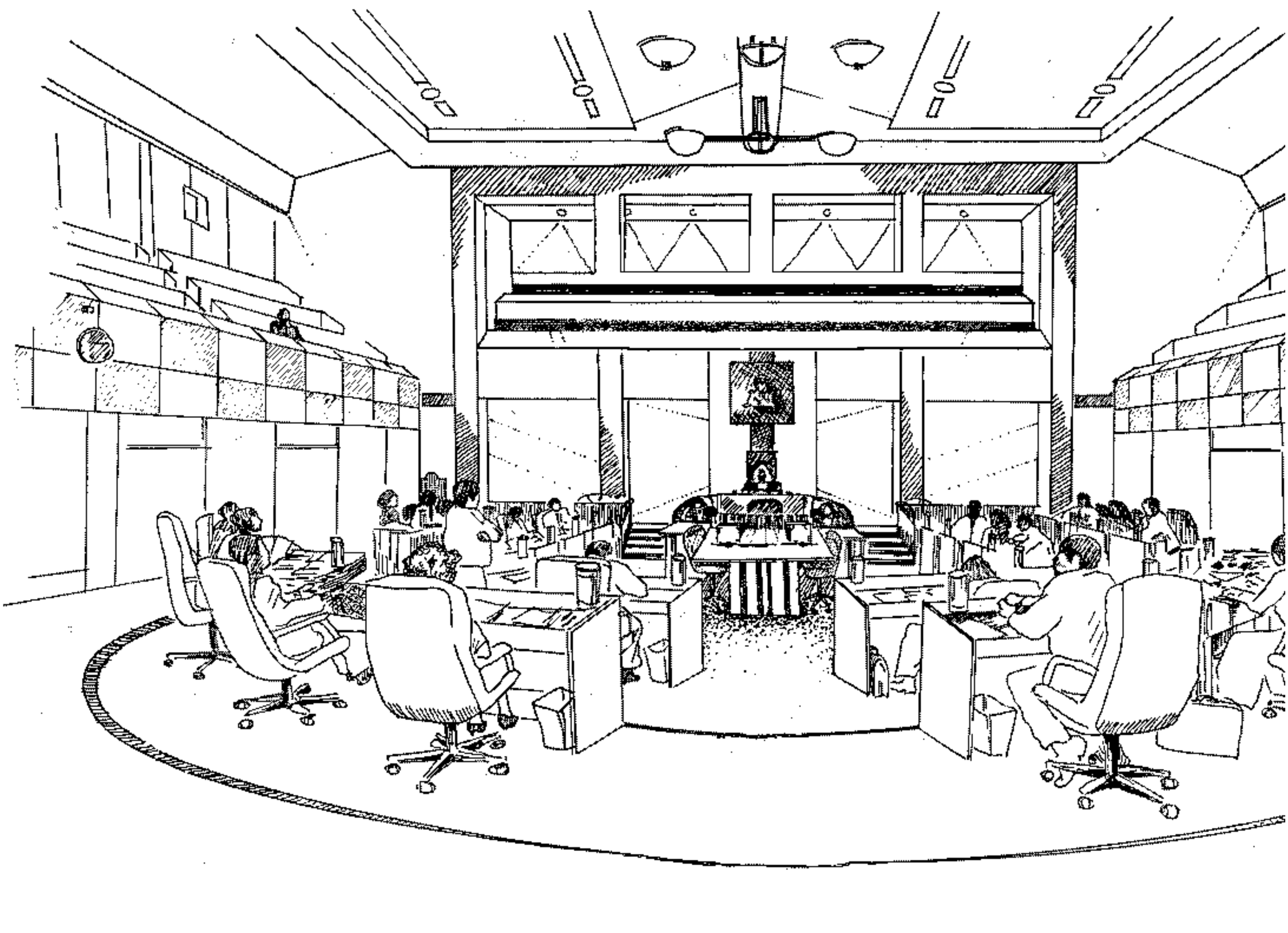
AUDITOR-GENERAL FOR THE NORTHERN TERRITORY

FEBRUARY 2006 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 two 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. The report also contains commentary on the Auditor-General's audit of the Treasurer's Annual Financial Statement.

- 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.

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

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

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PRINTED BY THE
LEGISLATIVE ASSEMBLY
OF THE
NORTHERN TERRITORY

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

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

14 February 2006

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 2005 and I request that you table the report today in the Legislative Assembly. In the main, the Report summarises the outcomes from financial attest audit work performed for the financial year ended 30 June 2005.

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

Frank McGuiness
Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 July 2005 to 31 December 2005:

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

This Report has 25 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 and recommendations, where relevant.

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** provides 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.

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 2005 to 31 December 2005.

It contains 25 separate reports most of which deal with the outcomes of audits and financial analyses of Agencies and Entities which were required to prepare financial reports as at 30 June 2005. 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 October 2005 sitting of the Legislative Assembly. The financial performance of the General Government Sector, as measured by its Net Operating Balance, improved from a deficit of $40.2 million for 2003-04 to a deficit of $23.9 million for 2004-05. The General Government Sector is arguably the principal segment of the public sector and largely dependant upon Commonwealth grants and taxation as its source of revenue. A deficit for the year indicates that the Sector's level of activity is not sustainable. However, a continued adherence by the Government to its fiscal strategy should see the Net Operating Balance move to a surplus, and a position of sustainability, within the forward estimates period.

While no major areas of concern were identified as a result of audits documented in this report, I am concerned that some entities did not adhere to a direction by the Treasurer which specified the period within which financial statements were to be prepared. I have drawn attention to instances where this occurred at the relevant places in the report.

I issued two audit qualifications for 2004-05; one in respect of the Treasurer's Annual Financial Statement and the other in respect of the financial statements of the Power and Water Corporation. In both cases the qualifications relate to a failure to comply fully with the requirements of Australian Accounting Standards. In the case of the Treasurer's Annual Financial Statement, I was required to issue a qualification because the Statement did not comply with Australian Accounting Standard AAS31 *Financial Reporting by Governments.* In the case of the Power and Water Corporation, the qualification arose because I did not receive sufficient assurance about the values placed upon some classes of the Corporation's assets.

A theme that runs through all planning associated with the conduct of the audits of financial statements is the need to consider the risks of material misstatements that may be due to fraud. As a matter of course, auditors are expected to approach audits with an attitude of professional scepticism, recognising the possibility that fraud may exist. Nevertheless, the procedures surrounding the conduct of a financial audit have not been intended to specifically identify the existence of fraud and the role of the auditor in this regard has been described as a watchdog rather than a bloodhound.

A spate of major corporate collapses both in Australia and overseas that were, in part, attributed to a failure of the audit process have seen a progressive strengthening of the provisions of Australian Auditing and Assurance Standards. These have placed an increased responsibility upon auditors to consider fraud and its effects upon financial reports, and to adopt more rigorous procedures in order to reduce audit risk to an acceptable level.

Executive Summary

These changes have affected, and will continue to affect, the way by which I and my authorised auditors approach audits of public sector entities, given that the *Audit Act* requires me to adhere to professional standards. The broader scope of audits that have invariably flowed from the need to give increased attention to the risk of fraud also increases the time that must be devoted to any particular audit and hence the cost of that audit. A shift in audit emphasis towards statutory financial audits at the expense of compliance and performance management system (PMS) audits has been evident for several years as a result of resource constraints, and it is likely to accelerate as I and my authorised auditors seek to ensure that auditing and accounting standards are adhered to. As a consequence no PMS audits were conducted in the six months to 31 December 2005 and no PMS audits are scheduled for completion in the next six months.

Reporting on audits conducted in the six months ended 31 December 2005

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 31 December 2005, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

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

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

What other reporting arises from audits?

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

How is this Report to the Legislative Assembly structured?

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

– audits of the Public Account and other accounts (described in Appendix 4), and

– audits of performance management systems (described in Appendix 5).

Are entities able to include their responses in the Report?

The *Audit Act* enables entities referred to in the Report to provide comments for publication. These comments, or an agreed summary, must be included in this Report. Where no comment is shown in this Report, the relevant Agency has 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), as in previous years, comprises two parts:

- the extent to which the TAFS complied with reporting formats prescribed by legislation. 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 extent to which the TAFS complied with the Australian Accounting Standard AAS31, *Financial Reporting by Governments*. I issued a qualified opinion in this regard noting that the prescribed reporting format adopted by the Treasurer for 2004-05 did not satisfy the requirements of AAS31. The GFS Government Finance Statistics (GFS) format adopted for the presentation of the TAFS results in a presentation that is inconsistent with AAS31 notwithstanding that the GFS is more appropriate in a public sector context. I am required to adhere to Australian Auditing and Assurance Standards when conducting my audits and framing my audit opinions and this required that I issue a qualified opinion on the TAFS because of the absence of a presentation that met the requirements of AAS31.

Operating results and financial position

- The revenues of the tax-supported General Government Sector for 2004-05 increased by $125.8 million compared with the actual result for 2003-04, and exceeded the original budgeted revenues by $158.7 million.
- GST revenue for 2004-05 increased by $58.7 million to $1,739.6 million. The rate of increase in GST revenue for 2004-05 also slowed when compared with the prior year.
- Expenses of the General Government Sector increased markedly for the year, rising by $109.5 million to $2,740.1 million.
- The financial position of the Non-Financial Public Sector, as measured by Net Debt and Net Financial Worth, declined when compared with the position at 30 June 2004. That decline was a reflection of the financial performance of the sector.

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 $51.4 million for 2004-05, an improvement on the 2003-04 result of $36.1 million.
- While the direct borrowings of the Non-Financial Public Sector declined for the year, the Net Debt position deteriorated. This reflected increased cash outflows associated with investing activities, coupled with increased liabilities in respect of deposits and advances received.
- Total employee related liabilities for the Non-Financial Public Sector as a whole were $1.995 billion at 30 June 2005 compared with $1.817 billion at 30 June 2004.

Auditing the Public Account and other accounts
Treasurers Annual Financial Statement

Introduction

Given the importance of the Commonwealth Goods and Services Tax (GST) as a source of revenue, the Treasurer's Annual Financial Statement (TAFS) for 2004-05 needs to be considered in the context of the general economic conditions that affected not just the Territory, but Australia as a whole.

2004-05 saw strong economic growth in Australia and this was mirrored in the Northern Territory. For example, the statistical measure of Gross State Product (GSP) recorded annual growth for the Northern Territory of 3.6% for the year, ranking only behind Queensland and Tasmania, each of which recorded growth of 4.0%. In this respect, the statistics published by the Australian Bureau of Statistics also highlight the relative importance of spending by all levels of government to the Territory's State Final Demand and Gross State Product.

It does not necessarily follow that strong private sector economic activity within a jurisdiction will translate into strong public finances. That will hinge upon the extent to which a government has taxing capacity, the extent to which it is able to utilise that capacity and the extent to which the expenditure of public monies is required to complement or facilitate private sector activity. Nevertheless, the level of private sector economic activity for the year was reflected in strong growth in the Territory's "own source" revenues. Revenues from the Commonwealth also continued to grow although in the case of revenues from the GST, the rate of growth experienced for 2004-05 was lower than that for 2003-04.

Overall, the revenues of the tax-supported General Government Sector increased by $125.8 million to $2,716.2 million for the year. At the same time, the expenses of the Sector increased by $109.5 million to $2,740.1 million, resulting in a Net Operating Balance for the year of a deficit of $23.9 million compared with a deficit of $40.2 million for 2003-04. The Net Operating Balance is a summary measure of the ongoing sustainability of government operations.

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 those 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.

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Budget Paper No 2 for 2005-06, *Fiscal and Economic Outlook* includes the fiscal strategy of the government for the medium term and the strategy remains unchanged from that set out in the Budget papers for 2004-05 and, as in previous years, it rests upon three key principles:

- sustainable service provision;
- a competitive tax environment; and
- prudent management of liabilities.

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

Principal	What Is Required?	Extent To Which Target Achieved
Sustainable government services	The ability of the government to sustain its capacity to provide services requires that a break-even or positive net operating balance be achieved. The fiscal strategy has been predicated upon achieving a General Government cash surplus and a positive Net Operating Balance by 2012-13.	The net operating balance for the tax-supported General Government Sector for 2004-05 was a deficit of $23.9 million. This represents an improvement on the result for 2003-04 which was a deficit of $40.2 million and can be viewed as indicative of a trend that, if maintained, should see the strategy achieved, and the Sector move progressively to position of sustainability. At the same time a cash surplus of $51.4 million was achieved by the General Government Sector for the year, consistent with the strategy.
Competitive tax environment	Ensure Territory taxes and charges are competitive with the average of the States	Based on Grants Commission data, the level of revenue raising effort is the second lowest in Australia. This indicates that the average per capita level of taxation in the Territory is consistent with the target.
Prudent management of liabilities	Net Debt and employee liabilities as proportion of total revenue to fall	The total liabilities of the Non-Financial Public Sector have declined relative to the total revenues of the sector since the adoption of the fiscal strategy, consistent with the objectives of the strategy.

