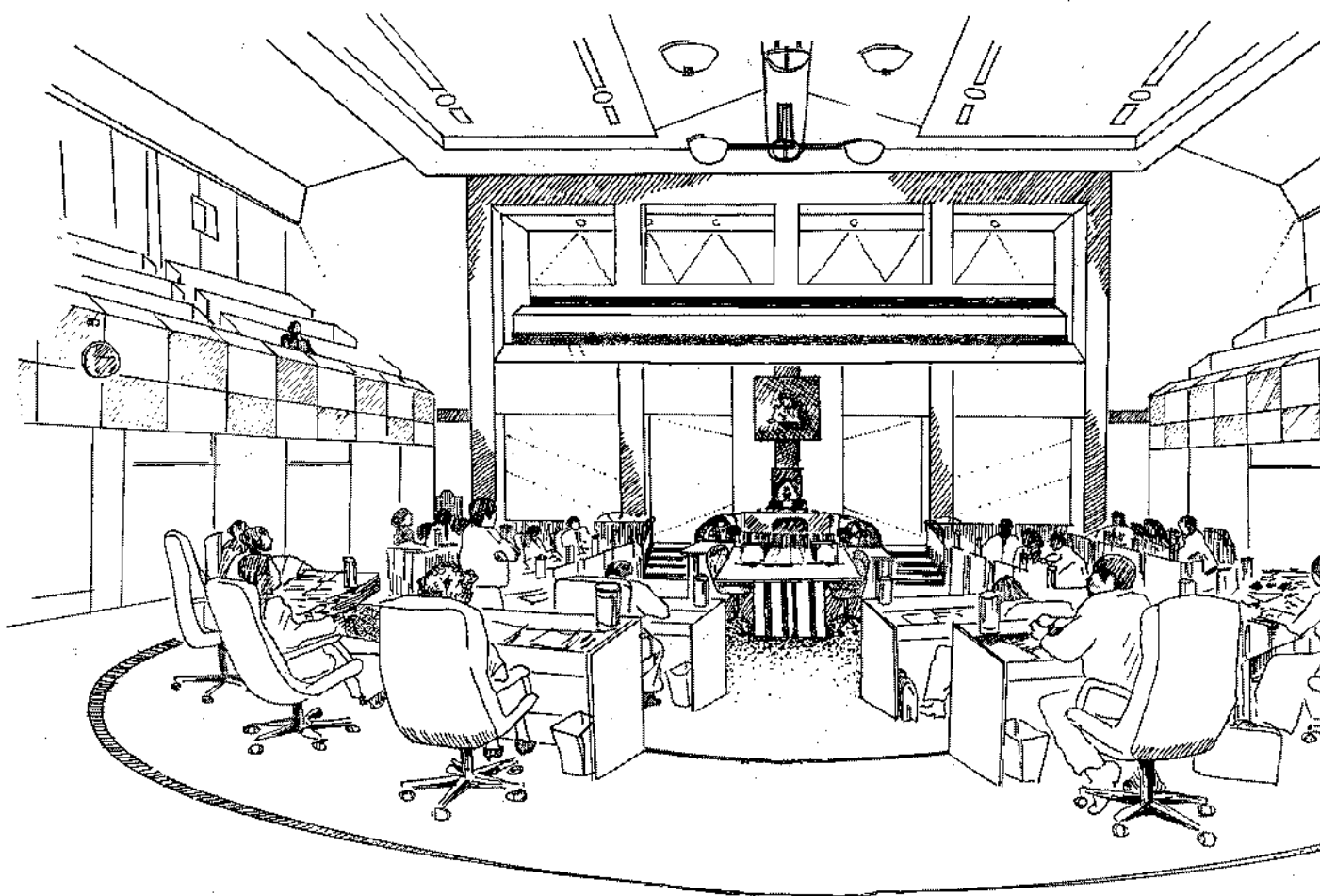




**AUDITOR-GENERAL  
FOR THE NORTHERN TERRITORY**

**AUGUST 2005 REPORT**

**TO THE LEGISLATIVE ASSEMBLY**



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

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

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

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

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

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

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

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

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

- First half of the calendar year – contains commentary on Agencies and Entities with a 30 June financial year-end being 30 June of the previous calendar year. Material is included depending on when each audit is completed.
- Second half of the calendar year – contains commentary on Agencies and Entities with a 31 December year-end being 31 December of the previous year. Material is included depending on when each audit is completed.
- Second half of the calendar year – contains commentary on the Auditor-General's audit of the Treasurer's Annual Financial Statement. Timing will depend on the audit completion date.

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

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

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

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

**ISSN 1323-7128**

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# Northern Territory Auditor-General's Office

Auditing for Parliament ..... providing independent analysis



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

18 August 2005

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 30 June 2005 and I request that you table the report today in the Legislative Assembly.

In the main, the Report summarises the outcomes from financial attest audit work performed for the year ended 31 December 2004 and interim audit work in connection with financial statements to be prepared at 30 June 2005.

I have included in this report, as Appendix 6, an "engagement letter" to the Legislative Assembly that sets out my responsibilities to the Legislative Assembly. I believe it an opportune time to do this, with this being the first year of my appointment as Auditor-General, and this report being my first to the tenth Assembly.

I also point out to Members that in this report I have referred to the public sector agencies and Ministerial responsibilities as they existed at 30 June 2005 notwithstanding the changed agency arrangements that came into force on 11 July 2005.

Yours faithfully,

Frank McGuinness  
Auditor-General for the Northern Territory

## Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 January 2005 to 30 June 2005:

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

This Report has 11 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, 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 Australian Accounting Standards and other mandatory financial reporting requirements or, in the case of **acquittal audits**, the relevant legislation, or the agreement under which funding was provided. It also means that I believe that the report has no material errors and that there was nothing that limited the scope of my audit. 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 prepared following completion of financial statement audits include a financial analysis of the financial statements.

**Information technology audits** are undertaken either as 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 selected systems, account balances or projects and are also intended to assist me in my audit of the Public Account.

**Performance management system audits** are conducted to enable me to assess whether those systems enable Agencies or Entities to assess their performance against predetermined criteria with an emphasis on effectiveness, efficiency and economy. Further details are set out on page 44.

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 upon. 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.

<b>Entities referred to in this Report</b>
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<i>By Ministerial Portfolio:</i>	<i>Page(s)</i>
<b>Chief Minister; Minister for Tourism</b>	
Chief Minister, Department of	17 - 19, 20 - 22, 33 - 34
<b>Minister for Employment, Education and Training</b>	
Employment, Education and Training, Department of	10 - 11
Batchelor Institute of Indigenous Tertiary Education	28 - 29
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<b>Minister for Business and Industry</b>	
Business, Industry and Resource Development, Department of	20 - 22
<b>Minister for Community Development</b>	
Community Development, Sport and Cultural Affairs, Department of	12 - 14, 36 - 37
<b>Minister for Transport and Infrastructure; Minister for Lands and Planning; Minister for Parks and Wildlife</b>	
Infrastructure, Planning and Environment, Department of	10 - 11
Nitmiluk (Katherine Gorge) National Park Board	30 - 32

**Executive Summary**

This Report outlines the results of audits conducted during the period 1 January 2005 to 30 June 2005.

It contains 11 separate reports most of which deal with the outcomes of audits. The audits that are reported on here are largely compliance audits which were undertaken to assess the extent to which selected agencies complied with legislation, Treasurer's Directions or other pronouncements.

In addition the report includes the results of financial audits carried out in respect of educational institutions which report on a calendar rather than a financial year basis. A report on the financial audit of Nitmiluk (Katherine Gorge) National Park Board is also included. While this entity reports on a financial year basis, the preparation and audit of the statements were delayed for the reasons outlined in the body of the report.

Finally, separate reports are included on the tendering, assessment and award processes in respect of the Darwin City Waterfront Project and also in respect of the earlier report by the Ombudsman which dealt with the provision of a grant to a community government council for the purchase of a motor vehicle.

