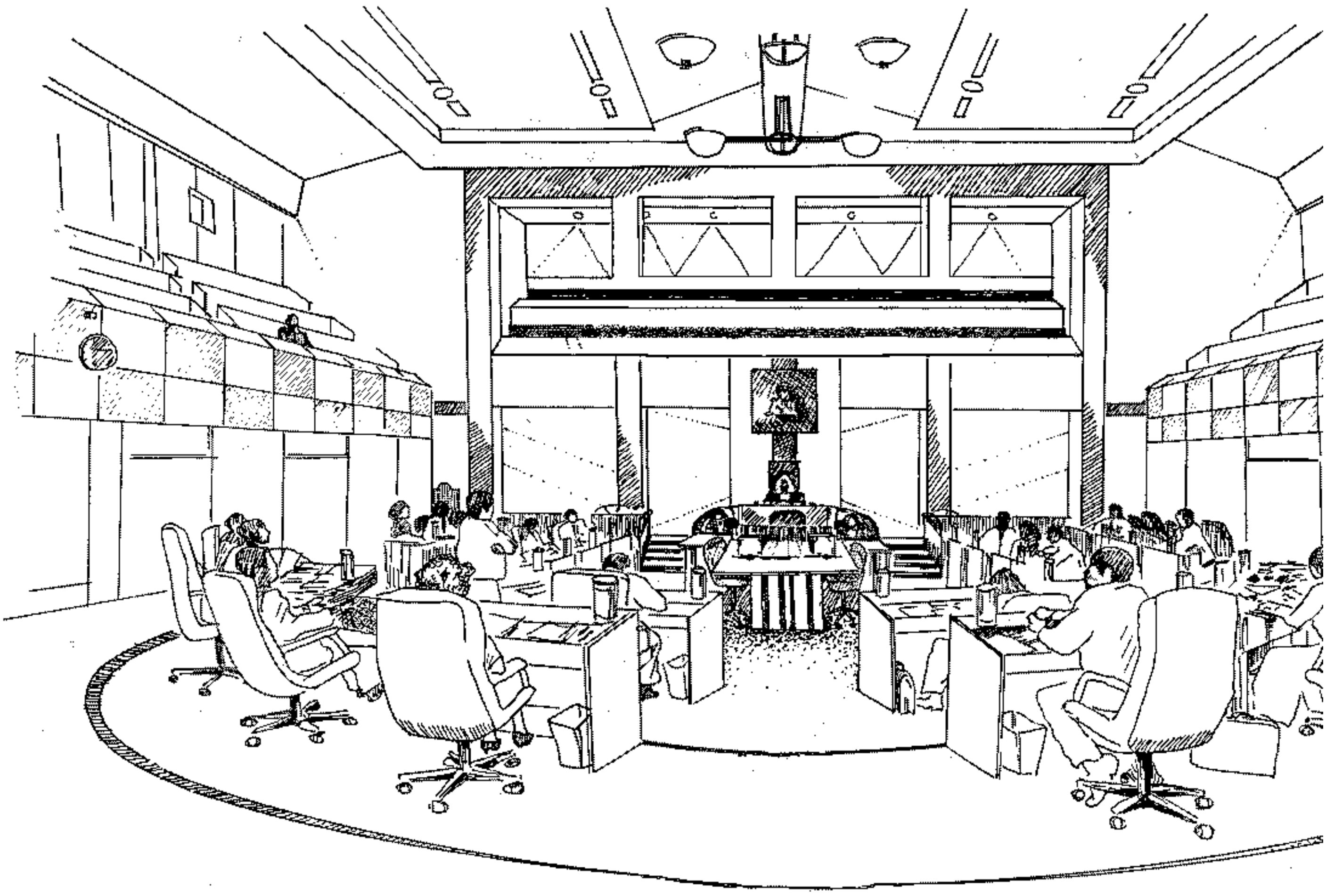
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

FEBRUARY 2005 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.

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.

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

15 February 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 31 December 2004 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 financial year ended 30 June 2004. Also included are the results of performance management systems audits conducted during the year.

A report of this type is by its nature historical, dealing with past financial results of Agencies and other public sector entities. The process of annual financial reporting by Agencies is an important part of their accountability to the Parliament for managing the resources under their control. This Report is intended to assist the process of accountability by providing analysis of financial results and by drawing Parliament's attention to matters of interest.

Yours faithfully,

F. McGuiness

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Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 July 2004 to 31 December 2004:

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

This Report has 28 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.

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, but includes testing of transactions occurring around year end to provide a degree of confidence about the data provided to Treasury and which will form part of the overall reporting on the Public Account.

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 129.

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 2004 to 31 December 2004.

It contains 28 separate reports most of which deal with the outcomes of audits and financial analysis of Agencies and Entities which were required to prepare financial reports as at 30 June 2004. While Agencies are required to prepare financial statements that comply with the requirements of Australian Accounting Standards, the individual statements were not audited separately, but were reviewed as part of the audit of the Public Account and of the Treasurer's Annual Financial Statement.

Also included in this report is a separate section on the Treasurer's Annual Financial Statement (TAFS). This section is intended to provide some discussion and analysis on the TAFS which was tabled during the November 2004 sitting of the Legislative Assembly. The TAFS results paint a picture of a public sector that achieved a sound financial result for the 2003/04 year. However, this should be tempered by the knowledge that a significant contributor to that result was the increase in GST grants received from the Commonwealth. The introduction of the GST has benefited the Territory, but the heavy dependence by the Territory upon Commonwealth grants leaves it exposed to a greater degree of risk than is the case in other jurisdictions.

As an overall comment it is pleasing to note that the results of audits conducted since the last report by this Office to the Legislative Assembly did not disclose issues that might be considered to be of significant concern. However, among the issues that were identified were:

- weaknesses in access controls and the general security environment of information technology systems that could lead to a loss or corruption of data;
- the need for better financial reporting to management to enable issues and problems to be identified and dealt with at an early stage; and
- a lack of reconciliation between general ledgers and subsidiary ledgers or records with the resulting risk that published financial information may be incorrect or that the control over assets may be compromised.

Major Findings

Analysis of the Treasurer's Annual Financial Statement

- **My audit opinion on the Treasurer's Annual Financial Statement (TAFS) continues to comprise two parts:**
  - **The first part deals with the extent to which the TAFS complies with the Treasurer's prescribed reporting format. I issued an unqualified opinion in this regard noting that the TAFS was prepared from proper accounts and records and that the TAFS was presented fairly in accordance with the requirements of the *Financial Management Act* and the Treasurer's prescribed reporting format.**
  - **The second part deals with the prescribed reporting format's lack of compliance with Australian Accounting Standards. I issued a qualified opinion in this regard noting that the prescribed reporting format adopted by the Treasurer does not satisfy the requirements of AAS31, "Financial Reporting by Governments", and I concluded that the TAFS does not present fairly, in accordance with applicable accounting standards, the financial position of the Northern Territory Government as at 30 June 2004, its financial performance and its cash flows for the year ended on that date.**

Refer pages 10 to 38 for further comments

Fraud Control arrangements - 2004

- **The audit identified an inconsistent approach between the selected Agencies to the adoption of fraud control arrangements; from no fraud control arrangements at some Agencies to detailed arrangements consistent with the Commonwealth Government Fraud Control Guidelines at one Agency.**

Refer pages 39 to 43 for further comments

Construction Division

- **The financial performance of the Division deteriorated markedly during 2003/04 due to uncertainty about its legal status accompanied by breakdowns in control processes.**

Refer pages 52 to 55 for further comments

Major Findings

Northern Territory Major Event Pty Ltd

- **The company's operating loss for the year was able to be funded from existing reserves which at year end had been reduced to $14,000. This emphasises the Company's dependency on government funding for its operations.**

Refer pages 103 to 105 for further comments

Territory Motor Sports Board Pty Ltd

- **The Auditor-General was first appointed auditor of the Company for 2003/04.**
- **The Company is reliant on the NT Government for continued operational funding.**

Refer pages 106 to 108 for further comments

Department of Justice

Northern Territory Police, Fire and Emergency Services

Review of IT controls over IJIS

- **Key general computer controls over the IJIS system were found to be effective. Significant application management issues were identified in the areas of user access maintenance, strategic planning and data quality monitoring.**

Refer pages 110 to 117 for further comments

Department of Health and Community Services

Department of Justice

An IT review of the One Staff Rostering System

- **Key general computer and application controls tested within the One Staff Rostering system computer environment were found to be effective.**

Refer pages 118 to 121 for further comments

Reporting on audits conducted in the six months ended 31 December 2004

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 31 December 2004, 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

Analysis of the Treasurer's Annual Financial Statement (TAFS)

Key Issues

- My audit opinion on the Treasurer's Annual Financial Statement (TAFS) continues to comprise two parts:
  - The first part deals with the extent to which the TAFS complies with the Treasurer's prescribed reporting format. I issued an unqualified opinion in this regard noting that the TAFS was prepared from proper accounts and records and that the TAFS was presented fairly in accordance with the requirements of the *Financial Management Act* and the Treasurer's prescribed reporting format.
  - The second part deals with the prescribed reporting format's lack of compliance with Australian Accounting Standards. I issued a qualified opinion in this regard noting that the prescribed reporting format adopted by the Treasurer does not satisfy the requirements of AAS31, "Financial Reporting by Governments", and I concluded that the TAFS does not present fairly, in accordance with applicable accounting standards, the financial position of the Northern Territory Government as at 30 June 2004, its financial performance and its cash flows for the year ended on that date.

Operating results and financial position

- The revenues of the total public sector exceeded those earned in 2002/03 and also exceeded those included in the Budget for 2003/04.
- A significant factor in the increased revenues of the total public sector for 2003/04 was an increase of $166.4 million in the value of GST grants received from the Commonwealth by the General Government sector.
- Expenses also increased markedly during the year with the greatest increases being for employee expenses, other operating expenses, current transfers and capital transfers.
- The Net Worth of the total public sector increased by $246.5 million for the year. The principal contributors to this increase were revaluations of non-current assets and increases in the stock of financial assets held and reductions in liabilities, made possible as a result of increased revenues and the accompanying cash flows for the year.

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

- The Northern Territory Government, on a General Government Sector basis, reported a cash surplus of $36.1 million for 2003/04 compared with a budgeted cash surplus of $8.8 million for the year
- Net Debt, on a Non-Financial Public Sector basis, was $1.656 billion at 30 June 2004 compared with $1.723 billion at 30 June 2003.
- Total employee related liabilities for the public sector as a whole were $2.148 billion at 30 June 2004 compared with $2.139 billion at 30 June 2003.

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

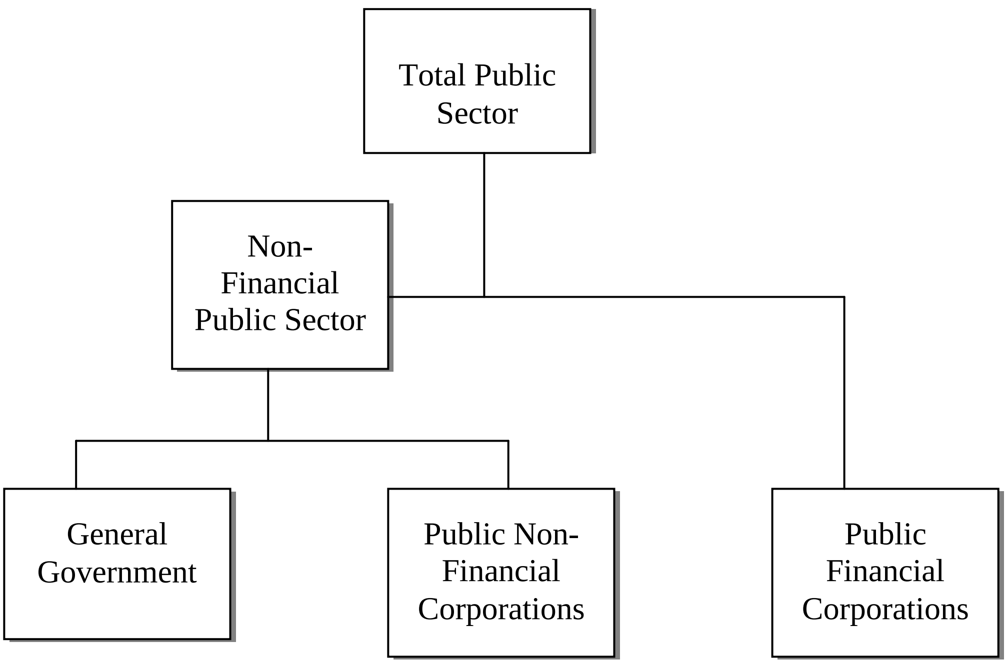
- The Territory's overall financial condition, as measured by its Net Financial Worth and its Net Debt improved over the course of 2003/04.
- The unfunded superannuation liabilities continued to increase, but is expected to peak during 2005/06 although the cash outlays required to finance those liabilities can be expected to continue to increase for several more years.
- The heavy dependence upon funding by the Commonwealth leaves the Territory vulnerable to a range of factors beyond its control and hence could confront a future Government with difficulties in attempting to achieve its published fiscal strategy.

Introduction

The Treasurer's Annual Financial Statement (TAFS), which was tabled in the Legislative Assembly on 14 October 2004, is required to be prepared pursuant to Section 9 of the *Financial Management Act*. While that Act does not prescribe the form or content of the TAFS, the Treasurer has elected to prepare TAFS in accordance with the requirements of the Uniform Presentation Framework (UPF). The UPF is a reporting standard that is based on the accrual-based Government Finance Statistics (GFS) framework that is recognised in the *Fiscal Integrity and Transparency Act* as being an acceptable reporting standard.

A key aspect of the UPF is the classification of the public sector into three primary sub-sectors, two of which are consolidated to form an additional sector, with all sectors then further consolidated to form the Total Public Sector. These sectoral relationships are depicted below:

Figure 1
Government Finance Statistics
Structure of the Public Sector



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A description of the composition of the principal sectors that comprise the public sector for reporting purposes under the UPF is as follows:

General Government Sector	Comprises those entities that are mainly engaged in the production of goods and/or services outside the normal market mechanism. Goods and services are provided free of charge or at nominal charges well below their costs of production
Public Non Financial Corporation Sector	Comprises those entities that are primarily engaged in the production of goods or services of a non-financial nature, at a price which aims to recover most of the costs involved.
Public Financial Corporation Sector	Comprises those entities that perform central banking functions or which have the authority to incur liabilities and acquire financial assets in the market on their own account.
Total Public Sector	Comprises the General Government, Non Financial Corporation and Financial Corporation sectors after eliminating inter-sector transactions and balances in order to present the relationship between the total public sector and the “rest of the world”.

Entities Excluded From the TAFS

The Total Public Sector consolidated financial statements comprises all Agencies, Government Business Divisions, Government Owned Corporations, Territory Insurance Office and other entities that are deemed to be controlled by the Northern Territory Government.

The principal determinant as to whether an entity is included in the TAFS is “control” that is, the capacity of the Northern Territory Government to dominate the financial and operating policies of that entity so as to enable it to operate with the Government in pursuing the Government’s own objectives. Important indicators of the existence of control include the extent to which an entity is accountable to Executive Government or to a particular Minister, and the extent to which the Government has a residual financial interest in the net assets of the other entity.

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The entities listed below have not been consolidated into the TAFS because they are not considered to have satisfied the control test outlined above:

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

While the entities listed above include superannuation schemes on the grounds that the schemes themselves are neither controlled by the Government nor are their assets available to the Government, the TAFS does include the unfunded superannuation liabilities of the Government.

Most assets and liabilities of the public sector that can be said to be controlled by the Northern Territory Government have been included as part of the TAFS. However, some assets and liabilities of Territory schools, and some heritage or cultural assets have not been included either because reliable information was not available or because reliable measurement was not possible. This is an area where it is expected that information will be incorporated progressively into TAFS as systems are developed or improved, or where better information becomes available.

Entities Consolidated in 2002/03, but excluded in 2003/04

The previous report by Audit on TAFS noted the transfer of Centralian College to Charles Darwin University. As a general rule, universities are regarded by the Australian Bureau of Statistics as forming part of a "multi-jurisdictional sector" and thus are not deemed to be controlled by State or Territory Governments. Accordingly, Centralian College is no longer consolidated as part of the TAFS.

Financial Reports Prepared as part of the Uniform Presentation Framework (UPF)

The financial statements that are required to be prepared under the UPF comprise:

- Operating statement;
- Balance sheet; and
- Cash flow statement.

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The UPF also incorporates a number of measures of financial performance and financial position. These are:

- **Net Operating Balance –** a measure of financial performance calculated as the excess of GFS revenues over GFS expenses.

- **Net Lending/Borrowing –** a measure of financial performance sometimes referred to as Fiscal Balance and calculated as the net operating balance less net acquisition of non-financial assets. It is a measure of the extent to which the activities of the public sector either draw upon the savings of other sectors of the economy or provide a source of lending to those sectors.

- **Net Worth –** a measure of financial position that comprises total assets (financial and non-financial) less total liabilities and contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances.

- **Net Financial Worth –** a measure of financial position that comprises total financial assets less total liabilities.

- **Net Debt –** a measure of financial position comprising certain financial liabilities less financial assets. The items included in this measure are discussed in some detail in the Budget Papers.

Financial reporting by governments is also subject to the Australian accounting standard AAS31, *Financial Reporting by Governments*, which requires governments to prepare what are known as general purpose financial reports.

The general purpose financial reports envisaged by AAS31 can be contrasted with reports prepared under the UPF. Both the UPF and the AAS31 presentations use the accrual basis of accounting and transactions are generally treated in a similar manner under both systems. However, while AAS31 specifies the presentation of financial statements intended for a broad set of users to assist them to evaluate a government's financial performance and position, and its utilisation of resources, the GFS is a specialised statistical system designed to facilitate macro-economic analysis and to allow assessments to be made of the economic impact of government.

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The GFS and AAS31 are based upon different premises which can, therefore, lead to quite different results being reported. The following table, which reproduces the material contained in Appendix A to the Treasurer's Annual Financial Statement, illustrates the different operating results for 2003/04 for each sector under both the GFS and AAS31 systems:

Table 1

Comparative Operating Results Under GFS and AAS31 Systems

For the Year Ended 30 June 2004

	Total Public Sector $'000	General Gov't $'000	Public Non Financial $'000	Non Financial Public Sector $'000	Public Financial $'000
GFS Net Operating Balance	**16,153**	**(40,211)**	**43,400**	**3,188**	**12,965**
Less doubtful debts expense	(2,397)	(2,343)	284	(2,059)	(338)
Add gains on financial assets	29,628	22,522	-	22,522	7,105
Gains/(losses) on non financial assets	(62,088)	(29,779)	(32,478)	(62,257)	169
Add dividends paid or payable	-	-	20,046	-	14,355
Add revaluation of superannuation liability	24,200	24,200	-	24,200	-
AAS31 Net Operating Result	**5,496**	**(25,611)**	**31,252**	**(14,406)**	**34,256**

Governments in other jurisdictions have prepared financial reports using both the GFS and AAS31 bases, but this has given rise to some confusion as users of the reports have attempted to reconcile two quite different sets of reports. The Northern Territory has elected not to prepare financial reports that comply with the requirements of AAS31 on the grounds that the UPF is a system that has greater relevance when reporting upon the financial performance and position of the public sector.

Following the broad strategic direction of the Financial Reporting Council, which is established under the Commonwealth *Australian Securities and Investments Commission Act*, the Australian Accounting Standards Board is currently pursuing harmonisation of GFS and AAS31. The resulting financial reporting framework for governments should reduce confusion associated with the publication of two sets of financial statements and improve the usefulness of government budget and outcome reports. I anticipate that a new draft standard will be available for comment during 2005.

Auditing the Public Account and other accounts
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The *Audit Act* requires the Auditor-General to have regard to recognised professional standards and practices when auditing the public accounts and this implies that any audit undertaken should adhere to Australian Auditing and Assurance Standards. Those standards, in turn, require audit opinions to be framed around the extent to which financial reports comply with Australian Accounting Standards. Given that the TAFS does not comply with AAS31, successive Auditors-General have issued qualified audit opinions on TAFS over a period of years and a qualified opinion has also been issued for 2003/04.