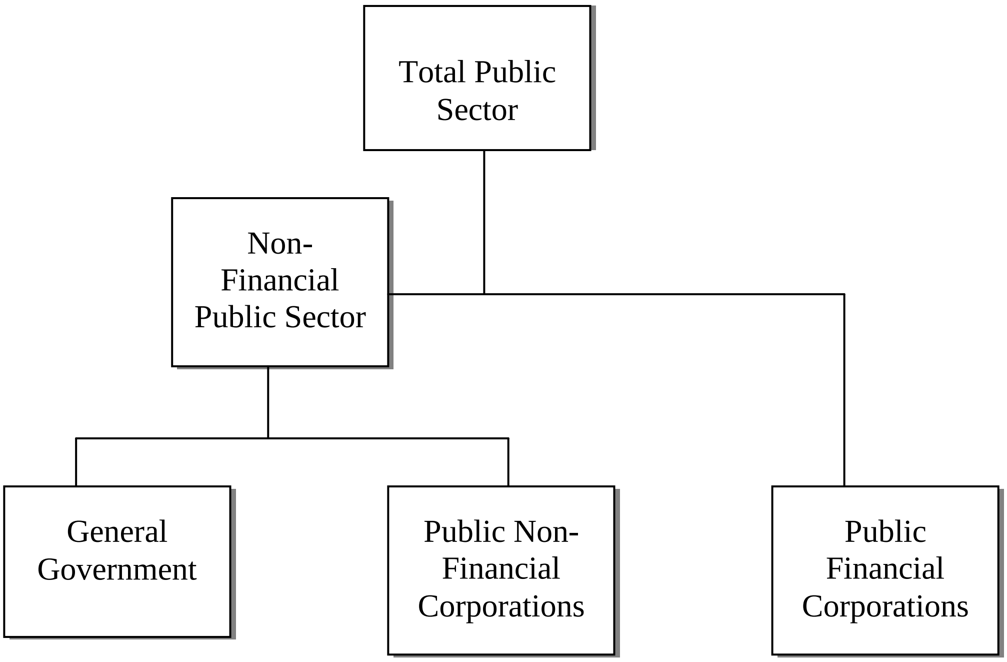
Auditing the Public Account and other accounts
Treasurers Annual Financial Statement

The Uniform Presentation Framework and the Structure of the Public Sector

The Treasurer's Annual Financial Statement (TAFS), which was tabled in the Legislative Assembly in October 2005, 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 and the GFS is the classification of the public sector into three primary sub-sectors, two of which are consolidated to form the Non-Financial Public Sector. That sector is then further consolidated with the Public Financial Corporations Sector 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, the 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", which 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.

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

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- Nitmiluk (Katherine Gorge) National Park Board
- Surveyors Board of the Northern Territory of Australia
- 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 TAFS excludes superannuation schemes, as noted above, on the grounds that the schemes themselves are neither controlled by the Government nor are their assets available to the Government, it 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.

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.

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. The net operating balance is a measure of the sustainability of a government.

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 a government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other 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. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

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Net Financial Worth – a measure of financial position that comprises total financial assets less total liabilities. This measure can be viewed as an alternative measure for assessing the sustainability of fiscal activities as it may be difficult to attach market values to some general government sector non-financial assets.

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 required 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.

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 2004-05 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 2005

	Total Public Sector $'000	General Gov't Sector $'000	Public Non-Financial Corpn's $'000	Non Financial Public Sector $'000	Public Financial Corpn's $'000
GFS Net Operating Balance	**16,964**	**(23,917)**	**8,391**	**(15,526)**	**32,490**
Add (Increase)/decrease in doubtful debts expense	1,618	(491)	2,337	1,846	(228)
Add gains on financial assets	36,594	28,632	-	28,632	7962
Add Gains/(losses) on non-financial assets	(22,097)	3,709	(25,991)	(22,282)	185
Add dividends paid or payable	-	-	18,983	-	20,669
Add revaluation of superannuation liability	(84,700)	(84,700)	-	(84,700)	-
AAS31 Net Operating Result	**(51,620)**	**(76,767)**	**3,720**	**(92,029)**	**61,078**

Note: Totals may not add due to rounding.

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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 financial statements. 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.

There is a general recognition that the commercial reporting principles that are embodied in AAS31 do not provide the most appropriate financial reporting framework for a government, where the emphasis is less upon the maintenance of some concept of capital when determining a profit or loss, and more upon the extent to which the activities of a government affect other sectors of the economy. Thus 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 the harmonisation of GFS and AAS31. If harmonisation should be achieved, the resulting financial reporting framework for governments should reduce the confusion that has accompanied the existence of dual reporting frameworks and improve the usefulness of government budget and outcome reports. A draft accounting standard was issued for comment by the Australian Accounting Standards Board during 2005. The Board has not issued any advice about the next steps in its development of a new accounting standard as at the date of this report.

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 2004-05.

It is expected that when a revised accounting standard is issued 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.

The Sources of Public Sector Revenue

The financial relationship between the Commonwealth, and the State and Territories, is affected by the existence of what is known as “vertical fiscal imbalance”. This is the result of a progressive shift of taxing powers from the States to the Commonwealth in the years following Federation, while the responsibility for the delivery of services remains largely the responsibility of the States and Territories. Vertical fiscal imbalance is arguably more pronounced in Australia than in other federal systems.

The imbalance between taxing powers on the one hand and service delivery obligations on the other requires the transfer of revenues from the Commonwealth to the Territories. The relative shares of revenues to be transferred to States and Treasuries is agreed by the Premiers’ Conference and is based upon recommendations made by the Commonwealth Grants Commission. The Commonwealth Grants Commission uses a complex methodology that takes account of differences in the per capita capacities of the States and Territories to raise revenues, and differences in the per capita amounts required to be spent by the States and

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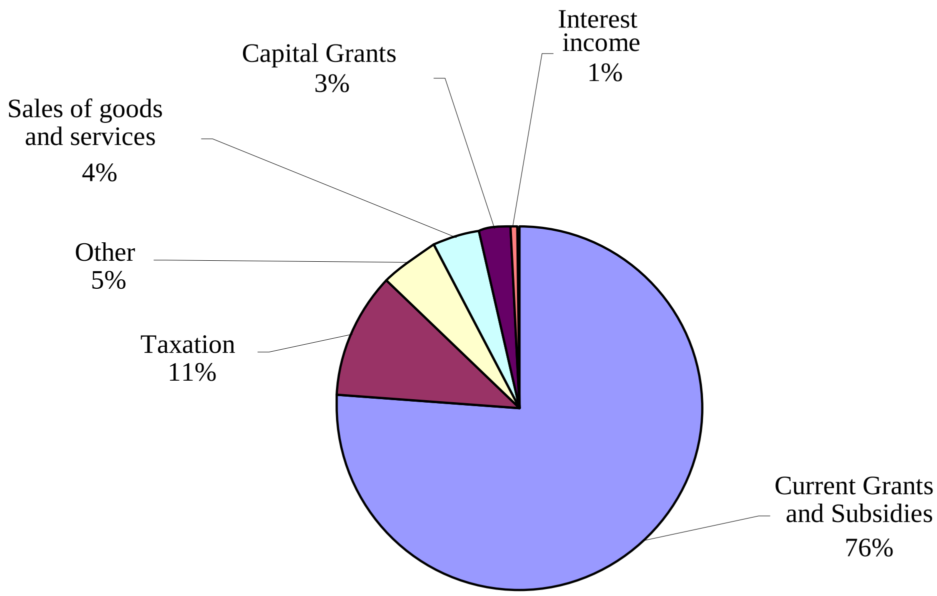
Territories in providing an average standard of public services. The process by which the Commission's recommendations seek to ensure that each State and Territory has the capacity to provide the average standard of State-type public services if it makes the same effort to raise revenue as the States on average, and operates at an average level of efficiency, is referred to as "horizontal fiscal equalisation".

The sources of revenue of the Northern Territory General Government Sector for 2004-05 are shown in Figure 2:

Figure 2
Components of General Government Sector Revenues – 2004-05



As can be seen from Figure 2, the revenues of the General Government Sector for the year were dominated by the category of Current Grants and Subsidies which, with Capital Grants, represent funds received from the Commonwealth. Of these, the single largest element of revenues received from the Commonwealth was GST of $1.74 billion.

The introduction of the Goods and Services Tax, and the accompanying arrangements under which the revenues are paid to the States and Territories under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, has seen the Territory receive more than it would have under the previous system of Commonwealth financial assistance grants together with the Territory's taxes that have been abolished as part of the new arrangements.

The Territory has no control over the amount received by way of GST grants; that is a function of a number of variables including national economic activity and the Territory's relative population growth.

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An examination of GST revenues received by the Territory indicates that the rate of growth of those revenues slowed in 2004-05, reflecting a slowing of growth of the GST pool which is distributed to all jurisdictions. The decline in the annual rate of growth of GST revenues is also reflected in the likely outcome for 2005-06. Whereas the Budget for 2005-06 forecast GST revenues of $1,829.3 million, the Commonwealth Mid-Year Fiscal Outlook which was released in December 2005 indicates that the Territory’s share of GST revenue for the year will be $1,806.4 million, a decline of $22.9 million from the previous estimate. That decline is additional to earlier downwards revisions of GST estimates by the Commonwealth for the forward estimates period.

There are risks to the Territory if the rate of growth of GST revenues should fall below earlier predictions, particularly if it should fall below the rate of growth of expenses.

The risks surrounding the potential variability in GST revenues were canvassed by the Treasurer in Budget Paper No 2 *Fiscal and Economic Outlook* and again in the Treasurer’s *Mid-Year Report* of December 2005.

The expenses of the General Government Sector are shown in Figures 3 and 4, with Figure 3 showing expenditure on an object basis, while Figure 4 shows the same expenditure on a functional basis. Both bases are consistent with the requirements of the Uniform Presentation Framework.

Figure 3
General Government Sector Expenses 2004-05
Object Basis

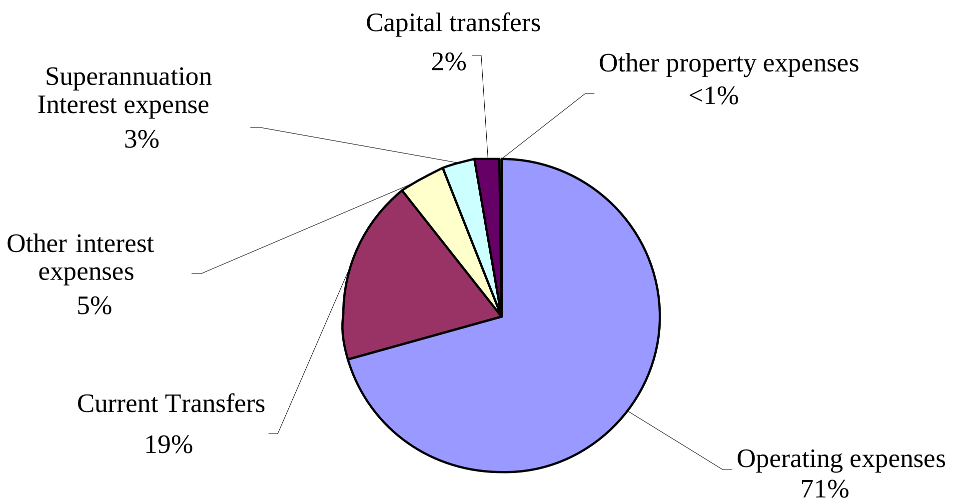

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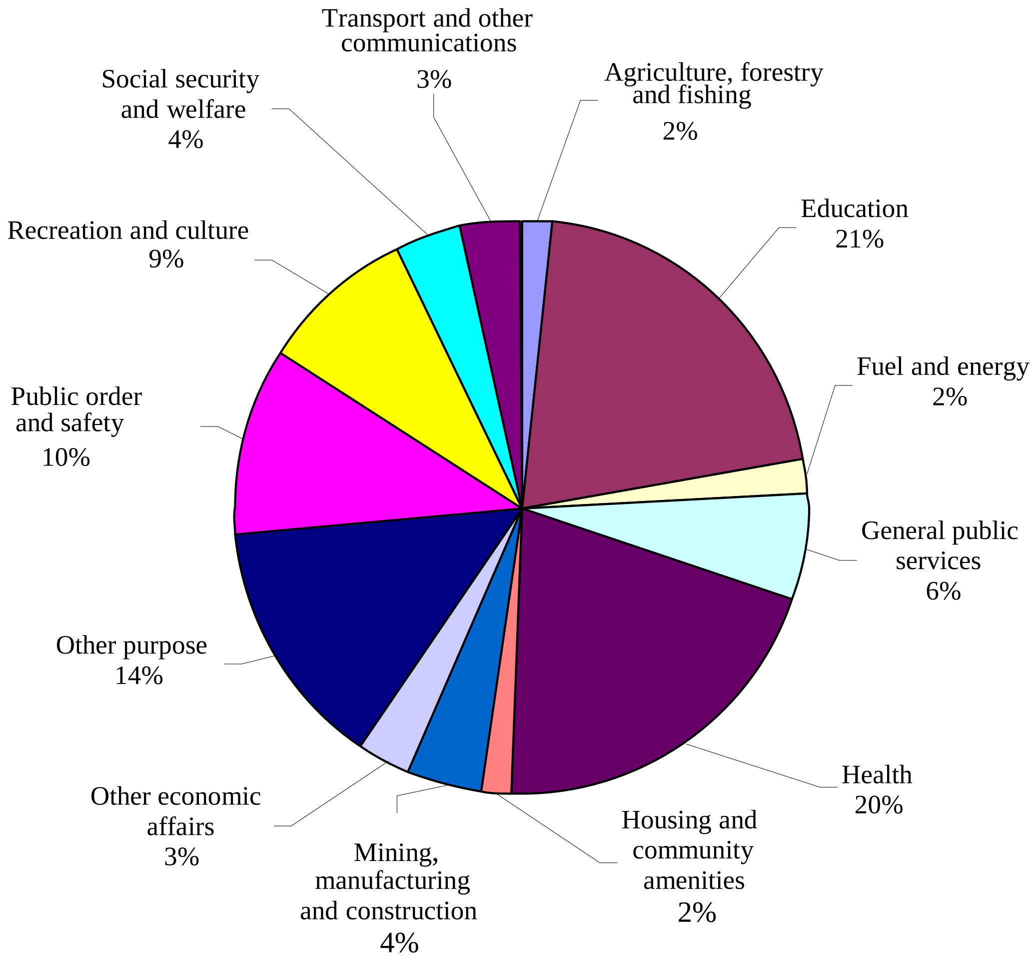
Figure 4
General Government Expenses 2004-05
Functional Basis



Figures 3 and 4 indicate that expenditure of the General Government sector is dominated by operating expenses and transfers incurred in the provision of health, education and police services, which together represent over 50% of the General Government Sector expenses. Flowing from this it can be inferred that the amount of budgetary discretion available to the Government is relatively limited and that its ability to either reduce or redirect expenditure in response to revenue pressures or changing priorities is equally limited.