## Major Findings

### Selected Agencies

#### Ex-Gratia payments and legal settlements

- ◆ It is the policy of the Agencies that payments made as part of out of court legal settlements are classified as legal expenses for the purposes of financial reporting and are therefore not disclosed as ex-gratia payments. I consider this treatment to be potentially misleading to the users of the Agencies' financial reports.

Refer pages 10 to 11 for further comments

### Department of Community Development, Sport and Cultural Affairs

#### Pool fencing payments

- ◆ The control procedures examined provided reasonable assurance that the payments of the 'Safe Pool Grants' complied with the requirements of the *Swimming Pool Safety Act 2004* and loans provided by the Early Registration Incentive Scheme (ERIS) under the superseded *Swimming Pool Fencing Act 2002* were properly treated.

Refer pages 12 to 14 for further comments

### Selected Agencies

#### Executive Contract Officers' Performance Measurement

- ◆ Performance assessments of Executive Contract Officers are generally being completed across public sector agencies in accordance with the requirements set down in employment contracts and with sound performance management principles.
- ◆ However, it was noted that there were instances where improvements were possible.

Refer pages 15 to 16 or further comments



## Major Findings

### Department of the Chief Minister

#### Ministerial travel

- ◆ The systems and processes in place at the Department of the Chief Minister during the period 1 January 2004 to 31 December 2004 did not ensure compliance with Remuneration Tribunal Determinations in that 61 records, out of a sample of 81, were found not to comply with Remuneration Tribunal Determinations for various reasons including:
  - travel allowance payments being based on superseded Remuneration Tribunal Determinations;
  - payment of full travel allowance when the Claimant did not use commercial accommodation; and
  - paying \$86 per night travel allowance plus all costs for overseas travel.

Refer pages 17 to 19 for further comments

### Department of the Chief Minister

#### Department of Business, Industry and Resource Development

#### Grant payments

- ◆ Within the Department of the Chief Minister, with the exception of Community Engagement Grants, it is not common practice for formal written agreements, detailing the terms and conditions of the grant funds provided, to be prepared and agreed to by the grant recipients.
- ◆ Within the Department of Business, Industry and Resource Development's Fisheries Division there are no documented grant and subsidy application, approval and acquittal procedures.

Refer pages 20 to 22 for further comments

### Department of Community Development, Sport and Cultural Affairs

#### Grant to Belyuen Council

- ◆ The results of the review of the Ombudsman's report did not suggest that any additional involvement on the part of this Office was warranted.

Refer pages 36 to 37 for further comments

**Reporting on audits conducted  
in the six months ended 30 June 2005**

**What is selected for reporting to the Legislative Assembly?**

In reporting on the results of audits completed in the six months ended 30 June 2005, 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 elected not to provide a response for publication.

**Matters Arising from auditing the  
Public Account and other accounts**

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## Auditing the Public Account and other accounts

### Selected Agencies

### Ex-Gratia payments and legal settlements

#### KEY FINDING

- ◆ **It is the policy of the Agencies that payments made as part of out of court legal settlements are classified as legal expenses for the purposes of financial reporting and are therefore not disclosed as ex-gratia payments. I consider this treatment to be potentially misleading to the users of the Agencies' financial reports.**

#### Background

The *Financial Management Act* requires the Treasurer's Annual Financial Statement to include a report on all ex-gratia payments directed by the Treasurer to be paid under section 37 of the Act. However no guidance is included in Treasurer's Directions that assist Agencies in determining what constitutes an ex-gratia payment.

The following are examples of generally accepted forms of ex-gratia payments:

- A payment, usually a lump sum, made to an employee, which would not be part of normal wages or salary.
- A payment made by an Agency when the Agency is under no obligation to make the payment (e.g. a payment to a person where the person has suffered a loss directly as a result of some action or inaction by the Agency for which there is no other statutory remedy or form of compensation).

#### Audit objectives and scope

The audit objective was to assess whether agencies' internal control systems provide reasonable assurance that all ex-gratia payments granted by the agencies are appropriately:

- approved in accordance with Treasurer's Directions 6.2.11;
- endorsed in accordance with Treasurer's Directions 6.2.12; and
- recorded in accordance with Treasurer's Directions 6.2.13.

The selected agencies were:

- Department of Health and Community Services;
- Department of Infrastructure, Planning and Environment; and
- Department of Employment, Education and Training.

**Auditing the Public Account and other accounts  
Ex-Gratia payments and legal settlements**

**Audit Findings**

*Opinion*

For the purpose of this audit, an ex-gratia payment was deemed to be a payment made to a person by the Crown in the public interest for loss or expenditure incurred, and where there is neither any legal liability on the part of the Crown nor any other remedy available to compensate the party that has suffered loss.

The audit did not raise any issues of note.

*Specific findings*

Whilst the audit did not identify any issues of note with respect to ex-gratia payments as defined, it did identify payments made as part of out of court settlements. I was advised that it was the policy of the Agencies that payments of this type are classified as legal expenses for the purposes of financial reporting. I consider this treatment to be potentially misleading to the users of the Agencies' financial reports as it fails to distinguish between expenses incurred for the receipt of legal or similar services, from those that represent payments to potential plaintiffs or for the purpose of avoiding legal proceedings.

***The Department of Employment, Education and Training has commented:***

*DEET has sought clarification from NT Treasury concerning treatment of legal expenses.*

## Auditing the Public Account and other accounts

### Department of Community Development, Sport and Cultural Affairs

#### Pool fencing payments

##### KEY FINDING

- ◆ **The control procedures examined provided reasonable assurance that the payments of the ‘Safe Pool Grants’ complied with the requirements of the *Swimming Pool Safety Act 2004* and loans provided by the Early Registration Incentive Scheme (ERIS) under the superseded *Swimming Pool Fencing Act 2002* were properly treated.**

##### RECOMMENDATIONS

- ◆ **The standard checklist should be mandatory for all inspections conducted by all pool advisers. This will ensure that all swimming pools are assessed in the same manner, provide transparency of the inspection process and proof that the inspection regime is properly enforced.**

##### Background

Revised pool fencing laws took effect from 15 March 2004. The *Swimming Pool Safety Act 2004* applies to residential properties smaller than 1.8 hectares with a swimming pool or spa.

‘Safe Pool Grants’ are available for existing pools or spas installed prior to 1 January 2003 and are available until 31 December 2007 to assist Territorians to safely secure pre-existing pools and spas.

The grant is applicable to pool or spa owners who install or upgrade pool barriers to meet either the Community Safety Standard or the modified Australian Standard. Maximum amounts apply to the grants and owners are obliged to contribute at least 25% of the total cost of upgrading the pool barriers.

The *Swimming Pool Safety Act 2004* does not in itself refer to the payment of ‘Safe Pool Grants’. However, the criteria for payment of the grants as specified in the water safety brochure and the agency web site, is satisfactory compliance with the safety requirements of the Act and limited compensation for the cost of compliance.

The scheme also allows for reimbursement of costs, by recipients of the Early Registration Incentive Scheme (ERIS) under the previous legislation, up to the same level as the ‘Safe Pool Grant’. Applications by ERIS recipients were accepted from 15 March 2004 until 17 September 2004.

**Auditing the Public Account and other accounts  
Pool fencing payments**

**Background - continued**

Under ERIS, loans were provided for pool safety upgrades. If a loan had been provided, then any loan amount remaining after reimbursement would continue as a loan with the same conditions as originally provided.

An audit was conducted on the Pool Fencing Unit (PFU), a business unit within the Department of Community Development, Sport and Cultural affairs, during March 2005. The audit was conducted pursuant to section 13 of the *Audit Act*.

**Audit objectives and scope**

The objectives of the audit were:

- to verify compliance with the requirements of the *Swimming Pool Safety Act 2004* in relation to the payments of 'Safe Pool Grants'; and
- to identify and vouch the treatment of loans provided under the previous legislation in relation to pool safety upgrades.

