policies consistent with those specified by the NT Government which controls it.**

NTT has commented:

Discussions will be held with the Board of the Nominal Insurer to agree on the treatment of significant accounting issues and the timing of the audited financial statements. The aim of these discussions will be to ensure the accounts are available for consolidation into the TAFS by 30 September 2004.

Auditing the Public Account and other accounts
Issues arising from the audit of the TAFS

Background

My analysis of the Treasurer's Annual Financial Statement (TAFS) was reported to the Legislative Assembly on 24 February 2004. Reported below are details of findings identified during my audit of the TAFS.

Legislative timetable and project management

Legislative requirements for the timing of the preparation and tabling of the TAFS

The *Fiscal Integrity and Transparency Act* (FITA) provides that, within a period of four months immediately following the end of a financial year, the Treasurer shall prepare fiscal results reports to be publicly released and tabled. Section 9 of the *Financial Management Act* (FMA) requires that the Treasurer has until 30 September each year to prepare the TAFS for audit, which may include (as is the case this year) the Final Fiscal Results Report required by the FITA.

Format of the TAFS

The Treasurer has discretion in determining what format the TAFS will take.

Section 9 of the FMA requires that the Treasurer prepare the TAFS in such form as he thinks fit and specifies certain minimum disclosures and section 10 (3) of the FITA, which relates to the format of the annual fiscal outlook report, requires that each report is to -

(a) be based on external reporting standards;

(b) identify, in general terms, the external reporting standards on which it is based and any ways in which the report departs from those standards; and

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

The first time application of the FITA resulted in the preparation of the TAFS on an accrual UPF basis at 30 June 2003. Whilst it is acknowledged that this change in the format of the TAFS was significant and a major step forward, the format was not settled until after the end of the financial year. It is my view that, despite the significant format change referred to, the format should have been settled well before the end of the financial year.

Final completion of the TAFS

Although a draft version of the TAFS was made available for audit on the morning of 1 October, subsequently significant adjustments were made to both the figures and narrative with the Treasurer not signing the final version of TAFS until 10 October 2003. Even subsequent to this, minor amendments to the narrative and formatting of the TAFS were made prior to signing my opinion.

Auditing the Public Account and other accounts
Issues arising from the audit of the TAFS

Final completion of the TAFS (continued)

The delay in agreeing the exact format of the TAFS impacted not only on Treasury's ability to meet critical deadlines but also on the planning and efficiency of my audit process and placed stringent time constraints on my authorised auditors all of which resulted in increased audit cost. The need for timely planning and project management will be of particular importance for the 2003-04 TAFS as there will be the added need to consider the impact of Australia's adoption of International Financial Reporting Standards one requirement of which will be that comparative figures are available in 2005.

Therefore, the format and staff resource requirements for the 2003-04 TAFS should be settled well before the end of the financial year, so that efficient preparation and audit planning can occur. To this end, feedback sessions with nominated Treasury and Department of Corporate and Information Services' staff have already been held.

Bank Reconciliation

The 30 June 2003 reconciliation of the whole of government bank account contained differences amounting to $698,607 as follows:

- Opening balance variance $685,227 relating back to 1999-2000
- Unknown variance during 2002-03 of $13,380

While the amounts per se are not considered material to the TAFS, the existence and acceptance of differences within a bank reconciliation could lead to the misappropriation of funds. The differences should be investigated and appropriate action taken with unidentified differences investigated at the time the reconciliation is performed.

Superannuation

The unfunded superannuation liabilities as they related to the Commonwealth Superannuation Scheme at 30 June 2003 were still based on the last full actuarial assessment performed in 2000. The next full assessment was due on 30 June 2003, but was not completed in time for the finalisation of the 2002-03 TAFS. However, the actuary did update the valuation, although this was not comprehensive. The June 2003 valuation has now been completed with full valuations due to be performed every three years thereafter.

NTT has commented:

Discussions are ongoing with the Actuary to determine options regarding revised timeframes and more up to date valuations to satisfy future annual reporting requirements.

Impact of Management Fees charged by Construction Division (Condiv)

Condiv project manages construction projects on behalf of NT Government Agencies and GBDs. It charges fees for performing this function which are added (or capitalised) to the cost of construction. In order to ensure that the carrying values of assets constructed are not overstated, it is necessary, when consolidating the results of Condiv and of Agencies/GBDs into the TAFS, to eliminate the profit component within these fees.

Auditing the Public Account and other accounts
Issues arising from the audit of the TAFS

Impact of Management Fees charged by Construction Division (Condiv) (continued)

The need to eliminate profit component was identified at a late stage in the completion of the TAFS and required a late adjustment.

In order to ensure that the carrying values of assets constructed under Condiv's management, and the associated depreciation charge, are fairly reported in the TAFS in the future, NT Treasury will have to:

- Except in situations where a constructed asset is sold or written off, ensure that the adjustment initiated at 30 June 2003 is made each year;
- Ensure that the profit component of construction work is identified each year and adjusted; and
- Consider any implications on this matter in the event of a constructed asset being revalued.

Nominal Insurer's Fund

Receivable to reflect the imposition of levies

Following discussions with the Nominal Insurer the amounts recorded within the TAFS were amended to correctly reflect the likely audited numbers of the Nominal Insurer as at 30 June 2003. The outstanding claims liability has in the past been reported at net present value with a corresponding receivable not included to represent the recoverability of this liability by levies that the Nominal Insurer can impose.

The Nominal Insurer imposed such a levy in 2002 and it is my view that this decision gave rise to an asset equal to the related outstanding claims liability.

Completion of its financial statements by the Board of the Nominal Insurer

Audited financial statements of the Nominal Insurer were not available at the time of completing the audit of the TAFS. The Board of the Nominal Insurer should be requested to provide signed, audited financial statements for 2003-04 for use in the TAFS consolidation process by 30 September 2004 at the latest. This will enable the audited results of the Nominal Insurer to be consolidated and facilitate early consideration of the carrying values of its outstanding claims liability at 30 June 2004 and any corresponding receivable at that date.

The Board should ensure that it adopts accounting policies consistent with those specified by the NT Government which controls it.

The revaluation, recording and presentation of fixed assets could be improved across government

In the course of the TAFS audit the following matters relating to fixed assets arose:

Revaluation of Assets

- $69m of fixed assets were omitted from the revaluation process undertaken for one Agency and were included at cost; and
- Another Agency reported its freehold land and buildings at cost $261,000, less accumulated depreciation of $81,000.

Auditing the Public Account and other accounts
Issues arising from the audit of the TAFS

Revaluation of Assets (continued)

Australian Accounting Standards and Treasurer's Directions (TD's) both clearly state that assets within a class must be carried at either cost or fair value, but not both. Similarly TD's classify which assets should be carried at fair value and which at cost. Whilst not considered material to the TAFS, the treatment adopted at 30 June 2003 by certain Agencies did not comply with either Australian Accounting Standards or TD's.

Recording of Assets

- Capitalisation levels differed across different agencies and different asset classes; and
- Depreciation methods were not totally consistent across government with one Agency using the reducing balance method for some of its assets.

Treasurer's Directions dictate capitalisation levels across government to ensure that assets are recorded on a uniform basis. However, whilst not considered material to the TAFS, the treatment adopted at 30 June 2003 by certain Agencies did not comply with these Directions resulting in the omission or unnecessary recording of minor assets.

Presentation

- The presentation of the fixed asset notes differed between Agencies and Treasury; and
- Power and Water Corporation classifications did not easily tie back to the presentation in TAFS.

The presentation of the fixed assets notes differed between the Agencies and TAFS, mainly in relation to revaluations and transfers. This made it difficult to agree the figures directly from the Agencies into the TAFS.

Treasury should reaffirm to Agencies the need to comply with Treasurer's Directions thus ensuring that all assets within an individual class are appropriately recorded.

Where controlled entities have a different presentation to that of the TAFS, a full reconciliation of the figures included in the TAFS should be available to ensure a transparent audit trail between presentations.

Auditing the Public Account and other accounts

Timeliness of financial reporting

KEY FINDINGS

- **Completion times for 2003 reporting were generally an improvement over the prior year.**
- **However, signed completed financial statements were not received within the due time for a number of Government Business Divisions and other reporting entities.**
- **It is difficult for the Treasurer (and therefore for me) to sign off the Treasurer's Annual Financial Statement (TAFS) by 30 September each year when there are delays in the completion of some of the major components of the TAFS.**

RECOMMENDATION

- **It is recommended that all Agencies and entities forming part of the whole of Northern Territory Government annual financial statement take steps to complete their annual financial statements in time to facilitate audits thereof prior to 30 September 2004 and to facilitate completion of the TAFS by this date.**

Reporting requirements

Under the *Financial Management Act* (the Act) Accountable Officers of Agencies are required to prepare annual financial statements for their Agencies and for Government Business Divisions (GBDs) within their control, within three months of the financial year-end. The Act also requires the Treasurer to prepare the Treasurer's Annual Financial Statement (TAFS) within three months. The prepared financial statements are to be forwarded to the Auditor-General for audit.

The Act provides that I have a further two months to audit the financial statements of GBDs upon receipt and the *Audit Act* also provides me with two months to complete the audit of TAFS and issue my report.

The enabling legislation for other government entities that require the preparation of annual financial statements provides for similar timing requirements, although some acts allow me three months to complete my audits.

I have interpreted this requirement as follows:

- "prepare a financial statement" – means that the statement is complete in all respects and is signed by the relevant accountable officer/authority/board. The Treasurer's Directions do not provide any specific guidance on timeliness other than to note that Agencies (including GBDs) can seek extensions of time if the three month time limit has not been met;

Auditing the Public Account and other accounts
Timeliness of financial reporting

Reporting requirements (continued)

- "forward the financial statements to the Auditor-General" – means that they be physically forwarded to me at my Office in NT House. Where electronic means of forwarding are used, the electronic version must be signed. Submission directly to my Authorised Auditors would not be considered as being received by me in accordance with the statutory requirements;
- "within the period of 3 months immediately following the end of the financial year" – means that the signed financial statements are received by no later than 5pm on 30 September for 30 June financial year ends;
- "within the period of 2 months after receiving it" – where the financial statements are received on 30 September, I must complete my work and sign my audit opinion by 30 November. Where the statements were received early than 30 September, say 31 August, I must complete my work and sign my audit opinion by 31 October; and
- "within the period of 3 months after receiving it" – where the financial statements are received on 30 September, I must complete my work and sign my audit opinion by 31 December. Where the statements were received early than 30 September, say 31 August, I must complete my work and sign my audit opinion by 30 November.

Application of the above principles

I advised Accountable Officers and those other persons responsible for the preparation of financial statements and submission to me for audit that these interpretations would commence on a trial basis from 30 June 2003. I recorded the date and time financial statements were received. If the financial statements forwarded were unsigned or in any other material respect incomplete, the statements were not recorded as having been received.

I can now report that only about half of Agencies and reporting entities were able to provide me with their completed financial statements within the due dates. Signed completed financial statements were not received within the due time for the following:

Auditing the Public Account and other accounts
Timeliness of financial reporting

Agency/Entity	Date Due	Date unsigned draft received	Date signed received	Date audit opinion signed
Cobourg Peninsula Sanctuary and Marine Park Board	30/09/03	08/10/03	19/11/03	21/11/03
Darwin Port Corporation	30/09/03	20/08/03	7/10/03	9/10/003
Department of Community Development, Sport and Cultural Affairs: Housing Business Services	30/09/03	03/10/03	23/10/03	23/10/03
Jabiru Town Development Authority	30/09/03	15/09/03	o/s	o/s
Nitmiluk (Katherine Gorge) National Park Board	30/09/03	09/09/03	19/11/03	21/11/03
Northern Territory Major Events Company Pty Ltd	*		6/01/04	6/01/04
Northern Territory Tourist Commission	30/09/03	27/08/03	31/10/03	31/10/03
Surveyors Board of the NT	30/09/03	20/10/03	11/11/03	12/11/03
Territory Discoveries	30/09/03	27/08/03	31/10/03	31/10/03
Territory Insurance Office	30/09/03		15/10/03	15/10/03
Territory Wildlife Parks	30/09/03		6/11/03	7/11/03

* No due date is specified

o/s = outstanding as at 31 December 2003

TAFS reporting timetable

Whilst many of the Agencies, GBDs and other reporting entities were able to prepare their financial statements within the statutory timeframes, increased pressure on reporting deadlines is brought to bear by the requirement for the Treasurer to prepare the whole of government financial statements (the TAFS) by 30 September. This year my audit opinion on the TAFS was issued on 13 October 2003 (2001/02 – 21 November 2002), well within the statutory time allocated to me. The Treasurer signed his report on 10 October 2003 (2001/02 – 20 November 2002). Completion was therefore almost six weeks ahead of that in 2002.

It is likely that, as a minimum, the Treasurer will want to complete the 2003/04 TAFS by 30 September 2004. It is difficult for the Treasurer (and therefore for me) to sign off the TAFR by 30 September each year when there are delays in the completion of some of the major components of the TAFR. Therefore, it is imperative for Agencies, GBDs and other reporting entities to complete their financial reporting well before 30 September.

Auditing the Public Account and other accounts

Department of Corporate and Information Services

Compliance Audit of the Northern Territory Government's Information Technology Governance Framework

KEY FINDINGS

- **An informal Information Technology (IT) governance framework exists within the Northern Territory Government.**
- **The informal nature of the IT governance framework does not preclude it from being effective.**
- **However, the informal nature of the IT governance framework poses risks, both in the present and future, that require monitoring mechanisms to be in place.**

RECOMMENDATIONS

- **The Northern Territory Information Management Committee chair should formally present a report to the Coordination Committee at least once a year. This report should include milestones achieved, challenges and future outlook.**

DCIS has commented:

An annual report from the NT Information Management Committee will be presented to the March 2004 Co-ordination Committee meeting.

- **Documenting the IT governance arrangements should be completed, with stakeholders acknowledging and committing to their roles.**

DCIS has commented:

The ICT governance policy is being finalised and will be promulgated in the near future.

Background

The Northern Territory public sector operates a number of centrally managed Information Technology (IT) systems on a centrally managed infrastructure and network. In addition, agencies implement systems specific to their business requirements.

The Department of Corporate and Information Systems (DCIS), in addition to its IT management roles, and within a context of government IT policy, recommends and implements government wide IT policy and coordinates whole of government IT initiatives (such as e-government) through its Information, Communications and Technology (ICT) division. DCIS does not, however, manage the IT budgets of Agencies or IT resource allocation decisions made by Agencies.

Auditing the Public Account and other accounts
Compliance Audit of the Information Technology Governance Framework

Audit objectives and scope

The objective of this audit was to assess the controls and systems in place to ensure the existence of appropriate governance over information technology management at a Northern Territory Government wide level.

The scope for this audit included a high level consideration of the following:

- the terms of reference of the Northern Territory Information Management Committee (NTIMC);
- the reporting relationship between the NTIMC, Coordination Committee and other NT public sector Agencies;
- the existing IT governance framework, including the role of DCIS in its shared services role and in its IT policy setting and monitoring role;
- the existing centrally managed IT infrastructure, networks and systems and their integration with infrastructure and systems developed separately by Agencies;
- the existence of a strategic direction for IT in the Northern Territory including any endorsement by Coordination Committee and whether systems and KPI's are in place to measure and report progress;
- the extent of congruence of IT objectives and policies between those established centrally by NTIMC/DCIS and the following Agencies:
  - Department of Business, Industry and Resource Development (DBIRD);
  - Department of the Chief Minister;
  - Department of Community Development, Sport and Cultural Affairs (DCDSCA); and
  - Department of Health and Community Services (DHCS);
- the governance arrangements and decision making systems and approved modus operandi for the NTIMC and DCIS that are operating in practice; and
- how the Coordination Committee assesses the performance of the NTIMC.

It should be noted that the scope did not include consideration of Agency compliance with whole of government policies, including those developed by DCIS.

Opinion

An informal IT governance framework exists within the Northern Territory Government. The informal nature of the IT governance framework does not preclude it from being effective. Except for the matters raised below in "Specific findings", the IT governance framework is considered acceptable at this point in time, given the nature, size, and extent of the NT Government's operations. The matters raised below in "Specific findings" outline areas for the NT Government to focus on during its ongoing development of IT governance initiatives.

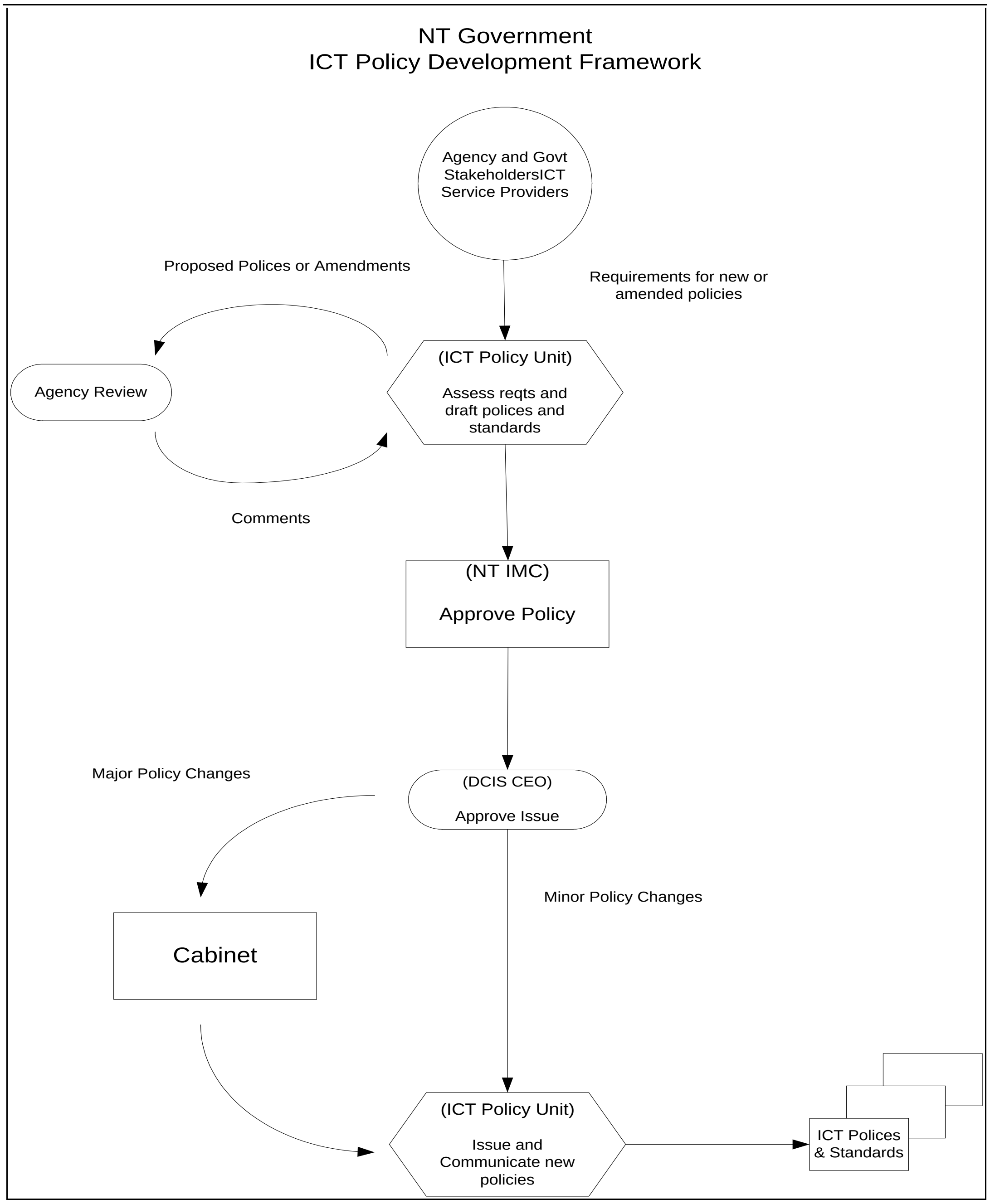
The framework is regarded as "informal" because, for example, the monitoring and reporting arrangements had not been formalised.

Specific findings

The IT Governance Framework is informal

Set out below is a diagram showing the policy development and approval processes currently in use. The diagram is an extract from the draft ICT Governance Framework prepared by DCIS. Attached to this draft document is the Northern Territory Government Enterprise Architecture.