It is expected that once the revised AAS31 is accepted by all Australian governments the financial reports submitted to the Legislative Assembly will comply with accounting standards and that there will be no further need on my part to issue the technical qualification that has formed part of audit opinions on the TAFS for several years.

Financial Performance and Position of the Total Public Sector

The financial performance of the total public sector for 2003/04 represents a significant improvement when compared with the reported financial performance for the previous year. This is illustrated in Table 2, below:

Table 2

Financial Performance of the Total Public Sector

	2003/04 $'million	2002/03 $'million
Revenues	3,053.8	2,799.9
Expenses	3,037.7	2,815.8
Net Operating Balance	16.1	(15.9)
Net Acquisition of Non-Financial Assets	(13.2)	(72.6)
Net Lending/(Borrowing)	**2.9**	**(88.5)**

Total public sector financial performance was characterised by strong growth of 9.1 per cent in total revenues, offset by growth of 7.9 per cent in operating expenses. The growth in revenues was underpinned by a significant increase in revenues from the Commonwealth. These rose by $197.2 million, or 10.8 per cent, for the year, and of this, the largest component was GST revenues which increased by $166.4 million for the year.

Taxation revenues raised under Territory legislation rose by $17.2 million or 7.1 per cent for the year. In this case the greatest contributor to that growth was stamp duties which increased by $22.2 million or 45.3 per cent. That increase largely reflects the effects of a buoyant property market and is partly offset by a decline in payroll taxes of $3.1 million, and the effects of the removal of the Budget Improvement Levy, which resulted in a decline in vehicle registration fees of $4.8 million.

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Total Public Sector financial performance was also reflected in a strong increase in the cash position at 30 June 2004 when compared with the previous year. However, the improved cash position was attributable more to reduced net cash outlays for investing purposes rather than improved net operating cash flows. This is illustrated in Table 3, below:

Table 3

Total Public Sector

Summary of Cash Flows

	2003/04 $'million	**2002/03 $'million**
Cash receipts from operations	3,091.2	2,840.9
Cash payments from operations	2,778.4	2,501.0
	312.8	339.9
Less: Cash used in investing activities	(254.4)	(471.4)
Cash used in financing activities	(35.5)	69.9
Net Increase/(Decrease) in Cash	22.9	(61.6)
Opening Balance of Cash and Deposits	135.3	196.9
Cash at End of Financial Year	**158.2**	**135.3**

As shown in Table 3, the Total Public Sector recorded a net increase in cash held for the year of $22.9 million, compared with a decline in cash for the previous year of $61.6 million.

While cash receipts from operations for 2003/04 rose by $250.3 million when compared with 2002/03, that increase was more than matched by the increase in operating cash outlays by $277.4 million. The result was a reduction of $27.1 million in net cash flows generated by operating activities and which are available to be applied for investing or financing purposes.

The growth in operating cash outlays was most evident in the General Government Sector, with the principal contributors being increased salary and wage payments, together with increased grants and general operating payments.

As shown in Table, 3 the net cash flows generated by the operating activities of Total Public Sector totalled $312.8 million. Additional cash totalling $83.3 million was received through the net increase in the level of deposits held by the Sector ($27.8 million) and through the sale of non-current assets ($55.4 million). The resulting amount of $396.0 million was applied as follows:

	$'million
Investment in non-financial assets as part of the capital program	307.3
Repayment of borrowings	58.7
Net repayment of advances and the payment of distributions	4.7
Net acquisition of financial assets for policy and liquidity purposes	2.4
Increase in the cash held by the sector at 30 June	22.9

Auditing the Public Account and other accounts
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The measures of financial position employed by the UPF were outlined previously under "Introduction". Broadly, there were improvements in each of the measures of the financial position for the Total Public Sector for the year as a result of the sector's improved financial performance for the year. That was reflected in reductions in financial liabilities and increases in financial assets, although it should be noted that a significant component of the improved Net Worth measure was the net increase in the value of Land and Fixed Assets which increased by over $177 million for the year, largely due to the revaluation of some asset classes such as the stock of rental housing. The components of the changes in each of the measures of financial position are summarised in Table 4:

Table 4

Total Public Sector

Components of Financial Position

	Balance at 30 June 2004 $' million	**Movement for 2003/04 $'million**	**Balance at 30 June 2003 $'million**
Cash and deposits	158.2	22.9	135.3
Advances paid	156.7	(21.0)	177.7
Investments, loans and placements	1,143.6	52.6	1,091.0
Deposits held	(407.7)	(27.9)	(379.8)
Advances received	(305.2)	3.5	(308.7)
Borrowings	(1,967.2)	56.6	(2,023.8)
Net Debt	**(1,221.6)**	**86.7**	**(1,308.3)**
Non-equity assets	208.3	(21.8)	230.1
Equity assets	18.2	(1.8)	20.0
Superannuation liabilities	(1,466.9)	(28.5)	(1,438.4)
Other employee entitlements and provisions	(681.4)	18.8	(700.2)
Other non-equity liabilities	(234.7)	16.0	(250.7)
Net Financial Worth	**(3,378.1)**	**69.4**	**(3,447.5)**
Net Increase in carrying amount of non-financial assets	5,534.9	177.1	5,357.8
Net Worth	**2,156.8**	**246.5**	**1,910.3**

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As indicated above, one of the GFS measures of financial performance is Net Lending or Borrowing. This is the extent to which the public sector's activities for the year require it to draw upon the savings of other sectors of the economy. The relationship between the GFS Operating Statement and the Balance Sheet is reflected in the relationship between Net Lending or Borrowing and the movement in Net Financial Worth. As a general statement, Net Lending or Borrowing will equal the movement in Net Financial Worth for the year. However it is often the case that revaluations of liabilities or financial assets are recorded, or certain write-offs of financial assets occur which, under the GFS convention, are not included in the Operating Statement. For 2003/04, the Total Public Sector relationship between Net Lending and the movement in Net Financial Worth was as follows:

Table 5

Total Public Sector

Relationship Between Net Lending and Net Financial Worth

	$'million	$'million
Net Lending		**2.9**
Add: Net Acquisition of Non Financial Assets		13.2
Net Operating Balance		**16.1**
Add:		
Increases in provision for employee related liabilities	33.1	
Other non-cash revenues and expenses (net)	263.6	
Net cash flow from operating activities		**312.8**
Add:		
Sale of non-financial assets	55.4	
Net increase in market values of investments	29.6	
Net movements in non-equity assets and liabilities	4.0	
Less:		
Purchases of non-financial assets	(307.3)	
Net movements in provisions	(25.1)	
Increase in Net Financial Worth		**69.4**
Net Financial Worth at 1 July 2003		(3,447.5)
Net Financial Worth 30 June 2004		**(3,378.1)**

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Financial Performance and Position General Government Sector

The General Government Sector is that sector of government that is overwhelmingly dependant upon taxation and Commonwealth grants as its source of funds. It is arguably the principal sector of government as it is this sector that is responsible for the provision of services such as health, education, justice, policing and emergency services; services that are central to the role of a modern government.

As has already been discussed under the heading “Total Public Sector”, grants from the Commonwealth increased significantly for the year, while the Territory’s “own source” revenues increased at a more modest rate. At the same time the actual revenues for the year also exceeded the amounts shown in the Budget Papers for 2003/04 as illustrated in Table 6, below:

Table 6

General Government Sector

Variance Between Budgeted and Actual Net Operating Balance

For the Year Ended 30 June 2004

	Actual $’million	Budget $’million	Variance $’million
Taxation revenue	263.7	253.7	10.0
Current grants and subsidies	1,995.6	1,878.0	117.6
Capital grants	84.5	74.5	10.0
Sales of goods and services	99.6	85.5	14.1
Interest income	19.0	14.7	4.3
Other	127.9	100.9	27.0
Total Revenues	**2,590.3**	**2,407.3**	**183.0**
Depreciation	139.4	133.3	6.1
Employee expenses	1,007.5	959.6	47.9
Other operating expenses	639.8	625.1	14.7
Nominal superannuation interest expense	84.8	83.6	1.2
Other interest expense	143.6	137.1	6.5
Other property expenses	0.4	-	0.4
Current transfers	472.6	414.6	58.0
Capital transfers	142.4	51.8	90.6
Total Expenses	**2,630.5**	**2,405.1**	**225.4**
Net Operating Balance	**(40.2)**	**2.2**	**(42.4)**

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Table 6 highlights the extent to which all classes of revenue earned during the year exceeded amounts shown in the Budget Papers for 2003/04. Of particular note is Current Grants and Subsidies for which the actual revenues earned during the year exceed budgeted revenues by almost $118 million as a result of higher revenues from the Commonwealth.

Against this, total expenses increased by $225.4 million, or slightly more than 9 per cent, when compared with the Budget. This resulted in a deterioration of the sector's Net Operating Balance for the year by $42.4 million to a deficit of $40.2 million when compared with the Budgeted result which was for a surplus of $2.2 million.

The 2003/04 Budget forecast a Net Operating Balance of a $2.2 million surplus for the year, with that figure being revised to $48.5 million surplus at the time of the tabling of the Budget for 2004/05. However, the actual result was a deficit of $40.2 million. The final result was distorted by the effects of the transfer of the land and improvements of Centralian College from the Northern Territory Government to Charles Darwin University ($45.9 million) and the decision by the Government to abolish the 4 per cent levy on employers that was introduced following the collapse of HIH ($20.5 million). Taken together, these adjustments explain most of the variance between the Expected Outcome that was included as part of the Budget documents for 2004/05 and the actual result for the year.

The financial performance of the sector for the year is also reflected in its cash flows that are summarised at Table 7. Overall, the sectoral cash balances at 30 June rose by $11.1 million compared with the original budget projection of a decline of $12.7 million. Again, the principal contributor to this outcome was higher than budgeted Commonwealth receipts, offset by higher than budgeted operating and capital payments. The overall result was an increase in cash flows from operations $67.3 million greater than the original Budget that was tabled in May 2003.

Table 7

General Government Sector

Summary of Actual and Budgeted Cash Flows

	Actual 2003/04 $'million	**Budget 2003/04 $'million**	**Variance $'million**
Cash receipts from operations	2,573.1	2,417.3	155.8
Cash payments from operations	2,370.4	2,281.9	88.5
	202.7	**135.4**	**67.3**
Less: Cash used in investing activities	(100.5)	(114.6)	14.1
Cash used in financing activities	(91.1)	(33.5)	(57.6)
Net Increase/(Decrease) in Cash	11.1	(12.7)	23.8
Opening Balance of Cash and Deposits	51.8	56.3	(4.5)
Closing Balance of Cash and deposits	**62.9**	**43.6**	**19.3**

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As already discussed under the heading "Total Public Sector", there are three measures of financial position employed by the GFS:

- Net Debt
- Net Financial Worth
- Net Worth

In each case, the position for the General Government Sector as at 30 June 2004 represents an improvement upon the position as at 30 June 2003 and upon the budgeted outcomes for the year. The improvement in financial position is the result of an increase in total assets to $5,853 million ($5,694 million as at 30 June 2003) and a reduction in total liabilities to $3,696 million ($3,784 million as at 30 June 2003). Within these broad aggregates there are, however, a number of movements of specific asset and liability classes and these are summarised at Table 8, below:

Table 8

General Government Sector

Components of Financial Position

	Balance at 30 June 2004 $'million	Movement for 2003/04 $'million	Balance at 30 June 2003 $'million
Cash and deposits	62.9	11.1	51.8
Advances paid	30.5	(18.5)	49.0
Investments, loans and placements	457.9	(28.5)	486.4
Deposits held	(190.7)	15.8	(206.5)
Advances received	(16.1)	0.6	(16.7)
Borrowings	(1,632.7)	75.1	(1,707.8)
Net Debt	**(1,288.2)**	**55.6**	**(1,343.8)**
Other non-equity assets	111.7	(7.7)	119.4
Equity assets	1,636.6	228.7	1,407.9
Superannuation liabilities	(1,466.9)	(28.4)	(1,438.5)
Other employee entitlements and provisions	(330.6)	16.6	(347.2)
Other non-equity liabilities	(59.0)	8.3	(67.3)
Net Financial Worth	**(1,396.4)**	**273.1**	**(1,669.5)**
Decrease in net the net carrying amounts of non-financial assets	3,553.2	(26.5)	3,579.7
Net Worth	**2,156.8**	**246.6**	**1,910.2**

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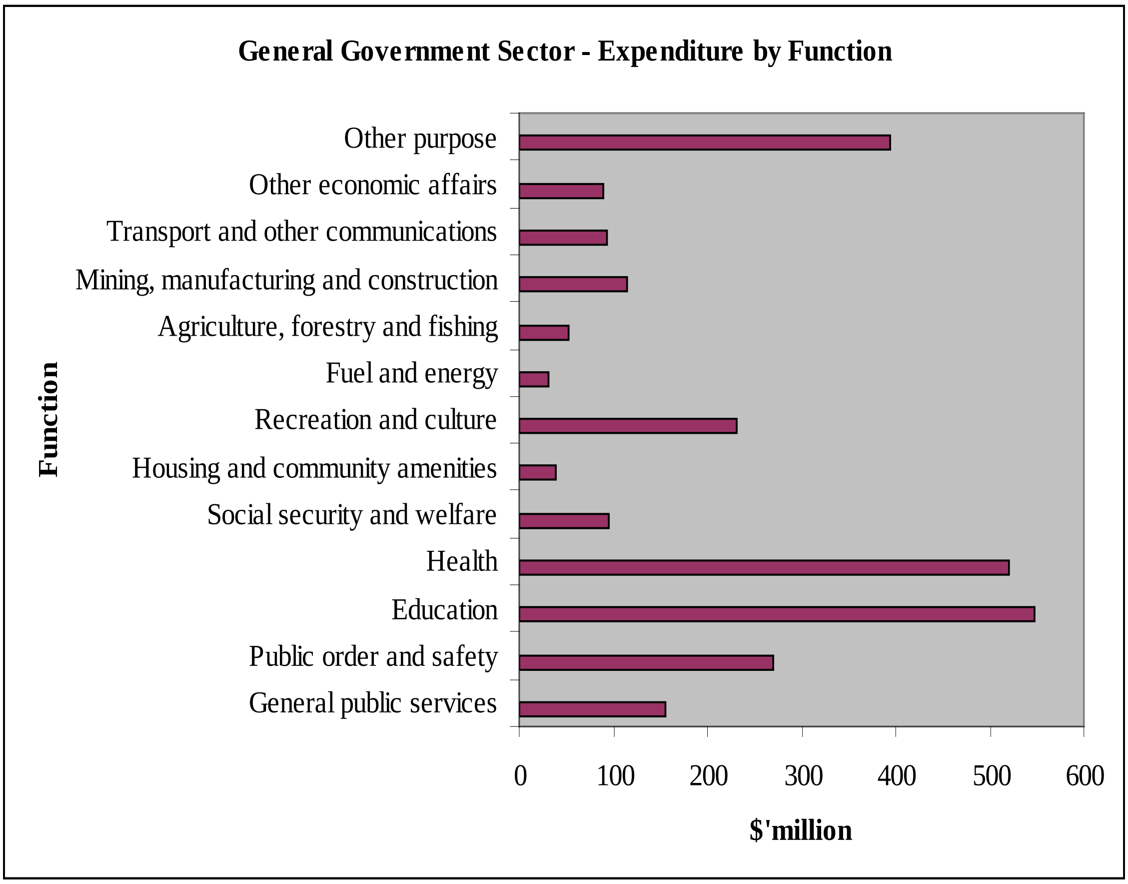
As a general comment, it is notable that the decrease in liabilities for the year has occurred across all classes with the exception of superannuation liabilities which rose by $28 million for the year. Superannuation liabilities are discussed further, below.

Some care needs to be exercised when considering the net worth of the General Government sector as one of the most material assets consists of equity – the value of the reported net assets of the Public Non-Financial Corporations (PNFC) Sector and the Public Financial Corporations (PFC) Sector that are deemed to be “controlled” by the General Government Sector through the Central Holding Authority. The value of this asset class at 30 June 2004 was $1,636 million and represents the value of the interest of the General Government sector in the PNFC and PFC sectors as measured by the net asset values of both sectors. This asset is essentially illiquid and its underlying value is dependant upon the value of the dividend and tax equivalent payments made by the PNFC and PFC sectors to the General Government sector. For 2003/04, the General Government sector received $34.4 million by way of dividends ($45.8 million in 2002/03) and $26.5 million by way of tax equivalent payments ($7.5 million in 2002/03).

General Government Sector Expenses by Function

As indicated above, the activities of the General Government Sector are focused on the delivery of core services to the community. The chart below depicts the allocation of the total of the sector between the various functions.

Chart 1



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As can be seen in the chart, General Government sector expenditure was dominated by Education ($547.7 million) and Health ($520.8 million). Expenditure incurred for Other Purposes ($393.3 million) was also significant and that amount includes expenditure in respect of public debt transactions ($228.0 million).

Financial Performance and Position of the Public Non-Financial Corporations Sector.

The financial performance of this sector improved markedly for 2003/04 as a result of increased revenues and lower expenses when compared with the previous year and that performance was also a significant improvement when compared to the budget for the year. However it is worth noting the improved financial performance was dependant to a significant extent upon increased grants and subsidies paid from the General Government Sector. It is also noteworthy that the level of grants and subsidies paid to the sector was materially higher than budgeted for the year.

Table 9

Public Non-Financial Corporations Sector

Summary of Financial Performance

	2003/04 Actual $'million	2003/04 Budget $'million	2002/03 Actual $'million
Grants and subsidies	139.3	87.8	97.1
Sales of goods and services	386.5	414.5	417.5
Interest	18.3	15.6	17.1
Other	24.1	44.5	17.2
Total Revenues	**568.2**	**562.4**	**548.9**
Gross operating expenses	441.3	464.5	439.8
Interest expenses	52.1	51.8	54.3
Property expenses	22.5	25.8	33.9
Current transfers	2.7	1.8	2.5
Capital transfers	6.2	1.0	3.9
Total Expenses	**524.8**	**544.9**	**534.4**
Net Operating Balance	**43.4**	**17.5**	**14.5**

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On a cash basis, the Public Non-Financial Corporations Sector achieved a cash surplus of $3.1 million for the year, leading to higher cash balances being reported at the end of the year as illustrated in the following table:

Table 10

Public Non-Financial Corporations Sector

Summary of Cash Flows

	2003/04 $'millions	2002/03 $'millions
Operating cash receipts	554.3	541.1
Operating cash payments	(441.6)	(428.5)
Net Cash from Operations	**112.7**	**112.6**
Net cash used for acquisition of non-financial assets	(82.2)	(62.2)
Cash received from net liquidation of financial assets	20.3	12.3
Net Cash Flows from Investing Activities	**(61.9)**	**(49.9)**
Net Cash Flows from Financing Activities	**(47.7)**	**(34.3)**
Increase in Cash	3.1	28.4
Opening Balance of Cash and Deposits	138.8	110.4
Closing Balance of Cash and Deposits	**141.9**	**138.8**

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Consistent with the financial performance of the sector, the GFS measures of financial position were also improved when compared with the position as at 30 June 2004. This is illustrated in Table 11, below:

Table 11

Public Non-Financial Corporations Sector

Components of Financial Position

	Balance at 30 June 2004 $'million	Movement for 2003/04 $'million	Balance at 30 June 2003 $'million
Cash and deposits	141.9	3.1	138.8
Investments, loans and placements	154.4	(19.2)	173.6
Deposits held	(1.9)	(0.3)	(1.6)
Advances received	(302.2)	6.2	(308.4)
Borrowings	(360.1)	21.1	(381.2)
Net Debt	**(367.9)**	**10.9**	**(378.8)**
Other non-equity assets	61.3	(17.6)	78.9
Other employee entitlements and provisions	(58.5)	18.5	(77.0)
Other non-equity liabilities	(48.7)	2.9	(51.6)
Net Financial Worth	**(413.8)**	**14.7**	**(428.5)**
Net carrying amounts of non-financial assets	1,975.7	202.1	1,773.6
Net Worth	**1,561.9**	**216.8**	**1,345.1**

The Financial Performance and Position of the Public Financial Corporations Sector

The Public Financial Corporations (PFC) sector comprises two entities: the Northern Territory Treasury Corporation and the Territory Insurance Office.