Financial Performance and Position of the Total Public Sector

The discussion that follows is based upon the GFS-based financial statements that were submitted by the Treasurer for audit in accordance with the *Financial Management Act*.

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The financial performance of the total public sector for 2004-05, as measured by the Net Operating Balance was relatively unchanged from the prior year, although when viewed from the perspective of Net Borrowing it represents a sharp deterioration 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

	2004-05 $'million	2003-04 $'million
Revenues	3,206.6	3,053.8
Expenses	3,189.6	3,037.7
Net Operating Balance	17.0	16.1
Net Acquisition of Non-Financial Assets	(107.2)	(13.2)
Net Lending/(Borrowing)	**(90.2)**	**2.9**

Table 2 contains two measures of performance: the Net Operating Balance showing a surplus of $17.0 million, which improved slightly over the previous year, and Net Lending or Borrowing which moved from a surplus for 2003-04 to a deficit for 2004-05. The Net Operating Balance measure indicates that the revenues received by the government for the year were sufficient to meet the full costs of resources consumed in providing services to the community throughout the year. However, that surplus was not sufficient to meet the significant net outlays incurred as a result of acquiring and constructing non-current assets. The total value of the net acquisition of non financial assets for the year was $107.2 million, resulting in net borrowing for the total public sector of $90.2 million for the year. The Net Borrowing result indicates that the activities of the Sector for the year may require a future borrowing against the savings of other sectors of the economy.

Total public sector financial performance was characterised by an increase in total revenues by 5.0%, to $3,206.6 million, with a matching growth in operating expenses. Commonwealth receipts continued to represent the largest source of revenues to the Territory and GST revenues for the year were $1,739.6 million, an increase of $58.7 million over the previous year. What is notable here is the rate of growth in GST revenues for the year was markedly lower than for 2003-04. That may be an indicator that the Goods and Services Tax has reached a stage of maturity where the high annual rates of growth that were evident during the early years following its introduction may not be sustained.

Taxation revenues raised under Territory legislation rose by $37.4 million or 14.5% for the year. The greatest contributor to that growth was taxes on employers' payroll and labour force taxes which increased by $17.9 million or 20.9% stemming from a high level of activity, particularly construction activity, in the Territory during the year.

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Total Public Sector financial performance, as represented by the Net Borrowing result for the year, was also reflected in a decline in the cash position at 30 June 2005 when compared with the previous year. The deterioration in the cash position was characterised by strong cash inflows from operating and financing activities, offset by high cash outlays for investing purposes, including net cash outflows associated with investment in financial assets for both policy and liquidity purposes. This is illustrated in Table 3, below:

Table 3
Total Public Sector
Summary of Cash Flows

	2004-05 $'million	2003-04 $'million
Cash receipts from operations	3,155.9	3,091.2
Cash payments from operations	(2,853.4)	(2,778.4)
	302.5	312.8
Less: Cash used in investing activities	(392.6)	(254.4)
Cash received/(used) in financing activities	76.9	(35.5)
Net Increase/(Decrease) in Cash	(13.2)	22.9
Opening Balance of Cash and Deposits	158.2	135.3
Closing Balance of Cash and Deposits	**145.0**	**158.2**

As shown in Table 3, the Total Public Sector recorded a decline in cash and deposits held at 30 June 2005 of $13.2 million, compared with an increase in cash deposits for the previous year of $22.9 million.

While cash receipts from operations for 2004-05 rose by $64.7 million when compared with 2003-04, that increase was more than matched by the increase in operating cash outlays of $75.0 million. The result was a reduction of $10.3 million in net cash flows generated by operating activities and which are available to be applied for investing or financing purposes.

The net cash flows generated by the operating activities of Total Public Sector totalled $302.5 million. Additional cash totalling $140.7 million was received through the receipt of advances and deposits ($71.1 million), through borrowing ($5.8 million) and through the sale of non-current assets ($63.8 million). To this must be added the run-down in cash balances of $13.2 million. The resulting amount of $456.4 million was applied as follows:

	$'million
Investment in non-financial assets as part of the capital program	361.1
Net acquisition of financial assets for policy and liquidity purposes	95.3

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The measures of financial position employed by the UPF were outlined previously under "Introduction". Broadly, there were improvements in two of the three measures of the financial position for the Total Public Sector for the year, although it should be noted that a significant component of the improved Net Worth at 30 June 2005 was the net increase in the value of Land and Fixed Assets which increased by over $335 million. The components of the changes in each of the measures of financial position are summarised in Table 4, below:

Table 4
Total Public Sector
Components of Financial Position

	Balance at 30 June 2005 $' million	Movement for 2004-05 $'million	Balance at 30 June 2004 $'million
Cash and deposits	145.0	(13.2)	158.2
Advances paid	225.4	40.9	184.5
Investments, loans and placements	1,222.8	89.3	1,133.5
Deposits held	(476.3)	(68.6)	(407.7)
Advances received	(307.8)	(2.6)	(305.2)
Borrowings	(1,984.7)	(16.8)	(1,967.9)
Net Debt	**(1,175.6)**	**29.0**	**(1,204.6)**
Non-equity assets	215.2	15.3	199.9
Equity assets	1.4	0.9	0.5
Superannuation liabilities	(1,618.5)	(151.6)	(1,466.9)
Other employee entitlements and provisions	(708.3)	(26.9)	(681.4)
Other non-equity liabilities	(231.0)	(5.4)	(225.6)
Net Financial Worth	**(3,516.8)**	**(138.7)**	**(3,378.1)**
Carrying amount of non-financial assets	5,870.2	335.3	5,534.9
Net Worth	**2,353.4**	**196.6**	**2,156.8**

Note: Totals may not add due to rounding.

As indicated in Table 4, the measures of Net Debt and Net Worth both improved when compared with the position at 30 June 2004. However, the measure of Net Financial Worth deteriorated. This was the largely the result of a major actuarial review of superannuation liabilities with accompanying changes in the assumptions relating to future salary and wage growth, future benefit levels, together with revised assessments about life expectancies of members of defined benefit schemes where members may elect to take pensions in lieu of lump sums.

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Financial Performance and Position of the General Government Sector

The General Government Sector is that sector of government that is overwhelmingly dependant upon “own source” taxation and Commonwealth grants as its source of funds. It is 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, grants from the Commonwealth increased for the year, although in the case of GST revenues (the largest component revenues received from the Commonwealth), the rate of growth for the year was lower than was the case for 2003-04. The Territory’s “own source” revenues also increased, underpinned by strong economic activity. The actual revenues for the year also exceeded the amounts shown in the Budget Papers for 2004-05 as illustrated in Table 5, below:

Table 5
General Government Sector
Variance Between Budgeted and Actual Net Operating Balance
For the Year Ended 30 June 2005

	Actual $’million	Budget $’million	Variance $’million
Taxation revenue	301.4	264.1	37.3
Current grants and subsidies	2,069.1	2,002.6	66.5
Capital grants	81.8	68.2	13.6
Sales of goods and services	105.7	91.6	14.1
Interest income	19.1	16.9	2.2
Other	139.1	114.0	25.1
Total Revenues	**2,716.2**	**2,557.4**	**158.8**
Depreciation	137.3	141.3	(4.0)
Employee expenses	1,120.3	1,000.0	120.3
Other operating expenses	673.4	660.5	12.9
Nominal superannuation interest expense	92.9	89.2	3.7
Other interest expense	128.9	127.7	1.2
Other property expenses	0.4	-	0.4
Current transfers	519.8	495.5	24.3
Capital transfers	67.1	55.1	12.0
Total Expenses	**2,740.1**	**2,569.3**	**170.8**
Net Operating Balance	**(23.9)**	**(11.9)**	**(12.0)**

Note: Totals may not add due to rounding.

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Table 5 highlights the extent to which all classes of revenue earned during the year exceeded estimates shown in the Budget Papers for 2004-05. Of particular note are:

- Current Grants and Subsidies for which the actual revenues earned during the year exceeded budgeted revenues by $66.5 million; and
- “own source” taxation revenues which exceeded the original Budget estimates by $37.3 million.

Against this, total expenses increased by almost $171 million, or 6.6%, when compared with the original Budget estimates. The result was a deterioration in the sector’s Net Operating Balance for the year by $12.0 million to a deficit of $23.9 million, compared with the Budgeted result which was for a deficit of approximately $12.0 million.

The 2004-05 Budget originally forecast a Net Operating Balance of an $11.9 million deficit for the year, with the result being revised to a surplus of $3.2 million in the Mid Year Review that was tabled in December 2004. As indicated above, the final result was deficit of $23.9 million. The principal contributor to the deterioration of $27.1 million between the estimated result shown in the Mid Year Review and the actual result for the year was a sharp increase in employee expenses of almost $122.3 million.

The growth in employee expenses for the year reflects both growth in salary and wage expenses, and superannuation expenses. The higher salary expenses reflects the effects of salary and wage increases that flow from enterprise bargaining agreements, and the growth in employment numbers across the General Government Sector. The total number of persons employed (as measured by full-time equivalents) in the Sector at 30 June 2005 increased by 649 when compared with the number employed at 30 June 2004. Included in the growth were increased numbers of prison officers, nurses, police officers and teachers. There was also a notable increase in the number of administrative or similar staff employed during the year.

As discussed previously under Financial Performance and Position of the Total Public Sector, significant revisions were made to superannuation parameters during the year that resulted in a material increase in superannuation expenses. This is discussed under the heading Public Sector Superannuation Liabilities.

The financial performance of the Sector for the year was also reflected in its cash flows that are summarised at Table 6. Overall, the sectoral cash and deposit balances at 30 June 2005 were $25.2 million, compared with the original Budget projection of $88.3 million. This was the result of higher than budgeted cash flows from operations ($220.4 million), offset by net investing cash outflows of $156.8 million and net financing cash outflows $101.3 million.

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Table 6
General Government Sector
Summary of Actual and Budgeted Cash Flows
For The Year Ended 30 June 2005

	Actual 2004-05 $'million	Budget 2003-04 $'million	Variance $'million
Cash receipts from operations	2,705.0	2,550.0	155.0
Cash payments from operations	2,484.6	2,392.3	92.3
	220.4	**157.7**	**62.7**
Less: Cash used in investing activities	(156.8)	(98.2)	(58.6)
Cash used in financing activities	(101.3)	(21.3)	(80.0)
Net Increase/(Decrease) in Cash	(37.7)	38.1	(75.8)
Opening Balance of Cash and Deposits	62.9	50.2	12.7
Closing Balance of Cash and deposits	**25.2**	**88.3**	**(63.1)**

Note: Totals may not add due to rounding.

As already discussed, 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 2005 represents an improvement upon the position as at 30 June 2004 and also upon the Budgeted outcomes for the year. It also represents a continuation of the improvement in the General Government Sector's financial position that has been evident over the past four years. The improvement in net worth was the result of an increase in total assets to $6,148 million ($5,853 million as at 30 June 2004) which more than offset the increase in total liabilities. Liabilities increased to $3,794 million ($3,696 million as at 30 June 2004), primarily as a result of an increase in the liability for superannuation. Within these broad aggregates there are, however, a number of movements of specific asset and liability classes and these are summarised at Table 7:

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Table 7
General Government Sector
Components of Financial Position

	Balance at 30 June 2005 $'million	Movement for 2004-05 $'million	Balance at 30 June 2004 $'million
Cash and deposits	25.2	(37.7)	62.9
Advances paid	74.7	16.4	58.3
Investments, loans and placements	453.0	5.2	447.8
Deposits held	(88.4)	102.3	(190.7)
Advances received	(23.2)	(7.1)	(16.1)
Borrowings	(1,637.7)	(5.0)	(1,632.7)
Net Debt	**(1,196.4)**	**74.1**	**(1,270.5)**
Other non-equity assets	113.3	1.5	111.8
Equity assets	1,893.1	274.2	1,618.9
Superannuation liabilities	(1,618.5)	(151.6)	(1,466.9)
Other employee entitlements and provisions	(354.5)	(23.9)	(330.6)
Other non-equity liabilities	(71.9)	(12.9)	(59.0)
Net Financial Worth	**(1,234.9)**	**161.4**	**(1,396.4)**
Net carrying amounts of non-financial assets	3,588.3	35.1	3,553.2
Net Worth	**2,353.4**	**196.5**	**2,156.8**

Note: Totals may not add due to rounding.

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 2005 was $1,893.1 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 ultimately dependant upon the value of the dividend and tax equivalent payments made by the PNFC and PFC sectors to the General Government sector. For 2004-05, the General Government sector received $39.7 million by way of dividends ($34.4 million in 2003-04) and $30.7 million by way of tax equivalent payments ($26.5 million in 2003-04).