Auditing the Public Account and other accounts
Compliance Audit of the Information Technology Governance Framework



The audit identified that numerous components of how the IT governance operates in practice are informal in nature. Various strengths in the framework were noted in the whole of NT government "ICT Governance Framework" document recently drafted by DCIS.

However, the informal nature of the IT governance framework poses risks, both in the present and future, that require monitoring mechanisms to be in place.

The NT government's IT strategy is largely one of being a "close follower", and only a "pioneer" in key areas that are relatively unique to NT – which suits the NT's size and nature.

Auditing the Public Account and other accounts
Compliance Audit of the Information Technology Governance Framework

The Northern Territory Information Management Committee

Whilst not reflected as such in the above diagram, the NTIMC is a sub-committee of the Coordination Committee and is responsible for ensuring that the members of the Coordination Committee are kept abreast of developments in IT and of governance in IT.

However, the NTIMC only indirectly reports to the Coordination Committee via minutes tabled by the DCIS Chief Executive Officer. The Coordination Committee does not measure the effectiveness of NTIMC.

It is recommended that the NTIMC chairman formally present a report to the Coordination Committee at least once a year. This report should include milestones achieved, challenges and future outlook. This reporting and monitoring mechanism should be used to assist the Coordination Committee in satisfying itself that the level of attention it has on IT is appropriate at that point in time – including having an appropriate level of understanding on what the key government-wide IT risks and strategies are. This report should be jargon free and focus on NT government objectives.

Documentation to support the current IT governance arrangements

Upon commencing the audit it was noted that considerable documentation existed to support the current arrangements but that these arrangements were not drawn together in one overall document. DCIS prepared the draft ICT Governance Framework" document in response to this observation.

Finalising the documentation of the IT governance should continue, with stakeholders acknowledging and committing to their roles.

Auditing the Public Account and other accounts

Department of Health and Community Services

Royal Darwin Hospital Redevelopment

KEY FINDINGS

- **The Total Asset Management principles were substantially addressed in the $37.7 million Royal Darwin Hospital redevelopment project and the prescribed procurement requirements were followed in the letting of the project management contract to the Sitzler Barclay Mowlem Joint Venture.**
- **Government approved the Accident & Emergency development in 1999 with advice from the Department of Health and Community Services (DHCS) that the effect on recurrent funding was unable to be quantified at that time. It was not until 15 July 2002 (which was two years after the tender for the construction was awarded) that DHCS' Finance Standing Committee was informed that initial research indicated that an additional $4 million per annum would be needed to effectively operate the new facility. Until this time budget forecasts did not include this additional operational funding requirement.**

RECOMMENDATIONS

- **All factors, including the effect on ongoing operational costs, should be considered by DHCS before recommending significant infrastructure projects.**
- **The achievement of the 3% savings on the operational budget from 2003/04 onwards agreed to by DHCS should be assessed and reported.**

DHCS has commented:

The risks associated with complex, multi-stage projects such as this will be more clearly defined in the future. This project identified savings which were to accrue from the development of stages 3 and 4 of the project and these stages did not come to fruition.

Background

The Capital Works Program for 2001-02 (Budget paper No. 4, page 34) listed the approved program for the construction of a two storey clinical services building to accommodate a new emergency department, operating theatres and intensive, coronary and high dependency units at Royal Darwin Hospital (RDH) at a cost of $37.7 million.

Audit scope

The scope of the audit encompassed:

- ascertaining the individual components of the $37.7 million estimated cost shown in Budget Papers;

Auditing the Public Account and other accounts
DHCS – Royal Darwin Hospital Redevelopment

Audit Scope (continued)

- reviewing and obtaining explanation of any significant variance between actual/estimated
- cost overall or by component as at the date of the audit;
- establishing that Total Asset Management (TAM) principles were addressed in the development of the works proposal; and
- confirming that the *Procurement Act*, Regulations and guidelines were followed in the letting of contracts for this project.

The audit was conducted in May and June 2003 with the report to the Agency finalised in August 2003.

Audit findings

Opinion

The TAM principles were substantially addressed in the RDH redevelopment project and the prescribed procurement requirements were followed in the letting of the project management contract to the Sitzler Barclay Mowlem Joint Venture.

Specific findings

The individual components of the $37.7 million estimated cost

In addition to the $37.7 million listed in the Capital Works Program for 2001-02 a further $1.9 million was made available through the then Department of Transport and Works for consultant funding thereby providing total funding available for the project at $39.6 million.

On 27 July 2000 the contract for the management of the documentation and construction of the new accident and emergency building and associated works was awarded to the Sitzler Barclay Mowlem Joint Venture, for a total amount of $38.7 million, including provisional sums.

The $38.7 million was made up as follows:	$	$
Managing contractor fee -		1,761,785
Provisional sum (a) Construction costs -		35,038,215
Comprising:		
Design and construction contingency	1,345,003	
Escalation	700,000	
Subcontract amounts	32,993,212	
Provisional sum (b) Consultant fees -		1,900,000
Total		38,700,000

The due date for overall practical completion of the works was 28 March 2002. Actual completion was August 2003.

Auditing the Public Account and other accounts
DHCS – Royal Darwin Hospital Redevelopment

Explanation for any significant variance between actual and estimated cost overall or by component as at the date of the audit

The contract estimate as at 20 March 2003 was $41.988 million, $2.351 million or 5.93% higher than the original budget estimate. This variation resulted from net increases as trade package contracts were awarded, inclusion of additional funds for other works amalgamated into the project and approved increases in fees. A final costing is expected when all subcontractor claims are finalised.

Application of TAM principles in the development of the works proposal

Although not specifically referred to in the project documentation, TAM principles were generally applied in the development of the works proposal.

Exceptions noted included:

Impact on costs to operate the new facility

One matter, which did not appear to have been given adequate attention, was the absence of accurate forecasting of the additional operational funding required to run the new Emergency Department. On review of the information available it appears the issue of recurrent funding was considered in the Submission put before Cabinet in December 1999, when approval for the Accident & Emergency development was sought. At that stage the recurrent funding was noted as being unable to be quantified.

It was not until 15 July 2002 (which was two years after the tender for the construction was awarded) that the Department of Health and Community Services' (DHCS) Finance Standing Committee was informed that initial research indicated that an additional $4 million per annum would be needed to effectively operate the new facility. Until this time budget forecasts did not include this additional operational funding requirement.

Once it was identified that an additional annual budget of $4 million was required, a Cabinet Submission was lodged in January 2003. In May 2003 Cabinet approved $3.586 million additional recurrent funding.

The failure to identify and quantify at an earlier stage the increased operational funding required for the new facilities is indicative of inadequate research and objectivity at the planning stage resulting in decisions to commit to the redevelopment being undertaken without all relevant information.

Agreed service reforms

During the audit it was noted that, in support of the redevelopment (December 1999 Cabinet submission), DHCS agreed to a range of service reforms and a commitment to a 3% saving on its operational budget from 2003/04. The audit recommended that actual achievement of these savings should be assessed and reported.

Auditing the Public Account and other accounts
DHCS – Royal Darwin Hospital Redevelopment

Application of the Procurement Act, Regulations and guidelines in the letting of contracts for this project

Tenders were invited from 12 Contractor Accreditation Ltd (CAL) pre-qualified tenderers, which closed on 24 May 2000, for the management of the documentation and construction of the new accident and emergency building and associated works at RDH.

The contract was awarded to the Sitzler Barclay Mowlem Joint Venture on 27 July 2000 and published in the Government Gazette on 16 August 2000.

Due process in accordance with requirements of the *Procurement Act*, Regulations and guidelines was followed.

Application of the Procurement Act, Regulations and guidelines in the letting of contracts for this project (continued)

The Joint Venture was responsible for a wide range of services, including documenting and "packaging" the project into tender lots and managing the components of the whole project, right up to hand over to the RDH and commissioning of the new facilities.

Notwithstanding the above responsibility placed on the Joint Venture, all subcontracts awarded by it were required to be endorsed by the works superintendent at the then Department of Transport and Works (now the Department of Infrastructure, Planning and Environment) thus ensuring appropriate control over the activities of the Joint Venture.

Auditing the Public Account and other accounts

Department of Corporate and Information Services

Information Technology audit of electronic payment systems

KEY FINDINGS

- **The procedures and interfaces operating around the electronic payment systems within the Department of Corporate and Information Services (DCIS) are supported by appropriate controls.**
- **Opportunities were identified to further improve preventative controls to minimise risks associated with administrators and support personnel having access to process payment transactions.**
- **At the time of concluding this audit, DCIS banking services, a division within DCIS, could authorise through DeskBank, EFT payments of up to $99 million. Documentation provided in support of payment requests through DeskBank does not have to be original documentation.**

RECOMMENDATIONS

- **DCIS should reduce the number of Administration Users with update access to the datasets containing the payment transactions prior to the file being transmitted to Westpac Bank.**
- **DCIS Management should review the authorisation limit for payments made via the Westpac DeskBank application with a view to reducing it to a more appropriate level in line with current levels of large payments.**

DCIS has commented:

Following a fraud risk assessment the authorisation limit for payments was reduced from $99million to $4million.

- **Further staff training is required to raise awareness of the requirement for all DeskBank payment requests to be verified by Accounts Payable or Banking Services for approval and financial delegation before processing.**
- **Validation controls around DeskBank payments, which are generally either large, foreign transfers or non-systematic payments, should be substantially higher than for standard accounts payable payments and original documentation should be sought in the first instance.**

DCIS has commented:

Deskbank payments are often urgent in nature and it is not feasible to receive original documentation through the mail in sufficient time. However, protocols are being improved in this regard as is the understanding of officers involved in the process through our training program.

Auditing the Public Account and other accounts
DCIS – Information Technology audit of electronic payment systems

Background

The Northern Territory Government "Payment Processing System" is used to generate cheque and Electronic Fund Transfer (EFT) payment transactions for vendors as well as salary payments.

Payment processing for NT Government agencies has since 1998 been outsourced to Westpac.

DeskBank is a Windows® based software package provided by Westpac for customers to manage their bank accounts on line. For the NT Government the DeskBank application runs on an NT Treasury server and is used by the Department of Corporate and Information Services (DCIS) for monitoring account status and ad hoc payments relating to items such as urgent invoices, reprocessing of rejected payments previously processed by accounts payable or payroll and foreign currency payments.

Audit objectives and scope

The objective of this audit was to assess the controls surrounding the electronic payment systems used within NT Government.

In particular, my review of electronic payment systems at DCIS focused on the payment processes for GAS payments and the DCIS DeskBank application.

Preventative and detective controls

'Preventative (also referred to as "prevention") controls' are control procedures designed to prevent an erroneous or fraudulent transaction from occurring as opposed to 'Detective (also referred to as "detection") controls' which are designed to detect if an erroneous transaction has occurred which would require corrective action to be initiated.

Audit findings

Opinion

The procedures and interfaces operating around the electronic payment systems within DCIS are supported by appropriate controls.

However, opportunities were identified to further improve preventative controls to minimise risks associated with administrators and support personnel having access to process payment transactions.

Specific findings

GAS Payments – access by Administration Users

Access to maintain vendors and enter invoices is appropriately segregated, however a limited number of GAS Administration Users have access to both functions. In view of this high level of access granted by these Administration Users, it is necessary to implement preventative controls that stop invalid payments being made by these users. Such controls are not currently in place. Significant reliance is therefore placed on detective controls for validity of payments.

Auditing the Public Account and other accounts
DCIS – Information Technology audit of electronic payment systems

Specific findings (continued)

As part of the GAS payments system, the electronic payment file is generated, processed and transmitted to Westpac Bank by scheduled batches running on the mainframe. The mainframe operations team monitors these batches. What I consider to be an excessive number of Administration Users (12 GAS support, 4 global RACF administrators and 12 system support personnel) have update access to the datasets containing the payment transactions prior to the file being transmitted to Westpac Bank. DCIS should reduce the number of users with update access to these datasets.

However, a detective control does exist - the control to reconcile the EFT Successful Payments report to the Cash Requirements Report is a primary detective control that should identify any invalid adjustments being made to payment amounts during the generation and transmission of the electronic payment file.

DCIS Westpac DeskBank Application – manual procedural controls

EFT payments can be processed through the Westpac DeskBank application, which is outside the accounts payable processes. Examples of when this might occur include:

- To re-initiate rejected salary or accounts payable payments;
- To meet limited treasury transactions for NT Treasury Corporation; and
- To meet payments for NT Superannuation – for internal transfers only.

The DeskBank Banking software was configured to enable DCIS Banking Services (a division with DCIS) users to authorise EFT payments of up to $99 million. I understand that DCIS management are aware of this authorisation limit and of the associated risks. There are manual procedural controls in place to ensure that large cash transactions are approved and that funding will be provided by Treasury including:

- A control which enforces dual on line authorisation for all payment transactions and changes to security ensuring that no one person can initiate and authorise an instruction to Westpac;
- Confirmation from NT Treasury that funding is available (when transactions exceed $150,000 for the day); and
- A review of such payments initiated by NT Treasury Corporation is conducted by internal audit.

However these are not preventative controls which means that, in theory, any two delegated officers with user access to DeskBank, and working together, can complete an on line real time payment transaction of up to the $99 million limit without necessarily first seeking Treasury approval. Westpac would not stop a transaction if the DeskBank approval levels permitted the transaction. The transaction, via detective controls, will ultimately be detected by Treasury after its completion.

In addition, preventative controls exist in the form of login and password controls, which have been implemented to ensure that only appropriate users can gain access to the application.

Auditing the Public Account and other accounts
DCIS – Information Technology audit of electronic payment systems

DCIS Management should review the authorisation limit with a view to reducing it to a more appropriate level in line with current levels of large payments.

DCIS Westpac DeskBank Application – training

All DeskBank payment requests must be verified by Accounts Payable or Banking Services for approval and financial delegation before processing. This requirement is not understood by all users of the DeskBank application. Further staff training and awareness of these requirements should be undertaken.

DCIS Westpac DeskBank Application – original documentation

It was noted that supporting documentation provided for payment requests does not need to be original documentation. Photocopies or fax copies are accepted for payment request. Given that the payments being processed through DeskBank are generally either large, foreign transfers or non-systematic payments, validation controls around these payments should be substantially higher than for standard accounts payable payments. Therefore, staff processing such payments should ensure the payment is supported by original documentation.

Auditing the Public Account and other accounts

Northern Territory Treasury – Superannuation Office

Information Technology audit of electronic payment systems

KEY FINDINGS

- **The procedures and interfaces operating around the electronic payment systems within the Northern Territory Superannuation Office are supported by appropriate controls.**
- **Opportunities were identified to further improve preventative controls to minimise risks associated with administrators and support personnel having access to process payment transactions.**

RECOMMENDATIONS

- **Access to the benefit payment datasets on the mainframe should be reduced to only essential mainframe administration personnel.**
- **Superannuation benefit payments processed by Westpac should be reconciled to the payments approved during the benefit payment process.**
- **The Superb Benefits Batch Audit Report should be reconciled to the payment file audit report generated once the payment data is transferred into the mainframe datasets.**
- **The final verification of benefits in the Superb Benefits Batch Audit Report should not be performed by someone with access to enter or modify benefits within Superb.**

NTT has commented:

The Northern Territory Superannuation Office agrees with and has implemented the Auditor-General's recommendations.

Background

The Northern Territory Government "Payment Processing System" is used to generate cheque and Electronic Fund Transfer (EFT) payment transactions for vendors as well as salary payments. The GAS payments and the benefit payments from the Superb Superannuation system use a common payment file processing and transfer facility operating on the NT Government mainframe.

The Superb Superannuation system is an application that calculates member benefits based on information obtained from the NT government payroll system, PIPS. It also updates the general ledger and disburses funds to terminating members.

Payment processing for NT government agencies has been outsourced to Westpac since 1998.

Auditing the Public Account and other accounts
NTT – Superannuation Office – Information Technology audit of electronic payment systems

Audit objectives and scope

The objective of this audit was to assess the controls surrounding the electronic payment systems used as applicable to the NT Superannuation Office. (The controls applicable to GAS transactions were reviewed as part of an audit at DCIS reported on pages 34 to 37 of this Report.)

The audit examined the procedures and interfaces between the NT Superannuation Office Superb Superannuation System (Superb) with the Westpac electronic payments system.

Preventative and detective controls

'Preventative (also referred to as "prevention") controls' are control procedures designed to prevent an erroneous or fraudulent transaction from occurring as opposed to 'Detective (also referred to as "detection") controls' which are designed to detect if an erroneous transaction has occurred which would require corrective action to be initiated.

Audit findings

Opinion

The procedures and interfaces operating around the electronic payment systems within the NT Superannuation Office are supported by appropriate controls.

However, opportunities were identified to further improve preventative controls to minimise risks associated with administrators and support personnel having access to process payment transactions.

Specific findings

Superb Payments

The audit identified that Superb benefit payment processing procedures are documented to assist staff to follow the key steps and controls involved in the payment process. In addition, during the entry of benefits into Superb, numerous verification procedures are performed to check the accuracy of benefits.

However, during the electronic payment file generation process, opportunities exist where data files can be accessed by a limited number of Superannuation and system support users on the Mainframe and Unix server. Access to the payment files has been restricted where practical, however there is still an inherent risk of data being changed without being detected. To reduce this risk, access to the benefit payment datasets on the mainframe should be reduced to only essential mainframe administration personnel.

Auditing the Public Account and other accounts
NTT – Superannuation Office – Information Technology audit of electronic payment systems

Reconciliation of changes made to payment and input files

Reconciliations are not being performed between the EFT Successful Payments Report and the benefits verified in the Superb Benefits Batch Audit Report. If changes are made to the payments file and to the GAS input file prior to payments being transmitted, these changes may not be detected if the reconciliation referred to has not been performed. It is therefore recommended that Superannuation benefit payments processed by Westpac be reconciled to the payments approved during the benefit payment process.

Possible impact of 'processing stops'

At the commencement of the payment run, the Benefits Supervisor declares a 'processing stop' while the current benefits approved on the system are printed and verified by the Benefit Supervisor. During this period (usually one hour), it is still possible for users to enter new benefits or modify existing benefits, that will not be subject to verification prior to being paid. To avoid this risk, the Superb Benefits Batch Audit Report should be reconciled to the payment file audit report generated once the payment data is transferred into the mainframe datasets.

Conflict of duties

The person responsible for verifying the benefits listed on the Benefits Batch Audit Report also has access to generate and modify benefit details. This creates a conflict of duties and reduces the effectiveness of this verification process. To minimise this risk, the final verification of benefits in the Benefits Batch Audit Report should not be performed by someone with access to enter or modify benefits within Superb.

Auditing the Public Account and other accounts

Northern Territory Treasury - Community Benefit Fund

KEY FINDINGS

- **Transactions through the Community Benefit Fund complied with the requirements of the *Gaming Control Act* and the *Gaming Machine Act* and Regulations. In particular the processes now in place for the calling for grant applications, assessment, approval and payment are open and accountable and have addressed the issues identified in the 2001 audit.**

RECOMMENDATION

- **To supplement the disclosure about the grant payments from the Fund, future reports should include a summary of the movement through the Fund including opening and closing balances, administration costs and receipts into the Fund.**

NTT has commented:

Details of all grants paid are disclosed in the Community Benefits Committee's annual report, and this will be expanded in future to include a summary of the movement through the Fund, including opening and closing balances, administration costs and receipts.

Background

The use of the Community Benefit Fund (the Fund) for the small grants program during July/August 2001 was audited by my predecessor and his findings reported to the Legislative Assembly in his February 2002 report. The audit identified a number of serious concerns regarding the program. In particular, the audit found that in the haste to make payments from the fund proper controls were not maintained.

A follow up audit of the Fund was completed in October/November 2003.

Fund History

When gaming machines were introduced into clubs and hotels from 1 January 1996 part of the regulatory regime required the establishment of a Fund. Under the *Gaming Machine Act* (the Act), licensed premises are required to pay each month a gaming machine community benefit levy (the levy) in the manner and at the rate prescribed under the Act.

The rate prescribed is a percentage of the gross monthly profit (net machine revenue) of the licensed premises for the month and was set at 0% for clubs and 25% for hotels. These rates remained unchanged until 30 June 2001. From 1 July 2001 the levy was reduced to 10% and still only applies to Hotels.