**Audit Findings**

*Opinion*

The control procedures examined provided reasonable assurance that the payments of the 'Safe Pool Grants' were in compliance with the requirements of the *Swimming Pool Safety Act 2004* and loans provided by the Early Registration Incentive Scheme (ERIS) under the superseded *Swimming Pool Fencing Act 2002* were properly treated.

A recommendation for further improvement was provided to the Agency.

*Specific findings*

From the commencement the Unit's operations, the PFU was thrust into a sensitive and hectic environment, receiving much media and public comment on its enforcement of a very strict standard. It was during this period that the actions of one employee were investigated for fraud.

The fraud investigation identified the failure of internal controls over the appointment process thereby allowing one employee to allocate properties to himself for inspection, subverting the process intended to ensure appointments were allocated at random by a designated staff member. The PFU re-inspected over 400 swimming pools and found that several compliance certificates were issued even though the pools inspected were in fact non-compliant.

In some instances, the PFU was required to meet the cost of recertifying pools. In other instances, there were allegations of collusion with property owners. This matter is still under investigation and the final cost of recertification is yet to be determined.

As a result of the fraud investigation, controls over the appointment process have been strengthened and the Unit's policy on conflict of interest has been communicated to staff.

**Auditing the Public Account and other accounts  
Pool fencing payments**

*Specific findings - continued*

Pool Advisers who carry out pool inspections make notes about each swimming pool they inspect. These notes are then used to compile the pool inspection report. A standard checklist is available for advisers to use and it is noted that new pool advisers do use the checklist. Once the advisers are more experienced and confident, they generally do not use the checklist and are not required to do so.

It was recommended to the Agency that the standard checklist should be mandatory for all inspections conducted by all pool advisers. This would ensure that all swimming pools are assessed in the same manner, provide transparency of the inspection process and proof that the inspection regime is properly enforced.

***The Department of Community Development, Sport and Cultural Affairs has commented:***

*The pool safety advisers inspect the barrier to a swimming pool in a progressive sequence testing each component against the Australian Standards. The Australian Standards are used as their checklist and each adviser carries a copy of the Australian Standards with them and refers to them. The checklist referred to is a learning tool and is a quick reference to the relevant parts of the Australian Standards. The more experienced the adviser becomes, the more familiar they become with the standard, and rely less on an index or summary to find the specific clause or reference in the Standards.*

*In addition to the above the senior pool safety adviser uses a checklist to check each report. This is the point where a quality assurance process is employed to ensure that all reports are assessed in the same manner and ensure that the inspection regime is properly enforced. Photographs and site plans detailing the components of the barrier are included with all compliant inspection reports.*

*At one stage a former pool safety adviser developed a checklist and standard clauses for every possible scenario likely to be encountered on site. The checklist went for more than 40 pages and is not used as it was found to be of no benefit and disrupted the inspection cycle.*

*If an investigation was undertaken as proposed it is more likely to focus on the adequacy of the training and the audit process employed by the branch. There is a very thorough and detailed training regime in place to ensure that new staff are adequately trained including a one on one mentoring process with an experienced adviser. A satisfactory audit of their inspections is required prior to them working alone.*

*The key to making sure items are not missed during an inspection is the importance of a progressive inspection, and this is regularly reinforced by the senior adviser, and at weekly meetings. Advisers are taught techniques to avoid being "dragged" from one part of the property to next or being distracted from this inspection cycle.*

*In addition to all of the above, the Director Water Safety Branch does random inspections to ensure that pool safety advisers are doing their job correctly so that there is not have a repeat of the actions by a former pool safety adviser currently under investigation. (This audit process is progressively being handed across to the senior pool safety adviser).*



## Auditing the Public Account and other accounts

### Selected Agencies

### Executive Contract Officers' Performance Measurement

#### KEY FINDINGS

- ◆ Performance assessments of Executive Contract Officers are generally being completed across public sector agencies in accordance with the requirements set down in employment contracts and with sound performance management principles.
- ◆ However, it was noted that there were instances where improvements were possible.

#### Background

An Executive Contract Officer (ECO) is expected to meet and display the Executive Officer Competencies as advised by the Commissioner for Public Employment from time to time. Performance is to be reviewed by the employer at least once in each employment year usually near the anniversary date of the ECO's contract.

Performance is to be reviewed on the basis of:

- Fulfilment of the express or implied conditions of the contract;
- Any specific professional standards relevant to the nature of the duties to be performed; and
- Fulfilment of any agreed commitments of an Executive Contract and expectations of the employer.

A deficiency in performance that could impact on the ECO's continued employment, if not corrected, is to be advised in writing.

This was an "across agency" audit involving a sample of ECOs being selected from eleven agencies for review.

#### Audit objectives and scope

The objective of the audit was to determine the extent to which ECOs are assessed periodically with a view to gauging the extent to which performance targets that may be agreed with the Agency are achieved.

#### Audit findings

The audit found that performance assessments of ECOs are generally being completed across public sector agencies in accordance with the requirements set down in employment contracts and with sound performance management principles. However, it was noted that there were instances where improvements were possible in that:

**Auditing the Public Account and other accounts  
Executive Contract Officers' Performance Measurement**

**Audit findings - continued**

- not all agencies had mechanisms in place to ensure that performance assessments were conducted regularly. In those instances reliance tended to be placed on the ECO's manager to schedule and conduct the review. In circumstances where agency restructures take place, the process has the potential to break down.
- the responsibility for filing performance assessment documentation rested, in most cases, with the manager/reviewer and for some agencies this was not part of the agencies' formal record keeping process. Thus a change in the ECO reporting structure can lead to the misplacement of the relevant performance documentation, with onus then falling back upon the assessed ECO to provide copies of the assessment documentation.
- the audit revealed that there are differences between the approaches adopted by agencies when reviewing ECO performance. However a common theme was evident in the emphasis placed upon the achievement of tasks, with less emphasis placed upon the achievement of Executive Officer competencies. In January 2004, the Commissioner for Public Employment issued a document titled Executive Leadership Capabilities, which represented an updating of the previous executive officer competencies. Agencies were encouraged to interpret the document in a flexible way and it was noted during the course of the audit that some agencies had used these or similar competencies as part of their assessment processes.

## Auditing the Public Account and other accounts

### Department of the Chief Minister

#### Ministerial travel

##### KEY FINDING

- ◆ **The systems and processes in place at the Department of the Chief Minister during the period 1 January 2004 to 31 December 2004 did not ensure compliance with Remuneration Tribunal Determinations in that 61 records, out of a sample of 81, were found not to comply with Remuneration Tribunal Determinations for various reasons including:**
  - **travel allowance payments being based on superseded Remuneration Tribunal Determinations;**
  - **payment of full travel allowance when the Claimant did not use commercial accommodation; and**
  - **paying \$86 per night travel allowance plus all costs for overseas travel.**

##### Background

This audit covered the payment of entitlements relating to travel undertaken during the period 1 January 2004 to 31 December 2004 and included travel by Ministers, the Leader of the Opposition, their spouses and dependant children. The conditions under which travel may be undertaken and the allowances that are payable are set down in Remuneration Tribunal Determinations (RTDs).

Travel undertaken by Members of the Legislative Assembly, in their capacity as Ministers, or by the Leader of the Opposition (the Claimants), is administered by the Department of the Chief Minister (the Department). This travel is recorded separately from Members travel, which is recorded on the Members Entitlements Travel System maintained by the Department of the Legislative Assembly.

The database maintained by the Department records the following travel undertaken during the period 1 January 2004 to 31 December 2004:

	Claimants	Persons accompanying claimants
Intrastate	\$372,678	\$15,146
Interstate	\$158,962	\$11,289
Overseas	<u>\$86,519</u>	<u>-</u>
	<u>\$618,159</u>	<u>\$26,435</u>

**Auditing the Public Account and other accounts  
Ministerial Travel**

**Audit objectives and scope**

The audit objective was to determine whether the travel entitlements paid to Ministers during the period 1 January 2004 to 31 December 2004 were in accordance with the relevant Remuneration Tribunal Determinations.