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

The financial performance of this sector deteriorated slightly when compared with the previous year. While revenues (after allowing for the effect of grants and subsidies received) increased at a rate consistent with general price level changes. That increase was overshadowed by significantly higher expenses for the year primarily as a result of increases in Other Operating Expenses ($23.4 million) and Other Property Expenses ($19.2 million). The result was a Net Operating Balance for the year of $8.4 million compared with $43.4 million for the previous year. The sector's Net Operating Balance exceeded the original budgeted result, although it did fall below the final estimate that was included as part of the Budget papers tabled in May 2005. The sector's performance is shown in the following table:

Table 8
Public Non-Financial Corporations Sector
Summary of Financial Performance

	2004-05 Actual $'million	2004-05 Budget $'million	2003-04 Actual $'million
Grants and subsidies	138.8	130.8	139.3
Sales of goods and services	406.9	410.9	386.5
Interest	16.0	13.8	18.3
Other	24.7	49.9	24.1
Total Revenues	**586.4**	**605.5**	**568.2**
Gross operating expenses	480.1	509.5	441.3
Interest expenses	51.0	50.6	52.1
Property expenses	41.7	36.1	22.5
Current transfers	4.1	1.8	2.7
Capital transfers	1.1	1.0	6.2
Total Expenses	**578.0**	**599.0**	**524.8**
Net Operating Balance	**8.4**	**6.5**	**43.4**

Note: Totals may not add due to rounding.

The Public Non-Financial Corporations Sector ended the year with its stock of cash and deposits having declined from $141.9 million at 30 June 2004 to $33.3 million. While the sector generated strong net cash flows of $88.8 million from operating activities, that was more than offset by high levels of cash outflows, including payments for the purchase of non-financial assets ($168.8 million). This is illustrated in the following table:

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Table 9
Public Non-Financial Corporations Sector
Summary of Cash Flows

	2004-05 $'millions	2003-04 $'millions
Operating cash receipts	542.0	554.3
Operating cash payments	(453.2)	(441.6)
Net Cash from Operations	**88.8**	**112.7**
Net cash used for acquisition of non-financial assets	(138.8)	(82.2)
Cash received from net liquidation of financial assets	(26.0)	20.3
Net Cash Flows from Investing Activities	**(164.8)**	**(61.9)**
Net Cash Flows from Financing Activities	**(32.6)**	**(47.8)**
Increase in Cash	(108.6)	3.1
Opening Balance of Cash and Deposits	141.9	138.8
Closing Balance of Cash and Deposits	**33.3**	**141.9**

Note: Totals may not add due rounding.

Consistent with the weaker financial performance of the sector when compared with 2003-04, the GFS measures of both net debt and net financial worth deteriorated when compared with the position as at 30 June 2004. However the overall net worth of the sector improved as a consequence of an increase in the net carrying amount of non-financial assets for the year. This is illustrated in Table 10.

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Table 10
Public Non-Financial Corporations Sector
Components of Financial Position

	Balance at 30 June 2005 $'million	Movement for 2004-05 $'million	Balance at 30 June 2004 $'million
Cash and deposits	33.3	(108.6)	141.9
Investments, loans and placements	180.4	26.0	154.4
Deposits held	(1.8)	0.1	(1.9)
Advances received	(335.6)	(33.4)	(302.2)
Borrowings	(336.1)	24.0	(360.2)
Net Debt	**(459.8)**	**(91.9)**	**(367.9)**
Other non-equity assets	81.4	20.1	61.3
Other employee entitlements and provisions	(55.7)	2.8	(58.5)
Other non-equity liabilities	(47.6)	1.1	(48.7)
Net Financial Worth	**(481.7)**	**(67.9)**	**(413.8)**
Net carrying amounts of non-financial assets	2,276.6	300.9	1,975.7
Net Worth	**1,794.9**	**233.0**	**1,561.9**

Note: Totals may not add due rounding.

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 2004-05, as measured by the Net Operating Balance, improved when compared with the reported result for the previous year, with a surplus of $32.5 million being reported compared with $13.0 million for 2003-04. The Territory Insurance Office was the principal contributor to that improvement.

The financial performance of the sector is summarised in Table 11:

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Table 11
Public Financial Corporations Sector
Summary of Financial Performance

	2004-05 Actual $'million	2003-04 Actual $'million
Sales of goods and services	131.1	129.8
Interest	236.7	219.9
Other	5.3	5.2
Total Revenues	**373.1**	**354.9**
Gross operating expenses	135.9	129.3
Other Interest expenses	172.5	180.4
Property expenses	30.7	30.0
Current transfers	1.5	2.2
Total Expenses	**340.6**	**341.9**
Net Operating Balance	**32.5**	**13.0**

Note: Totals may not add due to rounding.

The sector's improved financial performance for 2004-05, as measured by the Net Operating Balance, was also reflected in improved cash flows for the year. Cash and deposits increased from $132.8 million at 30 June 2004 to $154.6 million at 30 June 2005, with operating and financing activities contributing $65.7 million and $36.0 million respectively, offset by cash outflows of $79.9 million on account of investing activities. A summary of the PFC cash flows for the year is shown at Table 12, below:

Table 12
Public Financial Corporations Sector
Summary of Cash Flows

	2004-05 $'million	2003-04 $'million
Operating cash receipts	374.2	418.5
Operating cash payments	(308.5)	(368.1)
Net Cash from Operations	**65.7**	**50.4**
Net cash used for acquisition of non-financial assets	(0.6)	(2.9)
Cash received from investment in financial assets	(79.3)	27.4
Net Cash Flows from Investing Activities	**(79.9)**	**24.5**
Net Cash Flows from Financing Activities	**36.0**	**(71.6)**
Increase in Cash	21.8	3.3
Opening Balance of Cash and Deposits	132.8	129.5
Closing Balance of Cash and Deposits	**154.6**	**132.8**

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The Financial Position of the Public Financial Corporations Sector

The financial position of the PFC sector as 30 June 2005 improved when assessed against each of the UPF measures of financial position. In the case of the PFC Sector, the Net Debt position is the reverse of the other sectors in that the PFC Sector's stock of liquid financial assets exceeded the total of deposits held, advances received and borrowings by $480.6 million at 30 June 2005 compared with a figure of $433.8 million at 30 June 2004. Similar improvements occurred in the measures of Net Financial Worth and Net Worth for the sector. That improvement is consistent with the stronger Net Operating Balance and net cash flows of the sector for the year, with the components of financial position shown in Table 13, below:

Table 13
Public Financial Corporations Sector
Movements in Components of Financial Position

	Balance at 30 June 2005 $'million	Movement for 2004-05 $'million	Balance at 30 June 2004 $'million
Cash and deposits	154.6	21.8	132.8
Investments, loans and placements	3,044.0	86.1	2,957.9
Deposits held	(459.0)	(55.6)	(403.4)
Advances received	(315.3)	3.1	(318.4)
Borrowings	(1,943.7)	(9.3)	(1,935.1)
Net Debt *	**480.6**	**46.1**	**433.8**
Other non-equity assets	95.4	(13.5)	100.5
Other employee entitlements and provisions	(356.8)	(3.5)	(353.3)
Other non-equity liabilities	(127.6)	11.9	(130.4)
Net Financial Worth	**91.5**	**40.9**	**50.6**
Net carrying amounts of non-financial assets	5.2	(0.7)	5.9
Net Worth	**96.7**	**40.2**	**56.5**

Note: Totals may not add due to rounding.

* The positive figures shown in respect of net debt reflect the excess of liquid financial assets over financial liabilities. This is in contrast to the net debt position of the other sectors and for the Total Public Sector.

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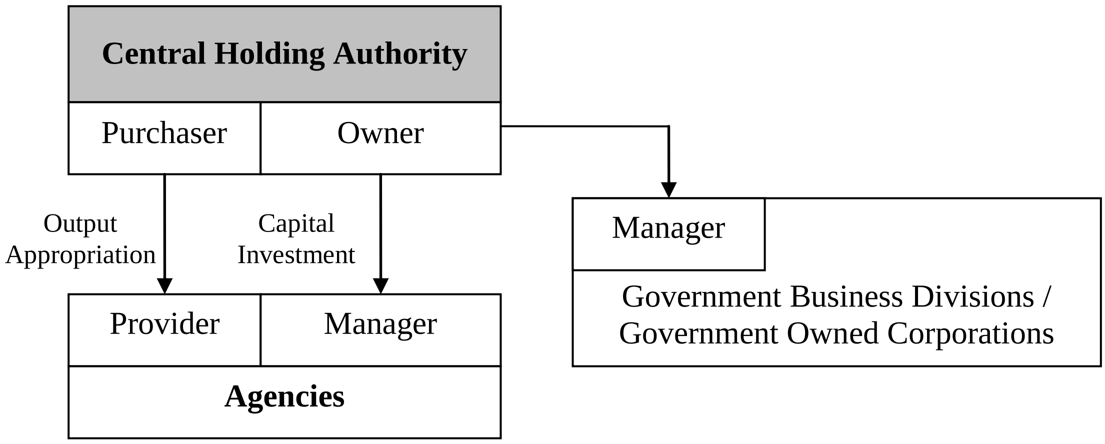
The Central Holding Authority

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 (CHA) and the relationship between the CHA and agencies is depicted in Figure 5.

Figure 5
Central Holding Authority Relationship



Source: Northern Territory Treasury

The 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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The financial performance of the CHA, in a general sense, will reflect policy decisions made by the Government to ensure that the objectives set for the General Government Sector are achieved, and the Government's capital program is adequate. Given this, it is to be expected that the financial performance of the CHA, as measured by the operating surplus or deficit will fluctuate from one year to another. The performance for 2004-05, compared with that of 2003-04 is illustrated in Table 14, below:

Table 14
Central Holding Authority
Financial Performance

	2004-05 $'000	2003-04 $'000
Taxation	386,915	343,121
Grants and subsidies	1,752,016	1,680,909
Royalties, rents and dividends	91,032	79,625
Other	110,436	116,505
Total Revenues	**2,340,399**	**2,220,160**
Output expense	1,873,379	1,718,383
Interest expense	129,256	143,496
Superannuation expense	243,730	113,900
Other	27,835	55,496
Total Expenses	**2,274,200**	**2,031,275**
Net Operating Surplus	**66,199**	**188,885**

As can be seen from the preceding table, while revenues grew strongly, increasing by $120.2 million for the year, that growth was outstripped by the higher expenses, particularly the requirement to provide additional output revenues to Agencies. At the same time the CHA was required to recognise significantly higher superannuation expenses for the year that flowed from an increase in the value of superannuation liabilities recognised at 30 June 2005.

The cash position of the CHA was also weaker at 30 June 2005 than was the case for the prior year. Among the factors that affected the end-of-year cash position were:

- significantly higher levels of funding provided to agencies for the provision of outputs ($155.0 million); and
- a significant decline in the balance of deposits held at 30 June 2005 compared with 30 June 2004 ($152.8 million).

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The CHA's cash flows for the year are summarised in Table 15:

Table 15
Central Holding Authority
Abridged Statement of Cash Flows

	2004-05 $'000	2003-04 $'000
Net cash inflows from operating activities	202,812	217,340
Cash outflows from investing activities	(88,259)	(106,928)
Cash outflows from financing activities	(153,504)	(97,125)
Net increase/(decrease) in cash held	(38,951)	13,288
Opening Balance of Cash and Deposits	57,655	44,367
Cash at end of financial year	**18,704**	**57,655**

Note: Totals may not add due to rounding.

From the above table it can be seen that the net cash flows generated from operations were applied to the provision of capital funding to agencies and to a reduction in liabilities (principally deposits held), with the balance representing the change in the cash position at the end of the financial year.

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 2004-05, the *Appropriation Act* authorised an amount of $2,193,411,000 to be applied from the CHA. The amounts applied were as follows:

Purpose	Actual $,000	Budget $'000	Variance $'000
Output Appropriation	1,873,379	1,766,166	107,213
Interest Taxes and Administration	130,008	157,656	(27,648)
Employee Entitlements	108,797	110,019	(1,222)
Treasurer's Advance	-	29,000	(29,000)
Total Appropriated and Expended for Operating Activities	**2,112,184**	**2,062,841**	**49,343**
Capital Appropriation	126,931	130,570	(3,639)
Total	**2,239,115**	**2,193,411**	**45,704**

Auditing the Public Account and other accounts
Treasurers Annual Financial Statement

The difference between actual amounts expended from the Central Holding Authority and the amount budgeted for the year was financed by an increase in Treasurer's Appropriation approved by the Administrator pursuant to Section 19 of the *Financial Management Act*.

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 2005 that liability was $1.618 billion ($1.467 billion at 30 June 2004). That liability is held entirely by the General Government Sector.

The various schemes, and the unfunded liability in respect of each at 30 June 2005, were as follows:

Scheme	2005 $'million	2004 $'million
Northern Territory Government and Public Authorities Superannuation Scheme	552.1	469.9
Commonwealth Superannuation Scheme	856.7	809.8
Northern Territory Supplementary Superannuation Scheme	153.1	135.4
Other Schemes	56.6	51.8
	1,618.5	**1,466.9**

The value of unfunded superannuation liabilities is a function of a number of factors including real wage growth, expected earning rates on investments and the expected timing of benefit payments. In the case of defined benefit pension schemes, the expected longevity of members and pensioners will also affect the value of the liability. Adverse movements of any 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.

A significant actuarial review of parameters used in determining superannuation liabilities was undertaken during 2004-05 as precursor to formal reviews to be undertaken during 2005-06 and also in preparation for the adoption of the Australian equivalents to the International Financial Reporting Standards. As a result of the review, the value of the unfunded liability increased sharply. At the same time the profile of both the liability and expected superannuation payments also altered. Whereas previous actuarial estimates suggested that the value of unfunded liabilities would peak during 2005-06, with a lag of approximately 6 years between the peaking of the liability and the peaking of associated cash flows, the 2004-05 review has suggested that the liability is now more likely to peak at about 2012-13, followed by a slow decline until mid-century. Cash flows are now expected to peak in 2017-18.