With the change in Government in August 2001 the small grants program was suspended. The new Government decided to transfer $4.9 million from the Fund to the consolidated revenue account to support major sport and recreation infrastructure.

Auditing the Public Account and other accounts
NTT – Community Benefit Fund

Fund History (continued)

NT Treasury conducted a review of the Fund during 2002 while also taking over responsibility for Gaming regulation including administration of the Fund. Outcomes of the review were detailed guidelines, comprehensive administrative arrangements and legislative amendments that were passed in the September 2002 sittings.

A secretariat was also established within the Racing, Gaming and Licensing Division of NT Treasury to assist with the administration of the Fund. The cost of running the secretariat is charged to the Fund.

Distributions from the Fund are now clearly defined within section 68A(2) of the *Gaming Control Act* and can only be applied for the following purposes:

- Research into gambling activities, including the social and economic impact of gambling on individuals, families and the general community in the NT;
- Promotion of community awareness and education in respect of problem gambling and provision of counselling, rehabilitation and support services for problem gamblers and their families;
- Funding of community projects and services of benefit to communities throughout the NT; and
- Management and administrative support of the Fund.

Audit objectives and scope

The audit objectives were to:

- ascertain the movements through the fund since the August 2001 audit; and
- verify compliance with the requirements of the *Gaming Control Act* and the *Gaming Machine Act* and Regulations.

The audit entailed verifying transactions in the fund since 1 September 2001 to supporting documentation to ensure:

- NT Treasury has procedures in place to ensure the levy due was collected and properly accounted for in accordance with the Acts and regulations; and
- Payments out of the Fund were made in accordance with the prevailing Acts.

Audit findings

Opinion

Transactions through the fund since the 2001 audit complied with the requirements of the *Gaming Control Act* and the *Gaming Machine Act* and Regulations. In particular the process now in place for the calling for grant applications, assessment, approval and payment is open and accountable and has addressed the issues identified in the 2001 audit.

Auditing the Public Account and other accounts
NTT – Community Benefit Fund

Specific findings

Movements through the Fund

A summary of the movements through the Fund for the three years ended 30 June 2003 is as follows:

	2000/01		2001/02		2002/03
	$		$		$
Balance brought forward	4,138,590		5,269,265		186,718
Receipts	1,614,541		1,043,609	(b)	1,181,059
Less Payments	(482,915)		(6,126,157)	(c)	(619,929)
Balance per Feb 2002 report	5,270,216				
Rounding errors prior years	(951)	(a)			
Balance carried forward	5,269,265		186,718		747,848

(a) The audit reconciliation reported in the Auditor-General’s February 2002 report differed to the then Department of Industry and Business (DIB) reconciliation due to rounding errors that were not corrected by DIB. NT Treasury has continued with the DIB-reconciled figure.

(b) Receipts have declined in line with the levy rate being amended from 25% to 10%. The actual $ decline has not mirrored the rate change due to an overall increase in gaming machine turnover. This is reflected in the 2002/03 receipts showing a 13% increase over the prior year.

(c) Expenditure in 2001/02 includes $1.06 million for the small grants program and $4.9 million transferred to the Consolidated Revenue Account.

Receipts

Each month the Fund receives monies from Hotels in a monthly ‘sweep’ from the bank accounts of Clubs and Hotels of the gaming machine taxes and levies due. This process is now contracted out to the NT Tab, who manage the monitoring of the gaming machines. In prior years this was managed directly by the Racing and Gaming Division.

Payments in 2002/03

Under the revised operating procedures, payments could be made out of the Fund under three categories. Cabinet also approved the estimated spend against each category.

	Approved	Paid	
	$	$	
Community Grants program	600,000	310,084	(a)
Gambling Amelioration & Education grants program	250,000	245,700	
Research policy, management and administration program	250,000	64,145	(b)
	1,100,000	619,929	

Auditing the Public Account and other accounts
NTT – Community Benefit Fund

Payments in 2002/03 (continued)

(a) A second tranche of Community grants totalling $0.3 million was processed in June 2003 and paid July 2003.

(b) The Research program had not commenced in 2002/03.

Disclosures

Section 68B (4) of the *Gaming Control Act* requires the Community Benefit Committee to report to the Minister on the Committee's operations during a financial year within 3 months after the end of the financial year.

The Committee's report for 2002/03 was included in the 2002/03 annual report of Northern Territory Treasury. A full disclosure of grants paid out of the Fund was provided in the report. Whilst the total of the levy raised for the year was reported in the highlights section of the report, a summary of movements through the Fund with opening and closing balances was not provided. To supplement the disclosure about the grant payments from the Fund future reports should include a summary of the movement through the Fund including opening and closing balances, administration costs and receipts into the Fund.

Auditing the Public Account and other accounts

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

Northern Territory Tourist Commission

KEY FINDINGS

- **Numerous changes were necessary to the financial statements presented for audit in September 2003 with the financial statements not being finalised until the last week of October 2003.**

Audit opinion

The audit of the Northern Territory Tourist Commission (the Commission) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 31 October 2003.

Background

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

The Commission is required to prepare an accrual based annual financial report which consolidates the results of Territory Discoveries (see pages 83 to 86 of this Report) which it controls. The results of Territory Discoveries are also separately reported within the annual report of the Commission.

From 1 July 2002 the operations of the N T Holiday Centre (the holiday centre) were transferred from the Commission to Territory Discoveries following a NT Government decision that the holiday centre more appropriately fitted the operations of Territory Discoveries. The assets transferred amounted to $3.05 million matched by creditors and deposits received.

Key issues

Accounting Resources and Impact on Audit Timing

The extent of operating losses, volume of adjustments to the financial statements initiated by Audit and the growth in size of the Commission may suggest that it should reconsider appointing a financial controller. This observation is not a reflection on the existing accounting staff at the Commission nor on the accounting services provided by DCIS. Instead, I highlight the following:

- The Commission is not a small business enterprise – consolidated turnover in 2003/04 could exceed $35 million;

Auditing the Public Account and other accounts
Northern Territory Tourist Commission

Key issues (continued)

- The nature and volume of accounting errors noted by Audit could suggest that the Commission may not be receiving accurate financial information on a monthly basis; and

- Throughout September numerous changes were made to the original trial balance presented for audit, with the final trial balance and financial statements being provided in the last week of October.

Most of the changes involved the proper accounting for the transfer of the holiday centre to Territory Discoveries and the elimination of consolidating entries. These changes adversely impacted the timing of the audit and production of the Commission's financial statements as they reflected transactions outside the normal course of the Commission's activities. For example, the calculation of the provision for diminution in investments at year end required a specific accounting exercise to be undertaken.

Going forward, timely and accurate preparation of the financial statements and the associated audit requires improved planning in order that a 30 September deadline can be met.

I have discussed these matters with the Commission's Board who have taken steps to improve its accounting functions without the need to recruit a Chief Finance Officer.

NTTC has commented:

The numerous changes made to the financial statements occurred mainly as a result of transferring the Holiday Centre to Territory Discoveries. This was a once-off incident, which resulted in unexpected outcomes that required further analysis and investigation. The NTTC has put arrangements in place to ensure that it is better prepared should such a change occur in the future.

Follow up of prior year matters.

This audit undertook a follow-up on matters raised in the interim and the previous year's final audit, which revealed the following outstanding items:

- The Accounting and Property Manual still needs to be updated; and

- The Service Level Agreement with the Department of Corporate and Information Services (DCIS) still has to be finalised.

DCIS has commented:

The Service Level Agreement has been signed.

NTTC has commented:

The Service Level Agreement with the Department of Corporate and Information Services has now been finalised and the review of the Accounting and Property Manual is nearing completion.

Auditing the Public Account and other accounts
Northern Territory Tourist Commission

Financial results

Financial Analysis – The Consolidated results of the Commission/Territory Discoveries Group (the Group)

The Group operated at a net loss for the year of $2.6 million, which is primarily the result of the following:

- The Commission's net loss of $0.853 million (after eliminating the effect of the provision for diminution in the carrying value of the Commission's investment in Territory Discoveries); and

- The net operating loss of $1.7 million incurred by Territory Discoveries.

The Group's consolidated financial position showed a small improvement from negative equity of $849,000 to negative equity of $238,000 – an improvement of $611,000 primarily because the equity injections by the NT Government of $3.2 million exceeded the Group operating loss of $2.6 million.

Abridged Statement of Financial Performance for the year ended 30 June 2003 – Commission only

	Notes	**2003**	**2002**
		$'000	**$'000**
Revenue from ordinary activities	**1.4**	27,935	28,468
Less expenditure from ordinary activities:			
Employee Expenses		5,421	6,729
Corporate Support	**1.1**	9,051	6,466
Marketing	**1.3**	13,468	9,325
Tourist Development		735	554
Grants and Subsidies	**1.2**	4,898	3,794
Total expenditure		33,573	26,868
Net (Loss)/Profit	**1**	**(5,638)**	**1,600**

Explanatory notes:

1. The Commission incurred a loss for the year of $5.6 million primarily caused by:
   1.1. A provision for diminution of $4.8 million in the carrying value of the Commission's investment in Territory Discoveries. This provision, recorded in Corporate Support costs above, resulted in the Commission recording its investment in Territory Discoveries at the latter's net asset value being $0.892 million at 30 June 2003;

   1.2. An increase of $1.3 million in grants and subsidies paid primarily associated with the Virgin Blue arrangements;

Auditing the Public Account and other accounts
Northern Territory Tourist Commission

Explanatory notes: (continued)

1.3. An increase in marketing activity. This is reported in the Commission's annual report as being "… attributed to heightened domestic activity to stimulate the market due to adverse circumstances such as SARS and incidents of terrorism."; and

1.4. A decrease in operating revenues of $0.5 million.

The need to provide against the Commission's investment in Territory Discoveries became evident this year when Commission specific financial statements were prepared for the first time. Had this happened at 30 June 2002, at which time the Commission's investment in Territory Discoveries was $2.8 million and TD had negative equity of $81,000, then a provision for diminution of $2.8 million would have been made in the prior year. This would have required a further $2 million provision this year, which is in the main represented by Territory Discoveries' operating losses $1.7 million, incurred in 2002/03.

It should also be noted that Territory Discoveries has incurred deficits since it commenced operations. However, it recorded net assets of $0.892m at 30 June 2003, which is an improved net asset position, compared to the deficit of $0.81m at 30 June 2002. This is also largely due to the transfer to Territory Discoveries of the NT Holiday Centre's net assets, which had a positive effect on its net assets.

Without the provision of $4.8 million, the Commission would have operated at a loss of $838,000.

Abridged Statement of Financial Position at 30 June 2003 – Commission only

	Notes	**2003**	**2002**
		$'000	**$'000**
Current assets			
Bank balance	**1**	(1,055)	167
Receivables and other	**2**	4,429	390
Total Current Assets		3,374	557
Less Current Liabilities	**3**	4,932	1,690
(Deficiency) in Working Capital	**1**	(1,558)	(1,133)
Less Non Current Assets	**4**	1,320	3,455
		(238)	2,322
Less Non Current Liabilities		-	120
Net Assets/(Deficiency)		**(238)**	**2,202**
Represented by:			
Equity			
(Accumulated Losses)/Retained profits		(3,437)	2,202
Contributed equity	**5**	3,199	-
Total Equity/(Deficiency)		**(238)**	**2,202**

Auditing the Public Account and other accounts
Northern Territory Tourist Commission

Explanatory notes:

1. The bank overdraft and net working capital deficiency are reflective of the operating losses being incurred by the Commission. This is essentially a timing issue as the Commission is substantially funded by way of NT Government paid Community Service Obligations.
2. Over $3 million of this increase relates to monies owing to the Commission by Territory Discoveries arising from the transfer of the Holiday Centre and monies transferred to Territory Discoveries to fund amounts due to Virgin Air.
3. $2.5 million of the increase in current liabilities represents the Commission's commitment to Virgin Air.
4. The decrease in non-current assets primarily arises from the provision for the decrease of the Commission's investment in Territory Discoveries.
5. The impact of the $5.6 million operating losses on the Commission's financial position at 30 June 2003 was for it to report a negative equity of $238,000, which is despite equity injections by the NT Government of $3.2 million. The situation reported at 30 June 2002 was a net asset position of $2.2 million, which would have been a negative of $0.6 million had a provision for diminution in the investment in Territory Discoveries been raised at that time.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Construction Division

There are no key findings

Audit opinion

The audit of Construction Division for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 29 September 2003.

Background

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

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

Key issues

No issues to report.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003 $'000	2002 $'000
Revenue from ordinary activities	32,212	29,801
Less expenditure from ordinary activities:		
Operational costs	9,107	8,275
Employee expenses	16,299	17,293
Consultants fees	5,603	5,209
Depreciation and amortisation	47	64
Borrowing costs	176	139
Total expenditure	31,232	30,980
Net profit/(loss)from ordinary activities before income tax expense	980	(1,179)
Less income tax expense	-	-
Net profit/(loss) from ordinary activities after income tax expense	980	(1,179)
Less Dividends	(490)	-
Retained profits/(losses)	**490**	**(1,179)**

Auditing the Public Account and other accounts
Construction Division

Financial results (continued)

The operating result shows a profit from ordinary activities for 2003 of $0.98 million compared to a deficit of $1.18 million in the 2002 financial year.

Revenue from billings to client agencies increased by $2.6 million to $32.2 million. This increase in billing is predominantly due to the consultancy fees passed on to the Division's clients this year. This was a significant contributor to the $2.159 million improvement in the net profit before taxation.

Operating expenditure for the year increased by $0.3 million compared to the prior year. This is predominantly due to lower staff numbers resulting in a decrease of $1 million offset by increases in agent service arrangement (outsourcing) costs.

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003	2002
		$'000	**$'000**
Current assets			
Bank	**1**	5,145	1,864
Receivables, accrued revenue and other	**2**	3,277	4,271
Total current assets		8,423	6,135
Less Current Liabilities			
Payables	**3**	2,039	1,003
Employee, dividend and other provisions	**4**	3,596	5,904
Total current liabilities		5,635	6,907
Working Capital/(Deficiency)	**1**	2,788	(772)
Add Non Current Assets	**4**	1,118	4,515
		3,906	3,743
Less Non Current Liabilities		2,500	2,827
Net Assets		**1,406**	**916**
Represented by:			
Equity			
Reserves		49	49
Retained profits		1,357	867
Total Equity		**1,406**	**916**

Auditing the Public Account and other accounts
Construction Division

Explanatory notes:

1. While Condiv operated at an operating profit of $980,000, its activities generated $3.281 million additional cash, which has put it into a strong net working capital position at 30 June 2003. In view of the nature of its activities – short and long term construction contracts, this trend is healthy. Significant contributors to this improvement were improved collections from customers and increases in amounts due to suppliers. See also comments in notes 2 and 3 below.

2. Receivables and other assets have decreased compared to 2002 due to two primary reasons:
   - Amounts due from customers (being other public sector Agencies) have decreased by $1.860 million due to improved frequency of billings and collection rates. This contributed significantly to the improved cash position; and
   - An increase of $899,000 in accrued revenue primarily relating to accrued program delivery fees.

3. The increase in creditors primarily reflects consultancy expenses for Department of Employment, Education and Training projects ($509,000) and increased GST liability outstanding at year end (336,000).

4. Movements in these provisions primarily comprise:

   - A dividend provision of $490,000 (2001/02 – nil); and

   - A decrease of $3.366 million in employee provisions being the long service leave liability transferred to the Central Holding Authority. This resulted in a decrease by the same amount in non-current receivables being the Recoverable Establishment Fund established at the time of setting up Condiv. This amount is due to Condiv by NT Treasury and a balance of $$1.046 million now remains due to Condiv.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Darwin Bus Service

There are no key findings

Audit opinion

The audit of Darwin Bus Service (DBS) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 1 October 2003.

Background

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

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

Key issues

No issues to report.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003 $'000	2002 $'000
Revenue from ordinary activities	6,439	6,329
Less expenditure from ordinary activities:		
Employee expenses	2,865	3,035
Motor vehicle expenses	1,468	1,400
Depreciation	727	713
Other expenses	799	681
Total expenditure	5,859	5,829
Net profit from ordinary activities before income tax expense	580	500
Less income tax expense	(174)	(150)
Net profit from ordinary activities after income tax expense	406	350
Less Dividends	(203)	(175)
Retained profits	**203**	**175**

Auditing the Public Account and other accounts
Darwin Bus Service

Financial Results (continued)

As there was no change in the rates per kilometre agreed between the Public Transport Branch and Darwin Bus Service the revenue remained constant at approximately $6.4 million.

Whilst costs also remained constant at $5.8 million there was a notable decline in employees' expenses of $0.170 million predominantly due to lower staff numbers during the year.

Abridged Statement of Financial Position at 30 June 2003

	2003	**2002**
	$'000	**$'000**
Current Assets	3,749	2,754
Less Current Liabilities	989	1,173
Working Capital	2,760	1,581
Add Non Current Assets	5,890	6,592
	8,650	8,173
Less Non Current Liabilities	-	73
Net Assets	**8,650**	**8,100**
Represented by:		
Equity		
Retained profits	8,303	8,100
Contributed equity	347	-
Total Equity	**8,650**	**8,100**

During the year net assets increased by $0.550 million mainly due to the decline in liabilities arising from the transfer of the long service leave liability of $0.347 million to Central Holding Authority and an increase in cash assets of $0.963 million

The operations of the Agency during the year incurred a net inflow of cash of $0.963 million compared to an inflow of $0.283 million for the 2001/2002 year. This is reflective of the $1.307 million profit before income tax, depreciation and amortisation and the payment of $0.150 million taxes and $0.175 million dividends.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Darwin Port Corporation (the Corporation)

KEY FINDINGS

- **The development of East Arm Wharf Stage 2 was again projected at 30 June 2003 to have little or no impact on the anticipated future income flows of the Corporation, leading to a write down in the value of this asset at 30 June of $42.9 million and potential for further write downs in the future of $23 million. The methodology adopted to determine the written down values for Stage 2 was similar to that adopted for Stage 1.**
- **These write downs do not, however, impact the service potential of these Port assets.**
- **The Corporation's net worth rose by $3 million to $17.7 million as Equity was contributed by the Government at a higher rate than infrastructure assets were written down.**
- **Independent and Directors' assessments of the carrying value of port assets have resulted in asset write downs totalling $146.1 million over the last five years.**

Audit opinion

The audit of Darwin Port Corporation (the Corporation) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 9 October 2003.

Background

The Corporation is the Government Business Division which manages a portfolio of wharf and other marine assets in Darwin, including the infrastructure developed for the new port facilities at East Arm in Darwin Harbour. Stage 1 of the East Arm facility was officially opened in February 2000 and Stage 2 is currently under construction with completion scheduled in 2004/05. In time the facility at East Arm is expected to handle all industrial port requirements. The former wharf infrastructure adjacent to the Darwin central business district is to be reserved for cruise ships, visiting naval vessels and other tourism related activities.

Key issues

Accounting for Stage 2 of East Arm Wharf

Construction of Stage 2 of East Arm Wharf continued during the year with completion now anticipated in 2004/05. Construction is being funded and managed by the Department of Infrastructure, Planning and Environment with work in progress transferred to the Corporation annually and treated as an equity injection. During the 2002/03 financial year, $42.9 million was spent on East Arm Wharf Stage 2 and the Corporation is committed to spending a further $23 million on this development.

Auditing the Public Account and other accounts
Darwin Port Corporation

Fort Hill, Iron Ore and Mooring Basin Wharves

The Board again re-assessed the useful economic lives of these wharves during 2002/03 particularly in view of any impact that the new East Arm Wharf will have on their future use. This re-assessment was subjected to audit and it was concluded that no material misstatement existed at 30 June 2003. However, re-assessment of the economic lives of these wharves will require regular updating by the Board. This is particularly so for the Fort Hill Wharf as the crane and related infrastructure is now relocated at East Arm.

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

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

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

	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m	Total $m
Assets written down to recoverable amount by	-	60.6	6.7	34.7	44.1	146.1
Net worth	73.4	26.3	18.5	14.7	17.7	N/A

The write downs in 2001/02 and 2002/03 include the expenditure on East Arm Wharf Stage 2 of $29.9 million and $42.9 million respectively, because this development was projected, at 30 June 2002 and 30 June 2003, to have little or no impact on anticipated future income streams. Given the continuation of the policy of recording Corporation assets at their recoverable amount, the $23 million committed to works on East Arm Wharf Stage 2 will probably be written down in the future. This will, however, depend on regular assessment of future earnings projected for the wharf. The methodology that has been adopted to determine the written down values for Stage 2 is similar to that adopted for Stage 1.