**Audit Findings**

*Opinion*

The systems and processes in place at the Department of the Chief Minister during the period 1 January 2004 to 31 December 2004, in relation to Ministerial Travel, did not ensure compliance with Remuneration Tribunal Determinations.

*Specific findings*

*Payment of travel allowance*

Only 14 of a sample of 81 records selected for examination were found to comply fully with RTDs. A further six records had minor errors (e.g. incorrect dates being recorded in the Department's database or dates missing on the travel certification).

The remaining records (61 out of 81) included errors such as:

- calculation of the travel allowance based on superseded RTDs resulting in incorrect payment of the travel allowance to the office holder;
- one instance where travel allowance was paid notwithstanding that the Claimant was on leave;
- payment of full travel allowance being made even though the Claimant did not use commercial accommodation;
- overpayment of travel allowance because the destination was incorrectly classed as a capital city when, in fact, it was a regional city;
- the wrong number of nights being used for the calculation of the travel allowance payable resulting in incorrect payment being made;
- accommodation costs being paid directly to accommodation providers, while at the same time Claimants also received travel allowances intended to meet accommodation expenses; and
- payments of \$86 per night in travel allowance plus reimbursement of all costs whilst travelling overseas. Whilst it is acknowledged that this method of calculating the allowance for overseas travel has been in place for a number of years, it is not in accordance with the RTDs.

<b>Auditing the Public Account and other accounts</b> <b>Ministerial Travel</b>
--

**Audit Findings (continued)***Frequent flyer points*

RTDs in force for the year ended 31 December 2004 require Claimants to apply frequent flyer points that may have been earned while travelling on official business towards future official travel. There was no system in place in the Department that permitted frequent flyer points to be recorded.

No instances were noted during the audit where frequent flyer points that had been accrued as a result of travel by the Claimants were used to reduce the cost of future travel, or to upgrade the class of travel undertaken by Claimants.

The policy in respect of frequent flyer points relies heavily upon the cooperation of Claimants, as airlines have advised that information will not be provided to the Department in respect of those who may be eligible for frequent flyer points.

*Other matters*

Other instances were noted where the reasons for travel and the reasonableness of accommodation costs could not be substantiated fully. At the same time issues such as the correctness of travel certifications and the accuracy of travel details recorded in the Department's database were drawn to the Department's attention.

***The Department of the Chief Minister has commented:***

*The Department acknowledges that the number of administrative errors in regard to Ministerial travel during 2004 was unacceptable, even though the net result of these errors equated to less than \$1,000. The Department had already identified the need to strengthen administrative travel processes in early 2005, and has put in place improved supervision and internal audit capacity in the travel section.*

*Payment of \$86 per night for overseas travel allowance had been a long standing procedure, going back to the early 1980s. The Chief Minister has since reviewed the situation and ceased the allowance.*

*The Department maintains a travel policy that, in the same context to the Remuneration Tribunal Determinations (RTD) covering ministerial travel, includes the use and accumulation of "Frequent Flyer" points. The policy states that "any points accruing to an employee as a result of official duty on behalf of the Northern Territory may only be applied to subsequent official duty travel" and therefore should not benefit the individual.*

*Ministerial Offices are fully aware of the Departmental policy and RTD, though in practice, difficulties are almost always experienced when attempting to book flights or upgrades using points.*

## Auditing the Public Account and other accounts

### Department of the Chief Minister

### Department of Business, Industry and Resource Development

### Grant payments

#### KEY FINDINGS

- ◆ **Within the Department of the Chief Minister, with the exception of Community Engagement Grants, it is not common practice for formal written agreements, detailing the terms and conditions of the grant funds provided, to be prepared and agreed to by the grant recipients.**
- ◆ **Within the Department of Business, Industry and Resource Development's Fisheries Division there are no documented grant and subsidy application, approval and acquittal procedures.**

#### Background

Grants and subsidy expenses are distributions of public money for which Agencies are accountable. It is important therefore, that these items are appropriately managed and disclosed in an Agency's financial records.

Treasurer's Directions, Section A6.4: Grants and Subsidies defines grants and subsidies, and provides guidance on when they are to be recognised and how they should be classified.

#### Audit objectives and scope

The objective of the audit was to ascertain whether the agencies have adequate policies in place to ensure grants and subsidies paid are correctly identified, accounted for, and acquitted.

#### Audit Findings

##### *Opinion*

In my opinion:

- With the exception of the Community Engagement Grants, the Department of the Chief Minister does not have adequate policies in place to ensure grants and subsidies paid are correctly identified, accounted for, and acquitted.
- The grants administered by the Department of Business, Industry and Resource Development (DBIRD), Commercial Services Division, which represent the majority of the Agency's grant and subsidy payments, are administered appropriately. However, other divisions of the DBIRD have not instituted the necessary policies, procedures and internal controls to ensure grants and subsidies paid are correctly identified, accounted for, and acquitted.

In some instances this lack of appropriate policies, procedures, and internal controls has resulted in a failure to comply with the Treasurer's Directions.

## Auditing the Public Account and other accounts Grant Payments

### Audit Findings (continued)

#### *Specific findings*

Of the 303 grants made by the Department of Chief Minister audit examined all grants where the individual grant amount was for \$100,000 or more and a small sample of grants where the individual grant amount was below \$100,000. With the exception of the Community Engagement Grants, it is not common practice for formal written agreements, detailing the terms and conditions of the grant funds provided, to be prepared and agreed to by the grant recipients. As a result, recipients have rarely been required to provide an acquittal detailing the usage of these funds.

Within DBIRD's Fisheries Division there are no documented grant and subsidy application, approval and acquittal procedures. Informal procedures do exist, however they are inconsistent with, and in many ways inferior to, those in place within the Commercial Services Division of DBIRD, where the majority of DBIRD's grant and subsidy payments are administered.

#### ***The Department of the Chief Minister has commented:***

*Of the 303 grants made by the Department, 235 were Community Engagement Grants. As noted in your report, these were provided under formal written agreements detailing the terms and conditions of the grant funds provided.*

*Of the remaining grants, 65% of the payment amounts related to grants provided to Government owned organisations, including the Major Events Company, Desert Knowledge Australia and the AustralAsia Railway Corporation. This funding is provided through direct government appropriations via the Department. The funding is directed for specific outcomes that are clear and identifiable such as the delivery of the V8 Supercars event and Bass In The Grass and Dust concerts.*

*All organisations are independently audited and have senior Government representatives on their Boards.*

*As funding to these organisations is already provided under stringent guidelines, formal grant agreements covering each payment to those organisations would not provide any additional accountability around these appropriations. Therefore the Department is reviewing the accounting treatment to determine whether it is appropriate that these payments be recognised as grant expenses or otherwise.*

*Recommendations in your audit reports to further strengthen Departmental processes were appreciated.*

**Auditing the Public Account and other accounts  
Grant Payments**

***The Department of Primary Industry, Fisheries and Mines has commented:***

*Wherever possible, the Fisheries Division of the Department of Primary Industry, Fisheries and Mines (DPIFM) has adopted the model used in the Commercial Services Division of its predecessor Department of Business, Industry and Resource Development for managing grants under Treasury Direction A 6.4. There are however certain constraints that preclude the full adoption of the Commercial Services Division's procedures by the Fisheries Division, in particular, small research and development projects. Such grants require the capture of specific data for R&D and therefore the application form used by Fisheries is a generic model applied by fisheries agencies Australia wide.*

*Further, there are certain grants requiring specific procedures defined under the Fisheries Act (and Ministerial direction) that must be followed for the approval process and hence the adoption of the Commercial Services Division template is not necessarily a viable option. Even so the parts of the Commercial Services Division process that can be adopted have been incorporated.*

*DPIFM will endeavour to improve on the application and approval processes and adopt the Commercial Services Division's model of the former DBIRD where possible. In addition, DPIFM will continue to review the grant management procedures with a view to implement appropriate recommendations from the Auditor-General's audit.*



**Auditing the Public Account and other accounts**

**Audit findings and Analysis of the financial statements for the year ended 31 December 2004 of:**

**Menzies School of Health Research**

There are no key findings

**Audit opinion**

The audit of the financial statements of Menzies School of Health Research (MSHR) for the year ended 31 December 2004 resulted in an unqualified independent audit opinion that was issued on 14 April 2005.