The reported financial performance of this sector for 2003/04 improved markedly when compared with the previous year. However, that improvement is a reflection of higher expenses reported in 2002/03 in line with the Territory Insurance Office's (TIO) recognition of increased liabilities in respect of provisions for future claims.

Notwithstanding the reported improvement in financial performance, revenues of the PFC sector declined by $1.6 million for the year, with that decline generally reflecting lower revenues of the Northern Territory Treasury Corporation.

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The financial performance of the sector is summarised in Table 12, below:

Table 12

Public Financial Corporations Sector

Summary of Financial Performance

	2003/04 Actual $'million	2002/03 Actual $'million
Sales of goods and services	129.8	135.7
Interest	219.9	220.8
Other	5.2	-
Total Revenues	**354.9**	**356.5**
Gross operating expenses	129.3	179.9
Other Interest expenses	180.4	184.0
Property expenses	30.0	30.2
Current transfers	2.2	2.4
Total Expenses	**341.9**	**396.5**
Net Operating Balance	**13.0**	**(40.0)**

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While the sector's reported financial performance, as measured by the Net Operating Balance, improved significantly for 2003/04, the level of cash generated by operations was unchanged when compared with the prior year. Flowing from that, the sector reported a small increase in cash and deposits at 30 June 2004 due largely to net cash inflows from investments ($24.5 million) compared with net cash outflows from investments ($59.9 million) for the previous year. Overall the repayment of borrowings ($25.6 million) and a return of equity ($15 million) by the Northern Territory Treasury Corporation were significant factors in moderating the overall increase in the sector's stock of cash and deposits at 30 June 2004. A summary of the PFC cash flows for the year is shown at Table 13, below:

Table 13

Public Financial Corporations Sector

Summary of Cash Flows

	2003/04 $'millions	2002/03 $'millions
Operating cash receipts	418.5	371.0
Operating cash payments	(368.1)	(320.6)
Net Cash from Operations	**50.4**	**50.4**
Net cash used for acquisition of non-financial assets	(2.9)	(1.8)
Cash received from investment in financial assets	27.4	(58.1)
Net Cash Flows from Investing Activities	**24.5**	**(59.9)**
Net Cash Flows from Financing Activities	**(71.6)**	**31.8**
Increase in Cash	3.3	22.3
Opening Balance of Cash and Deposits	129.5	107.2
Closing Balance of Cash and Deposits	**132.8**	**129.5**

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The Financial Position of the Public Financial Corporations Sector

The financial position of the PFC sector as 30 June 2004 improved when compared with the previous year. That improvement generally reflects the net reduction in the level of liabilities that occurred during the year. The components of the sector's position and the movements in those components are shown in Table 14, below:

Table 14

Public Financial Corporations Sector

Movements in Components of Financial Position

	Balance at 30 June 2004 $'million	Movement for 2003/04 $'million	Balance at 30 June 2003 $'million
Cash and deposits	132.8	3.3	129.5
Investments, loans and placements	2,957.9	(20.4)	2,978.3
Deposits held	(403.4)	(46.9)	(356.5)
Advances received	(318.4)	19.6	(338.0)
Borrowings	(1,934.4)	64.6	(1,999.0)
Net Debt *	**434.5**	**20.2**	**414.3**
Other non-equity assets	108.9	(18.1)	127.0
Other employee entitlements and provisions	(353.3)	13.6	(366.9)
Other non-equity liabilities	(139.5)	5.8	(145.3)
Net Financial Worth	**50.6**	**21.5**	**29.1**
Net carrying amounts of non-financial assets	5.9	1.5	4.4
Net Worth	**56.5**	**23.0**	**33.5**

* The positive figures shown here reflect the excess of financial assets over financial liabilities. This is in contrast to the net debt position of the other sectors.

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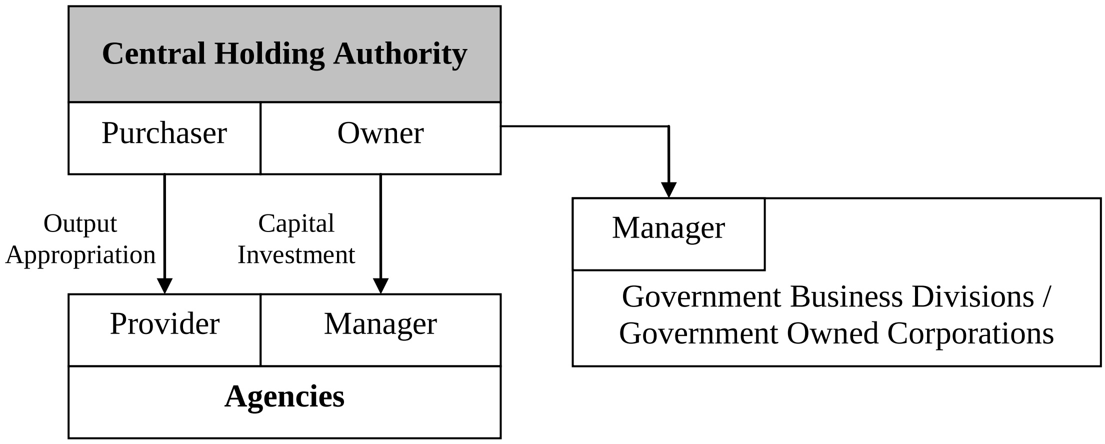
The Central Holding Authority

The Government's Budget is framed around a set of principles that are sometimes referred to as the "purchaser-provider" model. Under this approach, Ministers are deemed to purchase "outputs" from agencies so as to achieve a set of higher order "outcomes" determined by the Government. The Government is also viewed as the "owner" of, and lender to, agencies and, in that capacity, makes equity advances and loans to agencies.

From an accounting perspective the various roles of purchaser and funder are performed by the Central Holding Authority and the relationship between the CHA and agencies is depicted in Figure 2.

Figure 2
Central Holding Authority Relationship



Source: Northern Territory Treasury

The Central Holding Authority (CHA) is included as part of the General Government Sector and owes it existence to section 5 of the *Financial Management Act*. That Act also establishes the general rule that all money received by or on behalf of the Territory or an Agency is to be credited to the CHA. The Act also reinforces the well established principle that no money may be paid from the CHA except as authorised under an Act of Parliament.

The CHA is a central element in the Territory's financial management processes and is used to record:

- all revenues that are received by the Northern Territory Government with the exception of those revenues that are permitted to be credited to an Operating Account or an Accountable Officer's Trust Account. The principal revenues credited to the CHA are taxation, and untied grants (predominately GST revenues and fines);
- all expenses incurred in relation to the provision of outputs by Agencies, together with those expenses that are managed at a whole-of-government rather than at an Agency level such as borrowing expenses, superannuation expenses and long service leave expense;
- assets, other than physical assets, that have not been assigned to individual Agencies; and
- liabilities that are best managed at the whole-of-government level such as the Territory's stock of debt, and certain employee obligations.

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Given the financial performance of the General Government Sector, it follows that the financial performance of the CHA also improved during 2003/04. This is illustrated in Table 15, below.

Table 15

Central Holding Authority

Financial Performance

	2003/04 $'000	2002/03 $'000
Taxation	343,121	305,561
Grants and subsidies	1,680,909	1,514,502
Royalties, rents and dividends	79,625	92,058
Other	116,505	94,005
Total Revenues	**2,220,160**	**2,006,126**
Output expense	1,718,383	1,596,695
Interest expense	143,496	143,349
Superannuation expense	113,900	144,847
Other	55,496	15,148
Total Expenses	**2,031,275**	**1,900,039**
Net Operating Surplus	**188,885**	**106,087**

As can be seen from the preceding table, the principal contributor to the improvement in financial performance for the year was Grants and Subsidies, principally GST grants from the Commonwealth, which rose by $166.4 million for the year.

The Net Operating Surplus of the Central Holding Authority ($188.9 million) is considerably higher than the equivalent figure, the Net Operating Balance, for the General Government Sector as a whole ($40.2 million deficit). The principal reason for this lies in the recognition by Agencies that comprise the General Government sector of non-cash expenses such as depreciation. While this class of expenses did not require a cash outlay during 2004/05, they will require future cash outlays which will need to be funded by the CHA as the emerging costs are met or assets replaced.

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Consistent with the improved financial performance of the CHA for the year, there was also an improvement in the cash position as illustrated below:

Table 16

Central Holding Authority

Abridged Statement of Cash Flows

	2003/04 $'000	2002/03 $'000
Net cash inflows from operating activities	217,340	146,320
Cash outflows from investing activities	(106,928)	(81,046)
Cash outflows from financing activities	(97,124)	(126,282)
Net increase/(decrease) in cash held	13,288	(61,008)
Opening Balance of Cash and Deposits	44,367	105,375
Cash at end of financial year	**57,655**	**44,367**

From the above table it can be seen that the net cash flows generated from operations were applied to investments in assets and to debt reduction, with the balance representing the change in the cash position at the end of the financial year. The net movement in cash held by the CHA at the end of the year again reflects the increase in revenues received from the Commonwealth during the year.

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Central Holding Authority and Appropriation of Moneys by the Legislative Assembly

Notwithstanding the adoption of the accrual basis of accounting by all Australian governments, the appropriation of moneys remains cash based. The process of appropriation is one by which the Legislative Assembly votes each year to appropriate cash for the purposes set out in the annual *Appropriation Act*.

For 2003/04, the *Appropriation Act* authorised an amount of $2,129,121,000 to be applied from the Central Holding Authority. The composition of the amount appropriated for 2003/04 together with the final result for the year are shown in the following table:

Table 17

Amounts Appropriated From Central Holding Authority

For 2003/04

	Actual $'000	Budget $'000	Variance $'000
Payments for outputs	1,718,383	1,636,629	81,754
Treasurer's Advance*	-	37,000	(37,000)
Interest paid	143,410	137,109	6,301
Superannuation benefits	85,451	88,732	(3,281)
Long service leave payments	16,627	16,100	527
Other salary payments	-	45,000	(45,000)
Payment for goods and services	446	17,762	(17,316)
Appropriation for Operating Purposes	1,964,317	1,978,332	(14,015)
Appropriation for Capital Purposes	180,017	150,789	29,228
Total Applied from Central Holding Authority	**2,144,334**	**2,129,121**	**15,213**

*Section 18 of the *Financial Management Act* permits the Treasurer to supplement an allocation made for a particular purpose through the transfer of an amount from the Treasurer's Advance.

From the above table, it is seen that the total of the amounts issued from the Central Holding Authority for 2003/04 was $2.144 billion, compared with amount budgeted which was $2.129 billion. The variation of $15.213 million comprises increased appropriation for capital purposes ($6.76 million) and for the provision of financial equity to agencies ($22.468 million), with the total increase of $29.2 million having been approved by the Treasurer pursuant to the provisions of the *Financial Management Act*, offset by reduced appropriations for operating purposes ($14.015 million).

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Public Sector Superannuation Liabilities

One of the largest liabilities of Northern Territory Government is that of superannuation. The liability for superannuation represents the value of unfunded employee benefits and at 30 June 2004 that liability was $1.467 billion ($1.438 billion at 30 June 2003).

The various schemes, and the unfunded liability in respect of each at 30 June 2004, were as follows:

Scheme	$'million
Northern Territory Government and Public Authorities Superannuation Scheme	469.9
Commonwealth Superannuation Scheme	809.8
Legislative Assembly Members' Superannuation Trust	3.8
Northern Territory Supplementary Superannuation Scheme	135.4
NT Police Supplementary Benefits Scheme	22.9
Statutory Schemes	25.1
	1,466.9

The value of unfunded superannuation liabilities is a function of a number of factors including real wage growth and interest rates. Adverse movements of these factors will have the effect of increasing the overall unfunded liabilities of the public sector, with an accompanying increase in the annual superannuation expenses, and with that being reflected ultimately in higher future cash flows. Notwithstanding the increase in the liability that occurred for 2003/04, the decisions made in earlier periods to close off major "defined benefit" superannuation schemes to new entrants are beginning to yield results. Recent actuarial valuations of the larger superannuation plans indicate that the value of unfunded liabilities should peak during 2005/06, with a lag of approximately 6 to 7 years between the peaking of the liabilities and the peaking of the associated cash flows. Thus while it is expected that the funding of superannuation liabilities will continue to make significant demands upon the public sector's financial resources for several more years, the longer term outlook is one of progressive improvement.

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Fiscal Strategy and Associated Performance Measures

The *Fiscal Integrity and Transparency Act* requires the Treasurer to publicly release and table a fiscal strategy statement for the Government at the time of each Budget, setting out the Government's medium-term fiscal objectives and key fiscal indicators.

The fiscal strategy is required to be based upon principles of sound fiscal management which are specified in the Act and which require the Government to:

- formulate and apply spending and taxation policies having regard to the effect of these policies on employment, economic prosperity and development of the Territory economy;
- formulate and apply spending and taxing policies so as to give rise to a reasonable degree of stability and predictability;
- ensure that funding for current services is provided by the current generation; and
- prudently manage financial risks faced by the Territory (having regard to economic circumstances), including the maintenance of Territory debt at prudent levels.

For 2003/04, the fiscal strategy set down by the Government rested on three key principles:

- sustainable government services;
- a competitive tax environment; and
- prudent management of liabilities.

Targets were established for each principle and these are set out below:

Principal	Target	Extent To Which Target Achieved
Sustainable government services	General Government cash surplus by 2004/05	A General Government cash surplus of $36.1 million was achieved for 2003/04, up from a surplus of $8.8 million for 2002/03. The 2003/04 year saw an increase in cash balances at 30 June compared with a decline in balances for the previous year. On this basis it is reasonable to assume that the target can be achieved.
	General Government GFS Operating Balance within 10 Years from 2002/03	The General Government Net Operating Balance for 2003/04 was negative $40.1 million, but this was distorted by the "one off" effects of the transfer of land and buildings to Charles Darwin University and the decision to abolish the 4 per cent HIH levy. Negative Net Operating Balances are forecast over the forward estimates period, but progressive improvement is expected in this area. On this basis it is reasonable to assume that the target can be achieved within the period specified.

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Principal	Target	Extent To Which Target Achieved
	Maintain a capital investment strategy based on service delivery and economic development requirements	While total public sector expenditure on construction works declined slightly compared to 2003/04, it is consistent with the strategy.
Competitive tax environment	Ensure Territory taxes and charges and competitive with the average of the States	Based on Grants Commission data, the level of tax effort by the Northern Territory Government is the lowest in Australia. This indicates that the average per capita level of taxation in the Territory is consistent with the target although in the areas of payroll taxes and conveyance taxes the Territory is generally higher than other jurisdictions.
Prudent management of liabilities	Net Debt and employee liabilities as proportion of total revenue to fall	Long term liabilities, particularly borrowings declined for 2003/04. Unfunded superannuation liabilities continued to increase, but actuarial advice indicates that past decisions to close off defined benefit schemes will lead to a decline in those liabilities within the medium term. On this basis it can be assumed that the target is being achieved.

International Financial Reporting Standards and the Public Sector

The past few years have seen very significant changes in the ways by which governments record and report upon financial effects of transactions by the entities that they control. The process commenced with the adoption of accrual accounting to replace the cash-based fund accounting model.

The second stage of the reforms commenced in 2002 when the Financial Reporting Council announced that, commencing with the 2005/06 financial year, the body of Australian accounting standards would be harmonised with International Financial Reporting Standards. This has seen the issue of a new body of standards that are compatible with (but not identical to) international standards that are developed by the International Accounting Standards Committee in London and which will be applied by all Australian entities for annual reporting periods ending on or after 1 January 2005.

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Many commentators have noted that Australia has been very proactive in adopting international standards. The Australian desire to adopt the standards without delay has been driven by the view that internationally accepted accounting standards will facilitate cross-border comparisons by investors and enable Australian companies to access international capital markets at lower cost. In contrast to Australia, other countries have shown some caution. For example, New Zealand has indicated that it will not adopt the international standards prior to 2007, the European Community will only require listed companies to comply, while the United States has not yet committed to the adoption of the standards.

As a general comment the adoption of international standards offers little direct benefit to the users of financial reports prepared by public sector entities. However, the decision to align Australian and international standards leaves the public sector with little alternative other than to make the necessary changes if only to ensure that consistency between sectors is maintained.

The move to IFRS may pose challenges for some Agencies. Those Agencies with financial reporting periods ending on 30 June will be required to prepare their first financial reports using IFRS for the 2005/06 financial year. However, those financial reports must also include comparative figures based on IFRS for the year ended 30 June 2005.

There are two alternative approaches that Agencies can consider to meet their first reporting requirements under IFRS. The first is to maintain two sets of accounts throughout the 2004/05 year, with one set being based upon the existing set of Australian accounting standards and forming the basis for the preparation of the financial statements for the 2004/05 financial year. The second set, based on IFRS, would form the basis of the comparative figures to be included in the financial statements for the year ending 30 June 2006. The alternative is to apply the current Australian accounting standards throughout the 2004/05 year, with the financial statements for the year being based on those standards. Those statements would then be restated to comply with IFRS to provide a starting balance sheet for the year ended 30 June 2006 and comparative IFRS figures for the year ended 30 June 2005 for inclusion in the financial statements for the year ended 30 June 2006.

The responsibility for providing guidance to Agencies about the application of the new standards rests with Treasury and in response to a query from Audit, Treasury has advised that the full assessment of the likely effect of the adoption of IFRS by the public sector has not been completed, but the preliminary assessment suggests that the overall effect will not be significant although individual agencies will be affected to varying degrees depending upon the nature of the entity in question. The work undertaken by Treasury to date has had its focus on identifying whole of Government issues that are likely to impact the TAFS. At the same time Treasury has sought to make Agencies aware of issues relating to the introduction of the new standards through a range of government forums and presentations and attendance at training sessions run by external bodies.

Treasury has noted, correctly, that responsibility must rest with each Agency to review the changes that will flow from the adoption of IFRS and determine how they will affect their financial reporting processes and systems.

Auditing the Public Account and other accounts
Treasurers Annual Financial Statement

Treasury has issued general guidance to agencies and as part of that process has defined its own role as:

- identifying and assessing the impact of significant changes to accounting, budgeting and reporting requirements with an emphasis on whole of Government and cross-agency issues;
- keeping agencies informed through forums, circulars, presentations and websites;
- revising accounting and related policies; and
- identifying, in conjunction with DCIS, any changes required to whole of government financial systems.

Agencies' roles have been defined as:

- identifying and assessing the impact of changes to accounting, budgeting and reporting requirements impacting the Agency;
- implementing any changes to agency systems, processes and reporting (in conjunction with Treasury and DCIS);
- ensuring relevant finance staff are familiar with revised accounting, budgeting and reporting requirements and changes to Treasury policies and Australian equivalents to IFRS; and
- providing key agency financial statement users with an explanation of the impact of key changes affecting agency financial statements and financial reports.

The greatest effect on the public sector arising from the adoption of IFRS is likely to be in the area of non-current asset recognition and measurement. The changes in this area are expected to require:

- "for profit" entities to account for revaluation adjustments on an individual asset basis instead of the existing basis of adjustments based on a class of assets. "Not for profit" entities will be permitted to continue to offset revaluation gains and losses within each class of assets;
- stricter requirements for determining the reasonableness of asset values reported on balance sheets. Annual impairment tests will be required to ensure that the carrying amount of an asset does not exceed its recoverable amount;
- discounting of cash flows to determine asset values based on cash flows; and
- residual asset values to be reviewed annually.