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

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	Notes	2003	2002
		$'000	**$'000**
Revenue from ordinary activities:			
Rendering services		11,976	11,606
Other revenue from ordinary activities			
Community Service Obligations	**2**	6,844	4,743
Interest earned		446	401
Total revenue from ordinary activities		**19,266**	**16,725**
Less expenditure on ordinary activities:			
Employee expenses		4,588	4,210
Operational expenses	**1**	8,870	4,262
Repairs and maintenance expenses		2,554	2,899
Depreciation expenses		992	887
Borrowing expenses		2,306	2,616
Total expenditure before asset valuation decrement		19,310	14,874
Net operating (loss)/profit before asset valuation decrement		(44)	1,851
Less Decrement in valuation of non-current assets		(44,074)	(34,664)
(Loss) from ordinary activities before related income tax expense		**(44,118)**	**(32,813)**
Income tax benefit/(expense) relating to ordinary activities		865	(879)
Net (loss)	**1**	**(43,253)**	**(33,692)**

Explanatory notes:

1. For the year ended 30 June 2003 the Corporation incurred a small loss before asset write downs. If the "once off" effect of the crane relocation ($2.15million) included in operational expenses is adjusted for, as the funding for the relocation was by way of equity and is not included in revenue, then the Corporation's 2003 operating results before asset write downs would show an operating profit of $2.106 million which is comparable with 2001/02.
2. The Corporation received revenue from Community Service Obligations of $6.8 million in 2003 ($4.7 million in 2002) principally related to cruise shipping support and the wharf precinct activities. The CSO revenues provided by Government determine the level of service provided by the Corporation. Those revenues represent the recovery of avoidable costs incurred by the Corporation in providing CSOs and neither a loss nor profit is generated as a result.

Auditing the Public Account and other accounts
Darwin Port Corporation

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003	2002
		$'000	$'000
Current Assets			
Bank and cash	1	13,307	11,602
Receivables and other assets	2	3,620	2,727
Total current assets		16,927	14,329
Less Current Liabilities			
Payables and current debt repayable	3	2,435	2,021
Employee and other provisions and prepayments in		1,507	1,319
Total current liabilities		3,942	3,340
Working Capital	1	12,985	10,989
Add Non Current Assets		40,246	41,031
		53,231	52,020
Less Non Current Liabilities	3	35,547	37,314
Net Assets		**17,684**	**14,706**
Represented by:			
Equity			
Accumulated (Losses)		(102,944)	(59,691)
Reserves		10,635	10,635
Contributed Equity		109,993	63,762
Total Equity		**17,684**	**14,706**

Explanatory notes:

1. The Corporation continues to build up strong cash reserves despite incurring operating losses caused primarily by asset write downs and asset relocations associated with the move to East Arm. In each of the last two year cash inflows have exceeded cash outflows by more than $1.7 million. The cash on hand at 30 June 2003 exceeded the annual "revenue from rendering of services" by $1.3 million and the Corporations working capital is therefore very strong. This could lead to pressure to pay dividends once profitability returns following completion of the East Arm construction.

2. The main increase in receivables is due to an increase of $676,000 in accrued revenue primarily representing Community Service Obligation funding outstanding at year end.

3. Payables includes $930,000 (2001/02 – nil) anticipated debt repayments to be made in the 2003/04 financial year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Data Centre Services (formerly known as Information Technology Management Services)

There are no key findings

Audit opinion

The audit of Data Centre Services for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 15 October 2003.

Background

During the year the GBD's name was changed from Information Technology Management Services to Data Centre Services (DCS) to better represent the activities that it now undertakes.

DCS has been in transition from being the main provider of IT services to Government, to being a facilitator and consultant to Agencies for their IT needs. Through a process of outsourcing IT service delivery to private sector providers, the DCS is now left with managing the Data Centre and providing Mainframe and Midrange support to government agencies.

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

Key issues

No issues to report.

Auditing the Public Account and other accounts
Data Centre Services

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Revenue from ordinary activities	18,666	18,970
Less expenditure from ordinary activities:		
Operational costs	12,780	14,269
Employee expenses	2,402	2,508
Depreciation and amortisation	1,601	2,490
Borrowing costs	112	170
Total expenditure	16,895	19,437
Operating profit/(loss) before accounting for benefit/(cost) from implementing IT outsourcing policy	1,771	(467)
(Cost) Benefit from implementing IT outsourcing policy	(171)	3,394
Net profit from ordinary activities before income tax expense	1,600	2,927
Less income tax expense	(480)	(234)
Net profit from ordinary activities after income tax expense	1,120	2,693
Less Dividends	(560)	(1,346)
Retained profits	**560**	**1,347**

The 2002/03 operating result of $1.771 million profit before tax and before the impact of the IT outsourcing has occurred in a normalised year without the fluctuating effect of the financial transactions associated with the IT outsourcing contracts, which were substantially completed in the prior year. The positive turnaround is attributable to a reduction in operating costs.

The slight decrease in revenue from ordinary activities is mainly due to two significant public sector customers reducing their service requirements in the year.

Depreciation of $1.601 million (2002: $2.490 million) decreased significantly as a result of the reduction in leased assets. Raw materials and consumables expenses decreased by $1.522 million from the previous year, which is consistent with the reduced revenue and improved cost control.

Auditing the Public Account and other accounts
Data Centre Services

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003	2002
		$'000	$'000
Current assets			
Bank and cash	1	2,507	1,827
Receivables, prepayments and other	2	2,318	3,245
Total current assets		4,825	5,072
Less Current Liabilities			
Payables and debt repayments	2	2,046	2,710
Taxation, employee provisions and other	3	1,684	2,418
Total current liabilities		3,730	5,128
Working capital/(Deficiency in working capital)		1,095	(56)
Add Non Current Assets	4	1,257	2,731
		2,352	2,675
Less Non Current Liabilities	3	-	1,208
Net Assets		**2,352**	**1,467**
Represented by:			
Equity			
Retained profits		2,027	1,467
Contributed equity	3	325	-
		2,352	**1,467**

Explanatory notes:

1. DCS generated surplus cash totalling $680,000 this financial year despite paying dividends of $1.3 million.
2. Receivables and payables have both decreased in line with the change in the nature of DCS' activities. The "Payables and debt repayments" line above includes debt due to be repaid in the 2003/04 financial year totalling $1.154 million (2001/02 - $974,000). In addition, $1.15 million of finance lease liabilities were paid in the year, with no new agreements entered into.
3. Taxation, employee provisions and other liabilities is down due to the transfer of $325,000 in long service leave entitlements to the Central Holding Authority, which was treated as an equity injection in accordance with government policy, and because the dividend provision is down $786,000 due to the lower profit this year.
4. Non current assets have decreased by $1.474 million. This is predominantly due to normal depreciation of fixed assets.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Department of Community Development Sport and Cultural Affairs: Housing Business Services (HBS)

KEY FINDINGS

- **HBS' budget and business strategies are only sustainable for a period, following which the business will require new capital or must become profitable to sustain the current levels of activity.**
- **HBS is generating insufficient profits to cover annual interest payments of in excess of $25 million.**
- **Debtors increased by 13.7% to $4.4 million at 30 June 2003, reflecting inadequacies in the debtors' collection processes.**

RECOMMENDATIONS

- **HBS should review its revaluation policies and procedures to ensure complete compliance with the relevant Australian Accounting Standards.**

HBS has commented:

HBS is undertaking a thorough review of its policies and practices for valuing and depreciating non-current assets. In this regard, HBS employed Risk Management Services to engage a consultant to assist in developing appropriate policies and methodologies for valuing and depreciating its non-current assets, including remote area dwellings.

This report has now been finalised (16 March 2004) and recommendations resulting from the review will be implemented where appropriate to ensure that HBS comply with the relevant Australian Accounting Standards.

- **In light of current budgetary arrangements, management should project its cash flow requirements forward five years and take action now to identify where shortfalls will appear.**

HBS has commented:

HBS agrees with this recommendation and is currently developing a Business Plan incorporating a 5 year financial strategy aimed at improving financial results. This plan is expected to be finalised by June 2004. In addition, HBS has been working closely with NT Treasury in the development of strategies and policies to deliver improved financial results.

Auditing the Public Account and other accounts
Housing Business Services

Audit opinion

The audit of the Department of Community Development, Sport and Cultural Affairs: Housing Business Services (HBS) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 23 October 2003.

Background

HBS is a complex organisation, which controls and manages the Government's rental housing stocks and the mortgage assets arising from sales thereof. It has high levels of debt which must be serviced.

Management must balance housing construction, housing sales, rental activities, mortgage lending, and manage rental and mortgage collections and service debt.

With the exception of 1999/2000, in previous years HBS has incurred significant levels of operating losses primarily due to revenues being insufficient to cover depreciation charges and interest payments – $20.1 million and $25.1 million respectively in 2002/03.

Its host agency is the Department of Community Development, Sport and Cultural Affairs.

Key issues

Business Sustainability

I have noted that in each of the 2002/03 and 2003/04 budgets it was anticipated that HBS will:

- Generate operating losses;
- Generate positive operating cash flows primarily due to the impact of depreciation on operating losses;
- Recover more from collecting loans than advancing new loans. During 2002/03 HBS collected $32.5 million from housing loans but advanced $19.6 million, a net cash inflow of $12.9 million;
- Invest more in new housing stock than it will recover in sales proceeds; and
- Be expected to run down cash holdings.

These strategies are only sustainable for a period, following which the business will require new capital or must become profitable to sustain the current levels of activity. HBS is generating insufficient profits to cover annual interest payments of in excess of $25 million.

In the short term, however, HBS' operations are sustainable because it has significant cash reserves and is in a strong working capital position. In light of current budgetary arrangements, management should project its cash flow requirements forward five years and take action now to identify where shortfalls will appear.

HBS has commented:

The HBS agrees with the key findings and has been addressing issues regarding profitability by Business Line. However it should be noted that there are factors other than those identified in the report that have contributed to the operating loss of HBS.

Auditing the Public Account and other accounts
Housing Business Services

HBS has commented: (continued)

Specifically these factors are:

Inappropriate rental pricing policy that has resulted in less than cost reflective prices for the Government Employee Housing Business Line (approximate operating loss of $3.1million); and

Cross subsidisation occurring between HBS and DCDSCA that resulted in approximately $1.1million corporate cost being paid by the HBS and were not billed to DCDSCA.

It is anticipated once these factors are resolved by HBS and DCDSCA it will have a positive impact on the profitability of HBS.

Non Current Assets

The audit identified the following matters in relation to HBS' non-current assets:

- Instances of non-compliance with Australian Accounting Standards AAS 38 "Revaluation of Non-Current Assets", AAS 10 "Recoverable Amount of Non-Current Assets", and AAS 4 "Depreciation";
- The HBS policy on capitalisation of expenditure on rental dwellings and on remote area housing had not been formally documented and was not being consistently applied; and
- The "double counting" of assets in the revaluation process – assets totalling $8.9 million were included in both the opening balances of incomplete projects (work in progress) and in the revalued asset.

It is recommended that HBS review its revaluation policies and procedures to ensure complete compliance with the relevant Australian Accounting Standards.

Debtors' Collection Processes

Debtors increased by 13.7% to $4.4 million at 30 June 2003 as there was misunderstanding as to who was responsible for "chasing up" outstanding debtors. Aged debtors reports, which would assist in monitoring outstanding debts, were not supplied by, or requested from, the Department of Corporate and Information Services (DCIS). Therefore, the HBS management were not aware of the increasing debtors balance, which resulted in an inadequate debtors collection process during the financial year. A debt of approximately $350,000 due by the Department of Employment, Education and Training since October 2002 was not pursued.

Additionally there were problems in the linking of debtors in the Tenancy Management System (TMS) with the GAS General Ledger (GL), such that reports produced by TMS for internal management purposes were not reflecting the same breakdown in debtors as is shown in the GAS GL

HBS management should coordinate with DCIS in respect of generating appropriate and adequate reports for their debtor monitoring process. These reports should be checked against the TMS reports to ensure their accuracy, and reported to the relevant management/division for follow-up action to be undertaken. Whilst it is acknowledged that there have been inherent problems in the TMS, if HBS management is relying on the TMS reports, the inaccuracy of the link between TMS and the GAS GL should be investigated to ensure that reports generated from each system agree.

Auditing the Public Account and other accounts
Housing Business Services

HBS has commented:

Debtors collection processes are currently being reviewed across HBS. It is envisaged that the review will result in the introduction of effective debtor collection processes and should allow HBS to identify appropriate provisions for doubtful debt and write-off of bad debt policies and procedures.

DCIS has commented:

DCIS has provided debt management services for Housing Business Services since September 2003 and the level of outstanding debtors as at 29 February had dropped to $1.046million.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	Notes	**2003**	**2002**
		$'000	**$'000**
Revenue from ordinary activities:			
Rendering of services		37,776	37,231
Community Service Obligations (CSO)	**2**	33,587	35,315
Other revenues from ordinary activities	**2**	33,273	35,677
Total revenue from ordinary activities		**104,636**	**108,223**
Less expenditure on ordinary activities:			
Employee expenses		9,089	8,594
Rates		13,620	13,388
Repairs and maintenance	**3**	17,731	23,293
Depreciation and amortisation	**4**	20,059	18,225
Borrowing costs		25,104	25,411
Other expenses on ordinary activities	**3**	33,863	37,256
Total expenditure		**119,466**	**126,167**
Net (loss)	**1 & 2**	**(14,830)**	**(17,944)**

Explanatory notes:

1. The operating result shows a deficit from ordinary activities for the financial year ended 30 June 2003 of $14.8 million compared to the deficit of $17.9 million in the previous financial year. Whilst HBS generated a profit of $30.3 million (2001/02 – $25.7 million) before interest and depreciation, it is clear that, at current levels of revenue, HBS cannot cover these two charges.

Auditing the Public Account and other accounts
Housing Business Services

2. The reduced deficit is as a result of an overall decrease in expenses of $6.7 million, although, this was partly offset by $2 million decrease in proceeds from sale of assets and $1.7 million reduction in income from Community Service Obligation subsidies.

The deficit illustrates that revenues continue to be insufficient to fund expenditures and this trend has been noted over the past three financial years.

3. The primary reasons for the overall fall of $6.7 million in expenses include:
   - A reduction in the level of asset sales by $2.2 million – costs of asset sales totalled $20.2 million (2001/02 - $22.4 million) and are included in “other expenses on ordinary expenses”;
   - A reduction in repairs and maintenance expenditure of $5.6 million due to:
     - A reduction of $1.8 million in the repairs and maintenance budget this year;
     - Savings of about $1 million due to delays by the Department of Infrastructure, Planning and Environment in carrying out condition-based assessments;
     - The capitalisation of $1.6 million due to a change in policy on allocating repair costs which would previously have been expensed;
   - The grant and subsidies expenditure on the Community Housing Program decreased from $3.3 million by $1.15 million (also included in “other expenses on ordinary expenses” above). Amounts unspent in prior years were “rolled forward” and expended in 2002. No amounts were brought forward into 2003, therefore, current expenditure relates to the current year only.
4. Deprecation charges increased by $1.8 million primarily due to the full year effect of upward asset revaluation adjustments in the 2001/02 financial year.

HBS has commented:

HBS currently has loans at fixed rates at interest rates significantly exceeding current interest levels (ie:12-15.6%). HBS intents to negotiate with Northern Territory Treasury (NTT) and NT Treasury Corporation to reduce its debt burden. However, based on current cash holdings HBS will be able to service the annual interest payments at least for the medium term.

Auditing the Public Account and other accounts
Housing Business Services

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003	2002
		$'000	$'000
Current Assets			
Bank and cash	1	49,456	42,642
Receivables and other		6,652	5,297
Total current assets		56,108	47,939
Less Current Liabilities			
Payables and interest bearing debt		8,443	9,034
Employee provisions and other		2,902	3,281
		11,345	12,315
Working Capital	1	44,763	35,624
Add Non Current Assets	2	999,126	1,005,325
		1,043,889	1,040,949
Less Non Current Liabilities	3	335,470	341,509
Net Assets		**708,419**	**699,440**
Represented by:			
Equity			
Accumulated (Losses)		(38,213)	(25,119)
Reserves	2	700,281	679,293
Contributed Equity	4	46,351	45,266
Total Equity		**708,419**	**699,440**

Explanatory notes:

1. HBS has significant year end cash holdings of in excess of $49 million. On a cash basis the activities of HBS generated a positive cash inflow of $6.8 million although this result should be viewed with caution. The improved cash position results from:

Sources of cash	**2002/03**	**2001/02**
	$'000	**$'000**
Cash generated from operating activities	8,373	6,188
Net recovery of home loans	12,973	3,166
Net increase in funds invested – long term investments	(366)	(3,788)
Net increase in non-current assets – mainly capital works	(9,324)	(3,938)
Net repayment of long term borrowings	(4,842)	(5,620)
Net increase/(decrease) in cash holdings	6,814	(3,992)
Cash at beginning of the year	42,642	46,634
Cash at end of the year	**49,456**	**42,642**

Auditing the Public Account and other accounts
Housing Business Services

Financial results (continued)

2. Non-current assets in HBS comprise mortgage receivables, long term investments and fixed assets. In relative terms movements in these balances between 2002 and 2003 have not been significant. However, the change in the make up of fixed assets (99.99% of which comprises remote dwellings, urban buildings, land and construction in progress) has been high. Details are:

Movements in fixed assets	**2002/03 $'000**	**2001/02 $'000**
Carrying amounts at beginning of the year	789,997	757,856
Net revaluation increments *	21,532	50,611
Additions at cost (construction) plus other additions	20,925	20,479
Depreciation charged	(20,060)	(18,212)
Disposals	(17,841)	(20,737)
Carrying amounts at end of the year	**794,553**	**789,997**

* - this is the main reason for the increase in the Reserves on the statement of financial position.

3. The decrease in non-current liabilities is almost all due to the repayment of long term borrowings of $4.8 million – see the table under note 1 above.

4. Contributed equity has increased by $1.085 million due entirely to the transfer of HBS's long service leave liability to the Central Holding Authority.

Members may question my concern, noted earlier, about the long term sustainability of HBS' activities bearing in mind that equity continues to grow. However, equity has grown due to revaluation adjustments exceeding the 2002/03 operating losses and due to the transfer of the long service leave liability rather than organic equity growth stemming from its principal operations.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Government Printing Office

KEY FINDINGS

- **The audit of the Government Printing Office (GPO) for the year ended 30 June 2003 resulted in a qualified independent audit opinion.**
- **In my opinion, management of the GPO had not satisfied the "virtual certainty" test prescribed by Australian Accounting Standard AASB 1020 "Accounting for Income Tax (Tax-effect Accounting)" and consequently, the deferred tax asset should not have been recognised in the statement of financial position.**
- **My qualified audit opinion on the financial statements of the GPO for the year ended 30 June 2003 was incorrectly reproduced in the DCIS 2002-03 annual report. Rather than show the actual report with the qualification, an extract from the covering letter returning the financial report to DCIS was included. As a result, the responsible Minister will have tabled the incorrect opinion.**

Audit opinion

The audit of the Government Printing Office (GPO) for the year ended 30 June 2003 resulted in a qualified independent audit opinion, which was issued on 17 October 2003.

Background

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

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

Key issues

Qualified audit opinion

The statement of financial position included a deferred tax asset of $166,000 as at 30 June 2003 [2002: $NIL]. Australian Accounting Standard AASB 1020 "Accounting for Income Tax (Tax-effect Accounting)" states that, where an entity is incurring losses, any future income tax benefit shall not be brought to account as an asset unless realisation of the benefit is virtually certain. Of significance is that the creation of this asset resulted in the GPO reporting a loss $166,000 lower than it would have done had the deferred tax asset not been recognised. This is 82% of the reported loss.

In the past few years there has been a general fall in the level of demand for the traditional products sold by the GPO. This trend has continued into 2002/03.

Auditing the Public Account and other accounts
Government Printing Office

Key issues (continued)

As a consequence the GPO incurred a net operating loss before income tax credit for the year of $368,000 compared to a break-even position in the prior year. A loss was also incurred in 2000/01. Also only a modest profit is forecasted in the 2003/04 budget, which is predicated on a significant increase in sales revenue.