**Background**

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

**Key issues**

The *Menzies School of Health Research Act* provides for five of the thirteen persons who comprise the Board to be nominated by Charles Darwin University, with a further two to be officers of the University. Thus for the purposes of financial reporting, MSHR is deemed to be controlled by the University.

The Act requires MSHR to prepare a financial report copies of which, once audited, are to be forwarded to the Minister and to the Council of the University.

<b>Auditing the Public Account and other accounts</b> <b>Menzies School of Health Research</b>
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**Financial analysis***Abridged Statement of Financial Performance*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue from ordinary activities	<u>13,656</u>	<u>11,969</u>
Less expenses from ordinary activities		
Employee benefits	7,241	6,487
Administration, operational and other expenses	<u>4,817</u>	<u>3,497</u>
Total expenses from ordinary activities	<u>12,058</u>	<u>9,984</u>
<b>Net surplus from ordinary activities</b>	<b><u>1,598</u></b>	<b><u>1,985</u></b>

The additional revenue in 2004 reflects higher levels of Commonwealth Financial Assistance and an increase in Contract Research revenue.

During 2004 MSHR changed its accounting policy for the capitalisation of property, plant and equipment. Assets are now capitalised when the acquisition costs are greater than \$10,000, as compared to a \$2,000 threshold that applied in earlier years. The change in policy resulted in an increase of \$365,090 in administration, operational and other expenses.

*Abridged Statement of Financial Position*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets	13,064	8,467
Non-current assets – Property, plant and equipment	<u>1,037</u>	<u>941</u>
Total assets	<u>14,101</u>	<u>9,408</u>
Current liabilities	4,385	1,362
Non-current liabilities	<u>142</u>	<u>146</u>
Total liabilities	<u>4,527</u>	<u>1,508</u>
<b>Net assets</b>	<b><u>9,574</u></b>	<b><u>7,900</u></b>
<b>Represented by accumulated funds</b>		
Retained earnings	8,586	7,116
Asset Revaluation Reserve	109	-
Capital Equipment Reserve	808	679
Investment Revaluation Reserve	<u>71</u>	<u>105</u>
	<b><u>9,574</u></b>	<b><u>7,900</u></b>

**Auditing the Public Account and other accounts**

**Audit findings and Analysis of the financial statements for the year ended 31 December 2004 of:**

**Charles Darwin University**

There are no key findings

**Audit opinion**

The audit of the financial statements of the Charles Darwin University for the year ended 31 December 2004 resulted in an unqualified independent audit opinion, which was issued on 29 June 2005.

**Background**

The Charles Darwin University (CDU) is established under the *Charles Darwin University Act* and is a continuation of the entity previously known as the Northern Territory University. It also includes the former Northern Territory Rural College and the Centralian College. From 1 January 2004 the Menzies School of Health Research (MSHR) became a controlled entity of CDU. As a consequence the financial statements of CDU have been consolidated and include the revenues, expenses, assets and liabilities that are attributable to MSHR.

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

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

**Key issues**

No issues to report.

<b>Auditing the Public Account and other accounts</b> <b>Charles Darwin University</b>
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**Financial analysis***Abridged Statement of Financial Performance – CDU only – excluding controlled entities*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from ordinary activities</b>		
Financial assistance from the Commonwealth	38,414	31,796
Financial assistance from the NT Government	57,804	79,606
Other revenue (HECS, fees, interest, etc)	<u>37,096</u>	<u>31,976</u>
<b>Total revenue from ordinary activities</b>	<u>133,314</u>	<u>143,378</u>
<b>Less expenses from ordinary activities</b>		
Employee related costs	68,319	54,296
Expenses relating to joint ventures	3,560	3,707
Administration, operational and other expenses	<u>45,815</u>	<u>40,857</u>
<b>Total expenses from ordinary activities</b>	<u>117,694</u>	<u>98,860</u>
<b>Operating surplus/(deficit) from ordinary activities</b>	<u><b>15,620</b></u>	<u><b>44,518</b></u>

2004 was the first year of operation of CDU that included the activities of the former Northern Territory Rural College and Centralian College. The effect of this was:

- an increase in revenues from the Commonwealth Government increased of \$6.5 million;
- an increase in grant revenues from the Northern Territory Government of \$24.6 million;
- and increase in fees and charges of \$2.3 million;
- an increase of salaries and wages of \$13.9 million; and
- an increase in other expenses of \$4.3 million.

With most other major income and expenditure items remaining generally consistent with those of the prior year, the net effect of the incorporation of the two Colleges into the University was a \$15.2 million increase in the operating result for the year.

In the 2003 the operating surplus resulted primarily from the non-reciprocal transfer of the assets and liabilities of both the Northern Territory Rural College and Centralian College to the University. This was represented by an amount of \$46.4 million shown as revenues on transfer of entities.

<b>Auditing the Public Account and other accounts</b> <b>Charles Darwin University</b>
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**Financial analysis – continued***Abridged Statement of Financial Position – CDU only – excluding controlled entities*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets		
Bank, and short term investments	40,805	24,812
Receivables and other current assets	6,449	4,102
Less Current Liabilities	<u>(17,028)</u>	<u>(16,897)</u>
Net Current Assets	30,226	12,017
Add Non Current Assets	<u>218,269</u>	<u>191,881</u>
	248,495	203,898
Less Non Current Liabilities	<u>(3,453)</u>	<u>(3,937)</u>
<b>Net assets</b>	<b><u>245,042</u></b>	<b><u>199,961</u></b>
Represented by:		
<b>Equity (reserves, restricted and accumulated funds)</b>	<b><u>245,042</u></b>	<b><u>199,961</u></b>

<b>Auditing the Public Account and other accounts</b>
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**Audit findings and Analysis of the financial statements for the year ended 31 December 2004 of:**

**Batchelor Institute of Indigenous Tertiary Education**

There are no key findings

**Audit Opinion**

The audit of the financial statements of Batchelor Institute of Indigenous Tertiary Education (the Institute) for the year ended 31 December 2004 resulted in an unqualified independent audit opinion, which was issued on 28 June 2005.

**Background**

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

**Audit findings**

No issues to report

**Financial analysis**

*Abridged Statement of Financial Performance*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from ordinary activities</b>		
Financial assistance from the Commonwealth	22,665	20,356
Financial assistance from the Territory Government	9,267	9,417
HECS	1,347	1,257
Other Revenue	<u>1,744</u>	<u>1,684</u>
<b>Total revenue from ordinary activities</b>	<b><u>35,023</u></b>	<b><u>32,714</u></b>
<b>Expenses from ordinary activities</b>		
Employee benefits	18,747	16,904
Repairs and maintenance	959	2,196
Travel and other expenses	<u>15,478</u>	<u>12,288</u>
<b>Total expenses from ordinary activities</b>	<b><u>35,184</u></b>	<b><u>31,388</u></b>
<b>Operating result from ordinary activities</b>	<b><u>(161)</u></b>	<b><u>1,326</u></b>

<b>Auditing the Public Account and other accounts</b> <b>Batchelor Institute of Indigenous Tertiary Education</b>
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**Financial Analysis - continued**

The Institute received additional funding of approximately \$2.1 million offset by additional spending of approximately \$3.8 million when compared to the prior year. The additional funding was sourced from Commonwealth Financial Assistance in the areas of capital development and operating purposes with the additional spending being due to increased salary costs and expenditure in relation to the development of the Calista software.