Auditing the Public Account and other accounts

Department of Justice

Crimes Victims Assistance

KEY FINDINGS

- **Victim of crime compensation payments have been made in compliance with the *Crimes (Victims Assistance) Act* and relevant legal direction and have been properly accounted for and disclosed.**

Background

Victims of crime compensation is payable under the provisions of the *Crimes (Victims Assistance) Act*, Crimes Compensation Regulations and Crimes (Victims Assistance) Rules and is administered by the Department of Justice.

An audit of Crimes Victims Assistance (CVA) was last completed by my Office in 1999.

Audit objectives and scope

The objective of the audit was to verify that victim of crime compensation payments have been made in compliance with the *Crimes (Victims Assistance) Act* and relevant legal direction and have been properly accounted for and disclosed.

Audit Findings

Opinion

Victim of crime compensation payments have been made in compliance with the *Crimes (Victims Assistance) Act* and relevant legal direction and have been properly accounted for and disclosed.

A number of observations and recommendations for improvement were made to the Agency.

Specific findings

Follow-up on the results of the 1999 audit

An audit of victim of crime compensation payment administration was last conducted in 1999. As a result of that audit it was concluded that internal control and accounting procedures over payment of the financial assistance, as directed by orders of the Local Court under the *Crimes (Victims Assistance) Act*, were generally satisfactory. However, it was noted that there was no formal system to record amounts recoverable from offenders. Although records of debts outsourced for recovery were maintained, no one central record, reconciled to the value of current outstanding debts, could be located. The 1999 audit recommended that control would be strengthened if a debtors' ledger system was introduced.

Auditing the Public Account and other accounts
Crimes Victims Assistance

Specific findings (continued)

A debtors' ledger for CVA recoveries was established following the 1999 audit.

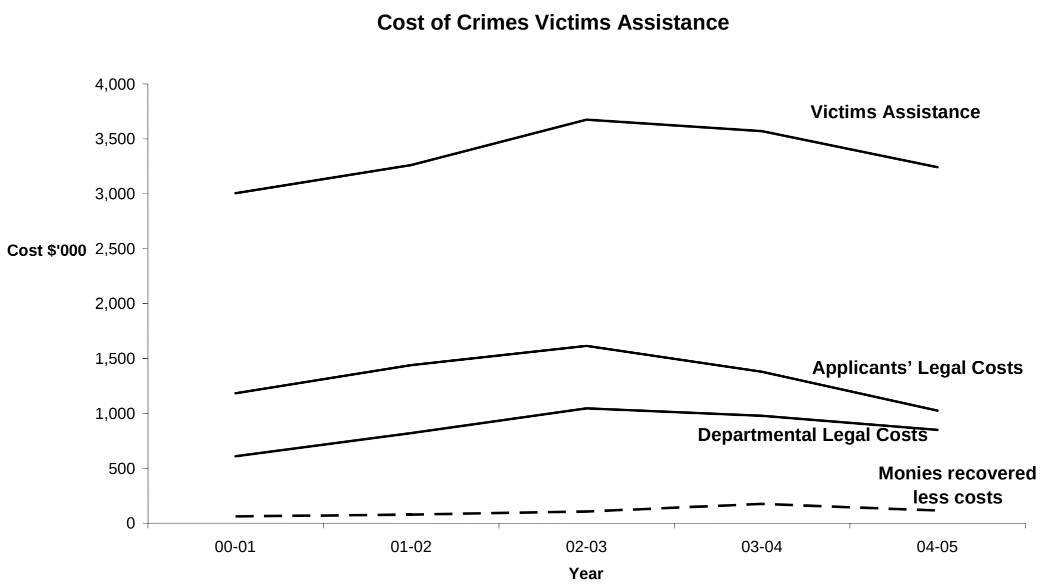
In conjunction with the CVA debtors' ledger the Department maintains an Access database and a number of Excel spreadsheets. There is no reconciliation between the CVA debtors' ledger, the Access data base and the various Excel spreadsheets.

I recommended to the Agency that internal controls and administrative efficiency could be significantly improved if the data maintained in the various Excel spreadsheets were incorporated into the Access database and the database reconcilable to the CVA debtors' ledger for recoveries outstanding, and to Government Accounting System (GAS) general ledger for CVA payments and receipts. The consolidation of data was also a recommendation in a recent internal review by the Agency of CVA debt recovery procedures.

CVA statistics

Victims' assistance payments have increased steadily to a peak in 2002-03 of $3.67 million. Departmental and applicants' legal costs also peaked in 2002-03 at $1.04 million and $1.61 million respectively. By 2004-05 annual victims assistance payments had reduced by $0.43 million while legal costs had reduced by $0.79 million. The reduction in legal costs can be attributed to the introduction of a set schedule of fees payable in regard to claims made.

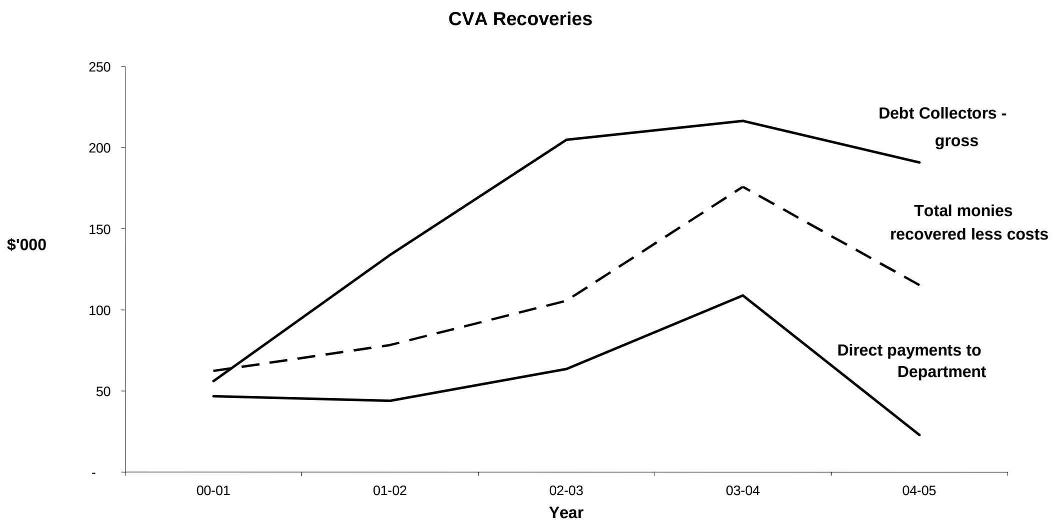
The following graph charts the cost of CVA over the last 5 years and was compiled from information supplied by the Department. The broken line at the bottom of the graph shows the relativity of monies recovered to monies paid.



The second graph charts the collection history for CVA recoveries and the lack of cost effectiveness of using collection agents.

Auditing the Public Account and other accounts
Crimes Victims Assistance

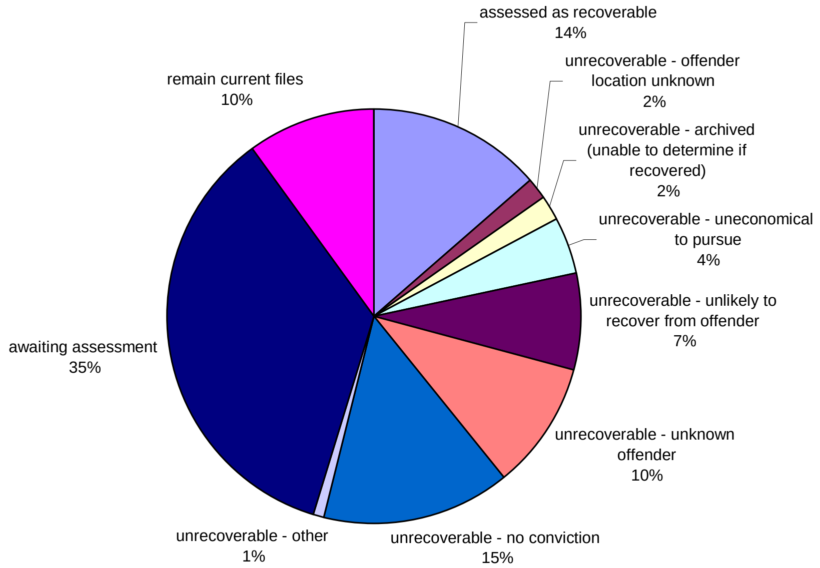
Specific findings (continued)



The sharp decline in direct payments to the Department was due to the changed procedure, after the November 2002 amendments to the Act, to refer all collections to recovery agents. The overall decline in collections is attributed to a slow down in the processing of files.

CVA Recoveries

As a general observation it seems apparent that the Department is most unlikely to be in a position where it is possible for the full value of victims' assistance to be viewed as recoverable. An analysis by the Department of the 458 files opened in 2003-04 found that only 14 % were assessed as recoverable from the offender. The following chart depicts the major reasons for no recovery action.



Auditing the Public Account and other accounts
Crimes Victims Assistance

Specific findings (continued)

CVA Debtors

An unaudited summary of movements in the CVA debtor balances for 2003-04 and 2004-05, as recorded in the Government Accounting System (GAS) follows:

	2003-04	2004-05
	$	$
GAS Opening balance (2)	11,222,909	11,483,292
add new debtors raised for year	434,659	454,238
less monies received (4)	(189,049)	(387,858)
less debts written-off (1)	131,800	(4,140)
GAS Closing balance (2)	11,601,319	11,545,532
CVA Debtors' ledger balance	11,307,032	11,545,532
Variance (3)	294,287	-

Explanations

(1) The 2003-04 write-offs of debts were incorrectly recorded as debit rather than credit transactions. The Agency advised that problems experienced in mapping the general ledger accounts receivable sub-ledger in GAS led to inadequate separation of CVA debtors from other classes of debtors.

(2) The 2003-04 closing balance in GL could not be reconciled with the 2004-05 opening balance. This was attributed to the mapping problems already referred to.

(3) The variance was between the GAS general ledger and the CVA debtors' ledger was reconciled and cleared during the 2004-05 year.

(4) The timing of monies received and recorded in the GAS summary did not agree to the summary of CVA recoveries shown on an Excel spreadsheet maintained by the Agency.

Notwithstanding the existence of various processing problems that affected the recording of CVA debtors and which are referred to above, the position as at 30 June 2005 was such that 93.7% of CVA debtors were more than 2 years old and hence are unlikely to be recoverable either in part or in full.

The November 2002 amendments to the Act changed the Territory's right to recover against offenders. Previously the Territory could obtain judgement against the offender by filing in the Court a notice in the prescribed form. The amended Act now requires the Territory to commence separate proceedings against the offender to create an enforceable debt. This together with a change in administrative procedures has resulted in a significant reduction in the value of enforceable debts recognised each year and the corresponding posting to the CVA debtors' ledger.

Notwithstanding the reduced smaller value of debts that are recognised each year the Agency continues to experience difficulty in collecting the debts.

Auditing the Public Account and other accounts
Crimes Victims Assistance

Specific findings (continued)

Payments Testing

The audit tested 27 payment transactions processed in 2004-05 to supporting documentation. Many of the payments to legal practitioners involved multiple claims. Apart from two minor GAS posting errors all documentation was found to be in order.

Agency's Internal Review

In November 2004 the Agency conducted an internal review of CVA debt recovery procedures. The recommendations of the internal review had not been acted upon at the time of the audit.

The Department has responded:

1. No reconciliation between the CVA debtor's ledger, the Access database and the various Excel spreadsheets:

This issue has already been identified by the Agency and is being addressed.

Agency staff are currently working on combining all data into one database that will be attached to the Open Practice file management and time recording database.

The new database will contain all data that is to be kept by the Legal Services Division in relation to Crimes Victims Assistance. Upon completion of this database, it is anticipated that administrative efficiencies will be achieved and it will be possible to reconcile the Agency's data to the Government Accounting System.

2. Poor success in recovering CVA debts from offenders:

The underlying problem in recovering CVA costs is due to the limited capacity of many offenders to repay monies owed to the Northern Territory of Australia, applications in which the offender is unknown and situations where recovery is not allowable under the Act. That is to say, the Agency has no control over this issue.

A recent internal review of CVA recovery procedures identified that efficiencies could be achieved through changes to existing recovery and collection practices. The Agency is currently considering these options.

Auditing the Public Account and other accounts

Department of Corporate and Information Services

Review of the implementation of the Payroll and Payment Management System (PAPMS)

KEY FINDING

- **Appropriate project management processes were applied to the PAPMS implementation project.**

Background

The Department of Corporate and Information Services (DCIS) provides Northern Territory Government agencies with centralised HR and payroll services for approximately 17,000 NTG employees. PAPMS interfaces with the DCIS Personnel Information & Payroll System (PIPS), to provide payroll services by calculating and disbursing all salaries and entitlements to NTG employees.

For many years PAPMS was hosted, operated and supported by CITEC, which provided pay run and payroll disbursement services to the NTG. CITEC is a Queensland government owned Government Trading Enterprise that took over the service from the Commonwealth. In December 2003, CITEC announced that the PAPMS suite of products would be decommissioned from 30 June 2005. A project was undertaken by DCIS to migrate PAPMS onto the NTG mainframe.

The success of this project was critical given that a PAPMS failure would have the potential to jeopardise the payment of salaries to all NTG employees.