In my opinion, management of the GPO did not satisfy the "virtual certainty" test prescribed by AASB 1020 and consequently, the deferred tax asset should not have been recognised in the statement of financial position. Not bringing to account this deferred tax asset in the current financial year would have resulted in a corresponding reduction in the income tax credit in the Statement of Financial Performance.

My qualified audit opinion on the financial statements of the GPO for the year ended 30 June 2003 was incorrectly reproduced in the DCIS 2002/03 annual report. Rather than show the actual report with the qualification, an extract from the covering letter returning the financial report to DCIS was included. As a result, the responsible Minister will have tabled the incorrect opinion.

DCIS has commented:

DCIS disagrees with the Auditor-General's qualification as it is planned to achieve a profit in 2003/04 following recent improvements in cost structure. As at 29 February the GPO was ahead of budget and therefore DCIS is confident that a profit will be achieved and this will allow GPO to take advantage of the deferred tax asset.

Arrangements have been made to table an addendum to the Annual Report attaching the correct audit opinion.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Revenue from ordinary activities	5,103	5,857
Less expenditure from ordinary activities:		
Operational costs	2,974	3,122
Employee expenses	2,314	2,469
Depreciation and amortisation	264	266
Borrowing costs	-	-
Total expenditure	5,552	5,857
Net (loss) from ordinary activities	(368)	-
Add income tax credit	166	-
Net (loss) after income tax credit	**(202)**	**-**

Auditing the Public Account and other accounts
Government Printing Office

Financial results (continued)

Income from sale of goods has decreased by $686,000 (11.5%) from the prior year with a corresponding decrease in expenditure from operating activities of $305,000 (5.2%).

The reduction in expenses from operating activities are attributable to a conscious effort by GPO to reduce expenditure, refine purchasing procedures, and lower subcontractor expenses through increasing the level of in-house work being performed.

Personnel costs have decreased by $155,000 (6.3%) due to a number of staff resigning during the year and the transfer of the Long Service Leave liability and the related expense to the Central Holding Authority. This decrease was slightly offset by a 3% increase in wages during August 2002.

Abridged Statement of Financial Position at 30 June 2003

	Notes	**2003**	**2002**
		$'000	**$'000**
Current assets	**1**	2,187	2,392
Less Current Liabilities		878	1,052
Working capital		1,309	1,340
Add Non Current Assets			
Future income tax benefit	**2**	166	-
Property Plant and Equipment		1,173	1,186
		2,648	2,526
Less Non Current Liabilities	**3**	-	49
Net Assets		**2,648**	**2,477**
Represented by:			
Equity			
Retained profits		2,275	2,477
Contributed equity	**3**	373	-
		2,648	**2,477**

Explanatory notes:

1. Current assets have decreased due to a reduction in receivables, which is consistent with the fall in sales in the latter part of the year, and a lesser increase in inventories.

2. Non current assets have increased predominantly due to the recognition of the Future Income Tax Benefit of $166,000.

3. A significant event occurring in the year was the transfer of the Long Service Leave liability of $0.373 million to the Central Holding Authority with a corresponding amount being treated as an equity injection in accordance with government policy.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Northern Territory Treasury Corporation

KEY FINDINGS

- **The Corporation's management are aware of business risks and have a positive attitude towards developing and maintaining a strong internal control environment.**

RECOMMENDATIONS

- **As deliverables of the Corporation's review of business processes it is timely for management to assess the principles and approaches documented in the Standards for the Control of Operational Risk.**

- **An independent post upgrade review of the Quantum treasury management system should be conducted to enable management to assess the effectiveness of the upgrade, ie. that objectives are achieved.**

Audit opinion

The audit of Northern Territory Treasury Corporation (the Corporation) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 29 September 2003.

Background

The Corporation is the investment and borrowing agent for the Northern Territory. Its transactions are material to the Public Account and a very high degree of assurance as to financial regularity is required.

The powers and obligations of the Corporation are to be found in the *Northern Territory Treasury Corporation Act* (the Act). The Under Treasurer constitutes the Corporation and she is the Accountable Officer. There is an Advisory Board constituted under section 8 of the Act to which may be delegated any of the powers and functions under the enabling Act.

The Corporation is a Government Business Division and maintains its accounts in accordance with accounting principles generally applied in commercial practice and submits financial statements for audit by the Auditor-General each year.

Auditing the Public Account and other accounts
Northern Territory Treasury Corporation

Key issues

Organisational structure

The Corporation's management is aware of business risks and have a positive attitude towards developing and maintaining a strong internal control environment. Whilst I did not identify any significant weaknesses in the Corporation's risk management systems and controls, there are possible areas for improvement as detailed in my high level observations set out below.

The number of staff at the Corporation is small and bearing this in mind, I would not describe the Corporation's organisational structure and processes as accepted or common practice for the industry in which it operates. The control practices defined by the Standards for the Control of Operational Risk issued by the Australian Financial Markets Association require a treasury type organisation to be structured to achieve segregation of duties based upon activity. The Corporation does not have an organisational structure based upon activity. It achieves segregation of duties on an individual basis, by different officers performing deal capture and settlements for a particular deal.

The primary reasons given by management for operating in this manner were:

- The need to operate efficiently with existing resources (management's view is that such efficiency is currently being achieved); and
- The fact that the Corporation does not "trade".

However, should the business change significantly, then controls could be compromised without a different organisational structure and increased resources.

NTT has commented:

The Northern Territory Treasury Corporation has comprehensive risk management processes in place and these are reviewed on a regular basis. Clear segregation and separation of duties are observed, having regard to the resources necessary to undertake the Corporation's responsibilities.

Proposed upgrade to Quantum treasury management system

The Corporation is to upgrade its treasury management system ('Quantum'). As part of the upgrade of Quantum, management plan to review business processes and activities conducted outside of Quantum to improve controls and achieve efficiency gains.

As deliverables of the Corporation's review of business processes it is timely for management to assess the principles and approaches documented in the Standards for the Control of Operational Risk.

An independent post upgrade review to assess the effectiveness of the upgrade, ie. that objectives are achieved, should also be undertaken.

Auditing the Public Account and other accounts
Northern Territory Treasury Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	**$'000**
Revenue from ordinary activities	193,314	195,899
Less expenditure from ordinary activities:		
Interest	167,046	167,562
Other expenses	828	142
Administration	1,870	2,062
Total expenditure	169,744	169,766
Profit from ordinary activities before income tax expense	23,570	26,133
Less income tax expense	(7,071)	(7,840)
Net profit from ordinary activities after income tax expense	16,499	18,293
Less Dividends	(16,499)	(9,146)
Retained profits	**Nil**	**9,147**

The profit from ordinary activities before tax decreased by $2.5m this financial year, from $26.1m to $23.6m. This primarily resulted from a reduction in the Corporation's on-lendings. The Corporation achieved a cost of borrowing during the year of 5.07% (2002 5.65%), which resulted in its total cost of funds falling from 7.4% in 2002 to 7.3% in 2003.

Abridged Statement of Financial Position at 30 June 2003

	2003	2002
	$'000	**$'000**
Total Assets	2,424,018	2,480,786
Less Total Liabilities	2,390,304	2,438,001
Net Assets	**33,714**	**42,785**
Represented by:		
Equity		
Retained profits	-	9,147
Contributed Capital	33,714	33,638
	33,714	**42,785**

The net asset position of the Corporation was reduced by $9.1 million during the year, directly reflecting the decision to declare all of the Corporation's retained profits to Treasury by way of dividend. This resulted in a dividend of $25.646 million being declared compared to a dividend of $9.147 million in the previous year when, consistent with normal Treasury policy, only 50% of the year's surplus was declared as a dividend. It is noted, however, that prior to the establishment of the Corporation as a GBD, the policy was to declare 100% of its after tax profits as a dividend as there is little benefit to the Corporation of building up accumulated profits.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

NT Fleet

There are no key findings

Audit opinion

The audit of NT Fleet for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 3 November 2003.

Background

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

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

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

Key issues

No issues to report.

Auditing the Public Account and other accounts
NT Fleet

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	**$'000**
Revenue from ordinary activities		
Revenue from vehicle lease rentals	26,462	26,861
Gross proceeds from sale of vehicles	20,001	19,113
Other revenues	497	259
	46,960	46,233
Less expenditure from ordinary activities:		
Cost of vehicles sold	18,351	19,038
Operational costs	8,688	8,551
Employee expenses	1,968	1,897
Depreciation and amortisation	11,079	10,053
Borrowing costs	137	293
Total expenditure	40,223	39,832
Operating profit before fundamental error	6,737	6,401
Correction of fundamental error	-	(1,104)
Profit from ordinary activities before income tax expense	6,737	5,297
Less income tax expense	(2,021)	(1,589)
Net profit from ordinary activities after income tax expense	4,716	3,708
Less Dividends	(2,358)	(1,854)
Retained profits	**2,358**	**1,854**

Revenue earned from the hiring of motor vehicles was slightly less than last year. $20.0 million was received from the sales of vehicles, generating a net profit of $1.65million, which was significantly higher than in 2002 when a profit of $75,000 was recognised. The increased profit reflects higher sales prices than those anticipated by NT Fleet when determining residual values in the earlier years for vehicles sold in 2002/03. At the time the industry anticipated a reduction in sales prices following the introduction of the GST, however, sales prices for commercial and four wheel drive vehicles have remained strong.

Operating expenditure has remained consistent with prior year. Major movements within this expenditure category were vehicle expenses that decreased from $7.0 million in 2002 to $6.6 million. Vehicle related expenses include vehicle registration, vehicle maintenance and other direct vehicle costs and the reduction is in line with the reduction in the average monthly fleet size during the year. This decrease was offset to an extent by increased legal fees of $49,000 and an increase in agent service fees (outsourced services) from DCIS of $249,000.

Auditing the Public Account and other accounts
NT Fleet

Financial Results (continued)

Employee expenses have increased by nearly 4% from the prior year, primarily as a result of the 3% NT Government pay rise. Employee numbers are consistent between 2002 and 2003.

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003	2002
		$'000	$'000
Current assets			
Cash assets	1	6,787	4,321
Receivables and other	2	566	1,080
Total current assets		7,353	5,401
Less Current Liabilities			
Payables		3,409	3,553
Interest bearing debt	3	2,250	-
Taxation, employee entitlements and other		4,817	4,328
Total current liabilities		10,476	7,881
Deficiency in working capital	1	(3,123)	(2,480)
Add Non Current Assets (Vehicle fleet)	4	65,458	64,234
		62,335	61,754
Less Non Current Liabilities	3	-	2,282
Net Assets		**62,335**	**59,472**
Represented by:			
Equity			
Retained profits		61,830	59,472
Contributed equity	5	505	-
		62,335	**59,472**

Explanatory notes:

1. The statement of financial position indicates that NT Fleet's liquidity is poor because of the significant working capital deficiency, however, vehicles are held for relatively short periods and vehicle sales contribute significantly to cash resources enabling timely payment of current liabilities. In addition, cash generated from operations facilitates ongoing fleet replacement.

   The deficiency in working capital has deteriorated due to the need to repay $2.250 million in interest bearing debt during 2003/04. Without this requirement, working capital has improved.

Auditing the Public Account and other accounts
NT Fleet

Explanatory Notes: (continued)

2. Receivables are down due to improved collections from customers (being public sector Agencies).

3. $2.250 million of the non-current liabilities due at 30 June 2002 is for interest bearing debt which has been transferred to current liabilities in anticipation that this will be paid in full during the 2003/04 financial year.

4. The light vehicle fleet at 30 June 2003 was 2,197 vehicles a slight increase on the 2,145 vehicles at the start of the year. However the average monthly fleet size for the year at 2,167 was less than the 2,213 for the prior year. Therefore while the total year-end` number has increased the lower monthly average during the year corresponds to the slight decrease in motor vehicle expenses noted previously.

5. A significant event occurring in the year was the transfer of the Long Service Leave liability of $0.505 million to the Central Holding Authority with a corresponding amount being treated as an equity injection in accordance with government policy.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Territory Wildlife Parks

KEY FINDING

- **Property plant and equipment at the Territory Wildlife Park at Berry Springs was revalued at 1 July 2002. This was performed following a physical stock take completed during 2002/03 and was based on values determined by the Australian Valuation Office in June 2000.**

Audit opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 7 November 2003.

Background

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

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

Key issues

Going concern

Community Service Obligation (CSO) funding of $8.526 million ($8.529 million in 2002) contributed 82% of the GBD's total revenue. This appears to be more in the nature of an operating subsidy rather than the Government meeting costs of CSO.

Territory Wildlife Parks cannot continue to operate without Government support and the 2003/04 budget includes a further CSO of $9.093 million or 81.4% of budgeted operating revenue.

Auditing the Public Account and other accounts
Territory Wildlife Parks

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	**$'000**
Revenue from ordinary activities (excluding CSO)	1,871	1,972
Less expenditure from ordinary activities:		
Operational costs	4,464	4,405
Employee expenses	4,580	4,654
Depreciation and amortisation	1,908	1,452
Other expenses	470	8
Total expenditure	11,422	10,519
Operating loss before CSO	(9,551)	(8,547)
Community Service Obligation funding	8,526	8,529
Net (loss) from ordinary activities	**(1,025)**	**(18)**

The net loss of the GBD increased significantly from $18,000 in 2001/02 to $1,025,000 in 2002/03. However, the results should be compared after excluding the effects of the increase in the depreciation expense arising from the upward revaluation of the assets at the Park at Berry Springs. The increase in depreciation amounted to $456,000 while an additional net amount of $409,000 (included above in "other expenses") was written off in relation to assets that either could not be located or, although not meeting the criteria for capitalisation, had been entered upon the asset register. The adjusted comparable net loss would have been approximately $161,000.

Although funding for CSOs remained fairly constant, revenue from operating activities went down by 4.2% and other income by 46% (from $37,000 in 2001/02 to $20,000 in 2002/03). The decrease in revenue from operating activities was due to a downturn in attendance whereby both parks registered 153,061 visitors compared with 162,395 in 2001/02.

Auditing the Public Account and other accounts
Territory Wildlife Parks

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003	2002
		$'000	$'000
Current assets	1	2,472	736
Less Current Liabilities		1,023	857
Net Current Assets/(Liabilities)		1,449	(121)
Add Non Current Assets	2	34,580	20,289
(primarily buildings and infrastructure)			
		36,029	20,168
Less Non Current Liabilities		-	130
Net Assets		**36,029**	**20,038**
Represented by:			
Retained profits		3,333	4,358
Contributed equity	3	15,547	15,680
Asset revaluation reserve	2	16,849	-
Total Equity		**36,029**	**20,038**

Explanatory notes:

1. Current assets consisting mostly of cash has increased due to the positive cash flow notwithstanding the net loss.

2. Property plant and equipment at the Park at Berry Springs was revalued at 1 July 2002. This was performed following a physical stock take completed during 2002/03 and was based on values determined by the Australian Valuation Office in June 2000.

3. Another event occurring in the year was the transfer of the Long Service Leave liability of $0.207 million to the Central Holding Authority with a corresponding amount being treated as an equity injection in accordance with government policy. Other movements in equity were $0.287 million of infrastructure work completed for the GBD by DIPE and the transfer out of $0.327 million of buildings recognised as assets of DIPE.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Government Business Divisions (GBDs)

Territory Discoveries

KEY FINDINGS

- **Territory Discoveries has completed a major review of GST transactions resulting in the bringing to account an estimated GST receivable of $191,998.**
- **A number of "balancing items" totalling $96,833 were found in the un-presented cheques in the Atlas system bank reconciliation.**
- **Delays in the audit of Territory Discoveries were experienced, resulting in additional costs being incurred and preventing reporting deadlines being achieved.**

RECOMMENDATIONS

- **Management should ensure that reconciling items appearing on bank reconciliations are investigated and cleared. This includes investigating old outstanding cheques.**
- **To avoid and minimise possible delays in preparing Territory Discoveries' annual financial statements, all accounts and balances should be finalised and reviewed by appropriate staff prior to the commencement of the audit.**

Audit opinion

The audit of Territory Discoveries for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 31 October 2003.

Background

Territory Discoveries was established to increase the exposure of, and potential economic returns to, the NT tourism industry, particularly small to medium sized operators. Territory Discoveries develops travel, tour and accommodation packages for sale in the domestic market place. It promotes the sale of these packages through the retail travel network and direct to the consumer via a range of advertising and marketing mechanisms including brochure production, internet sites and trade and consumer journals.

During the year the operation of the N T Holiday Centre was transferred to Territory Discoveries from the Northern Territory Tourist Commission (the Commission). Revenue is from sales of its holiday packages through the Northern Territory Holiday Centre, and through the marketing service it provides to the Commission, which is funded as a Community Service Obligation.

Territory Discoveries' host Agency is the Commission.

Auditing the Public Account and other accounts
Territory Discoveries

Key issues

Receivables

Territory Discoveries has completed a major review of GST transactions resulting in the bringing to account of a GST receivable of $191,998. This is an estimated amount and reflects GST recoverable since the introduction of the GST in 2000. The receivable has arisen due to the limitations of Territory Discoveries' Atlas accounting system when accounting for GST. This balance was only reconciled in October 2003.

Bank Balances

A number of "balancing items" totalling $96,833 were found in the un-presented cheques in the Atlas system bank reconciliation. Also there were ten un-presented cheques greater than six months old totalling $7,834.

Audit Delays

As with the audit of the Commission, delays in the audit of Territory Discoveries were experienced. Multiple versions of the Atlas system bank reconciliation, trial balance and financial statements were received throughout the audit. These delays resulted in additional costs being incurred and prevented reporting deadlines being achieved. To avoid and minimise possible delays, all accounts and balances should be finalised and reviewed by appropriate staff prior to the commencement of the audit.

Territory Discoveries has commented:

The delays in the audit of Territory Discoveries were mainly as a result of transferring the Holiday Centre from the NTTC. This was a one-off incident, which resulted in unexpected outcomes that required further analysis and investigation. Arrangements have been put in place to be better prepared should such a change occur in the future.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003 $'000	2002 $'000
Revenue from ordinary activities	3,228	2,027
Less expenditure from ordinary activities:		
Operational costs	3,303	2,270
Employee expenses	1,597	848
Depreciation and amortisation	62	1
Total expenditure	4,962	3,119
Net (Loss) from ordinary activities before income tax expense	(1,734)	(1,092)
Less income tax expense	-	-
Net (Loss) from ordinary activities after income tax expense	(1,734)	(1,092)
Less Dividends	-	-
Net (Loss)	**(1,734)**	**(1,092)**

Auditing the Public Account and other accounts
Territory Discoveries

Financial results (continued)

On 1 July 2002 the NT Holiday Centre, previously a branch of the Commission, was transferred to Territory Discoveries. This transfer, along with an increase in information technology costs of $1.0 million, had significant negative impacts on its operating costs and were the major contributors to the net loss of $1.7 million (2002 - $1.1 million). Additional revenues did not match the additional costs absorbed by Territory Discoveries from the transfer of the Holiday Centre.

The increases in Information Technology costs were incurred on implementing the Calypso travel system.

The operating result is, however, an improvement on the budgeted loss of $2,849,000. The main reason that can be attributed to this better than expected result is the efforts of Territory Discoveries and the NT Holiday Centre in curbing expenditure to compensate for the expected world wide down turn in tourism.

Abridged Statement of Financial Position at 30 June 2003

	2003	**2002**
	$'000	**$'000**
Current Assets		
Cash assets	5,898	152
Receivables	347	66
Total current assets	6,245	218
Less Current Liabilities		
Payables	3,536	202
Provisions and other	1,867	86
Total current liabilities	5,403	288
Working Capital / (Deficiency)	842	(70)
Add Non Current Assets	50	-
	892	(70)
Add Non Current Liabilities	-	11
Net Assets / (Deficiency)	**892**	**(81)**
Represented by:		
Equity		
Accumulated (Losses)	(4,785)	(3,051)
Contributed Equity	5,677	2,970
Total Equity / (Deficiency)	**892**	**(81)**

Auditing the Public Account and other accounts
Territory Discoveries

Financial results (continued)

The financial position of Territory Discoveries at 30 June 2003 showed net assets of $892,000 compared to an asset deficiency of $81,000 at 30 June 2002. This improvement, despite the operating loss of $1.7 million, was caused by a number of factors including:

- A net increase in cash holdings of $5.746 million caused by:
  - the transfer of cash in the NT Holiday Centre to Territory Discoveries of $2.661 million (recorded as an equity injection);
  - the receipt of deferred income stemming from deposits received in advance totalling $1.755 million (this deferred income all arose from the transfer of the NT Holiday Centre); and
  - a significant build up of year end creditors.
- The increase in cash holdings is offset by the build up of creditors by $3.334 million, principally reflecting amounts due to the Commission under its contract with Virgin Blue but for which the cash had been incorrectly transferred to Territory Discoveries on transfer of the Holiday Centre, and the deferred income of $1.755 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of

Power and Water Corporation

Audit opinion

The audit of Power and Water Corporation (the Corporation) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 29 September 2003.