During the 2004 financial year the contract with Calista was varied and the Institute will no longer take ownership of the software licence. As a result in the change in the conditions of the contract, the Institute has in 2004 written off \$0.39 million which was previously recognised as an asset in 2003. An additional \$0.86 million in relation to the development of the software has been incurred during the year.

Library resources were taken up in the Institutes accounts for the first time this year based on a fair value of \$0.78 million resulting in a positive impact on the financial position.

***Abridged Statement of Financial Position***

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets	9,452	9,031
Non-current assets	<u>18,515</u>	<u>18,599</u>
<b>Total assets</b>	<b><u>27,967</u></b>	<b><u>27,630</u></b>
Current liabilities	3,932	4,166
Non-current liabilities	<u>505</u>	<u>557</u>
<b>Total liabilities</b>	<b><u>4,437</u></b>	<b><u>4,723</u></b>
<b>Net assets</b>	<b><u>23,530</u></b>	<b><u>22,907</u></b>
<b>Represented by Equity (reserves and accumulated funds)</b>	<b><u>23,530</u></b>	<b><u>22,907</u></b>

## Auditing the Public Account and other accounts

### Audit findings and Analysis of the financial statements for the year ended 30 June 2004 of:

#### Nitmiluk (Katherine Gorge) National Park Board

##### KEY FINDINGS

- ◆ **The Board's financial statement reporting requirements were not met as the final signed financial statements were not made available for audit until June 2005.**
- ◆ **Financial data recorded during the year was inaccurate.**
- ◆ **An instance was noted where expenditure was not able to be supported by adequate documentation.**

##### Audit Opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board (the Board) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 28 June 2005.

##### Background

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

##### Audit findings

*The Board's financial statements were not prepared and presented to audit on a timely basis.*

The financial statements for the Board were prepared in a less timely manner than in the previous year, resulting in the financial statements not being signed until June 2005.

Whilst the complications and complexities in preparing the Board's financial report are well known, there does not seem to be any concerted effort to improve the service delivery and I am disappointed that this situation has reoccurred.

*Financial data recorded during the year was inaccurate.*

The original trial balance presented for audit showed that the Board had recorded a surplus of \$100,343 whereas the final audited surplus was \$223,363. This movement in the surplus resulted from a significant number of journal entries that were required to correct the original trial balance presented for audit. A number of the journals were for substantial amounts and reflect weaknesses in the accounts preparation function.



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

**Audit Findings - continued**

The effects of the above were:

- Inaccurate information may be reported to management during the year; and
- The large number and size of the journals posted during the audit period brings into question whether there had been an application of an acceptable level of accounting skills needed to ensure the Boards financial statements were properly presented.

*An instance was noted where expenditure was not able to be supported by adequate documentation.*

I was not provided with appropriate supporting documentation concerning a payment to Whitehouse Furnishing in October 2003 in the amount of \$1,813.

The appropriateness of this expenditure is unable to be verified.

*Issues relating to the identification and collection of debtors were noted.*

There were a number of weaknesses in the management of the Board's debtors with the result that some difficulties were encountered in verifying the value of amounts owing to the Board at 30 June 2004. The review of debtors highlighted several items that related to services provided before April 2004 where the cash was not received until July 2004 or, in several instances, much later.

The lack of attention given to the management of debtors may result in the Board being presented with inaccurate data accompanied by a failure to ensure that amounts owing are collected.

<b>Auditing the Public Account and other accounts</b> <b>Nitmiluk (Katherine Gorge) National Park Board</b>
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**Financial analysis***Abridged Statement of Financial Performance*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue from ordinary activities		
Park income	833	802
NT Government funding and service provision and sundry income	<u>1,904</u>	<u>1,623</u>
<b>Total revenue from ordinary activities</b>	<u><b>2,737</b></u>	<u><b>2,425</b></u>
Less expenditure on ordinary activities:		
Operational expenses	1,798	1,679
Employee expenses	<u>716</u>	<u>687</u>
<b>Total expenditure on ordinary activities</b>	<u><b>2,514</b></u>	<u><b>2,366</b></u>
<b>Net profit from ordinary activities</b>	<u><b>223</b></u>	<u><b>59</b></u>

The surplus primarily reflects a \$280,000 increase in NT Government funding and support with a \$31,000 increase in park income.

*Abridged Statement of Financial Position*

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets	332	250
Less Current Liabilities	<u>(284)</u>	<u>(445)</u>
Working capital (deficiency)	<u>48</u>	<u>(195)</u>
Add Non Current Assets	-	3
Less Non Current Liabilities	<u>(35)</u>	<u>(18)</u>
<b>Net liabilities</b>	<u><b>13</b></u>	<u><b>(210)</b></u>
Represented by:		
<b>Accumulated surplus/ (deficit)</b>	<u><b>13</b></u>	<u><b>(210)</b></u>

## Auditing the Public Account and other accounts

### Department of the Chief Minister

### Darwin City Waterfront Project

The Darwin City Waterfront Project is intended to develop an area of approximately 25 hectares of waterfront land and adjacent waters for mixed use including a convention and exhibition centre, and residential and commercial development. The project life is expected to extend over ten to fifteen years.

I have undertaken an initial review of the project with the objective of forming a view as to whether the processes that governed tendering, assessment and the selection of the successful proponent were appropriate. The review did not attempt to assess the financial implications of the project and it is intended that this will be done as a separate review to be covered in a future report.

#### Overview of the Project

The project consists of three elements, to be constructed in two stages. The elements are:

- Community infrastructure – including marine work, services infrastructure, roads and car-parking, water recreation and public domain components
- Darwin Convention and Entertainment Centre (DCEC)
- Residential and commercial development

The Northern Territory of Australia has entered into a series of deeds with the Concession Holder, Darwin Cove Convention Centre Pty Ltd. The Concession Holder, in turn, has entered into separate contracts for the design and construction of community infrastructure, and the design and construction, operation and maintenance of the DCEC. In addition the Northern Territory of Australia has entered into a number of “side deeds” in connection with community infrastructure design and construction, and the design and construction, facilities management, and operations of the DCEC.

The DCEC will be financed, owned, operated, maintained and refurbished by the Concession Holder for a period of 25 years after the date of practical completion following which control of the asset will pass to the Northern Territory of Australia.

The initial construction costs of community infrastructure assets will be met initially by the Concession Holder and recovered from the Northern Territory of Australia through progress payments made throughout the construction phase. Control of community infrastructure assets will pass to the Northern Territory of Australia upon practical completion.

Separate licence deeds have been executed between the Northern Territory of Australia and DCW Hospitality Pty Ltd for hospitality development, and with Toga Darwin No 1 Pty Ltd for residential development. The hospitality and residential components of the project do not require a financial commitment on the part of the Northern Territory of Australia although the deeds provide for the grant of the right of exclusive possession of the development sites to the developer. In return, the Territory will receive a return based on the gross sales revenues of the residential developments.

**Auditing the Public Account and other accounts  
DCM - Darwin City Waterfront Project**

**The Tendering and Evaluation Process**

The process that led ultimately to the selection of a preferred private sector consortium was conducted in accordance with the Territory Partnerships Policy and commenced in September 2003 with the issue of an invitation for expressions of interest. Eleven consortia responded to that invitation from which three proponents were short-listed for evaluation. Following an extensive evaluation process, the project was awarded to the Darwin Cove Consortium comprising:

- ABN Amro – provider of debt and equity finance, and underwriter of a bond issue to finance construction
- McMahan Contractors Pty Ltd – contractor for design and construction of community infrastructure
- Mowlem plc and Sitzler Bros Pty Ltd – contractor for design and construction of DCEC
- Honeywell Inc – DCEC facilities manager
- Ogden International Facilities Corporation Pty Ltd – DCEC operator

The review of the tendering and evaluation process that was undertaken identified no matters of concern. The evaluation of the various proponents was thorough and the evaluation team was supported by the provision of appropriate technical and legal advice at all stages of the process. A probity auditor was also involved at each stage of the process.