Auditing the Public Account and other accounts

SELECTED AGENCIES

Fraud Control Arrangements - 2004

KEY FINDINGS

- **The audit identified an inconsistent approach between the selected Agencies to the adoption of fraud control arrangements; from no fraud control arrangements at some Agencies to detailed arrangements consistent with the Commonwealth Government Fraud Control Guidelines at one Agency.**
- **Few instances of fraud have been identified at the selected Agencies.**

RECOMMENDATION

- **Agencies should follow the example provided by the Department of Corporate and Information Services in the documenting of fraud prevention and control policy and procedures.**

Background

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

Fraud is generally accepted as an ongoing risk in both the private and public sector. An inquiry by a Victorian Parliamentary Committee on fraud in 2004 noted that "Little systematic research has, however, been undertaken into the nature and extent of the losses which governments have sustained."[1]

Unlike for Commonwealth Government agencies there is no specific requirement for Northern Territory Public Sector agencies to have documented fraud control arrangements. However, responsibility for fraud protection is required of Accountable Officers of Agencies, under section 13 of the *Financial Management Act* (FMA), which makes them "responsible for the financial management of the Agency". In particular, they must ensure that "procedures in the Agency are such as will at all times afford a proper internal control."

[1] Drugs and Crime Prevention Committee, Parliament of Victoria, Inquiry into Fraud and Electronic Commerce: – Final Report January 2004 page 24

Auditing the Public Account and other accounts
Fraud Control Arrangements - 2004

Background (continued)

Internal control is defined within the FMA as the methods and procedures adopted within an Agency to:

(a) promote operational efficiency, effectiveness and economy;

(b) safeguard its assets and manage its liabilities and contingent liabilities;

(c) deter and protect against fraud;

(d) maintain the accuracy and reliability of its accounting information; and

(e) ensure compliance with legislative provisions.

It is against this background the audit was conducted.

Audit objectives and scope

The audit objective was to review the control arrangements within the following agencies to manage the risk of fraud and dishonesty.

- 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 Infrastructure, Planning and Environment (DIPE)
- Department of Justice (DOJ)
- Department of the Chief Minister (DCM)

In particular, the audit identified whether each agency had:

- a fraud prevention and control policy;
- a program of risk assessment including fraud control planning to ensure that controls are in place to prevent and detect any significant instances of fraud;
- a culture of promoting awareness of the risk of fraud; and
- a procedure for responding to instances of fraud when detected.

The Chief Executive of each of the selected agencies was requested to complete a detailed questionnaire about the fraud control arrangements for their agency. The analysis of the responses by each agency together with supporting data was the basis for this audit.

Audit Findings

Opinion

The audit identified an inconsistent approach between the Agencies selected to the adoption of fraud control arrangements within each of the agencies, from no fraud control arrangements at some Agencies, to detailed arrangements consistent with the Commonwealth Government Fraud Control Guidelines at one Agency.

Auditing the Public Account and other accounts
Fraud Control Arrangements - 2004

Specific findings

Fraud prevention and control policy

Of the six agencies surveyed only one agency, DCIS, had a documented fraud prevention and control policy.

Two agencies advised they did not have any agency published fraud prevention and control policies however there was some fraud awareness raised within their agencies with new employees by reference to the NTPS Principles and Code of Conduct. One of these agencies, DOJ, advised it was drafting a policy based on that published by DCIS within its Accounting and Property Manual. The other agency, DEET, advised that its "Intranet site contains publications such as The Corporate Governance Handbook, and other related publications. Fraud control is not specifically raised, but an awareness of proper conduct and behaviours is specifically outlined."

The NTPS Principles and Code of Conduct is issued by the Commissioner for Public Employment under the provisions of the *Public Sector Employment and Management Act* and it is mandatory that all new NTPS employees are made aware of its contents.

One agency, DIPE, advised that the department conducted a seminar titled "Doing the right thing". Staff who attended this seminar were made aware of the level of conduct expected of them in relation to using the department's facilities and in relations with others who conduct business with the department.

Two agencies, DCDSCA and DCM, advised that they had no fraud awareness measures.

Program of risk assessment including fraud control planning

Only one of the six agencies had conducted a specific fraud risk assessment.

Four agencies advised that whilst no specific fraud risk assessment was conducted, fraud would have been considered as part of their Business Risk Assessment. For these agencies fraud was not considered to be a significant or major risk.

As is to be expected from the above, only one agency advised that they had developed a fraud control plan. One other agency advised that they had developed a specific plan to tighten controls and minimise risk in response to a fraud incident.

Culture of promoting awareness of the risk of fraud

Only one agency confirmed that it circulated a fraud control policy and fraud control plan to raise staff awareness of fraud control. Further emphasis was provided through a CEO newsletter and following a risk management workshop Branch Manager's informing staff.

Three agencies advised that they adopted the NTPS Principles and Code of Conduct. Three agencies made no reference to the NTPS Principles and Code of Conduct notwithstanding it is mandatory that all new NTPS employees are made aware of its contents.

Auditing the Public Account and other accounts
Fraud Control Arrangements - 2004

Specific findings (continued)

One agency advised it issued an agency specific code of conduct to a section of its operations, namely correctional services.

One agency, DEET, made reference to its Corporate Governance Handbook that covers a range of governance issues.

Procedure for responding to instances of fraud when detected

Five of the six agencies identified that they have specific individuals or agency structures responsible for fraud control. Four of the five agencies advised that the Audit Committee had responsibility. The fifth agency advised that if fraud is suspected the matter is referred to internal audit.

Two agencies advised they had a formal fraud reporting system in place. One advised the system was in draft. In response to the further question as to whether procedures to report fraud had been developed and distributed to staff one agency responded by advising all employees have been issued with a copy of the Principles and Code of Conduct.

No agency had a Management Information System for the purpose of recording, monitoring and reporting all aspects of fraud control, such as allegations, investigations, referrals, prosecutions etc.

Four of the agencies advised that they undertake their own fraud investigations with three of those agencies advising that this is completed in house initially to assess whether an independent (including Police) investigation is warranted.

None of the agencies had developed training plans to assist it in determining the level of fraud related training required by its relevant employees.

Three of the six agencies reported no instances of fraud in the last two financial years. For one other agency only one incidence of fraud was identified although the response was qualified in that the amount involved was less than $100 and was fully recovered.

Fraud Statistics

The incidence of reported fraud in Northern Territory Government agencies is quite low as shown by the following statistics, which were compiled from the responses received from the six agencies surveyed.

	Allegations		Frauds		Recoveries	
	No.	$	No.	$	No.	$
2002/03	1	69	2	187,000	2	40,069
2003/04	1	10,000	4	0	1	10,000

Auditing the Public Account and other accounts
Fraud Control Arrangements - 2004

DCDSCA has commented:

DCDSCA uses a risk management framework to identify and manage risks such as fraud. Various strategies have been identified and implemented over the past two years to address potential areas of fraud exposure within the DCDSCA context.

DCDSCA will review the DCIS Fraud Prevention and Control Policy and incorporate any relevant areas and material into existing documentation, including the Governance Framework, Risk Management Plan, and the Accounting and Property Manual.

DEET has commented:

DEET will review the DCIS Fraud Prevention and Control Policies and incorporate relevant areas and material into its publications, including the Schools Management Handbook, the Corporate Governance Handbook and the Accounting and Property Manual.

DOJ has commented:

The Department of Justice (DOJ) agrees with your recommendation and has already adopted the Department of Corporate and Information Services model of fraud prevention and control policy and procedures.

The Fraud and Dishonesty Control Policy has been published in the DOJ Accounting and Property Manual and is also available on the DOJ intranet. Implementation of the policy is progressing.

DCM has commented:

In regard to fraud control arrangements, the Department has undertaken regular reviews into areas that it considers of risk. These have included reviews of grants administration, information security and procurement processes.

Although the Department has not considered fraud to be of considerable risk in other areas, we acknowledge that certain levels of fraud awareness measures are necessary. To this end, I will implement your recommendation that the Department follow the example provided by the Department of Corporate and Information Services in the documenting of fraud prevention and control policy and procedures, where these are appropriate for this Department.

Education programs will also be introduced for all employees, commencing with ethics workshops. This, along with regular corporate communications, bill be used to convey ethical behaviour and fraud awareness to all staff.

Auditing the Public Account and other accounts

Northern Territory Treasury

An IT audit of TAXAD (payroll tax system)

KEY FINDING

- **The controls examined during the audit were considered to be generally satisfactory.**

Background

The TAXAD system is a mainframe-based application with the objective to simplify the administrative process behind the collection of tax revenue. The system provides support for returns processing, stamp duty assessments, investigations assessments, research and administration activities of the Treasury's Territory Revenue Management Division (TRM).

Audit objectives and scope

The objective of this audit was to assess the IT controls in place for TAXAD.

Audit Findings

Opinion

The controls examined during the audit were considered to be generally satisfactory. However, opportunities for improvement, which appear unlikely to pose a material risk to the integrity of the 30 June 2004 year end financial statements, were identified.

Specific findings

While DCIS has a mainframe Disaster Recovery Plan (DRP) the TRM Business Continuity Plan (BCP) was only partially developed.

The level of manual entry of information from 'Payroll Tax Annual Adjustment Returns' is substantial and increases the risk of data entry errors.

Review of user access and unsuccessful log in attempts were completed on an ad-hoc basis.

Adjustments in payroll tax payable made by TRM operational staff may not be subject to authorisation by the Manager of Operations / Assistant Director Operations (eg reduction of a debt).

A number of recommendations were made to management in regard to the above findings.

NTT has commented:

The audit report of the TAXAD system concluded that the controls examined during the audit were satisfactory. The report also raised opportunities for improvement and these appear unlikely to pose a material risk to the integrity of the 30 June 2004 year end financial statements. Given the nature of the issues raised, it is considered that these opportunities pose no material risk to the integrity of the 2004 financial statements.

Auditing the Public Account and other accounts

Northern Territory Treasury

IT systems at Racing, Gaming and Licensing

KEY FINDING

- **A number of IT control weaknesses within the Racing, Gaming and Licensing systems were noted.**

RECOMMENDATIONS

- **An end user systems development policy should be developed and implemented.**
- **A change control policy should be developed and implemented.**
- **Consideration should be given to implementing file and/or folder level security over the systems at Racing, Gaming and Licensing.**
- **As is currently planned, the Agency should continue to consider the project that is assessing the possibility of merging the different systems into a consolidated information system.**

Background

Under various agreements, the Northern Territory government is entitled to receive revenue (mainly tax) payments from the various gambling schemes in place within the Northern Territory. Racing, Gaming and Licensing (RG&L) in conjunction with Territory Revenue Management, is responsible for providing a receipting service for taxes. One of the key functions within this process is ensuring the correct tax has been paid based on the data provided by taxpayers and to reconcile the tax payable according to that receipted in TAXAD and recorded in the Government Accounting System (GAS).

Audit objectives and scope

The objective of this audit was to:

- review the adequacy of controls over key reconciliation processes;
- review the adequacy of access security controls over key databases/spreadsheets used by RG&L in the calculation of revenue;
- review the adequacy of controls over the system development and change control process within RG&L over the key revenue calculation systems; and
- review the integrity of interface controls over feeder systems with respect to key RG&L processes, focusing on the controls implemented as soon as the information enters RG&L.

There are approximately 29 systems (i.e. spreadsheets and databases) in place at RG&L. This review has focused on the systems that relate to "revenue collection" (i.e. tax collection).

Auditing the Public Account and other accounts
IT systems at Racing, Gaming and Licensing

Audit Findings

Opinion

A number of IT control weaknesses within the RG&L systems have been noted, in particular relating to end user systems development and change control.

Specific findings

RG&L maintain a number of spreadsheets and databases, including those focused on during this review:

- MGM Casino Tax & Unclaimed Prize spreadsheet;
- Lasseters Land, Internet casino Tax and Unclaimed Prize spreadsheet;
- Tattersall's duty & Unclaimed Prizes database;
- Community Gaming Machine Tax and Community Benefit Levy spreadsheet; and
- Racing and Sports Betting Turnover tax database.

RG&L also maintain a large number of systems that are used to capture license information. Generally, these systems are used to store details regarding licensees (eg name and address details) or other associated statistics. Due to the financial value of license receipts compared to gambling revenue, the license related systems appear lower risk compared to the gambling related systems (with respect to year end financial statements).

RG&L systems within the scope of this review are 'end-user' developed. Generally these have not been developed in accordance with strong end user systems development controls.

The level of formal change or version control processes in place to govern changes to the various RG&L systems (within the scope of this review) are limited. As a result, formal processes for documentation of changes, testing of changes and approval of changes generally do not exist.

The RG&L systems are currently protected by password only. The passwords used are shared amongst all users of the system. There are minimal other logical access controls to prevent access to these systems.

The large number of licensing systems in place suggests that additional overhead is incurred with maintaining many disparate systems (i.e. there is a combination of Excel spreadsheets, Access databases, Lotus Notes databases etc).

NTT has commented:

Racing, Gaming and Licensing management has accepted the recommendations and are investigating options to develop a single system to replace existing systems. In developing and implementing a new system, the recommendations regarding security levels and policies will also be addressed.

Auditing the Public Account and other accounts

Department of the Chief Minister

Risk Management Services

KEY FINDING

- **Risk Management Services has established a sound foundation for its performance management system that enables it to assess the effectiveness, efficiency and economy of its operations.**

Background

Risk Management Services (RMS) is a division within the Department of the Chief Minister (DCM) and is charged with offering risk management assessments and internal audit services to public sector Agencies.

Audit objectives and scope

The objective of this performance management system audit was to complete a follow up to an audit conducted in June 2002 which reviewed the adequacy of Risk Management Services' performance management system that is intended to assist RMS in assessing the effectiveness, efficiency and economy of its operations.

The audit did not form an opinion as to whether measures of performance employed by RMS are appropriate, nor did the audit seek to verify the appropriateness of targets where these were provided.

Framework for a performance management system audit.

An effective performance management system should contain the following elements:

- identification of the goals and corporate objectives of the entity;
- incorporation of those goals and objectives in the entity's corporate planning process;
- a means of assessing the extent to which corporate goals and objectives are achieved and, flowing from this, the establishment of performance targets or indicators;
- development of strategies for the achievement of desired performance outcomes;
- monitoring progress through the comparison of actual performance against performance targets;
- evaluation the effectiveness of the final outcome against the intended objectives; and
- reporting of the outcomes, together with recommendations for subsequent improvement.

Audit Findings

Opinion

Risk Management Services has established a sound foundation for its performance management system that enables it to assess the effectiveness, efficiency and economy of its operations.

Auditing the Public Account and other accounts
Department of the Chief Minister

Audit Findings (continued)

Specific findings

The 2002 review formed the opinion that:

> *"Currently Risk Management Services has no reporting or performance management system in place and cannot make reliable assessments of its operational effectiveness and efficiency.*
>
> *Also:*
>
> - *Some of the recommendations of the 1999 audit have not yet been actioned;*
> - *Risk Management Service's audit methodologies, and their use, generally comply with both Australian and Internal Auditing Standards; and*
> - *The contract management practices of Risk Management Services could be improved."*

This review noted that the issues raised in the 2002 audit have been addressed and RMS now has a performance management system in place that includes the following elements.

- A Business Plan with key result areas (KRAs) identified.
- KRAs are known to RMS staff and there are systems in place to capture the data necessary for reporting against the KRAs.
- KRAs are reported in the Annual Report of the Department of the Chief Minister (the Department).
- KRAs complement the Department's Strategic Directions document.
- RMS has a Performance Development Plan with employees involved in annual performance appraisals and continual informal feedback from RMS management.
- The business plan/key result areas were developed with input from staff.
- Relevant agency feedback is sought upon the completion of assignments.
- RMS has developed an "Office Handbook" to assist staff. This handbook incorporates operational principles that are consistent with those of the Institute of Internal Auditors.
- RMS Staff are conversant with the Northern Territory Government "Code of Conduct".
- RMS performance is monitored and reported.

The management of RMS are to be commended on their implementation of the current performance management system.

Auditing the Public Account and other accounts

Audit findings and Analysis of the 30 June 2004 financial statements of:

Northern Territory Tourist Commission

There are no key findings

Audit opinion

The audit of the Northern Territory Tourist Commission (the Commission) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 25 October 2004.

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 Board has elected to prepare a consolidated accrual based annual financial report that is audited at their request. This consolidates the results of Territory Discoveries (see pages 81 to 83 of this Report) which it controls. The results of Territory Discoveries are also separately reported within the annual report of the Commission.

Key issues

No issues to report.

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 $0.739 million, which is primarily the result of the Commission's net loss of $0.511 million (after eliminating the effect of the reduction in the provision for diminution in Territory Discoveries of $0.228 million), and the net operating profit of $0.228 million returned by Territory Discoveries.

Abridged Statement of Financial Performance for the year ended 30 June 2004 – Commission only

	Notes	2004	2003
		$'000	$'000
Revenue from ordinary activities	2	38,092	27,935
Less expenditure from ordinary activities:			
Employee Expenses		5,970	5,421
Corporate Support	1	5,277	9,051
Marketing	2	19,668	13,468
Tourist Development	2	2,060	735
Grants and Subsidies		5,856	4,898
Total expenditure		38,831	33,573
Net Profit/(Loss)		**(739)**	**(5,638)**

Explanatory notes:

1. The prior year loss by the Commission was mainly due to the write down of the Commission's investment in Territory Discoveries. The write down, reported in Corporate Support costs above, was $4.8 million.

2. The Commission received $7.5 million additional funding this year for the purpose of implementing the Investing in the Future of the Territory Tourism Industry Program, aimed at increasing the marketing of the Territory in domestic and international markets and for the development of tourism in the Territory.

Auditing the Public Account and other accounts
Northern Territory Tourist Commission

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004 – Commission only

	Notes	2004	2003
		$'000	$'000
Current assets			
Bank balance		449	(1,055)
Receivables and other	1	792	4,429
Total Current Assets		1,241	3,374
Less Current Liabilities	2	3,257	4,932
(Deficiency) in Working Capital	3	(2,016)	(1,558)
Add Non Current Assets		1,443	1,320
		(573)	(238)
Less Non Current Liabilities		-	-
Net Assets/(Deficiency)		**(573)**	**(238)**
Represented by:			
Equity			
(Accumulated Losses)/Retained profits		(4,176)	(3,437)
Contributed equity		3,603	3,199
Total Equity/(Deficiency)		**(573)**	**(238)**

Explanatory notes:

1. In 2002/03 the commission recorded a receivable of $2.5 million from Territory Discoveries which relating to the Virgin Blue Subsidy. This money was received by the Commission in 2003/04.
2. The decrease in payables in 2003/04 relates predominantly to the decrease in the amount owing to Virgin Blue.
3. The deficiency in working capital is reflective of the operating losses being incurred by the Commission.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Construction Division

KEY FINDINGS

- **The financial performance of the Division deteriorated markedly during 2003/04 due to uncertainty about its legal status accompanied by breakdowns in control processes.**
- **There was a material breakdown in the Division's processes and controls in that expenses incurred were not invoiced to client agencies.**

Audit opinion

The audit of Construction Division for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 9 November 2004.

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

The audit identified short-comings in the financial administration of the Construction Division that had emerged since the last audit. The underlying cause of the problems that were identified lay in the expectation by the Division that it would cease to be a Government Business Division during 2003/04. That, in turn, led to a loss of commercial focus by the Division accompanied by:

- a breakdown in the Division's processes and controls that are intended to ensure that costs incurred by the Division are recovered through charges on users of the Division's services;
- a failure to ensure that opening balances in the Division's accounts at the beginning of the 2003/04 year were correct, resulting in unreliable financial information being provided to Departmental and Divisional managers throughout the year; and
- a lack of financial analysis that might have queried the reasons for the material deterioration in the Division's financial performance when compared with the prior year.

Auditing the Public Account and other accounts
Construction Division

Key issues (continued)

The Division's financial position at 30 June 2004 deteriorated markedly when compared with the previous year. While the Division's cash balances at 30 June 2004 were sufficient to meet its immediate obligations, careful financial management will be necessary to ensure that the Division remains viable and to avoid the necessity of having to seek financial support.