Audit objectives and scope

The objective of this audit was to review the implementation of the PAPMS payroll processing system.

The following areas were addressed in the review:

- Testing and verification of the PAPMS application running on the NT Government (NTG) mainframe;
- Arrangements for support and operations for PAPMS;
- Data conversion controls during the migration from the mainframe in QLD to the NTG mainframe; and
- Communication of changes and user training.

Auditing the Public Account and other accounts
Payroll and Payment Management System (PAPMS)

Audit Findings

Opinion

Appropriate project management processes were applied to the PAPMS implementation project.

Specific findings

Project Status

The PAPMS application went live on the NT Government mainframe from Pay Period 1 in July 2005. DCIS has experienced no significant problems with the application running on the NT government mainframe.

Project Planning and Governance

Project governance was appropriately managed throughout this project with a DCIS project manager appointed to the PAPMS project. In addition, a PAPMS Implementation Steering Committee was established and included a number of executive staff. Regular meetings were held with CITEC during the migration to ensure that project status and issues were discussed and resolved in a timely manner.

A project plan containing the scope, deliverables, risks and responsibilities of this project was prepared, based on the migration planning performed by CITEC.

Formal risk management techniques, including project risk assessments were undertaken for the project.

Testing and Verification of PAPMS

Test plans were devised for key testing, including Gantt charts and more detailed documents containing testing scope, roles and responsibilities. Testing results for key testing were appropriately documented and retained.

The PAPMS suite of software was delivered to the NTG mainframe in December 2004, and the data tables were delivered in January 2005. Verification tasks were undertaken to confirm that all datasets provided by CITEC were installed correctly onto the NT Government mainframe.

Parallel testing was undertaken by CITEC and DCIS for one pay period in March 2005 and again for four pay runs in June and July 2005. These tests included the following:

- Testing of the PIPS and PAPMS interface, and the online use of PAPMS functions;
- System calculation & output testing;
- Testing of system views; and
- End of financial year testing.

There were no significant exceptions identified relating to system malfunction during this parallel testing. Minor data entry exceptions due to human error were noted; however controls were implemented to resolve these issues.

Auditing the Public Account and other accounts
Payroll and Payment Management System (PAPMS)

Audit Findings (continued)

Adequacy of Support & Operation Arrangements

DCIS created two new system support positions to take responsibility for the operational tasks that were previously performed by CITEC. In addition, DCIS have recently employed three CITEC staff to provide ongoing maintenance, knowledge sharing and documentation roles until December 2006.

DCIS have obtained technical documentation from CITEC and have developed checklists and operational procedures to assist with operational support of PAPMS.

Data Conversion Controls

The implementation of PAPMS on the NTG mainframe did not require any data conversion. The application and data files were copied from the Queensland Government mainframe to the NTG mainframe without any data cleansing or table restructure. CITEC did perform data paring in order to split the NT Government data from the CITEC database containing data across many organisations. Parallel testing confirmed that historical PAPMS data loaded onto the NT Government environment was accurately reflected within PAPMS after the migration occurred.

Communication of Changes

A formal communication strategy was defined to ensure that all stakeholders were kept informed of the status of the project and project requirements. Key communication mechanisms utilised during the project included:

- PAPMS Implementation Steering Committee Meetings (held as required);
- PAPMS DCIS Project Team Meetings (held fortnightly);
- CITEC/DCIS weekly update meetings;
- Monthly PAPMS project status report submitted to the DCIS Information Management Committee (IMC);
- Ad hoc emails from the Project Director to key stakeholders providing a project update; and
- Project awareness presentations to NTG Agency HR and payroll staff and also to NTG unions.

User Training

Key training requirements were identified for the DCIS operational staff responsible for providing ongoing technical support for PAPMS. The key purpose of this training was to ensure that appropriate knowledge required to support PAPMS was transferred from the CITEC staff, who previously supported this system, to relevant DCIS personnel. This was undertaken through on-the-job training with CITEC staff. Key DCIS personnel spent approximately 10 weeks onsite with CITEC staff to receive in-depth training on how to support PAPMS.

Additional training was not required for end users of PAPMS as this migration project did not affect PAPMS functionality or existing payroll processes.

Auditing the Public Account and other accounts

Department of Corporate and Information Services

Review of the Government Accounting System (GAS) upgrade project

KEY FINDING

- **At the interim stage of the project, appropriate project management processes were being applied to the GAS Upgrade Project. These processes included formal project planning, software testing, change management, and application support.**

Background

The NT Government's current release of GAS is Masterpiece1.1 implemented in 2000. Since this implementation, the providers of the software have improved the product in three subsequent releases, the latest now being SSA FM 2.0.

With the support for release 1.1 ending, a decision was made to upgrade to SSA FM 2.0.

The migration to SSA FM 2.0, amongst other enhancements, will enable web functionality and a move away from "green screens".

A "go live" date with SSA FM 2.0 has been targeted for 6 March 2006.

Audit objectives and scope

The objective of the audit was to review the GAS upgrade project, with the purpose of providing constructive comment on the project before the go live date.

The audit will be conducted over a number of stages. This stage reviewed project planning, and to the extent completed by DCIS:

- Project planning;
- Testing and verification of the software changes;
- Communication of changes and user training;
- Achievement of expected benefits; and
- Support and maintenance arrangements for new hardware.

Key tasks expected to be completed in the 1st quarter of 2006 were not assessed as part of this audit.

Audit Findings

Opinion

At the interim stage of the project, appropriate project management processes were being applied to the GAS Upgrade Project. These processes included formal project planning, software testing, change management, and application support.

Auditing the Public Account and other accounts
GAS upgrade project

Audit Findings (continued)

Specific findings

Project Status

At the time of the audit DCIS expected the GAS upgrade to FM2.0 to 'go-live' on 6 March 2006.

The project is being managed by a DCIS Project Manager who reports to the GAS Upgrade Steering Committee on a regular basis. Regular technical team meetings and DCIS Project Team meetings are held to discuss project status and any outstanding issues.

A small number of tasks were overdue, including interface testing, wizard development and some functional testing. Formal expected completion dates have not been established for these tasks, however the Project Manager is aware of the reasons for these tasks being overdue and was confident that these tasks would be completed before the end of January 2006.

Testing

Extensive testing is being undertaken by DCIS and other Agency representatives across each of the application modules to ensure that changes included in the upgrade meet the requirements of NT Government. This testing was expected to be completed by the end of January 2006, which was later than indicated in the project plan, however this is not expected to affect the target 'go-live' date.

A number of data conversion tests have been undertaken during the year to refresh the data within the test environment and to verify that the data conversion programs operate correctly.

A detailed plan is yet to be developed containing the key tasks for the 'go-live' weekend. This was expected to be drafted in January 2006. As part of this planning, a data conversion verification strategy is expected to be developed to specify the tasks to be completed during the go-live weekend to verify the migration of data into the new FM2.0 environment. This strategy will specify the acceptance procedures to be undertaken relating to data integrity (e.g. Team Leader sign-offs).

Communication

A formal communication strategy has been defined to ensure that all stakeholders are kept informed of the status of the project and project requirements. Key communication mechanisms include:

- Email notification lists
- Other stakeholder mail lists
- NT Government Stakeholder Presentations
- Project Steering Committee Meetings
- DCIS GAS upgrade project intranet site
- Bulletins
- Regular phone discussions with key users

Auditing the Public Account and other accounts
GAS upgrade project

Audit Findings (continued)

User Training

The GAS Support team, in conjunction with the Product Team Leaders developed training requirements based on the definition of functional changes provided by SSA Global (including changes for v1.2; 1.3 and v2). Separate training courses are being held for Power Users and General Users. New user training is scheduled to begin in March 2006. The participants for each course are identified through feedback from the Agencies. General user training has been scheduled for January 2006. Nominations are currently being sought from Agencies for attendance at this training.

SSA Global has been involved on an as needed basis to assist with developing training material for some of the new technologies.

Achievement of Expected Benefits

The primary driver for this upgrade is to ensure that vendor support (from SSA Global) is maintained, by upgrading from Masterpiece to FM2.0.

Other indirect benefits, such as improved usability and process efficiency gains are expected to be achieved through the introduction of new technologies such as web interfaces, wizards and electronic workflow. These benefits are expected to be secondary benefits rather than being the driver for the project and hence have not been formally defined.

Application Support

The new FM2.0 application will be primarily supported by the GAS Technical Support team within DCIS. A support agreement has been established with SSA Global for secondary support. This agreement was negotiated by the DCIS Contracts Unit and subject to DCIS legal review.

Auditing the Public Account and other accounts

Audit findings and Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 16 November 2005.

Background

The Commission's role is 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 77 to 79 of this Report), which it controls with those of the Commission after eliminating the effects of transactions between the Commission and Territory Discoveries. The results of Territory Discoveries are also separately reported within the annual report of the Commission.

Key issues

No matters of concern were raised as a result of the audit.

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 reported an operating profit for the year ended 30 June 2005 of $2.440 million, compared to a loss of $0.740 million in the prior year.

The increase in profit was primarily from additional government funding of $1.5 million. Additional revenue, totalling $0.18 million was received as a result of greater participation in familiarisation projects, trade shows and advertisements.

Total expenditure during the year was almost unchanged from that of the previous year.

Abridged Statement of Financial Performance for the year ended 30 June 2005 – NT Tourist Commission only

	Notes	2005	2004
		$'000	$'000
Revenue from ordinary activities	1	40,814	38,092
Less expenditure from ordinary activities:			
Employee Expenses		6,710	5,970
Corporate Support		4,888	5,277
Marketing		18,885	19,668
Tourist Development		2,410	2,060
Grants and Subsidies		5,511	5,856
Total expenditure		38,404	38,831
Net Profit/(Loss)		**2,410**	**(739)**

Explanatory note:

1. The increase for the year was primarily due to additional government funding of $1.5 million and a $1 million increase in the carrying value of Tourist Commission's investment in its subsidiary company (Territory Discoveries).

Auditing the Public Account and other accounts
Northern Territory Tourist Commission

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005 – NT Tourist Commission only

	Notes	2005	2004
		$'000	**$'000**
Current assets			
Bank balance		408	449
Receivables and other		837	792
Total Current Assets		1,245	1,241
Less Current Liabilities	**1**	2,071	3,257
(Deficiency) in Working Capital	**2**	(826)	(2,016)
Add Non Current Assets	**3**	2,403	1,443
		1,577	(573)
Less Non Current Liabilities		-	-
Net Assets/(Deficiency)		**1,577**	**(573)**
Represented by:			
Equity			
(Accumulated Losses)		(1,766)	(4,176)
Contributed equity		3,343	3,603
Total Equity/(Deficiency)		**1,577**	**(573)**

Explanatory notes:

1. Stricter adherence to payment schedules resulted in a marked decrease in amounts payable at year end.
2. The deficiency in working capital is a result of the operating losses incurred in previous years.
3. Non current assets increased by $1 million due to the revaluation of the Commission's investment in Territory Discoveries.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Construction Division

KEY FINDINGS

- **The Division did not comply with the provisions of the *Financial Management Act* in that it did not prepare its financial statements within the period determined by the Treasurer.**

Audit opinion

The audit of Construction Division for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 11 November 2005.

Background

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

The host Agency during 2004-05 was the Department of Infrastructure, Planning and Environment. The host Agency is now the Department of Planning and Infrastructure.

Key issues

The Construction Division did not comply with the provisions of the *Financial Management Act* in that it did not prepare its financial statements within the period determined by the Treasurer. The Treasurer had earlier determined that Government Business Divisions were to prepare their financial statements within a period of two months immediately following the end of the financial year. However the Construction Division's financial statements were not presented to me until 7 October 2005.

In my February 2005 report I noted short-comings had been identified in the financial administration of the Construction Division, with an important factor being administrative changes introduced by the Division in anticipation that its Government Business Division status would cease. Management has since resolved that the Division's status will remain unchanged and has introduced controls intended to improve financial administration and management oversight. These improvements included a review of the budgets in February 2005 and regular management meetings intended to monitor financial performance and take necessary corrective action.

There has been a significant decline in the Division's cash balances over the past two years with the Division having an overdraft of $0.860 million at 30 June 2005 (in comparison to cash balances of $1.693 million in 2004). This was generally the result of insufficient attention being given to the need for prompt billing of clients, accompanied by inadequate processes for the management of debtors.

Auditing the Public Account and other accounts
Construction Division

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	$'000
Revenue from ordinary activities	41,464	32,866
Less expenditure from ordinary activities:		
Operational costs	9,652	9,723
Employee expenses	18,971	17,902
Consultants fees	11,230	8,474
Depreciation and amortisation	51	26
Borrowing costs	322	207
Total expenditure	40,226	36,332
Net Profit/(Loss)from ordinary activities before income tax expense	1,238	(3,466)
Less income tax expense	-	-
Net Profit/(Loss) from ordinary activities after income tax expense	1,238	(3,466)
Less Dividends	-	-
Retained Profits/(Losses)	**1,238**	**(3,466)**

The increase in the Division's revenues, and related expenditure, for the year reflects the increase in the NT Government's infrastructure program, and the emergence of stronger commercial focus following a review of the Division's activities by its parent Agency during 2005.