In the period immediately following the announcement of the successful proponent, one of the unsuccessful bidders lodged a series of objections with the probity auditor. Each of the issues raised as part of the objections was considered by the probity auditor and by the legal advisor. The legal advisor and the probity auditor concluded that the objections lacked any basis in fact and the objector was advised accordingly. The firm in question subsequently signed a release deed and received the payment of \$250,000 (GST exclusive) that was offered to each unsuccessful proponent whose proposals met specified criteria.

I have since examined the objections raised by the unsuccessful proponent and have concluded that the basis upon which the objections were based were unreliable and that the conclusions reached by the legal advisor and the probity auditor were correct.

**Matters referred to the NT Auditor-General's Office**

	<b>Pages</b>
<b>Report by the Ombudsman – Grant to Belyuen Community Government Council</b>	36 - 37

**Matters referred to the NT Auditor-General's Office**

**Department of Community Development, Sport and Cultural Affairs**

**Report by the Ombudsman – Grant to Belyuen Community Government Council**

**KEY FINDING**

- ♦ **The results of the review of the Ombudsman's report did not suggest that any additional involvement on the part of this Office was warranted.**

**Background**

On 24 March 2005, a report by the Ombudsman titled "*An investigation into the adequacy of the administrative actions taken by certain government authorities in relation to the granting and acceptance of a 'Special Purpose Grant'*" was tabled in the Legislative Assembly. One of the recommendations contained in the report was that it be provided to me for consideration and, accordingly, a copy of the report was forwarded to me on the same date.

The report was not provided to me pursuant to the provisions of the *Audit Act* and thus there was no requirement to conduct a formal audit of the matters surrounding the provision of the grant. Nevertheless, a review of the report and the Ombudsman's recommendations was undertaken with a view to ascertaining whether there were sufficient grounds to warrant a formal audit.

During the course of reviewing the report it was considered necessary to seek the assistance of the Department of Community Development, Sport and Cultural Affairs in affording me access to certain documents that were deemed to be pertinent to the matters under consideration. All information and explanations sought by this Office were provided by the Department without hesitation.

The comments that follow need to be considered in the light that the events described in the Ombudsman's report occurred in June 2002 and that, to the extent that any systems weaknesses may have existed in the Department then, they have been generally rectified in the intervening period.

**Audit findings**

As result of the review I have concluded that the Minister acted within the powers conferred upon him. This conclusion is consistent with the Ombudsman's observation that "there was no evidence to suggest that the Minister has in any way directed that funds be made available to members of the community in their own right. There is also no evidence to suggest that the Minister, or his Office, was involved in the Council's decision to 'gift' a council asset". Further I have concluded that:

**Matters referred to the NT Auditor-General's Office  
Report by the Ombudsman  
Grant to Belyuen Community Government Council**

**Audit findings - continued**

- there is no evidence of any breach of the provisions of the *Financial Management Act* or the Treasurer's Directions issued pursuant to that Act; and
- in the specific instance of the grant that was the subject of the report, there was a breakdown in the Department's systems and processes in that:
  - the decision by the Minister to provide the grant may have been based upon flawed advice by the Department about the powers of the Council to maintain certain sites of Aboriginal law and custom; and
  - there was an absence of any formal process to ensure that the Council concerned was fully informed about the Minister's approval of the grant, given that the application for the grant was made by third parties.

The circumstances surrounding the provision of the grant were compounded by the provision of incorrect advice by the Department to the Council which led to the Council breaching the provisions of the *Local Government Act*. This was outlined in the Ombudsman's report, where the Department's acknowledgement that the advice given to the Council was incorrect was also set out. The Department has since instituted changes to minimise the probability of similar advice being given in future.

I have not made any observations about the actions of the Council or its officers on the grounds that the *Audit Act* limits my scope in this area and because I am of the opinion that the Ombudsman has dealt adequately with the role of the Council in the period before and after the provision of the grant.

Since the tabling of the Ombudsman's report, the Council has resolved to repay the value of the grant to the Northern Territory Government.

The results of the review of the Ombudsman's report did not suggest that any additional involvement on the part of this Office was warranted.

***The Department of Local Government, Housing and Sport has commented:***

*Sections 12(u) and 12(w) of the Belyuen Community Government Council Scheme, provides Council with the power to manage and control sites of historic interest, and maintain and preserve Aboriginal law and custom. The Department does not accept that the advice provided to the Minister on this particular subject was flawed. We do acknowledge that this is an unusual function for a community government and therefore our advice could have been provided more formally than it was.*

<b>Appendix 1 - Audit opinion reports issued since 31 December 2004</b>
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	<b>Date 2004 financial statements tabled to Legislative Assembly</b>	<b>Date of Audit Report Year ended 31 December 2004</b>	<b><i>Date of Audit Report Year ended 31 December 2003</i></b>
<b>Entities with specific Legislation or Trust Deeds</b>			
Charles Darwin University	Not yet tabled	29 June 2005	<i>24 June 2004</i>
Charles Darwin University Foundation (a company limited by guarantee)	N/A	20 April 2005	<i>19 March 2004</i>
Charles Darwin University Foundation Trust	N/A	20 April 2005	<i>19 March 2004</i>
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	28 June 2005	<i>28 June 2004</i>
Menzies School of Health Research	Not yet tabled	14 April 2005	<i>2 April 2004</i>
	<b>Deadline for submission of Audited Financial Statement</b>	<b>Date of Audit Report Year ended 31 December 2004</b>	<b><i>Date of Audit Report Year ended 31 December 2003</i></b>
<b>Inter-Government Statements by Agreement</b>			
Charles Darwin University Financial Research Data Collection Acquittal	31 August 2005	21 June 2005	<i>8 June 2004</i>
Jabiru Area School Indigenous Heritage Education Project (see note 1)	30 September 2005	15 March 2005	<i>15 March 2005</i>
	<b>Deadline for submission of Audited Financial Statement</b>	<b>Date of Audit Report Year ended 30 June 2004</b>	<b><i>Date of Audit Report year ended 30 June 2003</i></b>
Natural Disaster Relief Arrangements	31 December 2004	11 February 2005	<i>11 December 2003</i>

Note 1: The reporting period for the acquittal covered the years ended 30 June 2002, 2003 and 2004 and for the period ended 15 December 2004.



**AUGUST 2005 REPORT**

**Appendix 1 - Audit opinion reports issued since 31 December 2004**

	<b>Date 2004 financial statements tabled to Legislative Assembly</b>	<b>Date of Audit Report Year ended 30 June 2004</b>	<i>Date of Audit Report Year ended 30 June 2003</i>
<b>Entities that Sec 10 <i>Financial Management Act</i> applies as though a GBD</b>			
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	28 June 2005	<i>21 November 2003</i>
<b>Other Entities/Separate Acts/Trust Deeds</b>			
Yugul Mangi Community Government Council	N/A	13 June 2005	<i>N/A</i>

<b>Appendix 2 - Status of Audits which were identified to be conducted in the six months to 30 June 2005</b>
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In addition to the routine audits, primarily compliance audits of selected agencies, interim audits of entities requiring financial statements opinions, and follow-up of outstanding issues in previous audits, the following audits were identified in Appendix 3 of the February 2005 Report as being scheduled for the period.

**Department of Community Development, Sport and Cultural Affairs**

Pool fencing payments	Refer pages 12 - 14
IT audit of grant management system	No matters to report

**Department of Corporate and Information Services**

Review of procurement procedures at CAPS	In progress
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**Department of Infrastructure, Planning and Environment**

An IT audit of the Asset Information System	No matters to report
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**Department of Justice**

Victims of crime compensation	In progress
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**Department of the Chief Minister**

Ministerial travel	Refer pages 17 - 19
A PMS audit of the Office of Territory Development	Deferred

**Selected agencies**

Grant payments by DCM and DBIRD	Refer pages 20 - 22
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**Territory Discoveries**

IT audit of Calypso	No matters to report
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The following audits were either in progress and not completed or deferred in the previous period.