Background

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

From 1 July 2002 the Corporation became a government owned corporation under the *Government Owned Corporations Act* (the Act).

Key issues

Under the Act, the Corporation is required to produce its annual financial statements within two months of the financial year end, and I have a further month to complete the audit. The Board of the Corporation was able to sign the 2002/03 financial statements on 29 August 2003

Financial results

Section 41 of the Act requires the Corporation to give to the shareholding Minister and the portfolio Minister by 30 September 2003, a report on the Corporation's performance in relation to its statement of corporate intent for 2002/03. The report is required to identify any significant departures from the statement of corporate intent and set out the reasons for each of the departures.

If the report is not included in the annual report the shareholding Minister must table in the Legislative Assembly a copy of the report within 6 sitting days after the date the shareholding Minister receives the report. The shareholding Minister may delete from the report information that is of a commercially sensitive nature. The Corporation’s annual report was tabled in the Legislative Assembly on 25 November 2003.

In view of the above, I have elected not to provide additional analysis of the Corporation’s financial results for 2002/03.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Superannuation Funds

Northern Territory Government and Public Authorities Employees' Superannuation Fund

KEY FINDINGS

- **The return on investments whilst negative is a considerable improvement on the prior year.**
- **The 5-year average return of the fund is 3.8%, compared to a 5-year average CPI of 3.1%. The fund's real return of approximately 0.6%, is less than the fund's investment objective, which is to exceed the Consumer Price Index (CPI) by at least 3% over a 5 year period.**

Audit opinion

The audit of Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 26 September 2003.

Background

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

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

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

The last actuarial review of the Scheme was performed as at 30 June 2001 with the results provided in the Actuary's report dated 25 January 2002. The actuarial information used in the 2002/03 financial statements was based on the 30 June 2001 position.

Key issues

No issues to report.

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

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Net investment (deficiency)	(1,137)	(14,463)
Member contributions	24,726	24,018
Member surcharge payments received	108	145
Territory contributions	34,822	37,120
Transfers and rollovers	23,120	31,436
Benefits expense	(69,334)	(72,378)
Other expenses	(726)	(568)
Revenue less expenses before income tax	11,579	5,310
Income tax expense	(2,524)	(2,336)
Change in Net Assets	**9,055**	**2,974**

The change in net assets of $9.055 million reflected net member and Territory contributions and rollovers $13.442 million offset by investment return of negative $1.1million and income tax expense of $2.524 million. The return on investments whilst negative is a considerable improvement on the prior year.

Investments held by the Fund in line with the Investment Strategy developed by Mercers have shown a lower return on investment (annual crediting rate of 0.0%) than that required under the Fund's investment objective, which is to earn returns after taxes and fees that exceed the Consumer Price Index (CPI) by at least 3% over a 5 year period. The 5-year average return is 3.8%, compared to a 5-year average CPI of 3.1%. The fund is therefore providing a real return of approximately 0.6% over this period.

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

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2003

	2003	2002
	$'000	**$'000**
Cash at bank and other assets	11,561	9,122
Investments	336,799	326,251
Total assets	348,360	335,373
Liabilities	24,616	20,684
Net Assets	**323,744**	**314,689**
Vested Benefits	797,500	751,100
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Investments at year end were held with MLC, Credit Suisse and Vanguard Investments in accordance with the investment strategy adopted by the trustees of the fund in the previous year. Consistent with normal accounting practice for superannuation funds, investments are stated at market value at 30 June 2003.

The increase in net assets equates to the change in net assets of $9.055 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Superannuation Funds

Legislative Assembly Members' Superannuation Trust

KEY FINDING

- **Although notionally fully funded, net assets of the Trust now represent 77.1% of vested benefits (2002: 83.3%), a weakening in the position of the Trust. The Actuary has suggested that the current funding level of 70% be maintained with an additional contribution of $1 million per year from the Territory until the shortfall has been reduced.**

Audit opinion

The audit of the Legislative Assembly Members' Superannuation Trust for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 26 September 2003.

Background

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

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

The triennial Actuarial Review for the year ended 30 June 2001 was delivered on 8 December 2001 and took into account the pension and lump sum requirements of the members retiring in August 2001. The Actuary recommended that the contribution rate be raised to 70% of basic and additional salaries for the 3 years to 30 June 2004. This is an increase from the 50% recommended at the 1998 review. The Actuary estimated that, at the new level of contributions, the funding level, which was 93% of accrued liabilities, would increase to about 95% over the 3 years when the position would be re-assessed.

Key issues

Fund net assets are dropping

Although notionally fully funded, net assets now represent 77.1% of vested benefits (2002: 83.3%), a weakening in the position of the Trust. The Actuary has suggested that the current funding level of 70% be maintained with an additional contribution of $1 million per year from the Territory until the shortfall has been reduced.

Auditing the Public Account and other accounts
Legislative Assembly Members' Superannuation Trust

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Net investment (deficiency)/revenue		
Interest and distributions	144	101
Changes in net market value of investments	(149)	(1,269)
Member contributions	350	334
Territory contributions	2,100	2,000
Benefits paid	(1,200)	(3,548)
Superannuation contribution surcharge	(233)	(202)
Other expenses	(6)	(6)
Surplus/(Deficit) before income tax	1,006	(2,590)
Income tax expense	(317)	(303)
Change in Net Assets	**689**	**(2,893)**

The performance of the investments held by the Trust improved during the year, and whilst resulting in a decrease in net market value of $149,311, this decrease was significantly less than that experienced in the previous year of $1,268,620. Revenue from interest and dividends of $144,417 was an increase on the previous year of $100,912.

The increase in net assets was further enhanced by a decrease in benefits paid of $2,348,635. The change in government during the year ended 30 June 2002 resulted in $2,450,058 being paid as lump sum benefits. There were no lump sum benefit payments during the year ended 30 June 2003, however, pension payments have increased. There were no members of the scheme who ceased to be members of Parliament in the current period under review, 11 members of the scheme ceased to be members of Parliament in 2001/02.

Auditing the Public Account and other accounts
Legislative Assembly Members' Superannuation Trust

Abridged Statement of Financial Position at 30 June 2003

	2003	2002
	$'000	**$'000**
Cash at bank and other assets	195	779
Investments	31,620	30,242
Total assets	31,815	31,021
Liabilities	807	702
Net assets	**31,008**	**30,319**
Vested benefits	40,193	36,388
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Net assets now represent 77.1% of vested benefits (2002: 83.3%), a weakening in the position of the Trust. The Actuary has suggested that the current funding level of 70% be maintained with an additional contribution of $1 million per year from the Territory until the shortfall has been reduced. The position will be reassessed at the next actuarial review due in 2004.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of Superannuation Funds

Northern Territory Police Supplementary Benefit Scheme

KEY FINDING

- **Although NTPSBS is closed to new members and contributory membership has reduced, considerable benefits will be paid by the Territory for many years.**

Audit opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme (NTPSBS) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 30 September 2003.

Background

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

The NT Government and Public Authorities Superannuation Scheme replaced the CSS and the NTPSBS for police recruited after 1 January 1988. The NTPSBS is now a closed scheme with a slowly diminishing membership. At 30 June 2003 there were 182 (199 in 2002) members and 88 (82 in 2002) pensioners.

Although NTPSBS is closed to new members and contributory membership has reduced, considerable benefits will be paid by the Territory for many years. The supplementary benefit is paid as a lifetime indexed pension, which commences when the CSS employer-financed pension begins to be paid. For those members eligible for a supplementary benefit an amount equal to the member’s contributions with interest is paid by the Scheme to the Territory. A member who ceases membership and is not entitled to a supplementary benefit is paid an amount equal to his/her contributions with interest.

Key issues

No issues to report.

Auditing the Public Account and other accounts
Northern Territory Police Supplementary Benefit Scheme

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2003

	2003 $'000	2002 $'000
Net investment (deficiency)	(37)	(103)
Contribution revenue	139	144
Benefits		
Refunds of accumulated contributions	(83)	(57)
Payment of accumulated contributions to the Territory	(233)	(230)
Superannuation contribution surcharge	(9)	(8)
Other expenses	(4)	(4)
(Deficit)/Surplus before income tax	(227)	(258)
Income tax expense	-	-
Change in Net Assets	**(227)**	**(258)**

A significant contributor to the decrease in net assets for the current year was the decrease of $41,285 (2002: $107,057) in the net market value of investments. Members' contributions received were $133,520, a decrease of $9,419 from the previous year. A decrease in members' contribution is to be expected as membership numbers decrease.

Seventeen members exited the fund during the 2002/03 financial year resulting in refunds of accumulated contributions of $83,383 compared to fifteen member exits in the prior year when associated refunds of accumulated contributions amounted to $57,118.

Abridged Statement of Financial Position at 30 June 2003

	2003 $'000	2002 $'000
Cash at bank and other assets	34	60
Investments	2,953	3,154
Total assets	2,987	3,214
Liabilities	128	128
Net Assets	**2,859**	**3,086**
Vested Benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	22,800	21,900

As noted previously the benefit accruing to members is borne directly by the Territory. The accrued liabilities at 30 June 2003, as determined by the actuary in his 25 September 2003 report, is $21.9 million compared with $17.4 million at 30 June 2000.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of:

Territory Insurance Office (TIO)

KEY FINDINGS

- **The TIO Board is commended for taking the step of appointing its Actuary as the equivalent of an actuary approved by the Australian Prudential Regulation Authority. This had the effect of improving the actuarial processes and documentation.**
- **As a consequence of the loss for the year the total liabilities of TIO, excluding Motor Accident (Compensation) Act (MACA), exceeded total assets by $1.02m. As at 30 June 2003 TIO did not meet its solvency requirements.**
- **In recognition of this position, and to improve the net asset position of TIO (excluding MACA), the Northern Territory Government on 26 September 2003 approved the transfer of $16.49 million, the balance of the Territory Self-Insurance Fund, to contributed equity.**

Audit opinion

The audit of the Territory Insurance Office (TIO) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 15 October 2003.

Background

TIO is a wholly owned entity of the NT Government. It operates under its own Act, with its own Governing Board, but can take direction from the Government. Its mandate from the Government allows it to only write insurance business in the Northern Territory. TIO manages the NT Government's motor vehicle third party insurance arrangements under the *Motor Accidents (Compensation) Act* (MACA). TIO also provides financial services, which includes deposit taking, lending, a wealth management centre, management of HomeNorth HomeShare for Housing Business Services and a Health Insurance agency.

TIO provides a number of insurance products including workers compensation, public liability, motor vehicle, fire, theft and flood.

Key issues

Appointment of the TIO Board's approved Actuary

In appointing its actuary for the 2002/03 financial year, the TIO Board, whilst not being required to do so, appointed its Actuary as the equivalent of an actuary approved by the Australian Prudential Regulation Authority. This had the effect of improving the actuarial processes and documentation. The TIO Board is commended for taking this step.

Auditing the Public Account and other accounts
Territory Insurance Office

Late audit initiated adjustments to the financial statements

The estimation of outstanding claims involves a degree of uncertainty and actuarial judgement, which is applied to develop assumptions and projections for the portfolios being valued. Differences of opinion between the Approved Actuary and my Authorised Auditors resulted in additional adjustments increasing the outstanding claims provisions. As a consequence the financial statements were adjusted at my request and the Board agreed to increase the outstanding claims provisions for:

- MACA $6.8 million
- Workers Compensation $7.3 million.

These adjustments primarily arose from:

- MACA – to recognise the impact of recent large claims experience in the MACA scheme on a gross basis, as well as in relation to reinsurance recoveries;
- Workers Compensation – to recognise higher rates of superimposed inflation; and

in both portfolios, to recognise lower claims handling costs.

The adjustments resulted in claims provisioning achieving the TIO Board's minimum level of sufficiency of 75%.

I advised TIO that whilst there had been significant improvement in the Actuarial processes and assessments in 2003, the Board and its Consulting Actuary must carefully review all assumptions adopted in 2004 in order to ensure that the claims reserving continues to represent the claims experience.

TIO has commented:

The Consulting Actuary has reviewed the estimated claims provision as at 31 December 2003 and the Auditor – General in a report to the Office confirms that he is satisfied that the central estimate as it relates to the liability classes at 31 December 2003 is reasonable. Whilst further analysis is required the results of this additional actuarial work are both encouraging and positive.

Deferred Tax Asset

Included in non-current assets is a deferred tax asset of which $6.46 million is attributable to tax losses. The recognition of this amount as a realisable asset is on the expectation that TIO will return to profitability in 2003/04. If this were not to occur I would be recommending to the Board that the recognition of this asset be reconsidered.

Auditing the Public Account and other accounts
Territory Insurance Office

Recurring Issues

There were a number of recurring issues that I brought to management's attention on conclusion of the audit, including:

- *Reinsurance protection charged to MACA* - I have previously expressed concerns in respect of premiums charged to MACA for reinsurance protection. As evidence, I note that TIO is retroceding this premium at a price that is 33% less than the rate being charged to MACA. I recognise, however, management's efforts in addressing this issue in the current year as the loading factor has reduced from 40% in 2002. Management has indicated that they will continue to analyse this arrangement further.
- *MACA allocations – Expense Analysis* - I have previously expressed concerns with respect to the expense analysis and allocation process at TIO, specifically in respect of the allocation of overhead costs to MACA. The allocation matrix used in 2003 has not changed from the previous year and consequently my views as to the appropriateness of the allocations have not changed.

  I consider that the basis of the current overhead cost allocation may not be reasonable as it may not accurately reflect the true activity undertaken in relation to the various business lines at TIO, thereby leading to cross subsidisation and implications for product pricing.

  It should be noted that in reviewing the allocations this year, management have made changes to the allocations that have addressed this issue to some extent, ie. some improvements have begun to be made. Notwithstanding these improvements, MACA may still be subsidising the finance and general insurance business units.

Organisation of claims files and of claims estimate documentation

This year I have noted an improvement in the organisation of claims files and the documentation of claim estimates for workers compensation and MACA. However, I believe that opportunities still exist to improve the quality of documentation and thereby the effectiveness of claims handling and peer review so as to achieve greater consistency in the setting of claim strategy and reserving.

In general terms the earlier identification of, and attention to, potentially significant claims should lead to more effective claim handling strategies and faster return-to-work outcomes. This should ultimately reduce claims cost escalation. Furthermore, the setting of accurate case estimates at an early stage in a claim's life will ensure that appropriate pricing (and possibly risk selection) adjustments are made at the most advantageous point for TIO.

Auditing the Public Account and other accounts
Territory Insurance Office

Financial results

Summarised operating results for the year ended 30 June 2003	**TIO**		**MACA**		**Total**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Underwriting result:						
Net Premium revenue	45	41	32	33	77	74
Net Claims expense	(52)	(38)	(56)	(40)	(108)	(78)
Acquisition costs	(8)	(7)	(1)	(1)	(9)	(8)
Underwriting result (loss)	(15)	(4)	(25)	(8)	(40)	(12)
Other revenues and expenses:						
Interest receivable					28	29
Change in value of investments					(2)	(10)
Other investment income					18	12
Total investment revenue	36	28	8	3	44	31
Borrowing costs	(17)	(13)	-	-	(17)	(13)
Other costs and depreciation	(15)	(13)	(5)	(5)	(20)	(18)
Net other revenues and expenses	4	2	3	(2)	7	-
Net (loss) profit before tax	**(11)**	**(2)**	**(22)**	**(10)**	**(33)**	**(12)**

TIO, excluding MACA, incurred an operating loss after tax of $7.5 million for 2002/03 in comparison with the operating loss after tax of $1.06 million m in 2001/02. The loss arose primarily as a result of an underwriting loss of $16.1 million in Workers Compensation due largely to the strengthening of outstanding claims provisions in response to further adverse development of older accident claims, a reduction in the gap between interest rates and average weekly earnings inflation and the TIO Board reviewing the prudential requirements of TIO.

MACA operated at a loss for the year of $21.9 million in comparison to the prior year loss of $10.26 million, as a result of a significant increase in claims provisioning during the year due largely to the TIO Board reviewing the prudential requirements of MACA.

Auditing the Public Account and other accounts
Territory Insurance Office

Abridged Statement of Financial Position at 30 June 2003

	Notes	2003 $ million	2002 $ million
Assets			
Cash assets	**1**	91	75
Receivables		41	41
Investments	**1**	612	533
Reinsurance and other recoveries receivable		41	42
Other assets		29	24
Total Assets		**814**	**715**
Liabilities			
Outstanding claims	**2**	327	280
Unearned premiums		57	57
Interest bearing liabilities	**1**	358	290
Payables		24	25
Subordinated loans	**3**	25	15
Self insurance fund	**4**	16	15
Other liabilities		5	3
Total Liabilities		**812**	**685**
Net Assets		**1**	**30**
Represented by:			
Retained profits (TIO General Insurance & Finance)	**3**	(1)	6
MACA reserve	**5**	2	24
Total Equity		**1**	**30**

Explanatory notes:

1. Whilst TIO has incurred operating losses in recent years its cash flow remains positive. It has increased cash holdings by $15.6 million due to:

   - Net premium receipts of $82.2 million exceeding net claims costs and acquisition costs of $72.9 million – an increase of $9.3 million;

   - Investment income of $24.9 million exceeded administration and other operating costs of $22.6 million – an increase of $2.3 million;

   - Interest income of $22.1 million on loans receivable exceeded interest paid of $16.9 million on borrowings – an increase of $5.2 million;

   - Proceeds of $10.0 million from an additional subordinated loan from the NT Government; offset by

Auditing the Public Account and other accounts
Territory Insurance Office

Explanatory notes (continued)

- A net increase in funds from investing activities totalling $81.6 million as against funds received from deposit holders totalling $70.4 million – a decrease of $11.2 million.

2. TIO has incurred significant increases in gross outstanding claims provisions in recent years as detailed below:

Financial years	MACA $'000	General Insurance $'000	Total $'000	MACA Equity $'000	TIO Equity $'000
2000	165,203	66,253	231,456	23,836	9,187
2001	167,879	73,895	241,774	34,282	7,533
2002	193,675	86,505	280,180	24,017	6,473
2003	217,556	109,817	327,373	2,078	(1,018)
Increase/(Decrease) over the four year period	**52,353**	**43,564**	**95,917**	**(21,758)**	**(10,205)**

There are a number of reasons for the difficult operating performance experienced by TIO and MACA over this four year period. These include poor investment returns. However, a major contributor has been growing provisions for outstanding claims due largely to the TIO Board reviewing its prudential requirements as noted earlier.

3. During the year the Northern Territory Government provided an additional $10 million to the subordinated loan specifically to improve the solvency of the MACA scheme.

4. As a consequence of the loss for the year the total liabilities of TIO, excluding MACA, exceeded total assets by $1.02m. TIO as at 30 June 2003 did not meet its solvency requirements. In recognition of this position the Northern Territory Government on 26 September 2003 approved the transfer of the balance of $16.49m of the Territory Self-Insurance Fund to contributed equity to improve the net asset position of TIO General Insurance.

5. The MACA fund has experienced fluctuating results in the last four years as detailed on the following page:

Auditing the Public Account and other accounts
Territory Insurance Office

Movements in Financial years	**$'000**
Balance on 1 July 1999	21,835
Operating result for the years ended 30 June	
2000	2,001
2001	10,446
2002	(10,265)
2003	(21,939)
Balance 30 June 2003	**2,078**

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of:

Northern Territory Legal Aid Commission

KEY FINDING

- **My audit opinion for 30 June 2002 was qualified on the basis that I was unable to obtain sufficient appropriate audit evidence to support the provision for grants in aid totalling $360,945, the estimate of which was based on a number of assumptions. Significant effort was made by the Commission's staff this year to accurately quantify the value of the provision for grants in aid which enabled me to remove the qualification. This year the provision was $124,512.**

Audit opinion

The audit of Northern Territory Legal Aid Commission (the Commission) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 27 October 2003.