Processes and Controls

A major determinant of the poor financial performance for the year can be traced to a breakdown in the processes surrounding the Fee Offer System. This saw expenses incurred by the Division not recorded in the system and hence not invoiced.

Failure to Reverse Prior Year Accrual Items

Discussions with Departmental staff revealed that expenses and income accrued at 30 June 2003 were not reversed at 1 July 2003 resulting in financial information provided to Divisional managers throughout the year being unreliable. This matter should have been identified by comparison of actual versus budget results during the year. The fact that the issue was not identified suggests shortcomings in management oversight within the Division.

Lack of Management Oversight

While it is possible that financial reports provided to Divisional managers may not have conveyed information that was useful in enabling the performance of the Division to be monitored throughout the year, it is also quite clear that the mistaken belief that the Division would cease to be a Government Business Division led to reduced concerns about the importance of ensuring that clients were invoiced. With hindsight, Divisional managers should have sought clarification about the status of the Division before seeking to vary its business processes.

Auditing the Public Account and other accounts
Construction Division

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	2003
	$'000	**$'000**
Revenue from ordinary activities	32,866	32,212
Less expenditure from ordinary activities:		
Operational costs	9,723	9,107
Employee expenses	17,902	16,299
Consultants fees	8,474	5,603
Depreciation and amortisation	26	47
Borrowing costs	207	176
Total expenditure	36,332	31,232
Net Profit/(Loss)from ordinary activities before income tax expense	(3,466)	980
Less income tax expense	-	-
Net Profit/(Loss) from ordinary activities after income tax expense	(3,466)	980
Less Dividends	-	(490)
Retained Profits/(Losses)	**(3,466)**	**490**

The Treasurer has determined previously that the Construction Division is a Government Business Division. On that basis it is expected that it will recover a significant proportion of its operating costs through charges on users. This was not the case for 2003/04, which saw a significant operating loss accompanied by a decline in the Division's cash balances. The lack of invoicing during 2003/04 year casts some doubt on the extent to which the relevant costs will be recoverable given the time that may have elapsed since they were incurred.

Without a marked turnaround in the Division's financial performance during the current financial year, its ability to continue as a going concern must be questioned.

Action Taken by the Department of Infrastructure, Planning and Environment

The Department has advised that its firmly held belief that the Construction Division would cease to be a Government Business Division during 2003/04 led a focus on project delivery to the neglect of commercial billing with the result that some activities that should have been recoverable were never invoiced.

It has now been determined that the Construction Division will continue as a Government Business Division. A senior Departmental manager has been assigned to review and manage the business processes of the Division with the immediate objective being to improve its financial performance. That role will include a review of Divisional budgets, and the improvement of financial controls and financial reporting.

Auditing the Public Account and other accounts
Construction Division

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	**$'000**
Current assets		
Bank	1,693	5,145
Receivables, accrued revenue and other	1,835	3,278
Total current assets	3,528	8,423
Less Current Liabilities		
Payables	888	2,039
Employee, dividend and other provisions	3,292	3,596
Total current liabilities	4,180	5,635
Working Capital/(Deficiency)	(652)	2,788
Add Non Current Assets	1,092	1,118
	440	3,906
Less Non Current Liabilities	2,500	2,500
Net Assets/(Liabilities)	**(2,060)**	**1,406**
Represented by:		
Equity		
Reserves	-	49
Retained profits/(losses)	(2,060)	1,357
Total Equity	**(2,060)**	**1,406**

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 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 2004 resulted in an unqualified independent audit opinion, which was issued on 12 October 2004.

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 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 2004

	2004	2003
	$'000	**$'000**
Revenue from ordinary activities	6,520	6,439
Less expenditure from ordinary activities:		
Employee expenses	3,122	2,865
Supplies and services	2,435	2,267
Depreciation	802	727
Total expenditure	6,359	5,859
Net profit from ordinary activities before income tax expense	161	580
Less income tax expense	(48)	(174)
Net profit from ordinary activities after income tax expense	113	406
Less Dividends	-	(203)
Retained profits	**113**	**203**

Auditing the Public Account and other accounts
Darwin Bus Service

Financial results (continued)

The revenue from the Public Transport Branch has remained consistent at approximately $6.1 million.

Significant cost increases were incurred as a result of Enterprise Bargaining Agreements and rising fuel costs during the year.

No dividends were declared as at to 30 June 2004.

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	**$'000**
Current Assets	2,713	3,749
Less Current Liabilities	635	989
Working Capital	2,078	2,760
Add Non Current Assets	6,685	5,890
	8,763	8,650
Less Non Current Liabilities	-	-
Net Assets	**8,763**	**8,650**
Represented by:		
Equity		
Retained profits	8,416	8,303
Contributed equity	347	347
Total Equity	**8,763**	**8,650**

During the year non current assets increased by $0.795 million largely due to the purchase of two new buses, offset by depreciation charged during the year.

Provisions decreased during the year predominantly due to a lower tax liability resulting from the decreased profit noted above, and the Bus Service not declaring a dividend.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Darwin Port Corporation (the Corporation)

KEY FINDINGS

- **As has been the case since the commencement of works on the East Arm Wharf, the transaction with the most significant impact on the financial report was the revaluation decrement relating to the Harbour Improvements class of assets, the decrement for the year was $18.376 million (2003: $44.074 million).**
- **These write downs do not, however, affect the service potential of these Port assets.**

Audit opinion

The audit of Darwin Port Corporation (the Corporation) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 12 October 2004.

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 wharf infrastructure adjacent to the Darwin central business district is to be reserved for visiting naval vessels, cruise ships 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. 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 2003/04 financial year, $17.6 million was spent on East Arm Wharf Stage 2.

Fort Hill, Iron Ore and Mooring Basin Wharves

The Board again re-assessed the useful economic lives of these wharves during 2003/04, particularly with a view to 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 2004. However, the economic lives of these wharves will require regular review by the Board.

Auditing the Public Account and other accounts
Darwin Port Corporation

Key issues (continued)

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 in 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 six years as follows:

	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m	2004 $m	Total $m
Assets written down to recoverable amount by	-	60.6	6.7	34.7	44.1	18.4	164.5
Net worth	73.4	26.3	18.5	14.7	17.7	23.1	N/A

The write downs in 2001/02, 2002/03 and 2003/04 include the expenditure on East Arm Wharf Stage 2 of $29.9 million, $42.9 million and $17.6 million respectively, because this development was projected to have little or no impact on anticipated future income streams. 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.

Roll-on Roll-off (RORO) Facility Deed of Licence

An amount of $0.745 million was recorded as an equity injection from the Department of Infrastructure, Planning and Environment (DIPE), relating to costs associated with work performed on the RORO Facility.

Certain events required by a 'Deed of Licence for Use of the Darwin Port' between Darwin Port Corporation and the Commonwealth of Australia (Defence) were identified as not having been appropriately executed. This may have resulted in a loss of income.

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	Notes	2004	2003
		$'000	**$'000**
Revenue from ordinary activities:			
Rendering services		13,752	11,976
Other revenue from ordinary activities			
Community Service Obligations		4,592	6,844
Interest earned		759	446
Total revenue from ordinary activities		19,103	19,266
Less expenditure on ordinary activities:			
Employee expenses		4,865	4,588
Operational expenses	**1**	4,502	8,870
Repairs and maintenance expenses		1,395	2,554
Depreciation expenses		1,037	992
Borrowing expenses		1,892	2,306
Total expenditure before asset valuation decrement		13,691	19,310
Net operating profit/(loss) before asset valuation decrement		5,412	(44)
Less Decrement in valuation of non-current assets		(18,376)	(44,074)
Loss from ordinary activities before related income tax expense		(12,964)	(44,118)
Income tax benefit relating to ordinary activities		18	865
Net Profit/(Loss)		**(12,946)**	**(43,253)**

Explanatory note:

1. A significant difference in operational expenses exists between 2002/03 and 2003/04. A substantial component of this difference was due to the relocation of a crane from the Fort Hill Wharf to the East Arm Wharf in 2003 at a cost of $2.1 million.

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004	2003
		$'000	$'000
Current Assets			
Bank and cash	1	17,465	13,307
Receivables and other assets		2,546	3,620
Total current assets		20,011	16,927
Less Current Liabilities			
Payables and current debt repayable		3,182	2,435
Employee and other provisions and prepayments in		1,603	1,507
Total current liabilities		4,785	3,942
Working Capital		15,226	12,985
Add Non Current Assets	2	42,827	40,246
		58,053	53,231
Less Non Current Liabilities		34,939	35,547
Net Assets		**23,114**	**17,684**
Represented by:			
Equity			
Accumulated (Losses)		(115,390)	(102,944)
Reserves		10,135	10,635
Contributed Equity		128,369	109,993
Total Equity		**23,114**	**17,684**

Explanatory notes:

1. The Corporation continued to build up strong cash reserves despite the previous losses incurred that were caused primarily by asset write downs and asset relocations associated with the move to East Arm. The Corporation's short-term liquidity position remains strong.

2. Non-current assets increased by $2.581 million due to the completion of large capital projects, namely Reclamation works and the Maintenance Workshop. Also, during the year the Corporation adjusted the carrying value of the Old Fort Hill Wharf to zero, previously carried at negative $0.890 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Data Centre Services

There are no key findings

Audit opinion

The audit of Data Centre Services for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 7 October 2004.

Background

DCS manages the Data Centre 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 2004

	2004	2003
	$'000	**$'000**
Revenue from ordinary activities	18,550	18,666
Less expenditure from ordinary activities:		
Operational costs	11,133	12,780
Employee expenses	2,337	2,402
Depreciation and amortisation	1,215	1,601
Borrowing costs	33	112
Total expenditure	14,718	16,895
Operating profit/(loss) before accounting for benefit/(cost) from implementing IT outsourcing policy	3,832	1,771
(Cost) Benefit from implementing IT outsourcing policy	-	(171)
Net profit from ordinary activities before income tax expense	3,832	1,600
Less income tax expense	(1,150)	(480)
Net profit from ordinary activities after income tax expense	2,682	1,120
Less Dividends	(1,177)	(560)
Retained Profits	**1,505**	**560**

Total expenditure has decreased from $17.07 million to $14.72 million. The reduction in expenditure is predominantly due to a decrease in the use of IT Consultants and IT Hardware and Software licensing charges which has resulted in an overall decrease in raw materials and consumables used from $12.78 million to $11.13 million. Depreciation and amortisation expenses have decreased from $1.6 million to $1.22 million. All other expenditure items have remained relatively consistent with the previous year.

The above movement in revenue and expenses has resulted in an increase in profit from ordinary activities before income tax expense from $1.6 million to $3.83 million. The ability of DCS to continue to achieve this level of profit is unlikely. This is reflected in the 2004/05 budget that projects revenue of $16.1 million and costs of $15.4 million for a profit of $0.7 million. DCS has indicated that as more government agencies move away from the mainframe to mid range server platforms, it will become increasingly difficult for DCS to recover its costs. At present these costs are relatively fixed and if one agency reduces service requirements, DCS must charge existing clients more to recover this.

Auditing the Public Account and other accounts
Data Centre Services

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004	2003
		$'000	$'000
Current assets			
Bank and cash	1	4,745	2,507
Receivables, prepayments and other	2	2,330	2,318
Total current assets		7,075	4,825
Less Current Liabilities			
Payables and debt repayments	3	613	2,046
Taxation, employee provisions and other	4	2,890	1,684
Total current liabilities		3,503	3,730
Working capital/(Deficiency in working capital)		3,572	1,095
Add Non Current Assets	5	285	1,257
		3,857	2,352
Less Non Current Liabilities		-	-
Net Assets		**3,857**	**2,352**
Represented by:			
Equity			
Retained profits		3,532	2,027
Contributed equity		325	325
Total Equity		**3,857**	**2,352**

Explanatory notes:

1. Bank and cash has increased in line with the operating result that has resulted in a positive cash flow.
2. A decrease in receivables by $1.1 million from last year is offset by a $1.13 million increase in other assets. $0.99 million of this increase was due to an increase in accrued revenue.
3. The large decrease in payables and debt repayments was due to the repayment of the $1.15 million in finance lease commitments that were recognised in the 2003 financial statements. A new finance lease for a software licence acquired was not entered into until 1 July 2004 and therefore not recognised as a liability at 30 June 2004.
4. Income tax liability and provision for dividend increased in line with the increased profit for the year.
5. The large decrease in non current assets is the full amortisation of leased plant and equipment which carrying amount of $1.1 million at the start of the year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

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

KEY FINDINGS

- **The reduced deficit is as a result of an overall increase in revenues of $7.7 million, although this was partly offset by a $5.6 million increase in expenses.**
- **The increase in expenses is largely due to increased activity in repairing and maintaining the existing housing stock, leading to an increase in spending from $17.7 million to $20.1 million, as well as the effect of the Community Harmony Project which has added $2.5 million to Housing Business Services' annual expenses.**

RECOMMENDATION

- **The policies and procedures relating to remote and urban dwellings and shared equity properties need to be reviewed and documented formally.**

Audit opinion

The audit of the Department of Community Development, Sport and Cultural Affairs: Housing Business Services (HBS) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 23 October 2004.

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 – $18.4 million and $24.8 million respectively in 2003/04.

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

Auditing the Public Account and other accounts
Housing Business Services

Key issues

Business sustainability

The deficit noted above highlights that revenues continue to be insufficient to fund expenditures and this trend has been noted over the past four financial years. As long as Housing Business Services continue to incur annual interest charges of approximately $25 million on Commonwealth and Northern Territory loans, it is unlikely that this situation will change, given the relatively low level of earnings before interest and taxes that reflect the nature of the business.

The existing level of financial performance cannot be sustained indefinitely A stage must be reached eventually where Housing Business Services must either be required to recover all its costs through charges, or be recapitalised.

Debtors' Collection Process

In response to prior year audit observations, a new debtor management strategy was developed in 2003/04, and there has been a $0.7 million fall in gross rental debtors. However, there has been a $0.7 million increase of rent lost due to vacant public housing properties, with void rates increasing from 4.4% to 6.0%.

There are difficulties in the linking of debtors in the Tenancy Management System (TMS) with the GAS General Ledger (GL).

The management of Housing Business Services should ensure resources are available to identify and resolve system issues prior to the 2004/05 year end.

Auditing the Public Account and other accounts
Housing Business Services

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	Notes	2004 $'000	2003 $'000
Revenue from ordinary activities:			
Rendering of services		38,128	37,776
Community Service Obligations (CSO)	2	27,780	33,587
Other revenues from ordinary activities	2	46,416	33,273
Total revenue from ordinary activities		112,324	104,636
Less expenditure on ordinary activities:			
Employee expenses		8,259	9,089
Rates		14,242	13,620
Repairs and maintenance	3	20,894	17,731
Depreciation and amortisation		18,407	20,059
Borrowing costs		24,777	25,104
Other expenses on ordinary activities	3	38,510	33,863
Total expenditure		125,089	119,466
Net Profit/(Loss)	**1 & 2**	**(12,765)**	**(14,830)**

Explanatory notes:

1. The operating result shows a deficit from ordinary activities for the financial year ended 30 June 2004 of $12.8 million, compared to the deficit of $14.8 million in the previous financial year. The reduced deficit is as a result of an overall increase in revenues of $7.7 million, although this was partly offset by a $5.6 million increase in expenses.
2. The most significant factors in the increase in revenues are increase of $7.0 million in proceeds on disposals of housing property and a $4.7 million one-off grant from the Department of Health and Community Services, offset by a $5.8 million reduction in Community Service Obligation receipts.
3. The increase in expenses is largely due to increased activity in repairing and maintaining the existing housing stock, leading to an increase in spending from $17.7 million to $20.9 million, as well as the effect of the Community Harmony Project which has added $2.5 million to Housing Business Services' annual expenses.

Auditing the Public Account and other accounts
Housing Business Services

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004 $'000	2003 $'000
Current Assets			
Bank and cash	1	65,627	49,456
Receivables and other		4,933	6,652
Total current assets		70,560	56,108
Less Current Liabilities			
Payables and interest bearing debt		9,080	8,443
Employee provisions and other		2,668	2,902
		11,748	11,345
Working Capital		58,812	44,763
Add Non Current Assets		1,151,311	999,126
		1,210,123	1,043,889
Less Non Current Liabilities		328,937	335,470
Net Assets	2	**881,186**	**708,419**
Represented by:			
Equity			
Accumulated (Losses)		(53,450)	(38,213)
Reserves	2	888,285	700,281
Contributed Equity		46,351	46,351
Total Equity		**881,186**	**708,419**

Explanatory notes:

1. On a cash basis, the activities of Housing Business Services generated a positive cash inflow of $16.2 million resulting in significant year end cash holdings of $65.6 million at 30 June 2004.
2. Despite this year's operating loss, Housing Business Services remains in a strong net asset position largely as a result of a $164 million gain from the revaluation of housing property. The size of the revaluation gain was influenced by the change in valuation method applied to remote dwelling assets.

Auditing the Public Account and other accounts
Housing Business Services

HBS has commented:

In relation to key findings:

The GBD agrees with the key findings, however it should be noted that the decision to fund the Community Harmony Project, which is essentially an agency function, through Housing Business Services, was not made by internal management. As such, the impact this initiative had on the operating loss of the GBD was outside the GBD's control.

In relation to the recommendation:

Agreed. Housing Business Services has commenced reviewing the policy and procedures regarding urban and remote area dwellings. Additionally, policies are to be reviewed in conjunction with the harmonisation of International Accounting Standards.

Formally documented policies relating to remote and urban dwellings and shared equity investments will be completed in 2004/05.

In relation to the key issue of business sustainability:

Generally agreed however, it is expected that introduction of new initiatives will positively impact on the operating performance of HBS over the next few years.

Specifically these initiatives are:

- *A cost recovery framework for the Government Employee Housing business line will be implemented on 1 July 2005 to ensure GEH is self funding and does not utilise funds from the Home Ownership and Public Housing business lines. This initiative was to be implemented in 2003-04 but deferred until 2005-06;*
- *Introduction of the new HomeNorth scheme on 1 July 2004. The scheme has been very successful to date, as such, he increased portfolio will result in an increase in interest received; and*
- *A 5-year financial plan detailing financial performance and strategies for improving performance by business line.*

In addition HBS is reviewing the methodology of costing its Community Service Obligations, which need to be clearly identified and costed against stated government policy for those activities that are outside normal commercial practice.

In this regard ongoing negotiation and discussions are to be held with Treasury, and once resolved it will have a positive impact on the profitability of HBS.
Agreed.

In relation to the key issue of the debtors' collection process:

Lost rent is a priority issue that will be reviewed across HBS, it is envisaged that that the review will result in the introduction of effective asset management processes and should result in a significant reduction in void losses in 2005-06.

In terms of the variances between TMS and the GAS GL systematic solutions are currently being investigated to resolve this long-standing issue.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Government Printing Office

KEY FINDING

- **In the current year GPO derecognised the deferred tax asset thereby removing the need to qualify the audit opinion.**

Audit opinion

The audit of the Government Printing Office (GPO) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 7 October 2004.

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

Prior year's qualified audit opinion

The audit opinion on the prior year's financial statement was qualified on the basis that management of the GPO had not satisfied 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.

In the current year GPO ceased to recognise the deferred tax asset thereby removing the need to issue a qualified audit opinion.

Auditing the Public Account and other accounts
Government Printing Office

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	2003
	$'000	**$'000**
Revenue from ordinary activities	6,019	5,184
Less expenditure from ordinary activities:		
Operational costs	3,387	2,974
Employee expenses	2,357	2,314
Depreciation and amortisation	277	264
Total expenditure	6,021	5,552
Net (loss) from ordinary activities	(2)	(368)
Add income tax (expense) credit	(166)	166
Net (loss) after income tax credit	**(168)**	**(202)**

Total revenue for the year increased by $835,000 (16.1%) due to an increase in revenue from the sale of goods from $5.103 million to $5.951 million. Other revenues from ordinary activities have decreased from $81,000 to $68,000.