**Charles Darwin University**

A review of the University's spend of the additional funds advanced by the NT Government to fund salary increases	In progress
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**Selected Agencies**

A compliance audit of ex-gratia payments and legal settlements at DHCS, DIPE and DEET	Refer pages 10 - 11
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**Appendix 3**  
**Proposed audit activity in the six months ending 31 December 2005**

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

**Department of Corporate and Information Services**

Review of the implementation of the PAPMS payroll processing system

Review of the GAS upgrade project

**Department of the Chief Minister**

Review of the waterfront development project

**NT Fleet**

Review of the Fleet Business System

## 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 in-depth 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 – Engagement Letter

### Services Provided by the Northern Territory Auditor-General's Office

It is quite common for auditors to issue “letters of engagement” to their clients. These are intended to assist in ensuring that there is a clear understanding between the auditor and the client about the objectives and scope of the audit, the extent of the auditor’s responsibilities and the form of any reports.

In the public sector there is generally no requirement for Auditors-General to issue letters of engagement as the roles and responsibilities are set out in relevant legislation. However, there has been an increasing tendency to provide parliaments with a form of letter of engagement to assist them to have a better understanding of the audit role.

#### Meeting the Legislative Assembly’s Expectations

The principal legislation that governs the conduct of audits in the Northern Territory public sector is the *Audit Act*. That Act:

- requires me to audit the Public Account and other accounts in such manner as I think fit having regard to recognised professional standards and practices;
- permits the Minister to direct me to carry out an audit which I have the power under the Act to carry out; and
- permits me to conduct an audit of performance managements systems of any Agency or other organisation in respect of the accounts of which I am required by a law of the Territory to conduct an audit.

#### Financial Attest and Compliance Audits

Financial attest and compliance audits are conducted by the Office in accordance with legislative requirements and Australian Auditing Standards. The main purpose of an audit is to add credibility to a financial report by providing an independent audit opinion. When reading an opinion it is essential to have a clear understanding of what it provides and what a financial report audit covers.

The audit opinion provides users of a financial report with reasonable assurance that it is free of material error and complies with legislation and applicable accounting standards. It does not:

- provide a guarantee of absolute accuracy in the financial report;
- express a view on the adequacy of the organisation’s systems or the efficiency and effectiveness with which management conducts its affairs; and
- guarantee the organisation’s future viability.

**Appendix 6 – Engagement Letter**

An audit does not guarantee that every amount and disclosure in the financial report is error free. A financial compliance or attest audit is a combination of systems checks and examination of a sample of transactions for all items in the financial report that are considered material or high risk in nature. These are items that, if materially misstated as a result of an error or fraud, could adversely affect the decision-making process of users of financial reports. An audit does not examine every transaction of an organisation, as this would be prohibitively expensive and time-consuming.

It is also important to understand that the organisation's management, not the auditor, is responsible for:

- maintaining adequate accounting records and preparing the financial report; and
- maintaining a system of internal controls to prevent or detect errors or irregularities.

I recognise that, in the public sector, financial report audit opinions by themselves will not meet the Legislative Assembly's expectations. Firstly, because most public sector agencies provide services rather than make profits, their financial reports give only limited information about their performance. Secondly, the Legislative Assembly and the community have higher expectations of probity and proper conduct in public sector agencies.

Accordingly, when the Audit Office conducts financial report audits it has regard to:

- agency performance;
- wastage of public resources;
- probity or financial prudence in the management of financial resources; and
- compliance by agencies with legislative requirements and government policies and procedures.

**Audit of Performance Management Systems**

The *Audit Act* also permits me to conduct an audit of performance management systems of Agencies or entities or other organisations in respect of the accounts or financial report of which I am required or permitted by a law of the Territory to conduct an audit.

The conduct of these audits is governed by Part 3 of the *Audit Act*. These audits may be separate audits or part of another audit. The objective is to determine whether the performance management systems of the Agency or organisation enable the Agency or entity to assess whether its objectives are being achieved economically, efficiently and effectively. It is important to note that the provisions of the *Audit Act* do not countenance audits of economy, efficiency or effectiveness per se.

Performance management systems audits can be conducted at a corporate, output or category of cost level. My Office has developed a framework for its approach to the conduct of performance management system audits. Details of this framework have been provided in previous reports to the Legislative assembly and are included again for the convenience of Members.



## Appendix 6 – Engagement Letter

Over the years the Northern Territory Auditor-General's Office has encouraged improved reporting of performance by Agencies and other Government entities. It has also encouraged Agencies and other entities to report performance indicators that address the criteria of economy, efficiency and effectiveness. In applying the audit framework referred to above, the Office continues to apply the following definitions that are contained in Australian Auditing Standard AUS 806 *Performance Auditing*:

- a. *Economy* – the acquisition of the appropriate quality and quantity of financial, physical and information resources at the appropriate times and the lowest cost.
- b. *Efficiency* – the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- c. *Effectiveness* – the achievement of the objectives or other intended effects of activities.

### Reporting to the Legislative Assembly

Auditor-General's reports to the Legislative Assembly present the findings of my financial report audits of Agencies and other public sector entities. These reports address high-level issues on agency operations. Minor matters are reported only where they are symptomatic of a larger problem or where it is considered that insufficient attention has been given by the Agency to addressing issues raised.

I issue two principal reports each year. These are issued in February and August each year and cover the results of audits conducted during the previous six months.

### Management Letters to Agencies

A more detailed report is issued to Chief Executives of Agencies on matters identified during the audit and may include recommendations for operational improvements. These matters are in addition to any matters that may be included as part of the Independent Audit Report.

### Procedural Fairness

The Audit Office submits its draft reports to relevant agency staff to ensure factual accuracy and to provide an opportunity for Agencies to submit comments on my findings for inclusion in my reports to the Legislative Assembly.

### Enhancing the Value of the Audit Function

As part of the discharge of my role, I will seek to maximise the value to the Agency, the Government and the Legislative Assembly of all audit work including where appropriate the framing of recommendations to address:

- improvement in the framework of accountability;
- opportunities for cost savings and efficiency gains; and
- recognition of good practice in use by agencies, entities and units of administration.

**Appendix 6 – Engagement Letter**

**Audit Fees**

Audit fees are not charged by the Audit Office where the audit is one that I am required to undertake in accordance with Territory legislation. In these circumstances the costs of the audit are met from moneys appropriated by the Legislative Assembly. However, in some circumstances, the Central Holding Authority may seek to recover from the Agency in question an amount equal to the cost of the audit.

Where an audit is one which I am not required by Territory legislation to undertake, it is my practice to charge fees in order to recover the cost of the resources employed.

**Independence**

Independence is the hallmark of audit. It is a fundamental concept that requires me to approach my work with integrity and objectivity. I must both be, and be seen to be, free of any interest which is incompatible with objectivity. It is essential therefore that I am independent of the agencies being audited and free of interests that could be incompatible with integrity and objectivity.

**Appendix 7 - Abbreviations**

CAPS	Contract and Procurement Services
CDU	Charles Darwin University
DBIRD	Department of Business, Industry and Resource Development
DCEC	Darwin Convention and Entertainment Centre
DCM	Department of the Chief Minister
DEET	Department of Employment, Education and Training
DHCS	Department of Health and Community Services
DIPE	Department of Infrastructure, Planning and Environment
ECO	Executive Contract Officer
ERIS	Early Registration Incentive Scheme
GAS	Government Accounting System
IT	Information Technology
MSHR	Menzies School of Health Research
PFU	Pool Fencing Unit
PMS	Performance management system
RTDs	Remuneration Tribunal Determinations
VET	Vocational Education and Training

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### **Further information**

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

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

Further copies of the August 2005 Report are also available from the Northern Territory Auditor-General's Office.

The next general Report by the Auditor-General to the Legislative Assembly will be scheduled for tabling in the February 2006 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](mailto:nt.audit@nt.gov.au)

**OFFICE HOURS**

Monday-Friday  
8.00am to 5.00pm