Background

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

Key Issues

Provision for grants in aid

My audit opinion for 30 June 2002 was qualified on the basis that I was unable to obtain sufficient appropriate audit evidence to support the provision for grants in aid totalling $360,945, the estimate of which was based on a number of assumptions. Significant effort was made by the Commission's staff this year to accurately quantify the value of the provision for grants in aid which enabled me to remove the qualification. This year the provision totalled $124,512.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Revenue from ordinary activities	5,377	5,836
Less expenditure from ordinary activities:		
Depreciation	104	46
Salaries and employee benefits	2,567	2,315
Legal	2,004	1,614
Administration	464	827
Other	337	374
Total expenditure	5,476	5,176
Net (deficit)/profit from ordinary activities	**(99)**	**660**

Auditing the Public Account and other accounts
NT Legal Aid Commission

Financial results (continued)

The operating deficit arose mainly as a result of a reduction in revenue of $459,318. Approximately 85% of the Commission's revenue is received in the form of grants from the Commonwealth and Northern Territory Governments. Australian Accounting Standards require revenue to be recognised in the financial statements upon receipt. The Commission received $201,800 of the 2002/03 Commonwealth Government grant funding in June 2002, resulting in the current year reporting revenue as $201,800 less than the agreed grant funding for the 2002/03 year and the revenue for the prior year being $201,800 more than the agreed grant funding for that year.
Legal expenses increased this year by $389,830 due mainly to a larger percentage of cases that were outsourced to private sector solicitors, the rates for which increased midway through the year.

Employee costs have increased by $252,789 reflecting higher staff numbers and the 3% pay rise awarded to all staff from August 2002.

Depreciation expense has increased by $58,174 from the prior year as several high value computer assets were purchased immediately prior to 30 June 2002. The current year therefore reflects the depreciation charge for twelve months.

Partially offsetting the increased expenditure, administration expenses were $362,646 lower than the prior year. This decrease was largely a result of the downward revision of the provision for grants in aid by $236,433.

Abridged Statement of Financial Position at 30 June 2003

	2003	**2002**
	$'000	**$'000**
Current assets	4,045	4,101
Less Current Liabilities	923	995
Net Current Assets	3,122	3,106
Add Non Current Assets	582	673
	3,704	3,779
Less Non Current Liabilities	96	72
Net Assets	**3,608**	**3,707**
Represented by:		
Reserves	3,300	3,300
Accumulated funds	308	407
Total Equity	**3,608**	**3,707**

Current liabilities include a provision for grants in aid, which is an estimate of the amount of unbilled legal work from private sector legal practitioners at year end. My audit opinion for 2002 was qualified on the basis that I was unable to obtain sufficient appropriate audit evidence to support the provision, the estimate of which was based on a number of assumptions.

Auditing the Public Account and other accounts
NT Legal Aid Commission

Financial results (continued)

Significant effort was made this year by the Commission's staff to accurately quantify the value of the provision for grants in aid. The provision for 2003 of $124,512 compares to the prior year of $360,945 which if calculated on the same basis as 2003 would have been $168,781.

Cash and investments totalling $3.7 million are held to fund the following reserves:

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

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of:

Cobourg Peninsula Sanctuary and Marine Park Board

KEY FINDING

- **When compared to recent years, the Board is commended for the significant improvement in the timeliness of the preparation of its financial report this year. However, the requirement to provide financial statements for audit by 30 September 2003 was still not met.**

Audit opinion

The audit of the Cobourg Peninsula Sanctuary and Marine Park Board (the Board) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 21 November 2003.

Background

The Board is required by section 38 of its Act to produce an annual report, which must include audited accrual financial statements.

The entity is not an agency. Other than section 10 of the *Financial Management Act*, neither this Act nor the Treasurer's Directions apply directly to the Board.

Key issues

Timeliness of Reporting

When compared to recent years, the Board is commended for the significant improvement in the timeliness of the preparation of its financial report this year. However, the *Cobourg Peninsula Aboriginal Land Sanctuary and Marine Park Act* requires the financial statements to be provided for audit within three months of the end of the financial year, ie. by 30 September 2003. This requirement was not met, as the final signed financial statements were not made available to my Office until 20 November 2003.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	**2002**
	$'000	**$'000**
Revenue from ordinary activities	118	136
Less expenditure from ordinary activities:		
Operational costs	182	22
Depreciation and amortisation	5	6
Total expenditure	187	28
Net (loss)/profit	**(69)**	**108**

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

Financial results (continued)

This loss primarily reflects a decrease in revenue of $18,000 and an increase in expenses of $99,000. The increase in expenses is due primarily to the costs associated with the employment of a coordinator for the Park.

Abridged Statement of Financial Position at 30 June 2003

	2003	**2002**
	$'000	**$'000**
Current Assets	387	297
Less Current Liabilities	228	51
Working Capital	159	246
Add Non Current Assets	19	1
	178	247
Less Non Current Liabilities	-	-
Net Assets	**178**	**247**
Represented by:		
Equity		
Accumulated Surplus	178	247
Total Equity	**178**	**247**

The decline in the Board's financial position is due to the expenses incurred by the Park, which are not adequately funded by current revenue. All revenue from concessionaires is distributed to the traditional owners without any retention to meet on-going expenses.

Receivables at 30 June 2003 increased by $69,000 compared to the prior year. This increase was due to more timely recognition of fees payable by concessionaires. Some of the debts outstanding from prior year have been carried forward. A provision of $23,000 has been made to recognise potential doubtful debts (2002 - $11,000).

Liabilities have increased by $177,000, primarily representing concessionaire income not yet paid to Traditional Owners at year end (up $39,000 on the prior year) and a build up of year end creditors (up $141,000 on prior year).

The increase in liabilities has partly led to the $25,000 increase in cash holdings at year end. While the cash position was strong at 30 June, the Board's net working capital position deteriorated from $246,000 at 30 June 2002 to $159,000 this year end. This is primarily due to the Board's operating losses and confirms the need for the Board to increase its revenue base or control costs or both.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 audited financial statements of:

Nitmiluk (Katherine Gorge) National Park Board

KEY FINDING

- **When compared to recent years, the Board is commended for the significant improvement in the timeliness of the preparation of its financial report this year. However, the requirement to provide financial statements for audit by 30 September 2003 was still not met.**

Audit opinion

The audit of the Nitmiluk (Katherine Gorge) National Park Board (the Board) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 21 November 2003.

Background

The Board is required by section 26 of its Act to produce an annual report, which must include audited accrual financial statements.

The entity is not an agency. Other than section 10 of the *Financial Management Act*, neither this Act nor the Treasurer's Directions apply directly to the Board.

Key issues

Timeliness of Reporting

When compared to recent years, the Board is commended for the significant improvement in the timeliness of the preparation of its financial report this year. However, the *Nitmiluk (Katherine Gorge) National Park Act* requires the financial statements to be provided for audit within three months of the end of the financial year, ie. by 30 September 2003. This requirement was not met, as the final signed financial statements were not made available to my Office until 20 November 2003.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	2002
	$'000	$'000
Revenue from ordinary activities	1,623	1,356
Less expenditure from ordinary activities:		
Operational costs	875	712
Employee expenses	687	674
Depreciation and amortisation	2	2
Total expenditure	1,564	1,388
Net profit/(loss)	**59**	**(32)**

Auditing the Public Account and other accounts
Nitmiluk (Katherine Gorge) National Park Board

Financial results (continued)

This surplus primarily reflects a $250,000 increase in NT Government funding offset by a $12,000 decrease in Board income and an increase in operating expenses of $196,000.

Abridged Statement of Financial Position at 30 June 2003

	2003	2002
	$'000	**$'000**
Current assets	250	311
Less Current Liabilities	445	555
(Deficiency) in Working Capital	(195)	(244)
Less Non Current Assets	3	5
	(192)	(239)
Add Non Current Liabilities	(18)	30
(Net Liabilities)	**(210)**	**(269)**
Represented by:		
Equity		
Accumulated (Deficit)	(210)	(269)
Total Equity (Deficiency)	**(210)**	**(269)**

The improvement in the Board's financial position is due to the surplus for the year of $59,000.

Receivables at 30 June 2003 decreased by $58,000 compared with the prior year, reflecting a higher turnover in the payment of royalties by the Board's concessionaires. Accounts payable was also affected by the higher turnover, resulting in a lesser amount due to traditional owners and to the Parks and Wildlife Commission at year-end.

The provision for employee entitlements has decreased by $29,000, resulting from the decrease in annual leave entitlements of $9,000 and long service leave entitlements of $20,000 because staff have taken leave.

Auditing the Public Account and other accounts

Analysis of the 30 June 2003 financial report of:

Northern Territory Major Events Company Pty Ltd

KEY FINDING

- **The transfer of the assets and liabilities of Hidden Valley Promotions Pty Ltd totalling $1.173 million for no consideration to the Company significantly improved its net asset position from the net liability position reported in the previous year. However, the Company will continue to be dependent on the Northern Territory Government for ongoing funding.**

Audit opinion

The audit of Northern Territory Major Events Company Pty Ltd (the Company) for the year ended 30 June 2003 resulted in an unqualified independent audit opinion, which was issued on 6 January 2004.

Background

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

Following the holding of the 2002 round of the V8 Supercar Championship in Darwin, the obligation to run the event in Darwin was transferred from Hidden Valley Promotions Pty Ltd (HVP) to the Company along with the remaining assets and liabilities of HVP. This obligation continues to 2007.

Key issues

Net assets

The transfer of the assets and liabilities of HVP totalling $1.173 million for no consideration to the Company significantly improved its net asset position from the net liability position reported in the previous year. The Company has taken on HVP’s responsibilities for running the V8 Supercar Championship.

The Company will continue to be dependent on the Northern Territory Government for ongoing funding.

Financial Reporting

The completion of the financial statements of the company was marginally later than the previous year. However this was primarily due to the need to properly account for the transfer of the operations of HVP to the Company.

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

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2003

	2003	**2002**
	$'000	**$'000**
Revenue from ordinary activities before government grants	2,668	22
Less expenditure from ordinary activities:		
Employee expenses	480	431
Depreciation	1	3
Other	2,469	792
Total expenditure	2,950	1,226
Net (loss) from ordinary activities before government grants	(282)	(1,204)
Add Government grants	686	1,155
Net profit (loss) from ordinary activities	**404**	**(49)**

A major activity of the Company is the annual promotion of the Darwin round of the V8 Supercar Championship. Revenues and expenses directly associated with the race, including the net assets acquired from HVP for no consideration, are as follows:

		2003
	$'000	**$'000**
Ticket revenue		1,487
Less expenditure:		
Race sanction fees	575	
Other race expenses	1,652	
Total expenditure		2,227
Operating (loss) from holding 2003 race		(740)
Add net assets transferred from HVP		1,173
Contribution to the Company's net profit		433

Without this contribution of $433,000 the Company would have operated at a loss of $29,000 after taking into account the government subsidy of $686,000.

Employee costs have increased by 11% mostly due to directors' fees paid to non public servant directors. Other than the above employee costs have generally remained consistent with the prior year.

In addition to managing the V8 Supercar race at the Hidden Valley Circuit in Darwin the Company provided funding to the following events:

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

Event	**2003**	**2002**
	$'000	**$'000**
Finke Desert Race	51	49
NT Tropical Garden Spectacular	36	-
Alice Springs Outback adventure	20	-
NT Show summit	3	-
Tenant Creek Go Karts	1	42
Grease	-	313
The Main Event	-	157
60th Anniversary of the Bombing of Darwin	-	86
Australian Safari	-	6
Royal Darwin Show	-	1
	111	**654**

Abridged Statement of Financial Position at 30 June 2003

	2003	**2002**
	$'000	**$'000**
Current assets	2,529	44
Less Current Liabilities	2,200	119
Net Current Liabilities	329	(75)
Add Non Current Assets	9	9
Net assets (liabilities)	**338**	**(66)**
Represented by:		
Contributed equity ($2)	-	-
Accumulated profits (losses)	338	(66)
Total equity	**338**	**(66)**

The financial position of the Company was improved by the taking over the assets and liabilities of HVP. Cash, debtors and creditors were high at 30 June 2003 due to takings from the holding of the V8 Supercar event in the last weekend of June 2003 from which the major creditors had still to be paid.

Matters arising from performance management system audits

Matters arising from performance management system audits

Department of the Chief Minister
Department of Health and Community Services
Northern Territory Police, Fire and Emergency Services

Information Technology (IT) controls over the privacy of data

Whole of Government

MAJOR RECOMMENDATION

- **The NT Government Security Policy and Procedures and the NT Government Access Policy and Procedures should be updated to incorporate stronger links to the NT Government Information Privacy Principles (IPPs).**

DCIS has commented:

The policies are being updated to reference the NT Information Act and Privacy Principals.

Department of the Chief Minister (Electoral Office)

KEY FINDINGS

- **The Electoral Office privacy policy is highly congruent with the IPPs.**
- **Privacy Guidelines are also being developed to provide further details of how the IPPs should be applied.**

Department of Health and Community Services

KEY FINDINGS

- **The Department of Health and Community Services (DHCS) Information Privacy Code of Conduct is closely aligned with the IPPs.**
- **There are a large number of databases within DHCS that may contain sensitive and personal data. These databases are still being identified and reviewed by its Privacy Coordinator, and are being removed if no longer required.**

MAJOR RECOMMENDATION

- **A formalised plan for implementing information management and privacy requirements should be developed and reviewed to ensure the DHCS will comply with the IPPs.**

DHCS has commented:

The development of an information privacy implementation plan, ensuring the Department's compliance with the IPP's, was completed by the end of 2003.

Matters arising from performance management system audits Information Technology controls over the privacy of data

Northern Territory Police, Fire and Emergency Services

KEY FINDINGS

- **The Northern Territory Police, Fire and Emergency Services (NTPFES) Information Technology (IT) security polices, privacy manual and General Orders are not congruent with the IPPs. Significant work is required to further develop existing policies to achieve a high level of congruency with the IPPs.**
- **The NTPFES manage many systems that contain sensitive and personal data and testing of selected core systems identified that sufficient controls are operating over those systems to control access to personal data.**
- **The Forensics Group produces an unencrypted backup Compact Disc of all NTPFES forensic information systems data on a monthly basis. However, the security of the backup location is uncertain.**

MAJOR RECOMMENDATIONS

- **A formalised plan for implementing information management and privacy requirements should be developed and reviewed to ensure the NTPFES will comply with the IPPs.**

NTPFES has commented:

NTPFES initiated and completed major structural changes to elements of the organisation as a first phase for improving the Agency's congruence with the Northern Territory Government Information Privacy Principals (IPPs). A number of specific projects aimed at ensuring that the Agency's policies and practices align with the IPPs were commenced. In addition, the major recommendations of the report were accepted and the Agency is in the process of developing a formal plan for implementing information management and privacy requirements to improve its congruence with the IPPS.

- **Backups of the forensic data should not be stored a location where security is uncertain.**

NTPFES has commented:

This recommendation was implemented.

Background

The Northern Territory Legislative Assembly passed the *Information Act* (the Act) on 8 October 2002. The Act commenced on 1 July 2003 and affects the way that Northern Territory public sector organisations collect, use and store government and personal information. Under the Act the related issues of freedom of information (FOI), privacy and records and archives management are brought together.

Matters arising from performance management system audits
Information Technology controls over the privacy of data

Background (continued)

The Act is designed to promote the protection of personal information and the free flow of government information subject only to the need to protect essential public interests and the private and business interests of persons.

An IT Security Policy and Procedures document applicable for all NT Government Agencies as well as an NT Government Access Policy and Procedures document were released in June 2003.

Audit objectives and scope

The objective of the audit was to assess the IT controls in place within the selected agencies over the privacy of data. In particular, the audit:

- Assessed the extent of congruence of the agencies' IT security policies and procedures with their published privacy policy and the Information Privacy Principles (IPPs) set out in the *Information Act*; and
- Confirmed that the systems and controls in place are sufficient to ensure controlled access to private data.

Agencies selected for review were:

- Department of the Chief Minister (specifically the Electoral Office);
- Department of Health and Community Services; and
- Northern Territory Police, Fire and Emergency Services.

Audit findings

General

A matter common to all agencies identified that the agencies had adopted the IT Security Policy and Procedures for the NT Government and the NT Government Access Policy and Procedures. It was noted however that these policies, administered by the Department of Corporate and Information Services, whilst containing high level statements about the need for privacy of data, did not make any reference to the *Information Act* or the IPPs.

A recommendation arising from the audit was that the NT Government Security Policy and Procedures and the NT Government Access Policy and Procedures be updated to incorporate stronger links to the IPPs. In particular, the privacy sections should acknowledge the IPP requirements and encourage agencies to consider information privacy requirements when designing and maintaining security controls.

Department of the Chief Minister (DCM) – Electoral Office

Opinion

The Electoral Office privacy policy is highly congruent with the IPPs. Privacy Guidelines are also being developed to provide further details of how the IPPs should be applied.

The Electoral Office manages one system, the Election Management System, which contains private data. Sufficient controls are operating over this system to control access to personal data.

Matters arising from performance management system audits Information Technology controls over the privacy of data

Specific findings

Privacy Policy

The DCM has published a Privacy Policy, which outlines its commitment to protecting personal information that it holds. This policy provides a high level recognition of the IPPs and provides a summary of how the IPPs apply to DCM and has been published on its web site for public reference.

DCM is currently finalising draft guidelines that will provide more detailed information to staff about how the IPPs should be applied. Comments received from the Information Commissioner regarding the draft guidelines have been incorporated.

An awareness program has been implemented to improve DCM staff understanding of the IPPs and to promote timely adjustment to information management practices to ensure compliance with the IPPs. This has included awareness sessions and the publication of various information statements.

Electoral Office Roll

The Australian Electoral Commission maintains the Northern Territory electoral roll in Sydney. The NT Electoral Office has read only access to this data. Access to electoral data is governed by various legislation including the *Commonwealth Electoral Act*, the *NT Electoral Act*, Commonwealth and Territory information management legislation and the Joint Rolls Agreement. Security over the electoral roll is managed by the Australian Electoral Commission.

Privacy related policies, guidelines and procedures will need to be reconsidered during the migration of the electoral office to an independent electoral commission to ensure that appropriate policies are still operating within the electoral function.

Department of Health and Community Services (DHCS)

Due to the large number of systems operating in DHCS containing sensitive information, my system access testing focused on a selection of core systems.

Opinion

The DHCS Information Privacy Code of Conduct is closely aligned with the IPPs.

The DHCS manage many systems that contain private data, including CARESYS, CCIS, PCIS and the SHILO data warehouse. Key controls are operating over these systems to appropriately control access to personal data. However, opportunities for improvement were identified and are detailed below. Whilst DHCS has completed or commenced a number of projects towards meeting the information management and privacy requirements, it does not have a formalised plan to ensure that it will comply with the IPPs. [refer recommendation 1]

Matters arising from performance management system audits Information Technology controls over the privacy of data

Information Technology Security Policies

Procedural manuals have been developed for a number of core systems (including CCIS, SHILO and Perinatal Data) that include information about access management, security and changes to client records.

Information Systems and Controls

There are a large number of databases within DHCS that may contain sensitive and personal data. These databases are still being identified and reviewed by the Privacy Coordinator, and are being removed if no longer required. [refer recommendations 3, 4 & 5]

Recommendations

1. A formalised plan for implementing information management and privacy requirements should be developed and reviewed to ensure the DHCS will comply with the IPPs. The plan should include information such as a description of the project to be completed, expected timing, resource requirements and deliverables. The purpose for each project should also be clearly established and communicated to stakeholders.
2. Data managers be reminded of their responsibility to comply with procedures for managing privacy compliance of data repositories.
3. Procedures should be implemented to ensure that the register of personal data repositories is appropriately maintained.
4. Consideration should be given to publishing a privacy checklist for new systems to ensure that all key privacy requirements are taken into account when implementing a new system.

Northern Territory Police, Fire and Emergency Services (NTPFES)

Opinion

The NTPFES IT security polices, privacy manual and General Orders are not congruent with the IPPs. Significant work is required to further develop existing policies to achieve a high level of congruency with the IPPs.