Total expenditure increased by $469,000 (8.4%), predominantly due to the increase in other expenses from ordinary activities as a result of an increase in subcontractor expenses from $782,000 to $1.355 million. Personnel costs have remained relatively consistent with the prior financial year with the slight increase resulting from the pay increase during the financial year.

Auditing the Public Account and other accounts
Government Printing Office

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004	2003
		$'000	$'000
Current assets	1	2,530	2,187
Less Current Liabilities		1,014	878
Working capital		1,516	1,309
Add Non Current Assets			
Future income tax benefit	2	-	166
Property Plant and Equipment		965	1,173
Net Assets		**2,481**	**2,648**
Represented by:			
Equity			
Retained profits		2,108	2,275
Contributed equity		373	373
Total Equity		**2,481**	**2,648**

Explanatory notes:

1. Current assets have increased with increases to cash assets and receivables, which is consistent with the increased sales revenue and positive cash flow from operating activities with a close to breakeven operating result.

2. Future income tax benefit derecognised with the GBD failing to achieve a profit for the year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Northern Territory Treasury Corporation

KEY FINDING

- **The Corporation's management continue to be aware of business risks and have a positive attitude towards developing and maintaining strong internal controls.**

Audit opinion

The audit of Northern Territory Treasury Corporation (the Corporation) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 28 September 2004.

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 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.

Key issues

No issues to report.

Auditing the Public Account and other accounts
Northern Territory Treasury Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	2003
	$'000	$'000
Revenue from ordinary activities	187,896	193,314
Less expenditure from ordinary activities:		
Interest	160,108	167,046
Other expenses	890	828
Administration	1,924	1,870
Total expenditure	162,922	169,744
Profit from ordinary activities before income tax expense	24,974	23,570
Less income tax expense	(7,492)	(7,071)
Net profit from ordinary activities after income tax expense	17,482	16,499
Less Dividends	(14,355)	(16,499)
Retained profits	**3,127**	**-**

The profit from ordinary activities before tax increased by $1.4 million this financial year, from $23.6 million to $25.0 million. For new borrowings the Corporation achieved a cost of borrowing during the year of 5.78% (2003: 5.07%).

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	$'000
Total Assets	2,322,288	2,424,018
Less Total Liabilities	2,300,447	2,390,304
Net Assets	**21,841**	**33,714**
Represented by:		
Equity		
Retained profits	3,127	-
Contributed Capital	18,714	33,714
Total Equity	**21,841**	**33,714**

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 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 2004 resulted in an unqualified independent audit opinion, which was issued on 8 October 2004.

Background

NT Fleet was established in 1993 to manage the motor vehicles of the NT Government and in 1995 became a GBD. Most 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. Its revenues are derived from rental charges levied upon 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 2004

	2004 $'000	2003 $'000
Revenue from ordinary activities		
Revenue from vehicle lease rentals	27,268	26,462
Gross proceeds from sale of vehicles	19,613	20,001
Other revenues	342	497
	47,223	46,960
Less expenditure from ordinary activities:		
Cost of vehicles sold	17,941	18,351
Operational costs	8,762	8,688
Employee expenses	1,970	1,968
Depreciation and amortisation	11,506	11,079
Borrowing costs	76	137
Total expenditure	40,255	40,223
Profit from ordinary activities before income tax expense	6,968	6,737
Less income tax expense	(2,090)	(2,021)
Net profit from ordinary activities after income tax expense	4,878	4,716
Less Dividends	(2,400)	(2,358)
Retained profits	**2,478**	**2,358**

Revenue is earned from the hiring of motor vehicles to other government agencies and from the sale of vehicles at the expiry of lease periods. Revenue earned from the hiring of motor vehicles was slightly higher than last year. $19.613 million was received from the sales of assets, generating a net profit of $1.672 million compared to a profit of $1.650 million in the prior year. The increase in profit on the sale of vehicles was due to the strong sale prices received for some vehicle models, including most commercial vehicles. The average monthly fleet size increased from 2,167 in 2002/03 to 2,276 in 2003/04. Fleet size as at 30 June 2004 was 2,264 (2003: 2,197).

Operating expenditure has remained consistent with the prior year. Major movements within expenses included vehicle expenses, which increased from $6.611 million in 2002/03 to $6.765 million. Vehicle related expenses include vehicle registration, vehicle maintenance and other direct vehicle costs and the increase is attributable to the increase in average monthly fleet size during the year. This increase was offset to an extent by decreased agent service arrangement fees by DCIS of $121,000. All other operating expenses have not moved significantly as compared to prior year.

Auditing the Public Account and other accounts
NT Fleet

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004	2003
		$'000	$'000
Current assets			
Cash assets	1	4,241	6,787
Receivables and other current assets		898	566
Total current assets		5,139	7,353
Less Current Liabilities			
Payables		3,282	3,409
Interest bearing debt	2	-	2,250
Taxation, employee entitlements and other		4,926	4,817
Total current liabilities		8,208	10,476
Deficiency in working capital	1	(3,069)	(3,123)
Add Non Current Assets (Vehicle fleet)	3	67,882	65,458
Net Assets		**64,813**	**62,335**
Represented by:			
Equity			
Retained profits		64,308	61,830
Contributed equity		505	505
Total Equity		**64,813**	**62,335**

Explanatory notes:

1. The statement of financial position indicates that NT Fleet's liquidity is poor because of the 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.

2. Interest bearing debt was fully paid during the year.

3. The value of the vehicle fleet at year end increased over the prior year in line with the increase in fleet numbers at year end from 2,197 to 2,264 vehicles.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Territory Wildlife Parks

KEY FINDING

- **A valuation of all of the buildings and infrastructure assets was carried out by the Australian Valuation Office. Arising from the work done over the last two years, the GBD now has a record of assets that is current and reflects present day values.**

Audit opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 4 November 2004.

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

Accounting for Property, Plant and Equipment

As was the case in 2003, the major matter of concern with the audit related to the recording of assets in the accounting records, the reconciliation of the revaluation of the buildings and infrastructure and the presentation of fixed asset movements in the annual accounts. While this has been raised as a matter of concern, the situation was substantially improved over the previous year.

The main issues identified related to the differences between GAS and the Fixed Asset system. It was the existence of the errors in recording assets in the Fixed Asset system that became apparent on close examination of the supporting schedules, combined with the need to correct these errors after normal processing had closed for the year that made the reconciliation process more complicated.

A valuation of all of the buildings and infrastructure assets was carried out by the Australian Valuation Office. Arising from the work done over the last two years, the GBD now has a record of assets that is current and reflects present day values.

Auditing the Public Account and other accounts
Territory Wildlife Parks

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004 $'000	2003 $'000
Revenue from ordinary activities (excluding CSO)	2,124	1,871
Less expenditure from ordinary activities:		
Employee expenses	5,123	4,580
Depreciation and amortisation	1,716	1,908
Other expenses	4,655	4,934
Total expenditure	11,494	11,422
Operating loss before CSO	(9,370)	(9,551)
Community Service Obligation funding	9,103	8,526
Net Profit/(Loss) from ordinary activities	**(267)**	**(1,025)**

The overall loss for the year declined by $758,000, or 74% over the loss for 2003. The improvement partly represented higher income for the year and reduced overhead expenditure, offset by increased salaries and employee benefits. As one of the major expenses is depreciation, which is a non-cash charge, the cash flow from operations amounted to $1,225,000 despite the operating loss for accounting purposes.

Goods and services revenue increased by $157,000, or 8.7%, interest received increased by $97,000, or 138% and CSO contributions by $577,000, or 6.8%. Much of this increase may be attributed to the increased numbers of visitors to the Alice Springs Desert Park in the second half of the financial year, following the commencement of train services from Alice Springs to Darwin. Despite the increase in numbers this year, there are still several challenges to management to increase patronage even more having regard to the fact that:

- the numbers attending the park at Berry Springs are approximately 20,000 fewer than the numbers attending the Alice Springs Park despite the fact that Darwin has a greater population and arguably attracts more tourists; and
- the overall numbers are still lower than those achieved in 2001 and 2002, at least for the Alice Springs Desert Park.

A reclassification of $5.7 million from buildings to infrastructure resulted in a reduced depreciation charge for the year.

Auditing the Public Account and other accounts
Territory Wildlife Parks

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004	2003
		$'000	**$'000**
Current assets	**1**	1,715	2,472
Less Current Liabilities		1,030	1,023
Net Current Assets/(Liabilities)		685	1,449
Add Non Current Assets (primarily buildings and infrastructure)	**2**	33,410	34,580
Net Assets		**34,095**	**36,029**
Represented by:			
Retained profits		3,066	3,333
Contributed equity	**3**	13,926	15,847
Asset revaluation reserve	**2**	17,103	16,849
Total Equity		**34,095**	**36,029**

Explanatory notes:

1. Current assets consisting mostly of cash have decreased notwithstanding the positive cash flow from operations of $1.2 million due to a net equity withdrawal of $1.9 million and the purchase of $0.3 million of non current assets.

2. Non current assets consisting of property plant and equipment reduced by $1.17 million due to the net effect of revaluation increments totalling $0.254 million, additions of $0.292 million and depreciation expense of $1.716 million.

3. An equity withdrawal of $2.248 million was offset by an equity injection of $0.327 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Government Business Divisions (GBDs)

Territory Discoveries

There are no key findings

Audit opinion

The audit of Territory Discoveries for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 21 October 2004.

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 and international markets. 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.

Territory Discoveries' host Agency is the Northern Territory Tourist Commission.

Key issues

There are no key issues.

Auditing the Public Account and other accounts
Territory Discoveries

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	Notes	2004	2003
		$'000	$'000
Revenue from ordinary activities	1	5,679	3,228
Less expenditure from ordinary activities:			
Operational costs		3,078	3,303
Employee expenses	2	2,335	1,597
Depreciation and amortisation		38	62
Total expenditure		5,451	4,962
Net Profit/(Loss) from ordinary activities before income tax expense		228	(1,734)
Less income tax expense		-	-
Net Profit/(Loss) from ordinary activities after income tax expense		228	(1,734)
Less Dividends		-	-
Net Profit/(Loss)	**1**	**228**	**(1,734)**

Explanatory notes:

1. The profit resulted primarily from the change in classification of deficit funding from the Northern Territory Tourist Commission. These contributions are now made to Territory Discoveries as an operational subsidy. The financial effect of this change is that $2.484 million has been recorded as revenue this year, whereas previously it would have been shown as owner's contributions in equity.

2. This increase in revenue was offset by a 46% increase in expenditure relating to salaries and employee benefits that was predominantly caused by an increase in the number of employees during the year and wage increases relating to Enterprise Bargaining Agreements.

Auditing the Public Account and other accounts
Territory Discoveries

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	$'000
Current Assets		
Cash assets	4,697	5,898
Receivables	73	347
Total current assets	4,770	6,245
Less Current Liabilities		
Payables	1,304	3,536
Provisions and other	2,357	1,867
Total current liabilities	3,661	5,403
Working Capital	1,109	842
Add Non Current Assets	11	50
	1,120	892
Add Non Current Liabilities	-	-
Net Assets	**1,120**	**892**
Represented by:		
Equity		
Accumulated (Losses)	(4,557)	(4,785)
Contributed Equity	5,677	5,677
Total Equity	**1,120**	**892**

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of

Power and Water Corporation

There are no key findings

Audit opinion

The audit of Power and Water Corporation (the Corporation) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 13 October 2004.

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

Completion of financial statements

The Board delivered signed financial statements on 31 August 2004, however, subsequent amendments resulted in re-signing of the financial statements on 8 October 2004.

Auditing the Public Account and other accounts
Power and Water Corporation

Financial results

Abridged Statement of Financial Performance of the Consolidated Entity for the year ended 30 June 2004

	Notes	2004	2003
		$'000	$'000
Revenue from ordinary activities	1	479,708	447,869
Less expenditure from ordinary activities:			
Raw materials and consumables used	2	201,332	185,914
Borrowing costs		25,368	26,805
Cost of sales		1,886	855
Repairs and maintenance expenses	2	39,415	29,619
Employee expenses		46,960	47,332
Depreciation and amortisation		46,940	47,378
Property costs		2,780	2,655
Information technology and communication expense		9,361	9,745
Insurance costs		3,323	3,314
Recoverable amount write down		14,142	12,431
Other expenses		33,155	36,049
Total expenditure	2	424,662	402,097
Net Profit from ordinary activities before income tax expense		55,046	45,772
Less income tax expense		(14,818)	(13,672)
Net Profit/(Loss) from ordinary activities after income tax expense		40,228	32,100
Less Dividends		(20,046)	(20,000)
Retained profits		**20,182**	**12,100**

Explanatory notes:

1. Revenue from ordinary activities increased by $31.8 million or 7.1% over the previous year mainly due to increases in electricity sales, community service obligation funding, gifted assets and gas sales.

2. Total expenditure increased by $22.5 million or 5.6% over the previous year with the main increases being $9.8 million for repairs and maintenance expenses and $15.4 million for raw materials and consumables

Auditing the Public Account and other accounts
Power and Water Corporation

Financial results (continued)

Abridged Statement of Financial Position of the Consolidated Entity at 30 June 2004

	Notes	2004	2003
		$'000	**$'000**
Current assets	**1**	123,145	133,881
Less Current Liabilities	**2**	125,940	100,574
Working capital		(2,795)	33,307
Add Non Current Assets	**3**	928,115	908,746
		925,320	942,053
Less Non Current Liabilities	**4**	295,080	331,995
Net Assets		**630,240**	**610,058**
Represented by:			
Equity			
Contributed equity		-	-
Reserves		381,770	381,770
Retained profits		248,470	228,288
Total Equity		**630,240**	**610,058**

Explanatory notes:

1. Cash assets decreased due to $11 million paid towards long-term debt; $15 million for purchase of gas; $7 million for prepayment of turbines and $1.3 million for repairs and maintenance to gensets at Yulara.

2. The increase in current liabilities was due mainly to a current tax liability of $18.7 million.

3. Non current assets increased due to additions of $69.6 million partially offset by depreciation of $41.4 million and a reduction in deferred tax assets of $10.2 million.

4. Total non-current liabilities decreased mainly to a decrease in interest bearing liabilities of $22.2 million and a decrease in the deferred tax liability of $14 million.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Superannuation Funds

Northern Territory Government and Public Authorities Employees' Superannuation Fund

There are no key findings

Audit opinion

The audit of Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 1 October 2004.

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 2004 with the results provided in the Actuary's report dated 31 August 2004.

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 2004

	2004	2003
	$'000	$'000
Net investment (deficiency)	41,904	(1,137)
Member contributions	25,801	24,726
Member surcharge payments received	298	108
Territory contributions	37,372	34,822
Transfers and rollovers	29,215	23,120
Benefits expense	(72,514)	(69,334)
Other expenses	(707)	(726)
Revenue less expenses before income tax	61,369	11,579
Income tax expense	(4,999)	(2,524)
Change in Net Assets	**56,370**	**9,055**

Investment earnings of the fund strengthened in line with stronger investment earnings across the industry. Fund manager performance varied from 10.84% to 12.26% returns compared to the negligible and negative returns of the prior year.

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	$'000
Cash at bank and other assets	13,937	11,561
Investments	394,455	336,799
Total assets	408,392	348,360
Less Liabilities	28,278	24,616
Net Assets	**380,114**	**323,744**
Vested Benefits	924,900	797,500
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Superannuation Funds

Legislative Assembly Members' Superannuation Trust

There are no key findings

Audit opinion

The audit of the Legislative Assembly Members' Superannuation Trust for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 1 October 2004.

Background

Until recently, this was the only 'fully' funded superannuation scheme administered by the Government. That is, the vested benefit liabilities of the Trust 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 triennial Actuarial Review for the year ended 30 June 2004 was delivered on 28 July 2004.

Key issues

No issues to report.

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 2004

	2004	2003
	$'000	$'000
Net investment (deficiency)/revenue		
Sundry income	4	-
Interest and distributions	199	144
Changes in net market value of investments	3,898	(149)
Member contributions	365	350
Territory contributions	4,100	2,100
Benefits paid	(1,495)	(1,200)
Superannuation contribution surcharge	(310)	(233)
Other expenses	(6)	(6)
Surplus before income tax	6,755	1,006
Income tax expense	(619)	(317)
Change in Net Assets	**6,136**	**689**

The performance of the investments held by the Fund improved during the year, resulting in an increase in net market value of $3,898,027 compared to a decrease of $149,311 in 2003.

Total revenue compared to the prior year increased due to Territory contributions received of $4,100,000 (2003: $2,100,000), revenue from interest and dividends of $199,112 (2003: $144,417) and member contributions of $364,608 (2003: $349,530).

The increase in revenue was partly offset by an increase in lump sum benefits to $100,000 (2003: $0), an increase in pensions paid to $1,394,432 (2003 $1,200,009) and an increase in superannuation contributions surcharge tax to $309,639 (2003: $233,058). The increase in pensions and lump sum benefits was due to one exit during the year and an increase in basic member salaries on which pensions are indexed.

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

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	$'000
Cash at bank and other assets	2,325	195
Investments	36,112	31,620
Total assets	38,437	31,815
Less Liabilities	1,293	807
Net assets	**37,144**	**31,008**
Vested benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	44,079	40,193

Net assets now represent 84.27% of vested benefits (2003: 77.1%), a strengthening in the position of the Fund. The Actuary has suggested that the funding level of 70% of basic and additional salaries be paid for the three years to 30 June 2007, with an additional contribution of $0.5 million per year from the Territory to reduce the deficiency.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of Superannuation Funds

Northern Territory Police Supplementary Benefit Scheme

There are no key findings

Audit opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme (NTPSBS) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 1 October 2004.

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 2004 there were 167 (182 in 2003) members and 98 (88 in 2003) 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 2004

	2004 $'000	2003 $'000
Net investment (deficiency)	393	(37)
Contribution revenue	129	139
Benefits		
Refunds of accumulated contributions	(68)	(83)
Payment of accumulated contributions to the Territory	(245)	(233)
Superannuation contribution surcharge	(10)	(9)
Other expenses	(3)	(4)
(Deficit)/Surplus before income tax	196	(227)
Income tax expense	-	-
Change in Net Assets	**196**	**(227)**

The scheme's 2003/04 crediting rate of 13.86% compares to the negative rates of the last two years and is line with investment results for the industry and the investment profile of the scheme.

Abridged Statement of Financial Position at 30 June 2004

	2004 $'000	2003 $'000
Cash at bank and other assets	39	34
Investments	3,193	2,953
Total assets	3,232	2,987
Liabilities	178	128
Net Assets	**3,054**	**2,859**
Vested Benefits	23,200	22,800
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of:

Territory Insurance Office (TIO)

KEY FINDINGS

- **TIO's improved operating result can largely be attributed to the impact on outstanding claims provisioning of the increase in interest rates, improved investment returns, increased premiums without significant loss of business and decreased claim frequencies.**
- **For similar reasons MACA achieved a significant profit turnaround with an operating profit for the year of $13.8 million in comparison to a loss for the year of $21.9 million in the prior year.**

Audit opinion

The audit of the Territory Insurance Office (TIO) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 1 October 2004.

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 and 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

Recurring Issues

There are two recurring issues that require comment, namely:

- *Reinsurance protection charged to MACA* – The previous Auditor-General expressed concerns in respect of premiums charged to MACA for reinsurance protection on the basis of the price charged being in excess of what he believed to be commercially reasonable. Minor adjustments to the arrangement were made in 2003 and 2004, reducing the extent of the excess charge. My expectation is that the internal separation of MACA from TIO and the introduction of detailed Service Level Agreements will resolve this issue in 2005.