Auditing the Public Account and other accounts
Construction Division

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	2005 $'000	2004 $'000
Current assets		
Bank	1	1,693
Receivables, accrued revenue and other	5,440	1,835
Total current assets	5,441	3,528
Less Current Liabilities		
Payables	579	888
Overdraft	860	-
Employee, dividend and other provisions	3354	3,292
Total current liabilities	4,793	4,180
Working Capital/(Deficiency)	648	(652)
Add Non Current Assets	1,213	1,092
	1,861	440
Less Non Current Liabilities	2,500	2,500
Net Assets/(Liabilities)	**(639)**	**(2,060)**
Represented by:		
Equity		
Reserves	-	-
Retained profits/(losses)	(639)	(2,060)
Total Equity	**(639)**	**(2,060)**

At 30 June 2005 the Construction Division had an overdraft of $0.860 million compared with positive cash balances in June 2004. This was the result of breakdowns in billing and debtors management systems during the 2004-05 year. Cash used in operating activities in 2003-04 and 2004-05 was $2.962 million and $2.552 million respectively resulting in net cash outflows totalling $5.514 million over two years. This is clearly unsustainable by the Division in the long term and highlights the need to ensure that billing and debt collection processes operate throughout the year.

Auditing the Public Account and other accounts
Construction Division

The Department of Planning and Infrastructure has commented:

The timeliness of the preparation of the Construction Division's Financial Statements was impacted by the workload resulting from the changes to departmental arrangements and the availability of skilled personnel. The Department of Planning and Infrastructure will make every effort to ensure that adequate resources are devoted to meeting the requirements of the Financial Management Act.

The Auditor-General's comments regarding the decline of cash balances of the Construction Division have been noted and the issue largely relates to the fact that Construction Division incurs expenditure often well before it can bill its clients. A working group has been formed to put in place appropriate controls to ensure the accuracy and frequency of the billing and debt management processes, which will result in a more accurate reporting of the financial performance and position of Construction Division.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 14 October 2005.

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 during 2004-05 was the Department of Infrastructure, Planning and Environment. The host Agency is now the Department of Planning and Infrastructure.

Key issues

No matters of concern were raised as a result of the audit.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005 $'000	2004 $'000
Revenue from ordinary activities	6,699	6,520
Less expenditure from ordinary activities:		
Employee expenses	3,203	3,122
Supplies and services	2,501	2,435
Depreciation	918	802
Total expenditure	6,622	6,359
Net profit from ordinary activities before income tax expense	77	161
Less income tax expense	(23)	(48)
Net profit from ordinary activities after income tax expense	54	113
Less Dividends	-	-
Retained profits	**54**	**113**

Auditing the Public Account and other accounts
Darwin Bus Service

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	$'000
Current Assets	3,463	2,713
Less Current Liabilities	696	635
Working Capital	2,767	2,078
Add Non Current Assets	5,967	6,685
	8,734	8,763
Less Non Current Liabilities	-	-
Net Assets	**8,734**	**8,763**
Represented by:		
Equity		
Retained profits	8,387	8,416
Contributed equity	347	347
Total Equity	**8,734**	**8,763**

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Darwin Port Corporation (the Corporation)

KEY FINDINGS

- **As has been the case in recent years the transaction having 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 $13.196 million (2004: $18.376 million).**
- **The write down does not affect the service potential of the assets.**

Audit opinion

The audit of Darwin Port Corporation (the Corporation) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 27 October 2005.

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 was completed during 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

Stage 2 of East Arm Wharf

Construction of Stage 2 of the East Arm Wharf was completed during the year. The Construction was funded and managed by the Department of Infrastructure, Planning and Environment with the work in progress being transferred to the Corporation annually and being treated as an equity injection. During the 2004-05 financial year $12.9 million was spent on East Arm Stage 2.

Carrying value of East Arm Wharf Stages 1 and 2

The Corporation has made significant investments in the East Arm Wharf, however 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. As the Board of the Corporation applies the accounting standards in preparing its financial statements, independent assessments of the carrying value of this, and other Port assets, since 1998-99 have resulted in the cumulative write-down of assets of $177.7 million (2004: $164.5 million). The cumulative write-down of East Arm Wharf Stage 2 assets, since 2001-02, is $103.3 million (2004: $90.4 million).

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	Notes	2005 $'000	2004 $'000
Revenue from ordinary activities:			
Rendering services		15,576	13,752
Other revenue from ordinary activities			
Community Service Obligations		2,993	4,592
Interest earned		871	759
Total revenue from ordinary activities		19,440	19,103
Less expenditure on ordinary activities:			
Employee expenses		5,523	4,865
Operational expenses		5,183	4,502
Repairs and maintenance expenses		1,464	1,395
Depreciation expenses		1,187	1,037
Borrowing expenses		1,842	1,892
Total expenditure before asset valuation decrement		15,199	13,691
Net operating profit/(loss) before asset valuation decrement		4,241	5,412
Less Decrement in valuation of non-current assets		(13,196)	(18,376)
Loss from ordinary activities before related income tax expense		(8,955)	(12,964)
Income tax benefit relating to ordinary activities		174	18
Net Profit/(Loss)		**(8,781)**	**(12,946)**

Operating revenue experienced an increase consistent with that of the prior year of $1.711 million (13%) (2004: $1.776 million (14%)), flowing from increased vessel numbers and freight tonnages handled by the Port of Darwin.

Operating expenditure, after excluding the revaluation decrement, also increased over the prior year by $1.508 million (11%), a $7.127 million turnaround from the $5.619 million (30%) decrease experienced in the 2004 year. This increase also reflects the increased activity of the Port for the 2004-05 year and its effects on operating expenses.

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		$'000	$'000
Current Assets			
Bank and cash	1	14,054	17,465
Receivables and other assets		3,182	2,546
Total current assets		17,236	20,011
Less Current Liabilities			
Payables and current debt repayable		2,603	3,182
Employee and other provisions and prepayments in		1,705	1,603
Total current liabilities		4,308	4,785
Working Capital		12,928	15,226
Add Non Current Assets	2	53,583	42,827
		66,511	58,053
Less Non Current Liabilities		33,681	34,939
Net Assets		**32,830**	**23,114**
Represented by:			
Equity			
Accumulated (Losses)		(124,171)	(115,390)
Reserves		10,135	10,135
Contributed Equity		146,866	128,369
Total Equity		**32,830**	**23,114**

Explanatory notes:

1. The Corporation's short-term liquidity position remained strong despite the operating losses incurred. Those losses were primarily the result of write-downs in the carrying amounts of assets which had no effect on cash flows, together with expenses incurred as part of the relocation of assets to East Arm.

2. Non-current assets increased by $10.756 million due to the commencement of large capital projects, in particular the Bulk Loading Facility and Oil Pipelines, resulting in capital works in progress of $11.128 million being disclosed as other non-current assets.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Data Centre Services

There are no key findings

Audit opinion

The audit of Data Centre Services (DCS) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 11 October 2005.

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

The audit did not disclose any matters of concern.

Auditing the Public Account and other accounts
Data Centre Services

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	$'000
Revenue from ordinary activities	16,318	18,550
Less expenditure from ordinary activities:		
Operational costs	9,744	11,133
Employee expenses	3,353	2,337
Depreciation and amortisation	711	1,215
Borrowing costs	94	33
Total expenditure	13,902	14,718
Net profit from ordinary activities before income tax expense	2,416	3,832
Less income tax expense	(725)	(1,150)
Net profit from ordinary activities after income tax expense	1,691	2,682
Less Dividends	(1,010)	(1,177)
Retained Profits	**581**	**1,505**

Total expenditure decreased from $14.72 million to $13.9 million. That decline was largely the result of a decrease in the use of IT consultants and saw operational expenses fall from $11.1 million to $9.7 million. However, a number of consultants were engaged as full-time staff of DCS with an accompanying increase in staff numbers from 37 to 55, and in salaries expenses for the year. Depreciation and amortisation expenses decreased from $1.2 million to $0.7 million. All other expenditure items have remained relatively consistent.

Operating revenue decreased in 2004-05 due to the loss of three customers during the year. The resultant loss of revenue was of the order of $2.1 million. Investment revenue increased by $105,000, reflecting the larger than average cash balance held in 2004-05. The above movements in revenues and expenses resulted in a decrease in profit from ordinary activities before income tax expense from $3.8 million to $2.4 million. The cost structure of DCS is characterised by a high ratio of fixed to variable costs and 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 total costs from its remaining customers unless an increasing share of fixed costs are allocated to those customers.

Auditing the Public Account and other accounts
Data Centre Services

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		$'000	$'000
Current assets			
Bank and cash	1	4,105	4,745
Receivables, prepayments and other	2	2,881	2,330
Total current assets		6,986	7,075
Less Current Liabilities			
Payables and debt repayments	3	550	613
Taxation, employee provisions and other	4	2,788	2,890
Total current liabilities		3,338	3,503
Working capital		3,648	3,572
Add Non Current Assets	5	1,493	285
		5,141	3,857
Less Non Current Liabilities		603	-
Net Assets		**4,538**	**3,857**
Represented by:			
Equity			
Retained profits		4,213	3,532
Contributed equity		325	325
Total Equity		**4,538**	**3,857**

Explanatory notes:

1. The decline in cash on hand at bank was consistent with the operating result.
2. Receivables increased by $392,000 from last year, while prepayments decreased by $92,000.
3. The reduction in payables was attributable to a decline in GST payable as a result of lower sales revenue.
4. Income tax liability and provision for dividend decreased in line with the decreased profit for the year.
5. The value of non current assets increased as the result of the acquisition of plant and equipment purchased under finance lease arrangements on 1 July 2004.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Department of Community Development, Sport and Cultural Affairs: Territory Housing

KEY FINDINGS

- **Territory Housing did not comply with the provisions of the *Financial Management Act* in that it did not prepare its financial statements within the period determined by the Treasurer.**
- **As has been noted in previous financial years, the Division's operating deficits highlight the inability of revenues to fund expenditures with Territory Housing continuing to incur annual interest charges of approximately $25 million on Commonwealth and Northern Territory loans.**

Audit opinion

The audit of Territory Housing for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 22 November 2005.

Background

Territory Housing 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 Territory Housing has incurred significant levels of operating losses primarily due to revenues being insufficient to cover depreciation charges and interest payments – $19.8 million and $24.7 million respectively in 2004-05.

Its host Agency in 2004-05 was the Department of Community Development, Sport and Cultural Affairs. The host Agency is now the Department of Local Government, Housing and Sport.

Auditing the Public Account and other accounts
Territory Housing

Key issues

Territory Housing did not comply with the provisions of the *Financial Management Act* in that it did not prepare its financial statements within the period determined by the Treasurer. The Treasurer had determined that Government Business Divisions were to prepare their financial statements within a period of two months immediately following the end of the financial year. However Territory Housing's financial statements were not presented to me until 28 September 2005.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	$'000
Revenue from ordinary activities:		
Rendering of services	39,811	38,128
Community Service Obligations (CSO)	29,910	27,780
Proceeds on sale of assets	29,772	25,501
Other revenues from ordinary activities	14,976	20,915
Total revenue from ordinary activities	114,469	112,324
Less expenditure on ordinary activities:		
Employee expenses	8,932	8,259
Rates	14,974	14,242
Repairs and maintenance	19,155	20,894
Depreciation and amortisation	19,752	18,407
Borrowing costs	24,695	24,777
Value of assets sold	27,372	23,029
Other expenses on ordinary activities	10,442	15,481
Total expenditure	125,322	125,089
Net Profit/(Loss)	**(10,853)**	**(12,765)**

The operating result for the year was a deficit $10.9 million from ordinary activities, compared to a deficit of $12.8 million in the previous financial year. The lower deficit is the result of an overall increase in revenues of $2.15 million, while expenditure increased by only $0.23 million. The low expenditure growth is attributable to reductions to the provision for doubtful debts at 30 June 2005 which were reflected in reduced expenses.

Auditing the Public Account and other accounts
Territory Housing

Financial results (continued)

The most significant factors that contributed to the increase in revenue for the year were:

- an increase of total rent revenue of $1.683 million attributable to the increase in the total number of Government Employee Housing and Public Housing dwellings (34 new GEH building and 40 new public housing dwellings completed this financial year);
- $4.2 million increase in proceeds on disposals of housing property; and
- $2.1 million increase in Community Service Obligation receipts.

The proceeds on the sale of assets of $29.8 million (2004: $25.5 million) was offset by the value of the assets sold of $27.4 million (2004: $23.0 million) resulting in a profit on sale of assets of $2.4 million (2004: $2.5 million). The assets sold were primarily public housing dwellings and shared equity investments with $2.5 million of the profit (2004: $2.4 million) relating to the sale of public housing dwellings.

As has been noted over the past five financial years, Territory Housing's operating deficits highlight the inability of its rental income to fund its operating expenditures. In effect, this reflects the role of Territory Housing as a provider of housing to diverse groups across a large geographical area and, given this, it is most likely that subsidies in the form of Community Service Obligation funding will continue to be a permanent feature of the Territory Housing's funding arrangements. The following amounts were received for the provision of community service obligations for 2004-05.

Type of Subsidy	$'000
Rental rebates	25,027
Rent foregone	1,087
Interest subsidy- low interest rates	647
Assist Interest Subsidy Scheme	400
Early Start Deposit Assistance Grants	60
Stamp Duty Differential	84
Fringe Benefits Tax	48
Crisis Accommodation	399
Community Housing	643
Indigenous Housing Advisory Services	297
Welfare	1,218
Total	**29,910**

Other expenses decreased by $5.0 million largely due to lower grants and subsidies being paid relating to the Community Harmony Project and the write-back of $2.3 million provision for doubtful debts as a result of Territory Housing reassessing it's methodology for calculating doubtful debts.

Total operating expenses for the division for 2004-05 ($125.322 million) were little changed from those of the 2003-04 ($125.1 million). However, the figure for 2004-05 was affected by write-back of bad and doubtful debts expense which had the effect of reducing total expenses for the year by $2.3 million.