The NTPFES manage many systems that contain sensitive and personal data. My testing of selected core systems identified that sufficient controls are operating over those systems to control access to personal data.

However, opportunities for improvement were identified and are detailed below.

Matters arising from performance management system audits
Information Technology controls over the privacy of data

Specific findings

Privacy Policy

At the time of conducting this audit the NTPFES did not have a privacy policy in place that is congruent with the IPPs. However, NTPFES are taking positive steps to rectify this situation. In particular:

- A series of Executive Leadership Group Papers (ELG) have been issued to communicate the intention of NTPFES to comply with the Act, to establish a steering committee to manage this implementation and to manage transborder and agency data exchange.
- A Business Plan has been approved by the Executive to establish a Privacy Branch and recruitment for associated positions has commenced.
- A Director, Business Information and Reporting has been appointed to develop agency wide privacy policies, which will be congruent with the IPPs.
- An Information Act Steering Committee has been established to monitor, control and provide advice on compliance with the requirements of the Act. Regular meetings are held to discuss progress of initiatives and projects to achieve compliance including the documentation of privacy information on information collection forms, privacy acknowledgment of voice recordings, and development of documentation to be published under Section 11 of the Act.

Although a number of initiatives are being undertaken, a formalised plan for implementing all of the necessary privacy initiatives required to meet the IPPs has not been prepared. [refer recommendation 1]

The NT Police Privacy manual does not address all of the IPPs. This policy manual does not appear to have Executive endorsement, has not been formally published nor communicated to staff and is currently under review by the Information and Reporting team.

NT Police officers are required to abide by the General Orders. The General Orders provide guidelines on the behaviour of police officers, and include requirements on the collection, use and disclosure of information in various key operational tasks undertaken. I understand that NTPFES intend to conduct a review of these General Orders to identify changes to better reflect the IPPs.

Information Technology Security Policies

The NTPFES has developed a security policy framework with an overall objective of maintaining a high level of integrity, appropriate confidentiality and availability of all information systems. A number of IT security policies have been developed under the security policies framework, including:

- IT System Security Classification Policy
- IT User Security Policy
- IT Service Provider Requirements
- External Agency Access Policy and Standards
- Computing Standards and Communications Policy and Standards.

Matters arising from performance management system audits Information Technology controls over the privacy of data

Specific findings (continued)

In addition to the policies developed under the security framework, the NTPFES have adopted the NTG IT Systems Development Security Policy and Procedures.

The Computing and Communications Policy and Standards include information on the policy and procedures surrounding the use and privacy of user data collected (eg. emails, web site requests etc) within the NTPFES information systems. The policy also outlines the requirements of users to not disclose any confidential data. The implications of the IPPs for security have not been addressed in this policy. [refer recommendation 2]

Information Systems and Controls

The NTPFES have a wide variety of core information systems that capture and store personal and sensitive data, such as PROMIS, iCAD, COIN, and various other departmental applications.

NTPFES Windows NT domain security provides operating system level security for a number of these core systems which contain sensitive information. I noted that an excessive number of users (almost 30) have administrator access to the NTPFES Windows NT domain. I understand this has occurred due to the outsourcing of support to four organisations and restrictions of the technical architecture.

Access management controls are in place to ensure that only appropriate personnel have access to these systems. Access to the systems must be approved by appropriate data and system owners within the NTPFES. System access requests are documented on dedicated access request forms, except for Police graduates, whose access is requested by email and not retained for audit purposes. [refer recommendation 3]

There are estimated to be numerous databases within NTPFES that may contain sensitive and personal data. These databases are still being identified and reviewed by NTPFES, and are being removed if no longer required. Formal policies and processes are yet to be established to assess and track systems for compliance with information management requirements. [refer recommendations 4 & 5]

I noted that user access is reviewed for appropriateness and that access to some systems is reviewed regularly for dormant accounts. I recommended that these reviews be scheduled in a review program. [refer recommendation 3]

Backup Procedures

There is currently a secure formal backup process in place for all NTPFES data repositories. However, the Forensics Group produces an unencrypted backup CD of all NTPFES forensic information systems data on a monthly basis. This backup CD is stored at a location where the security is uncertain.

I recommended that the NTPFES backup process be communicated to the Forensics Group, and that backups of the forensic data not be stored at a location where security is uncertain. [refer recommendation 6]

Matters arising from performance management system audits
Information Technology controls over the privacy of data

Backup Procedures (continued)

The broader issue of the writing of data to portable mass storage devices such as CDs and USB memory sticks should be addressed by NTPFES. [refer recommendation 7]

Recommendations

1. A formalised plan for implementing information management and privacy requirements should be developed and reviewed to ensure the NTPFES will comply with the IPPs. The plan should include information such as a description of the project to be completed, expected timing, resource requirements and deliverables. The purpose for each project should also be clearly established and communicated to stakeholders.

2. NTPFES should update its IT security framework and policies to incorporate stronger links to the IPPs. In particular, the privacy sections should acknowledge the IPP requirements.

NTPFES has commented:

The Information and Communications Technology (ICT) Branch is currently reviewing the Agency's Computing and Communications Policy and Standards. The Business Information and Reporting Branch participated in this review and incorporated references to the Information Act and the IPPs.

3. NTPFES should establish a schedule for the review of user access to sensitive data repositories, ensuring that all users are current NTPFES employees and have appropriate access to data held in the data repositories.

NTPFES has commented:

As a result of this recommendation, the following systems were reviewed for user access:

NTPFES Domain
PROMIS
RACF
CrimTrac

In addition, a number of domain groups were identified as controlling access to sensitive information systems. These are being reported on monthly to the system or folder owners. A schedule for ongoing reviews of access to NTPFES systems is currently being developed.

4. Policies and processes for managing privacy compliance of data repositories be developed. In particular, the requirement to inform the Agency's Information Technology & Telecommunications branch and the Director, Business Information and Reporting during the development or implementation of new systems (including small Access databases) should be formalised.

NTPFES has commented:

The review of the NTPFES Computing and Communications Policy and Standards incorporated a direction that the Director, ICT must approve all systems developed.

Matters arising from performance management system audits
Information Technology controls over the privacy of data

Recommendations (continued)

5. Procedures should be implemented to ensure that the register of personal data repositories is appropriately maintained.

NTPFES has commented:

The Agency was not aware of this recommendation, but will follow up accordingly.

6. Backups of the forensic data should not be stored at a location where security is uncertain.

NTPFES has commented:

The recommendation was implemented.

7. NTPFES should develop a policy restricting the writing of data to mass storage media and the removal of such data from the office environment.

NTPFES has commented:

The ICT Branch is currently trialing a product which will allow control of access to mass storage media. In addition, the review of the NTPFES Computing and Communications Policy and Standards incorporated a direction that the use of mass storage media must be approved by the IT Operations Manager.

NTPFES has also commented on the Status of the Review of NTPFES Computing and Communications Policy and Standards:

The NTPFES Computing and Communications Policy and Standards is in its final stage of review. Once this is completed it will be submitted to the Information Management Committee for approval.

Matters arising from performance management system audits

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

Information Technology compliance audit of the Tenancy Management System

KEY FINDINGS

- **A number of Information Technology control and functional weaknesses within the existing Tenancy Management System, in particular relating to client management, were noted.**
- **Given that HBS is assessing the feasibility of replacing core information systems, management should continue to focus on ensuring that any replacement system is capable of supporting the needs of HBS.**

RECOMMENDATIONS

- **That HBS management develop exception reports to be reviewed on at least a monthly basis to identify potentially inappropriate changes made by Tenancy Management System (TMS) end users and consider reducing the level of access to perform sensitive functions, such as revise rental rebates and rent payable within TMS to only key users.**

HBS has commented:

HBS agrees with the recommendations to develop and implement exception reporting to increase controls and identify inappropriate changes made by TMS users.

HBS agrees that the system should restrict TMS users from being able to backdate rental rebates. In this regard the ability of the TMS user to revise a rent payable within an agreed period is restricted to Tenancy Staff and Area Management level. HBS would be reluctant to reduce the access beyond this, as it would greatly impact the level of service provided to clients and workload of the Tenancy Staff.

- **Management should continue to prioritise existing system weaknesses and ensure that these are incorporated into any future system replacement solution, or included in future changes/upgrades to TMS.**
- **Consideration should be given to performing periodic (eg. six monthly) reviews of TMS user access entitlements to ensure that access appears reasonable.**

HBS has commented:

HBS agrees with these recommendations.

Matters arising from performance management system audits Information Technology compliance audit of the Tenancy Management System

Background

The Department of Community Development, Sport and Cultural Affairs: Housing Business Services (HBS) is a Government Business Division (GBD) within the Department. Its aims are to provide affordable and appropriate housing for Territorians and government employees and provide access to affordable housing through home ownership.

The core HBS IT systems are the Tenancy Management System (TMS), the Asset Information System (AIS) and the Cash Processing System (CPS). TMS was initially implemented in 1992. There are approximately 300 registered users of the TMS as at November 2003.

There is a high degree of dependence on the use of both AIS and TMS, with some integration between the systems.

The TMS is a critical business system for HBS, since it is the basic means by which HBS tracks the use of and income flows from its housing stock across the Northern Territory. At 30 June 2003 HBS' rental housing stock was valued at $734.2 million and rental income for the year ended on that date was $37.7 million gross and $25 million net of rental rebates.

Prior to the audit HBS had commissioned a review of TMS by Dialog IT the findings of which were considered in the performance of this audit.

Audit objectives and scope

The objective of this audit was to examine the adequacy of IT controls over the TMS and consider how well the TMS supports HBS' business needs.

The focus of this audit was on the following areas:

- the high-level IT general controls over the TMS (as they relate to HBS only);
- the high-level application controls over key business processes (as they relate to the TMS only); and
- consideration of potential TMS functional deficiencies (as identified by Dialog IT and as identified during the course of our work).

The TMS directly interfaces with the Asset Information System and Cash Processing System.

The audit did not specifically focus on:

- the interfaces between TMS and other agency systems;
- IT controls for systems other than the TMS;
- IT general controls of agencies other than HBS; or
- system requirements contained in the Request for Tender document (May 2002).

Audit findings

Opinion

The focus of this audit was to assess the adequacy of IT general and application controls in place over the TMS and to consider potential system limitations. A number of IT control and functional weaknesses within the existing TMS, in particular relating to client management, were noted.

Matters arising from performance management system audits Information Technology compliance audit of the Tenancy Management System

Opinion (continued)

Given that HBS is assessing the feasibility of replacing core information systems, management should continue to focus on ensuring that any replacement system is capable of supporting the needs of HBS and ensure the audit issues noted in this review are addressed.

Specific findings

*Management review of potentially inappropriate change*s.

There is a lack of management review of potentially inappropriate changes made by TMS users to rental rebates and rent payable by clients. Advice was received from HBS staff that there are no specific exception reports being produced and reviewed by appropriate management to check for instances where potentially inappropriate changes to rental rebates/rent payable are made by HBS staff.

It is recommended that HBS management develop exception reports to be reviewed on at least a monthly basis to identify potentially inappropriate changes made by TMS end users and consider reducing the level of access to perform sensitive functions, such as to revise rental rebates and rent payable within TMS to only key users.

TMS functionality does not fulfil the requirements of HBS.

TMS has various system weaknesses, including those identified by HBS and the Dialog IT review. Current system weaknesses include:

- The ability to perform functions offline is not currently possible;
- Specific information about customer feedback (complaints) and a mechanism to enter this information is not currently provided for by TMS;
- A number of operational screens within TMS do not have complete audit log functionality;
- TMS lacks functionality to enable the recording and retention of arrears information by classification for reporting purposes;
- TMS lacks functionality to track the various stages of a property sale, for both auction and tenant sales; and
- TMS lacks workflow functionality to provide end users with a structured approach to perform generic or repetitive tasks.

Management should continue to prioritise existing system weaknesses and ensure that these are incorporated into any future system replacement solution, or included in future changes/upgrades to TMS.

No formalised Business Continuity Plan (BCP) in place.

The Department of Corporate Information Services (DCIS) has the responsibility to ensure that a disaster recovery plan is in place for the mainframe environment (in which the TMS resides), however, HBS has no formalised BCP with respect to TMS related functions. A business impact analysis should be performed to determine the most critical components of TMS to HBS and the tolerance levels of the TMS components being unavailable. The level of effort in BCP activities should be commensurate with the level of risk.

Matters arising from performance management system audits Information Technology compliance audit of the Tenancy Management System

Opportunities for improvement over the administration of security access controls over the TMS system.

There are limited controls in place at HBS to prevent a user who transfers to another position from gaining additional levels of access. There is no formal process to review access granted to employees on a periodic basis. Human resource exit and transfer procedures should be improved to ensure that access to the mainframe and TMS is removed/updated accordingly. Consideration should be given to performing periodic (eg. six monthly) reviews of TMS user access entitlements to ensure that access appears reasonable.

Appendix 1 - Audit opinion reports issued since 30 June 2003

	Date 2002/03 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2003	Date of Audit Report Year ended 30 June 2002
Sec 9 Financial Management Act			
Treasurer's Annual Financial Statement	16 October 03	13 October 03	21 November 02
Government Business Divisions Sec 10 Financial Management Act			
Construction Division	25 November 03	29 September 03	25 October 02
Darwin Bus Service	25 November 03	1 October 03	25 October 02
Darwin Port Corporation	25 November 03	9 October 03	16 October 02
Government Printing Office	27 November 03	17 October 03	22 November 02
Data Centre Services	27 November 03	15 October 03	22 November 02
NT Fleet	27 November 03	3 November 03	26 November 02
Northern Territory Treasury Corporation	16 October 03	29 September 03	30 September 02
DCDSCA: Housing Business Services	25 November 03	23 October 03	21 November 02
Territory Wildlife Parks	25 November 03	7 November 03	25 October 02
Territory Discoveries	27 November 03	31 October 03	25 October 02
Government Owned Corporation Sec 42 Government Owned Corporations Act			
Power and Water Corporation	25 November 03	29 September 03	27 November 02
Entities that Sec 10 Financial Management Act applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	21 November 03	1 April 03
Jabiru Town Development Authority	Not yet tabled	Not yet finalised	17 January 03
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	21 November 03	4 April 03
NT Grants Commission	25 November 03	16 October 03	12 November 02
Surveyors Board of the NT	Not yet tabled	12 November 03	22 November 02
Territory Insurance Office	27 November 03	15 October 03	21 November 02

Appendix 1 - Audit opinion reports issued since 30 June 2003

	Date 2002/03 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2003	Date of Audit Report Year ended 30 June 2002
Agency Financial Statements at the request of the Agency			
NT Tourist Commission	27 November 03	31 October 03	7 October 02
Other Entities/Separate Acts/Trust Deeds			
Legislative Assembly Members' Superannuation Trust	8 October 03	26 September 03	2 October 02
Northern Territory Government and Public Authorities Employees Superannuation Fund	16 October 03	26 September 03	3 October 02
Northern Territory Major Events Company Pty Ltd	N/A	6 January 04	18 December 02
Northern Territory Police Supplementary Benefits Scheme	N/A	30 September 03	9 October 02
NT Legal Aid Commission	Not yet tabled	27 October 03	26 November 02
Common Funds of the Public Trustee	Not yet tabled	Not yet finalised	27 November 02

Appendix 1 - Audit opinion reports issued since 30 June 2003

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2003	Date of Audit Report Year ended 30 June 2002
Inter-Government Statements By Legislation			
Australian Land Transport Development	31 December 03	11 December 03	10 April 03
Interstate Road Transport	31 December 03	5 December 03	20 December 02
Local Government Financial Assistance	ASAP	7 October 03	12 November 02
By Agreement			
Commonwealth-State Housing Agreement	31 December 03	10 December 03	8 April 03
Indigenous Housing Authority of the Northern Territory	30 September 03	5 December 03	7 November 02
National Disaster Relief Arrangements	31 December 03	11 December 03	16 December 02
By Agreement	**Deadline for submission of Audited Financial Statements**	**Date of Audit Report Year ended 31 December 02**	**Date of Audit Report Year ended 31 December 01**
Australian National Training Authority Agreement	30 September 03	24 September 03	30 October 02
Australian National Training Authority Agreement 2001 to 2003 Framework for Funding for Growth	30 June 02		26 September 03
	30 June 03	26 September 03	N/A
By Legislation			
Vocational Education and Training Financial Data	30 September 03	31 July 03	10 September 02

Not yet finalised - as at 31 December 2003

Not yet tabled - as at 31 December 2003

N/A - Not applicable

ASAP - As soon as possible after the financial year end

Appendix 2 - Status of Audits which were identified to be conducted in the six months to 31 December 2003

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits were identified in Appendix 3 of the October 2003 Report as being scheduled for the period.

Department of Community Development, Sport and Cultural Affairs		
IT audit of the tenancy management system at Housing Business Services	Refer pages	123-126
PMS review of Housing Business Service's five year plan focussing on maintenance programs and sales of housing stock	Cancelled	
Department of Corporate and Information Services		
IT audit of electronic systems used to pay suppliers	Refer pages	35-38
Audit of the Northern Territory's Information Technology governance framework.	Refer pages	27-30
Department of the Chief Minister		
PMS audit of change management at Risk Management Services and assessment of the success of its internal audit program	Deferred until 2004	
PMS audit of the Office of Territory Development	Deferred until 2004	
Northern Territory Police, Fire and Emergency Services		
PMS audit of the fleet management system	Cancelled	
Northern Territory Treasury		
IT review of APEX – phase 3	No matters to report	
Follow up of the Community Benefit Fund audit	Refer pages	42-45
Selected agencies		
Ongoing analysis of PIPS and GAS	Deferred until 2004	
IT audit over the controls over privacy of information	Refer pages	114-122
Controls audit over the use of credit cards	No matters to report	

Appendix 2 - Status of Audits which were identified to be conducted in the six months to 31 December 2003

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

Department of Employment, Education and Training		
LATIS – a PMS audit	In progress	
Department of Health and Community Services		
Compliance audit of the redevelopment of Royal Darwin Hospital	Refer pages	31-34
Department of the Chief Minister		
Ministerial expenses - travel	In progress	
Department of the Legislative Assembly		
A compliance audit of members entitlements	Deferred until 2004	
Selected agencies		
Grants and Subsidies - detailed analysis of chart of accounts	Cancelled	

Appendix 3
Proposed audit activity in the six months ending 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 have been scheduled for the period.

Department of Business, Industry and Resource Development

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

Department of Corporate and Information Services

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

Leave management in the public sector

Department of Employment, Education and Training

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

Department of Health and Community Services

Tendering and rollover of contracts

Management of non-government organisations in the delivery of health services

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

Department of Justice

Controls over Judges' leave and allowances

Department of the Legislative Assembly

Expenditure upgrading members' electorate offices

Members' travel (deferred from 2003)

Northern Territory Police, Fire and Emergency Services

IT audit of PROMIS

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 and other accounts 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 Central Holding Authority, 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 at all times 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 - Abbreviations

Agency Compliance Audit	ACA
Australian Accounting Standards	AAS
Australian Valuation Office	AVO
Construction Division	CONDIV
Data Centre Services	DCS
Department of Business Industry and Resource Development	DBIRD
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
Government Accounting System	GAS
Government Business Divisions	GBDs
Government Owned Corporations	GOCs
Government Printing Office	GPO
Housing Business Services	HBS
Information technology	IT
Information Policy Principles	IPPs
Land asset information system	LAIS
Northern Territory Government	NTG
Northern Territory Police, Fire and Emergency Services	NTPFES
Northern Territory Treasury	NTT
Performance management system	PMS
Personal Information and Payroll System	PIPS
Tenancy Management System	TMS
Territory Insurance Office	TIO
Treasurer’s Annual Financial Statement	TAFS
Treasurer’s Directions	TDs

Index of Matters Reported

Further information

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

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

Further copies of the March 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 August 2004 sittings.

NORTHERN TERRITORY
AUDITOR-GENERAL'S OFFICE

LOCATION
Level 12
Northern Territory House
22 Mitchell Street
Darwin NT 0800
Australia

POSTAL ADDRESS
GPO Box 4594
Darwin NT 0801
Australia

TELEPHONE
(08) 8999 7155

FACSIMILE
(08) 8999 7144

HOMEPAGE
http://www.nt.gov.au/ago

E-MAIL
nt.audit@nt.gov.au

OFFICE HOURS
Monday-Friday
8.00am to 5.00pm