Auditing the Public Account and other accounts
Territory Insurance Office

Key issues (continued)

- *MACA allocations – Expense Analysis* – The previous Auditor-General also expressed concerns with respect to the expense analysis and allocation process at TIO, specifically in respect of the allocation of overhead costs to MACA. Though partially revised in response to comments in previous reports, the basis of overhead cost allocation used throughout 2004 may not have fully reflected the true activity undertaken in relation to the various business lines at TIO, thereby leading to cross subsidisation and implications for product pricing. Specifically, MACA may still have been subsidising the finance and general insurance business units, though I acknowledge that the overhead allocation again contained no profit element in 2004. I expect that this situation will also be remedied in the 2005 financial year, with the complete separation of MACA from TIO and the introduction of detailed Service Level Agreements.

Financial results

Summarised operating results for the year ended 30 June 2004	**TIO**		**MACA**		**Total**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Underwriting result:						
Net Premium revenue	46	45	34	32	80	77
Net Claims expense	(34)	(52)	(27)	(56)	(61)	(108)
Acquisition costs	(8)	(8)	(1)	(1)	(9)	(9)
Underwriting result (loss)	4	(15)	6	(25)	10	(40)
Other revenues and expenses:						
Interest receivable					32	28
Change in value of investments					5	(2)
Other investment income					22	18
Total investment revenue	42	36	17	8	59	44
Borrowing costs	(19)	(17)	(1)	-	(20)	(17)
Other costs and depreciation	(16)	(15)	(8)	(5)	(24)	(20)
Net other revenues and expenses	7	4	8	3	15	7
Net (loss) profit before tax	**11**	**(11)**	**14**	**(22)**	**25**	**(33)**

TIO, excluding MACA, incurred an operating profit after tax of $7.0 million for 2003/04 in comparison with the operating loss after tax of $7.5 million in 2002/03. The improved result can largely be attributed to the impact on outstanding claims provisioning of the increase in interest rates, improved investment returns, increased premiums without significant loss of business and decreased claim frequencies. For similar reasons MACA achieved a significant profit turnaround with an operating profit for the year of $13.8 million in comparison to a loss for the year of $21.9 million in the prior year.

Auditing the Public Account and other accounts
Territory Insurance Office

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	Notes	2004 $'million	2003 $'million
Assets			
Cash assets		91	91
Receivables		41	41
Investments	**1**	692	612
Reinsurance and other recoveries receivable		37	41
Other assets		28	29
Total Assets		**889**	**814**
Liabilities			
Outstanding claims	**2**	328	327
Unearned premiums		60	57
Interest bearing liabilities	**1**	404	358
Payables		27	24
Subordinated loans		26	25
Self insurance fund	**3**	1	16
Other liabilities		5	6
Total Liabilities		**851**	**813**
Net Assets		**38**	**1**
Represented by:			
Contributed equity	**3**	16	-
Retained profits (TIO General Insurance & Finance)		6	(1)
MACA reserve		16	2
Total Equity		**38**	**1**

Explanatory notes:

1. A positive cash flow from increases in savings and other deposits of $45.8 million together with cash inflows from operations of $32.5 million were invested in loans to customers.

2. The provision for outstanding claims hardly changed from the prior year. After the effect of economic and assumption changes overall reserves increased by approximately $1.1 million.

3. As a consequence of the loss for the year in 2002/03 and the subsequent impact on TIO's solvency the Northern Territory Government, on 26 September 2003, approved the transfer of the balance of $16.49 million of the Territory Self-Insurance Fund to contributed equity to improve the net asset position of General Insurance.

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of:

Northern Territory Legal Aid Commission

There are no key findings

Audit opinion

The audit of Northern Territory Legal Aid Commission (the Commission) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 17 November 2004.

Background

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

Key Issues

No significant issues came to light during the course of the audit.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	**2003**
	$'000	**$'000**
Revenue from ordinary activities	6,059	5,377
Less expenditure from ordinary activities:		
Depreciation	77	104
Salaries and employee benefits	2,980	2,567
Legal	1,991	2,004
Administration	818	464
Other	413	337
Total expenditure	6,279	5,476
Net (deficit)/profit from ordinary activities	**(220)**	**(99)**

Approximately 90% of the Commission's revenue is received in the form of grants from the Commonwealth and Northern Territory Government. The quarterly grant funding increased under both the Territory and Commonwealth agreements. In addition, the Commonwealth contributed an additional $191,000 from the previous year to make a total payment for expensive cases of $312,000.

The increase in expenditure is predominantly due to the increase in salaries and employee benefits expenditure and administration expenses. Legal costs have decreased as a result of cases being brought in house. All other expenditure items have remained relatively consistent with the previous year.

Auditing the Public Account and other accounts
NT Legal Aid Commission

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	$'000
Current assets	3,781	4,045
Less Current Liabilities	803	923
Net Current Assets	2,978	3,122
Add Non Current Assets	545	582
	3,523	3,704
Less Non Current Liabilities	134	96
Net Assets	**3,389**	**3,608**
Represented by:		
Reserves	3,300	3,300
Accumulated funds	89	308
Total Equity	**3,389**	**3,608**

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 2004 audited financial statements of:

Jabiru Town Development Authority

KEY FINDING

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

Audit opinion

The audit of the Jabiru Town Development Authority (the Authority) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 7 December 2004.

Background

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

The NT Government provided loan funds of $8.4 million for over-designed services, mainly water supply and sewerage facilities, constructed to facilitate expansion of the town to its final estimated population. During the period January 1984 to June 1986 this debt grew by $0.4 million, being net unpaid interest, to $8.8 million. In August of 1986 a moratorium, which was still in place at 30 June 2004, was granted on the Authority's future interest and loan repayments on existing loans.

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

Key issues

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

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

Auditing the Public Account and other accounts
Jabiru Town Development Authority

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	2003
	$'000	$'000
Revenue from ordinary activities	241	210
Less expenditure from ordinary activities:		
Administration expenses	106	47
Amortisation of town infrastructure	63	62
Total expenditure	169	109
Net (loss)/profit	**72**	**101**

Current year revenue includes an operational grant of $31,385 from the Department of Community Development, Sport and Cultural Affairs. Expenditure increased by $59,000 mainly due to the payment of grants totalling $48,000 to the Jabiru Town Council for the childcare centre and lake walkway. The Authority also provided dollar for dollar funding to the Council of $15,800 in relation to the childcare centre.

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	$'000
Current Assets	3,815	3,693
Less Current Liabilities	17	30
Working Capital	3,798	3,663
Add Non Current Assets	1,795	1,858
	5,593	5,521
Less Non Current Liabilities	8,805	8,805
Net (Deficiency)	**(3,212)**	**(3,284)**
Represented by:		
Equity		
Accumulated (Deficit)	(3,212)	(3,284)
Total Equity	**(3,212)**	**(3,284)**

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 audited financial statements of:

Cobourg Peninsula Sanctuary and Marine Park Board

KEY FINDING

- **Cobourg Peninsula Sanctuary and Marine Park Board recorded a surplus from ordinary activities was $88,000 (2002/03 – deficit $69,000). The improvement in the operating results of the Board is primarily due to a change in the way the liability to traditional owners was recognized in the accounts.**

Audit opinion

The audit of the Cobourg Peninsula Sanctuary and Marine Park Board (the Board) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 6 December 2004.

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

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, i.e. by 30 September 2004. This requirement was not met as the final signed financial statements were not made available to my Office until November 2004.

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

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	2003
	$'000	**$'000**
Park Income	258	369
Payments to traditional owners	(147)	(337)
Other revenue	71	86
Revenue from ordinary activities	182	118
Less expenditure from ordinary activities:		
Operational costs	88	182
Depreciation and amortisation	6	5
Total expenditure	94	187
Net Profit/(Loss)	**88**	**(69)**

In previous years, the liability to pay traditional owners was recognized at the same time as the receivable from the concessionaire. This policy placed the Board at a disadvantage if the concessionaire failed to meet its obligations. In 2003/04, payments were made to traditional owners only after monies were received from the concessionaires.

Park Income for 2003/04 decreased by $111,000 compared to the prior year. A significant component of the revenue recognised for 2002/03 related to revenues of earlier financial years which was not previously recognized. The decrease in revenue for 2003/04 is matched by a corresponding decrease in the payment to traditional owners. Payments to traditional owners were also affected by the change in the way the liability to traditional owners is recognized in the accounts.

Abridged Statement of Financial Position at 30 June 2004

	2004	2003
	$'000	**$'000**
Current Assets	327	387
Less Current Liabilities	74	228
Working Capital	253	159
Add Non Current Assets	14	19
	267	178
Less Non Current Liabilities	-	-
Net Assets	**267**	**178**
Represented by:		
Equity		
Accumulated Surplus	267	178
Total Equity	**267**	**178**

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 financial report of:

Northern Territory Major Events Company Pty Ltd

KEY FINDING

- **The company's operating loss for the year was able to be funded from existing reserves which at year end had been reduced to $14,000. This emphasises the Company's dependency on government funding for its operations.**

Audit opinion

The audit of Northern Territory Major Events Company Pty Ltd (the Company) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 17 December 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.

Key issues

The company's operating loss for the year was able to be funded from existing reserves which at year end had been reduced to $14,000. This emphasises the Company's dependency on government funding for its operations.

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 2004

	2004	2003
	$'000	$'000
Revenue from ordinary activities before government grants	1,970	2,708
Less expenditure from ordinary activities:		
Employee expenses	481	480
Depreciation	2	2
Other	3,972	2,470
Total expenditure	4,455	2,952
Net (loss) from ordinary activities before government grants	(2,485)	(244)
Add Government grants	2,163	646
Net profit (loss) from ordinary activities	**(322)**	**402**

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 are as follows:

	2004	2003
	$'000	$'000
Ticket revenue	1,694	1,487
Less expenditure:		
Race sanction fees	650	575
Other race expenses	2,022	1,652
Total expenditure	2,672	2,227
Operating (loss) from holding race before government grant	(978)	(740)
Government grant	820	-
Net assets transferred from Hidden Valley Promotions Pty Ltd	-	1,173
Operating profit/(loss) from holding race	**(158)**	**433**

The company also provided funding to the following events.

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

Financial results (continued)

Event	**2004**	**2003**
	$'000	**$'000**
Bass in the Grass	503	-
25 years of self government	488	-
Finke Desert Race	47	51
World solar car challenge	18	-
Barkly May day muster	33	-
Central bike challenge	20	-
NT Tropical Garden Spectacular	-	36
Alice Springs Outback adventure	-	20
NT Show summit	-	3
Tenant Creek Go Karts	-	1
	1,109	**111**

Abridged Statement of Financial Position at 30 June 2004

	2004	**2003**
	$'000	**$'000**
Current assets	696	2,529
Less Current Liabilities	690	2,200
Net Current Assets	6	329
Add Non Current Assets	8	7
Net assets (liabilities)	**14**	**336**
Represented by:		
Contributed equity ($2)	-	-
Accumulated profits (losses)	14	336
Total equity	**14**	**336**

Auditing the Public Account and other accounts

Analysis of the 30 June 2004 financial report of:

Territory Motor Sports Board Pty Ltd

KEY FINDING

- **The Auditor-General was first appointed auditor of the Company for 2003/04.**
- **The Company is reliant on the NT Government for continued operational funding.**

Audit opinion

The audit of Territory Motor Sports Board Pty Ltd (the Company) for the year ended 30 June 2004 resulted in an unqualified independent audit opinion, which was issued on 4 November 2004.

Background

The Company is limited by guarantee with the Minister for Sport and Recreation being the sole guarantor. The Company was established to manage, operate, control and further develop the Hidden Valley motor sports complex for the benefit of motor sports in the Territory. The Company took over the assets of the Northern Territory Motor Sports Council Inc on the 1 January 2001.

The Auditor-General was first appointed auditor of the Company for 2003/04.

I did not audit the Company for the period from the Company's inception to 30 June 2003 nor did I audit the Northern Territory Motor Sports Council Inc.

Key issues

The Company recognised for the first time in 2003/04 the value of land and infrastructure assets acquired from the NT Government at nil consideration during the current and past years by the Company and by its predecessor the Northern Territory Motor Sports Council Inc.

Auditing the Public Account and other accounts
Territory Motor Sports Board Pty Ltd

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2004

	2004	2003
	$'000	**$'000**
Revenue from ordinary activities before government grants	15,211	342
Less expenditure from ordinary activities:		
Employee expenses	106	106
Depreciation	1,505	44
Other	398	331
Total expenditure	2,009	481
Net Profit/(Loss) from ordinary activities before government grants	13,202	(139)
Add Government grants	90	106
Net Profit/(Loss) from ordinary activities	**13,292**	**(33)**

The surplus for the year of $13.2 million was attained after including as income a net amount of $14.9 million, representing the value of land, buildings and infrastructure assets not previously recognised in the financial statements. This is a non-recurring item and reflects the intention of the Board to ensure that the financial statements reflect all of the assets controlled by the Company.

As the valuation was completed as at 1 August 2003 the depreciation charge was calculated from 1 August 2003 to 30 June 2004. The total expense for the year increased by $1.46 million compared with 2003, representing the depreciation of these assets.

With the elimination of the effects of these accounting transactions, the company incurred an overall loss of $173,996. The existence of the underlying loss emphasises the extent to which the company is reliant on the Government for its operating income.

Auditing the Public Account and other accounts
Territory Motor Sports Board Pty Ltd

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2004

	2004	**2003**
	$'000	**$'000**
Current assets	167	379
Less Current Liabilities	130	210
Net Current Liabilities	37	169
Add Non Current Assets	13,818	394
Net assets (liabilities)	**13,855**	**563**
Represented by:		
Contributed equity	-	-
Accumulated profits (losses)	13,855	563
Total equity	**13,855**	**563**

Being a Company limited by guarantee there is no contributed equity.

Notwithstanding its apparent 'asset rich' position the Company has a poor liquidity history with net cash outflows from operating activities of $12,000 to $13,000 over the last two years.

The non current assets of the Company consist mostly of the land, buildings and infrastructure of the Hidden Valley motor sports complex and are not able to be readily realised by the Company other than in its normal activities of operating the complex.

As noted earlier the Company is reliant on the NT Government for continued operational funding.

Matters arising from performance management system audits

Matters arising from performance management system audits

Department of Justice

Northern Territory Police, Fire and Emergency Services

Review of IT controls over IJIS

KEY FINDING

- **Key general computer controls over the IJIS system were found to be effective. Significant application management issues were identified in the areas of user access maintenance, strategic planning and data quality monitoring.**

Background

The Integrated Justice Information System (IJIS) is a computer system used for the recording and management of justice and police information by several NT Government agencies. It was implemented in 1992.

IJIS has approximately 2500 users, the majority of whom are from Northern Territory Police, Fire and Emergency Services (NTPFES).

IJIS operates on the DCIS mainframe and is supported by Fujitsu under the whole of Government mainframe applications support agreement.

The NTAGO last conducted an IT audit on IJIS in 1998 as part of a wider audit on how IT supports the business needs of the Office of Courts Administration. Previous IT audits were completed in 1994 and 1996.

Audit objectives and scope

The objective of this audit was to assess the Information Technology (IT) controls in place for the Integrated Justice Information System (IJIS).

Our findings are based on a review of documents including previous reports and selected IJIS supporting documentation, system walk throughs and discussions with a number of DOJ and NTPFES personnel.

The following areas were addressed in the review:

- General Computer Controls
- Application Controls (including appropriateness of user access)
- Interface controls for key interfaces
- Strategic management of the system to determine whether processes are in place to ensure that the application is meeting the needs of its users.

Matters arising from performance management system audits IJIS

Audit objectives and scope (continued)

The following areas of control are managed by the Department of Corporate Information Services. These controls were tested as part of a separate annual audit of mainframe general computer controls and were therefore not tested as part of this review:

- Backup media management and storage
- Mainframe batch processing controls
- RACF security management
- Mainframe physical security management
- Data Centre Services infrastructure and software change management processes.

Audit findings

Audit Opinion

Key general computer controls over the IJIS system were found to be effective. Significant application management issues were identified in the areas of user access maintenance, strategic planning and data quality monitoring.

Specific findings

Strategic Planning

There is currently no strategic plan outlining the future direction for the IJIS system. A number of personnel in management positions, interviewed during the review, across respective user groups, identified possible directions for IJIS however these have not been captured and incorporated into an IT strategic plan for IJIS. A lack of a co-ordinated strategic direction for IJIS is impacting on the effectiveness of the budget allocation process for IJIS initiatives and the ability to effectively take advantage of emerging technologies to improve the IJIS system. It is understood that the DOJ have not developed or progressed their IT strategic plan as they were awaiting a Cabinet decision on the future of the mainframe.

Enhancements to the IJIS system are therefore not able to be evaluated against an endorsed strategy for the IJIS system. There is a significant risk of changes being made to the application which are not consistent with the medium to long term requirements for all key user groups of the system.

An IJIS Steering Committee is meeting quarterly to monitor and approve requested IJIS changes. A terms of reference for this committee has not yet been formally established. To supplement this committee, an IJIS User Group is being implemented to facilitate the identification and resolution of cross-user-group issues such as data quality.

A number of key IJIS users have been identified by the IJIS support team to represent different user groups for reviewing and authorising application changes. This initiative needs to be extended to formally identify information owners, along with defined responsibilities for information owners. This should result in effective security and data quality controls over the IJIS system.

Matters arising from performance management system audits
IJIS

Specific findings (continued)

Security

The mainframe running IJIS is supported by DCIS and is situated in a secure and environmentally protected data centre.

Procedures are in place for the management of RACF user access. User authentication is managed through RACF, which is administered by DCIS.

Procedures are in place within DOJ and NTPFES to validate user access requests prior to implementation. The documentation of IJIS user access requests needs to be improved at NTPFES. In some cases, these requests may not be documented in a standard form or email.

DOJ IJIS users can currently request password resets by placing a call with the IJIS Support Group. Controls over password resets will be enhanced in the short term as e-pass is further implemented within DOJ.

There are no processes in place for ongoing validation of existing user access within IJIS. A number of users within IJIS no longer require access to the application and in some instances are not current NT Government employees. A management review of IJIS user access should be undertaken as a matter of priority.

Exceptions were also identified where users have inappropriate access to the IJIS datasets on the mainframe.

Operations

There are a significant number of batch processes, reports and security groups active within the application that are no longer being used. These items not only incur unnecessary mainframe processing and associated mainframe costs, but also increase the time required to perform day to day maintenance and support of the system. Significant house-keeping activities should be undertaken to eliminate unnecessary batch processes, reports and security groups. This may result in cost savings in the mainframe environment.

Data backups and batch processing controls are in place and are being maintained by the DCIS data centre. There is no service level agreement in place to specifically define the DOJ requirements for these controls.

Appropriate controls are in place for supporting IJIS users. An IJIS support function has been established within DOJ and NTPFES.

Application and Database Change Management

Users place requests for changes to the IJIS application and database with the DOJ IJIS Support Group. Changes must be approved by an authorised IJIS approver from the business unit requesting the change. Change requests are entered into a ‘Service Request Database’ by the DOJ IJIS Support group so that the progress of the change can be tracked.

Matters arising from performance management system audits IJIS

Specific findings (continued)

Changes are developed by the outsourced application support provider, Fujitsu. These changes are then subject to testing by the DOJ IJIS Support Group and relevant users.

Change management procedures and responsibilities have not been documented.

Exceptions were identified where changes did not have supporting evidence of user acceptance testing.

User guidelines for key functions within IJIS have been developed and are maintained by individual business units in conjunction with the DOJ IJIS support team. A number of IJIS procedures are still being drafted by business units within DOJ.

Data Entry Controls

Based on the sample data input screens reviewed, the use of data input edit and validation controls appears appropriate. Controls such as field completeness checks, data validation, field format checks and automatic field pre-population are being used.

Due to the limited information available when creating new IJIS records, a high degree of flexibility is required in IJIS to enable partially complete records to be established. Data input controls can therefore not be fully implemented to prevent issues such as record duplication or invalid addresses.

During our testing of data entry screens, one exception was noted where a mandatory field check should be implemented.

Data Quality Controls

Key data quality concerns raised by key users interviewed during the audit included:

- Duplicate records (generally arising from users often having insufficient information at the time of data entry to confirm the identity of a person.)
- Invalid addresses – (generally arising from users having insufficient information at the time of data entry to confirm address details.)
- Stale outstanding warrants (arising from instances of Police not updating the system when warrants have been executed or where warrants have not been executed.) There are approximately 10,000 open warrants in the system, of which the financial warrants have a value of $4.7 million.

Current initiatives to address these data integrity concerns are having limited success. In some cases, exception reports are not being monitored and therefore potential errors are not being investigated. Existing exception reports only report on recent changes and do not report on historical data.

Matters arising from performance management system audits
IJIS

Specific findings (continued)

Interfaces

The following interfaces are being used to connect IJIS to external systems:

- Westpac Bank (B-Pay and Net-Direct Payments – batch upload)
- Centrelink (Welfare Deduction Payments – batch upload)
- Australia Post (Bill-Pay Payments – batch upload)
- Motor Vehicle Registrations (Licence Cancellations – real time)
- Darwin City Council (Infringements – batch upload)

Appropriate manual and automated controls are operating over these interfaces to verify the validity, completeness and accuracy of each interface.

Recommendations

1. Strategic planning processes should be implemented to ensure that medium – long term business requirements in relation to IJIS are identified, evaluated and planned. This should be part of an annual business and IT Strategic Planning cycle. The strategic planning cycle should take into account strategies being adopted by other related Agencies such as Police and the Transport Legal Branch. The budget should be linked to the strategy to ensure that IJIS initiatives are adequately resourced. An IT architecture standard should be established for future systems.

2. The terms of reference for the IJIS Steering Committee should be formalised. The IJIS User Group should be implemented as planned. The User Group terms of reference should be expanded to specifically include improving data quality.

3. Information owners should be clearly assigned for each key component of IJIS information. Information owner responsibilities should be defined and endorsed by the IJIS User Group and IJIS Steering Committee.

4. The importance of not hard-coding the user ID and password for mainframe access into a personal computer should be reiterated to all users of the IJIS system.

5. To support a consistent understanding and application of change management controls, detailed procedures should be established, and distributed to all relevant staff, to address the following aspects of application / database change management:
   - Definition of the different classifications (eg by size or impact) of changes and the associated change management requirements.
   - A definition of key roles and responsibilities applicable to IJIS application or database changes.
   - The protocol for requesting and authorising application enhancement requests.
   - Guidelines regarding when testing should be performed and who should perform testing.
   - A requirement to retain appropriate change management documentation (eg test plans and sign-offs) in order to provide an audit trail of changes implemented.
   - Requirements for assessing the impact on changes across multiple functional groups.

Matters arising from performance management system audits IJIS

Recommendations (continued)

6. A user access review process should be established to verify the appropriateness of user access within the IJIS application on a regular basis (at least annually). Key users within each business unit that uses IJIS should be responsible for performing the review for their respective users. The Department of Justice IJIS Support Group should monitor this process and ensure every user account is being subject to regular review.

7. The IJIS Support Team at Police should only accept user access change requests on the NTPFES Computer Access Application Form or via email. No access requests should be actioned without appropriate supporting documentation. The Department of Justice IT Access Request Form should be updated to discourage users requesting access which is the "same as" another user. Instead, the form should require a specific indication of what the user requires access to within IJIS. To simplify this, a guide could be prepared and made available to supervisors that specifies which IJIS access groups are required for common job roles.

8. The IJIS User Group should implement processes to identify and address data quality issues on an ongoing basis. A review should be undertaken of current initiatives (eg exception report handling) for improving data quality. In addition, processes should be implemented to address historical data quality issues. Clear guidelines should be prepared for users that are required to review and follow up exception reports. Business units receiving the reports should then be educated on how the reports should be reviewed and followed-up.

9. The IJIS User Group should implement a formalised training requirements analysis and planning process, to ensure that all users are receiving an adequate level of training.

10. A review should be undertaken to identify which fields within IJIS are sensitive to fraudulent or unauthorised changes. Controls should then be implemented to perform independent verification of changes being made to these fields. This may involve developing automated exception reports of changes which are independently verified against documentation. The IJIS User Group could be used as an appropriate forum to drive this initiative.

11. The IJIS support personnel should perform a regular review of access to all IJIS datasets. The inappropriate user access of previous Fujitsu employees should be removed as soon as possible. A process should be implemented to ensure that employee and service provider movements are updated within the mainframe security environment.

Matters arising from performance management system audits
IJIS

DOJ has commented:

The Department of Justice (DOJ) agrees with your recommendations with the exception of recommendation 7 (see below). DOJ has already implemented a number of the recommendations through procedural and work practice changes. The DOJ remains committed to significantly improving the administration of the Integrated Justice Information System (IJIS) and its other corporate information systems. To this end Risk Management Services was commissioned in 2004 to review the effectiveness of the Department's IT management framework with a view to providing strong linkages between strategies and objectives, its IT processes, IT resources and information across the organisation structure.

The Department has established an Information Management Committee in line with the Risk Management Services report to provide clear strategic leadership and direction to maximise the Department's investment in Information, Communication and Technology (ICT). The group will convene in February 2005.

In relation your Recommendation 7 the suggested change to the existing practice of allocating security privileges based on access 'same as' another user is not accepted. IJIS and many other organisational systems use the same role/profile based security model. An internal education campaign will be launched in 2005 for Line managers/system owners to ensure that appropriate levels of access are allocated to specific roles. It should be noted that access to most other NTG systems is also based on this framework.

NTPFES has amended its processes to ensure user access change requests are only actioned via a supervisors e-mail approval or a signed Access Application Form.

Matters arising from performance management system audits IJIS

NTPFES has commented:

In relation to recommendation 1 – Strategic planning:

Noted and to be addressed with the Department of Justice.

The NTPFES will work jointly with the Department of Justice to address strategic issues surrounding the future use of IJIS.

In relation to recommendation 4 – Passwords:

This is noted and has been addressed.

We have resolved the issue in relation to the "storing" (hard-coding) of a mainframe password through the use of the current Mainframe Emulation software installed on NTPFES personal computers. The software cannot be configured to stop NTPFES users from taking this action, but a solution has been implemented whereby the "stored" (hard-coded) mainframe password is deleted whenever the NTPFES user logs off their personal computer.

Additionally, this practice was not found to be widespread but was in fact only found to be used by a single NTPFES user during the course of the audit.

In relation to recommendation 7 – User access change requests:

Approvals for user access is noted and has been addressed. Modelling of user access is noted and to be addressed with the Department of Justice.

Processes have been changed within NTPFES to ensure user access change requests are only actioned via a supervisor's e-mail approval or a signed Access Application Form. In relation to the second part of this recommendation, concerning roles and user access not being modelled on other users, more work will need to be undertaken with the Department of Justice.

Matters arising from performance management system audits

Department of Health and Community Services

Department of Justice

An IT review of the One Staff Rostering System

KEY FINDING

♦ **Key general computer and application controls tested within the One Staff Rostering system computer environment were found to be effective.**

Background

The One Staff Rostering System (One Staff) replaced the previous IT rostering system, ANSOS, at the Royal Darwin Hospital (RDH) in 1996. One Staff is currently utilised in all 5 Department of Health and Community Services (DHCS) Hospitals, the Mental Health Services Darwin, Alice Springs Correctional Centre and the Darwin Correctional Centre. It is used for rostering of the following:

- Nursing Staff (Darwin, Gove, Katherine & Alice Springs)
- Medical and Support Staff (Darwin & Katherine)
- Prison Officers, Support Staff and Prison Management (both prisons).

The One Staff application operates in a Windows NT, Citrix thin client environment. It is an "off the shelf" package that has had limited customisation. The Windows NT operating system is now unsupported by Microsoft, however plans are in place to upgrade this to Windows 2003.

The system is owned and maintained by DHCS. The Correctional Services division of the Department of Justice (DOJ) implemented the system in 2000 and rely on DHCS for administration and support for the system.

An external provider, Dialog, has been contracted to provide ongoing database administration and support for One Staff and other small systems.

A maintenance and licence agreement is in place with the vendor, Per-sé, which includes software upgrades as they become available.

The IT infrastructure supporting One Staff is managed by Hewlett Packard (HP) under a whole of Government support agreement.

Audit objectives and scope

The objective of the audit was to assess the Information Technology (IT) controls in place for the One Staff Rostering System.

The findings are based on a review of documents including previous reports and selected One Staff supporting documentation. The findings are also based on system walkthroughs and discussions with a number of DHCS and DOJ personnel.

Matters arising from performance management system audits
One Staff Rostering System

Audit objectives and scope (continued)

The following areas were addressed in the review:

- General Computer controls
- Application Controls (including appropriateness of user access)
- Interface controls for key interfaces
- Strategic management of the system to determine whether processes are in place to ensure that the application is meeting the needs of its users.

This review did not include a detailed security assessment of the servers supporting One Staff.

Audit findings

Audit Opinion

Key general computer and application controls tested within the One Staff Rostering system computer environment were found to be effective.

Specific findings

Strategic Management

The Nursing Director Information Management, as owner of the Rostering system, is responsible for liaising with the key users and ensuring that the system is meeting the requirements of each site. The Director is also responsible for oversight of application modifications and upgrades and the Director consults with the key users at each site at least every two months to discuss forthcoming changes, issues with the system and enhancement requests.

Strategic planning processes for the One Staff application are relatively informal, however user requirements for One Staff change infrequently. There have only been three functionality upgrades (provided by the vendor) in the past 18 months. There are no immediate plans to request major enhancements.

Security

In order for users to access One Staff, they are required to log onto the NT Government network, and then run a Citrix Metaframe session. The application is served via a farm of Citrix Metaframe servers. There are no access restrictions imposed by the Citrix software, therefore any user with a network connection and a Citrix session could connect to the application. A One Staff User ID and password are required to access the application.

Formal procedures are in place for the management of One Staff user access, which is maintained by the One Staff Help Desk at RDH (Nursing support). A procedure is in place to identify user obsolescence on a regular basis; however this does not address the appropriateness of privileges assigned to users which may be inappropriate with changes in job functions of users.

Matters arising from performance management system audits
One Staff Rostering System

Specific findings (continued)

The One Staff server is located in a secure computer room facility at the Royal Darwin Hospital.

Operations

The HP server support team are responsible for backing up the One Staff system on a daily basis.

First level user support is provided by the Nursing Support team. Additional support is available from Dialog and Per-sé.

Application Change Management

All changes to the One Staff system are performed in accordance with the DHCS IT Change Control Policy. This process includes controls to ensure that all changes are appropriately planned, approved, tested and documented.

Upgrades to One Staff are received from the product vendor Per-sé and implemented by Dialog, under the direction of the System Owner.

Application Controls

During the review, a walk through was performed of key functionality within the One Staff application and observed appropriate input edit and validation controls operating within key data fields. Completeness checks, data validation, field format checks and automatic field pre-population are being used effectively.

In 1996, an interface was implemented allowing One Staff to communicate directly with the NT Government Payroll system (PIPS). This provides information to PIPS for payroll additions such as overtime and penalties. Separate interface files are uploaded for each division within One Staff prior to the fortnightly pay run. Appropriate manual and automated controls are operating over the interface to verify the validity and accuracy of each data transfer. However, there are some risks in relation to the completeness of the file. Data validation is automatically performed based on predefined business rules when the One Staff interface files are uploaded to the mainframe and when the data is uploaded into PIPS. Exceptions to the business rules are listed in validation reports that are reviewed by DCIS and the One Staff super users. In some instances, manual adjustments are made to the data to correct data abnormalities that cannot be handled by PIPS.

User training manuals and guidelines have been developed by the Nursing Support team for key aspects of One Staff. These are distributed to key users.

The system maintains audit trail information that can be used to investigate actions performed within the system. This information includes user, date and time of an activity.

A number of recommendations were made to the management of DHCS in regard to the above findings.

Matters arising from performance management system audits
One Staff Rostering System

DHCS has commented:

The Department notes the overall positive key findings that key general computer and application controls tested within the One Staff Rostering System computer environment were found to be effective and this is very reassuring.

The Department agrees with the Report's comments in relation to Strategic Management issues and will institute consultation with key users on a regular more formal basis to ensure priority product enhancements are identified and actioned by the vendor.

Action has been initiated to address issues with Citrix software security and ensure appropriate assignment of One Staff System access privileges.

The Department has taken on board the recommendations in relation to current processes relating to the One Staff/PIPS interface and is working with DCIS to implement a range of measures including changes to the PIPS software to improve data transfer and data validation processes.

Appendix 1 - Audit opinion reports issued since 30 June 2004

	Date 2003/04 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2004	Date of Audit Report Year ended 30 June 2003
Sec 9 *Financial Management Act*			
Treasurer's Annual Financial Statement	14 October 04	11 October 04	13 October 03
Government Business Divisions; Sec 10 *Financial Management Act*			
Construction Division	1 December 04	9 November 04	29 September 03
Darwin Bus Service	1 December 04	12 October 04	1 October 03
Darwin Port Corporation	1 December 04	12 October 04	9 October 03
Government Printing Office	2 December 04	7 October 04	17 October 03
Data Centre Services	2 December 04	7 October 04	15 October 03
NT Fleet	2 December 04	8 October 04	3 November 03
Northern Territory Treasury Corporation	14 October 04	28 September 04	29 September 03
DCDSCA: Housing Business Services	2 December 04	16 November 04	23 October 03
Territory Wildlife Parks	1 December 04	4 November 04	7 November 03
Territory Discoveries	30 November 04	21 October 04	31 October 03
Government Owned Corporation Sec 42 *Government Owned Corporations Act*			
Power and Water Corporation	14 October 04	13 October 04	29 September 03
Entities to which Sec 10 *Financial Management Act* applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	6 December 04	21 November 03
Jabiru Town Development Authority	Not yet tabled	7 December 04	20 February 04
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	Not yet finalised	21 November 03
NT Grants Commission	1 December 04	15 November 04	16 October 03
Surveyors Board of the NT	Not yet tabled	1 December 04	12 November 03
Territory Insurance Office	1 December 04	1 October 04	15 October 03

Appendix 1 - Audit opinion reports issued since 30 June 2004

	Date 2003/04 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2004	Date of Audit Report Year ended 30 June 2003
Agency Financial Statements at the request of the Agency			
NT Tourist Commission	30 November 04	25 October 04	31 October 03
Other Entities/Separate Acts/Trust Deeds			
Desert Knowledge Australia	14 October 04	13 October 04	N/A
Legislative Assembly Members' Superannuation Trust	6 October 04	1 October 04	26 September 03
Northern Territory Government and Public Authorities Employees Superannuation Fund	14 October 04	1 October 04	26 September 03
Northern Territory Major Events Company Pty Ltd	N/A	17 December 04	6 January 04
Northern Territory Police Supplementary Benefits Scheme	N/A	1 October 04	30 September 03
NT Legal Aid Commission	Not yet tabled	17 November 04	27 October 03
Territory Motor Sports Board Pty Ltd	N/A	4 November 04	N/A
Common Funds of the Public Trustee	Not yet tabled	29 November 04	27 February 04

Appendix 1 - Audit opinion reports issued since 30 June 2004

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2004	Date of Audit Report Year ended 30 June 2003
Inter-Government Statements By Legislation			
Australian Land Transport Development	31 December 04	22 December 04	11 December 03
Interstate Road Transport	31 December 04	22 December 04	5 December 03
Local Government Financial Assistance	ASAP	15 November 04	7 October 03
By Agreement			
Commonwealth-State Housing Agreement	31 December 04	19 November 04	10 December 03
Indigenous Housing Authority of the Northern Territory	30 September 04	10 September 04	5 December 03
National Disaster Relief Arrangements	31 December 04	Not yet finalised	11 December 03
By Agreement	**Deadline for submission of Audited Financial Statements**	**Date of Audit Report Year ended 31 December 03**	**Date of Audit Report Year ended 31 December 02**
Australian National Training Authority Agreement	30 September 04	16 July 04	24 September 03
Australian National Training Authority Agreement 2001 to 2003 Framework for Funding for Growth	30 June 04	22 October 04	26 September 03
By Legislation			
Vocational Education and Training Financial Data	30 September 04	29 July 04	31 July 03

Not yet finalised - as at 31 December 2004

Not yet tabled - as at 31 December 2004

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 2004

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 August 2004 Report as being scheduled for the period.

Charles Darwin University		
A review of the University's spend of the additional funds advanced by the NT Government to fund salary increases	In progress	
Department of the Chief Minister		
An audit of change management at Risk Management Services and assessment of the success of its internal audit program	Refer pages	47- 48
Northern Territory Treasury		
An IT audit of TAXAD	Refer page	44
An IT audit of the systems in Racing, Gaming and Licensing	Refer pages	45 - 46
Selected Agencies		
A compliance audit of ex Gratia payments and legal settlements at DHCS, DIPE and DEET	In progress	
A review of IT controls over IJIS at DOJ and NTPFES	Refer pages	110 - 117
A review of one staff rostering system at DHCS and at DOJ (Corrections)	Refer pages	118 - 121
A review of fraud control arrangements at selected agencies	Refer pages	39 - 43
Engagement of Metis Consulting to provide consultancy services to NT Government Agencies	Refer November Report to the Legislative Assembly	

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

Department of the Chief Minister	
PMS audit of change management at Risk Management Services and assessment of the success of its internal audit program	Rescheduled – refer above
PMS audit of the Office of Territory Development	Scheduled for 2005
Department of Business, Industry and Resource Development	
Review effectiveness reporting in Agency's 2002/03 annual report	Cancelled
Department of Justice	
Controls over Judges' leave and allowances	Cancelled

Appendix 3
Proposed audit activity in the six months ending 30 June 2005

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 Community Development, Sport and Cultural Affairs

Pool fencing payments

IT audit of grant management system

Department of Corporate and Information Services

Review of procurement procedures at CAPS

Department of Infrastructure, Planning and Environment

An IT audit of the Asset Information System

Department of Justice

Victims of crime compensation

Department of the Chief Minister

Ministerial travel

A PMS audit of the Office of Territory Development

Selected agencies

Grant payments by DCM and DBIRD

Territory Discoveries

IT audit of Calypso

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

AAS	Australian Accounting Standards
ACA	Agency Compliance Audit
BCP	Business Continuity Plan
CHA	Central Holding Authority
CONDIV	Construction Division
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DBIRD	Department of Business, Industry and Resource Development
DBS	Darwin Bus Service
DCDSCA	Department of Community Development, Sport and Cultural Affairs
DCIS	Department of Corporate and Information Services
DCM	Department of the Chief Minister
DCS	Data Centre Services
DEET	Department of Employment, Education and Training
DHCS	Department of Health and Community Services
DIPE	Department of Infrastructure, Planning and Environment
DOJ	Department of Justice
DRP	Disaster Recovery Plan
FMA	Financial Management Act
GAS	Government Accounting System
GBDs	Government Business Divisions
GFS	Government Finance Statistics
GOCs	Government Owned Corporations
GPO	Government Printing Office
GST	Goods and services tax
HBS	Housing Business Services
HVP	Hidden Valley Promotions Pty Ltd
IJIS	Integrated Justice Information System
IT	Information technology
KRAs	Key result areas
MACA	Motor Accidents (Compensation) Act
NTG	Northern Territory Government
NTGPASS	Northern Territory Government and Public Authorities Superannuation Scheme
NTPFES	Northern Territory Police, Fire and Emergency Services
NTPSBS	Northern Territory Police Supplementary Benefit Scheme

Appendix 6 - Abbreviations

NTT	Northern Territory Treasury
PFC	Public Financial Corporations Sector
PIPS	Personnel Information and Payroll System
PMS	Performance management system
PNFC	Public Non-Financial Corporations Sector
RG&L	Racing, Gaming and Licensing
RMS	Risk Management Services
RORO	Roll-on Roll-off Wharf
TAFS	Treasurer’s Annual Financial Statement
TDs	Treasurer’s Directions
TIO	Territory Insurance Office
TMS	Tenancy Management System
TRM	Territory Revenue Management
UPF	Uniform Presentation Framework

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 February 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 August 2005 sittings.

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