Auditing the Public Account and other accounts
Territory Housing

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005 $'000	2004 $'000
Current Assets			
Bank and cash	1	14,385	65,627
Receivables and other	2	11,078	4,933
Total current assets		25,463	70,560
Less Current Liabilities			
Payables and interest bearing debt		10,160	9,080
Employee provisions and other		2,881	2,668
		13,041	11,748
Working Capital		12,422	58,812
Add Non Current Assets			
Property, plant & equipment		1,203,333	960,863
Receivables	2	178,002	152,299
Investments		48,034	38,149
		1,441,791	1,210,123
Less Non Current Liabilities		341,850	328,937
Net Assets	3	**1,099,941**	**881,186**
Represented by:			
Equity			
Accumulated (Losses)		(66,703)	(53,450)
Reserves		1,119,613	888,285
Contributed Equity		47,031	46,351
Total Equity		**1,099,941**	**881,186**

Explanatory notes:

1. The $51.2 million decline in cash balances is attributable to the significant lending and construction activity by Territory Housing with a significant part of the financing of that activity being met from cash reserves.
2. Total Receivables rose by $31.8 million largely due to the adoption of a revised policy for the calculation of the doubtful debts provision, coupled with a general increase in rental and rental-related debtors that are in line with the Territory Housing's higher turnover and an increase in the loan portfolio. The revised policy for the provision of doubtful debts is based on the category and age of debts.
3. Territory Housing continues to display a strong net asset position of $1,100 million. This is a 25% increase on the prior year and is largely the result of a $231 million net gain from the revaluation of housing property, reflecting the growth in residential property values since 2003-04.

Auditing the Public Account and other accounts
Territory Housing

Territory Housing has commented:

Territory Housing agrees with the first key finding, however it should be noted that the delay was primarily due to the systemic issues and processes surrounding the reconciliation of Territory Housing's works in process. This issue has now been resolved and as such there should be no reason why Territory Housing will not meet the requirements of Treasurer's Direction 2.6.8, and section 10(1) of the Financial Management Act for future financial years.

Territory Housing generally agrees with the second key finding, however it has three distinct business lines, Public Rental Housing, Government Employee Housing and Home Ownership which facilitate the delivery of Government's objectives.

Financial and budget monitoring is focused on each individual business line, with revenue and expenditure items specifically allocated to each business line. This provides transparency and enables financial information to be presented at business line level and summary level for the purposes of whole of Government reporting and presentation of Territory Housing's annual report.

From a business line perspective:

- *Home Owner ship continues to make a modest profit, this profit continues to improve primarily due to the new HomeNorth Extra schemes implemented on 1 July 2004;*
- *The Government Employee Housing continues to make a loss as it has limited ability to raise additional revenue to support operational and capital works activities. Funding for Government employee housing is currently under review with a view to make it sustainable into the future; and*
- *Public Housing continues to make losses notwithstanding there has been a significant improvement in financial performance during the past 12 months. The ongoing losses are primarily due to the business lines inability to raise sufficient revenues to cover annual interest payments and depreciation charges of $25 million and $15 million respectively. With limited ability to raise extra revenue or reduce costs the losses are expected to continue in the short term.*

In addition, it should be noted that depreciation, a non cash expense, is a significant factor in the financial results of Territory Housing as a whole and contributed $19.7 million towards the $10.8 million loss last year.

Notwithstanding these issues, the 2004-05 operating results represent an improvement in Territory Housing's financial performance for the fourth consecutive year. This trend is expected to continue in 2005-06.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Government Printing Office

There are no key findings.

Audit opinion

The audit of the Government Printing Office (GPO) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 11 October 2005.

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

The audit did not identify any matters of significance.

Auditing the Public Account and other accounts
Government Printing Office

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	$'000
Revenue from ordinary activities	6,947	6,019
Less expenditure from ordinary activities:		
Operational costs	3,660	3,387
Employee expenses	2,365	2,357
Depreciation and amortisation	254	277
Total expenditure	6,279	6,021
Net profit/(loss) from ordinary activities	668	(2)
Less income tax expense	(34)	(166)
Net profit/(loss) after income tax/credit	634	(168)
Less Dividends	(317)	-
Retained Profits	**317**	**(168)**

Total revenue increased by $928,000 (13%) for 2004-05 due to an increase in the level of activity for the year. This was the principal factor in the GPO reporting its first operating profit in several years. The GPO outsources some work to private firms and for 2004-05 the percentage of printing tasks outsourced increased from 22% for 2003-04 to 28%.

Total expenditure increased by $258,000 (4%) with payments to subcontractors representing most of that increase. Personnel costs and depreciation expenses remained relatively consistent with the prior financial year.

As the result of having achieved a profit for the year, the GPO incurred a tax liability equal to 30% of the net operating profit. However, given that the GPO has incurred operating losses for several years, the tax expense for 2004-05 has been offset against prior years' tax losses that have been carried forward.

A dividend of $317,000 was declared in the current year, being 50% of the net after tax profit, consistent with Treasurer's Directions. No dividend was provided for or paid in 2003-04 given the absence of a profit in that year.

Auditing the Public Account and other accounts
Government Printing Office

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		$'000	$'000
Current assets	1	3,515	2,530
Less Current Liabilities	2	1,475	1,014
Working capital		2,040	1,516
Add Non Current Assets			
Property Plant and Equipment	3	758	965
Net Assets		**2,798**	**2,481**
Represented by:			
Equity			
Retained profits		2,425	2,108
Contributed equity		373	373
Total Equity		**2,798**	**2,481**

Explanatory notes:

1. There was a $985,000 increase in current assets for the year, primarily due to an increase of $1 million in cash held by GPO at the end of the financial year reflecting higher sales revenues for the year accompanied with collection of accounts receivable by 30 June 2005.

2. Liabilities increased by $461,000 (44%) an increase of $139,000 in unearned revenue and the recognition of a provision for a dividend. In addition, GPO raised a $34,000 liability for income tax due to the profit reported in the current financial year. This amount represents the liability for income tax remaining after taking into account the value of carried forward losses.

3. The total carrying values of property, plant and equipment fell from $965,000 at 30 June 2004 to $758,000 at 30 June 2005. This was generally the result of the allocation of a part of the costs of those assets to the year's expenses through the process of depreciation.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Northern Territory Treasury Corporation

There are no key findings

Audit opinion

The audit of Northern Territory Treasury Corporation (the Corporation) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 5 October 2005.

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 of consequence were raised as a result of the audit.

Auditing the Public Account and other accounts
Northern Territory Treasury Corporation

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	**$'000**
Revenue from ordinary activities	174,970	187,896
Less expenditure from ordinary activities:		
Interest	147,642	160,108
Other expenses	190	890
Administration	2,076	1,924
Total expenditure	149,908	162,922
Profit from ordinary activities before income tax expense	25,062	24,974
Less income tax expense	(7,519)	(7,492)
Net profit from ordinary activities after income tax expense	17,543	17,482
Less Dividends	(20,670)	(14,355)
Retained (losses)/profits	**(3,127)**	**3,127**

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	**$'000**
Total Assets	2,318,590	2,322,288
Less Total Liabilities	2,299,876	2,300,447
Net Assets	**18,714**	**21,841**
Represented by:		
Equity		
Retained profits	-	3,127
Contributed Capital	18,714	18,714
Total Equity	**18,714**	**21,841**

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 11 October 2005.

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. Northern Territory 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 of consequence were raised as a result of the audit.

Auditing the Public Account and other accounts
NT Fleet

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	**$'000**
Revenue from ordinary activities		
Revenue from vehicle lease rentals	28,572	27,268
Gross proceeds from sale of vehicles	18,426	19,613
Other revenues	118	342
	47,116	47,223
Less expenditure from ordinary activities:		
Cost of vehicles sold	16,497	17,941
Operational costs	8,749	8,762
Employee expenses	1,959	1,970
Depreciation and amortisation	11,772	11,506
Borrowing costs	-	76
Total expenditure	38,977	40,255
Profit from ordinary activities before income tax expense	8,139	6,968
Less income tax expense	(2,442)	(2,090)
Net profit from ordinary activities after income tax expense	5,697	4,878
Less Dividends	(2,887)	(2,400)
Retained profits	**2,810**	**2,478**

Total expenditure has decreased from $40.255 million to $38.977 million. Cost of vehicles sold decreased by $1.4 million which is consistent with the decrease in cars sold during the year. Major movements within expenses included vehicle expenses, which increased from $6.765 million in 2003-04 to $6.843 in 2004-05. 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. All other operating expenses have not moved significantly as compared to the prior year.

The above movement in revenue and expenses has resulted in an increase in profit from ordinary activities before income tax expense from $6.968 million to $8.139 million.

Auditing the Public Account and other accounts
NT Fleet

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		$'000	$'000
Current assets			
Cash assets	1	2,110	4,241
Receivables and other current assets		848	898
Total current assets		2,958	5,139
Less Current Liabilities			
Payables		3,037	3,282
Taxation, employee entitlements and other	2	5,847	4,926
Total current liabilities		8,884	8,208
Deficiency in working capital	1	(5,926)	(3,069)
Add Non Current Assets (Vehicle fleet)	3	73,549	67,882
Net Assets		**67,623**	**64,813**
Represented by:			
Equity			
Retained profits		67,118	64,308
Contributed equity		505	505
Total Equity		**67,623**	**64,813**

Explanatory notes:

1. While the statement of financial position might suggest that NT Fleet's liquidity was poor, and symptomatic of a poor working capital position, the nature of NT Fleet's business is such that it is able to meet its obligations as they fall due.

2. The liability for Income tax and the provision for dividend increased in line with the increased profit for the year.

3. The carrying 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 2,276 to 2,346 vehicles.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Government Business Divisions (GBDs)

Territory Wildlife Parks

There are no key findings

Audit opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 24 October 2005.

Background

This Government Business Division (GBD) includes the Territory Wildlife Park at Berry Springs and the Alice Springs Desert Park. The parks have required significant financial contributions from the Government, by way of Community Service Obligations to enable them to meet their operating expenses.

The host Agency in 2004-05 was the Department of Infrastructure, Planning and Environment. That role has since been assumed by the Department of Natural Resources, Environment and the Arts following the Agency restructure in July 2005.

Key issues

There were no significant issues arising from the audit.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	**2004**
	$'000	**$'000**
Revenue from ordinary activities (excluding CSO)	2,352	2,124
Less expenditure from ordinary activities:		
Employee expenses	5,204	5,123
Depreciation and amortisation	1,452	1,716
Other expenses	4,263	4,655
Total expenditure	10,919	11,494
Operating (loss) before CSO	(8,567)	(9,370)
Community Service Obligation funding	7,445	9,103
Net (Loss) from ordinary activities	**(1,122)**	**(267)**

Auditing the Public Account and other accounts
Territory Wildlife Parks

Financial results (continued)

The increase in revenue from ordinary activities was attributable to increased numbers of visitors to the Alice Springs Desert Park and the Berry Springs Park, where entry fee income increased by 28% and 24% respectively. The decrease in CSO contributions resulted in a reduction in cash balances held during the year which impacted on revenue from interest. The interest revenue fell from $167,000 to $67,000.

The deterioration in the financial result was mainly attributed to the reduction in Community Services Obligation (CSO) funding.

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		$'000	$'000
Current assets	1	1,958	1,715
Less Current Liabilities		954	1,030
Net Current Assets/(Liabilities)		1,004	685
Add Non Current Assets (primarily buildings and infrastructure)	2	32,313	33,410
Net Assets		**33,317**	**34,095**
Represented by:			
Retained profits		1,945	3,066
Contributed equity	3	14,269	13,926
Asset revaluation reserve		17,103	17,103
Total Equity		**33,317**	**34,095**

Explanatory notes:

1. The increase in current assets is represented largely by an increase in cash balances. Net cash from operating activities for the year was $149,000 which was applied to the purchase of non-current assets ($18,000), with the balance reflected as higher cash assets.

2. Additions to property, plant and equipment totalling $355,000 were made during the year. This addition was offset by the value of depreciation of $1,452,000, resulting in an overall decline in the carrying amount of non-current assets.

3. The value of contributed equity increased by $343,000 for the year. This represents the amount provided by way of equity to finance additions to the stock of property, plant and equipment.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 16 November 2005.

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

No matters of significance were identified as a result of the audit.

Auditing the Public Account and other accounts
Territory Discoveries

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	**2004**
	$'000	**$'000**
Revenue from ordinary activities	6,558	5,679
Less expenditure from ordinary activities:		
Operational costs	3,207	3,078
Employee expenses	2,312	2,335
Depreciation and amortisation	16	38
Total expenditure	5,535	5,451
Net Profit from ordinary activities before income tax expense	1,023	228
Less income tax expense	-	-
Net Profit from ordinary activities after income tax expense	1,023	228
Less Dividends	-	-
Net Profit	**1,023**	**228**

The increase in revenue was largely attributable to the earning of an additional $0.5 million in agency fees (commission) collected from service providers of tourist destinations in the Northern Territory. An additional allocation of $0.3 million from Northern Territory Tourist Commission and $0.275 million increase in advertising revenue from advertisements placed in Territory Discoveries brochures and magazines contributed to the final result. However, those increases were offset to some extent by a decrease in grants and subsidies revenue of $0.36 million for the year.

Auditing the Public Account and other accounts
Territory Discoveries

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		$'000	$'000
Current Assets			
Cash assets		6,737	4,697
Receivables		55	73
Total current assets		6,792	4,770
Less Current Liabilities			
Payables		545	1,304
Provisions		219	149
Other liabilities	1	-	2,208
Funds held in Trust	1	3,919	-
Total current liabilities		4,683	3,661
Working Capital		2,109	1,109
Add Non Current Assets		34	11
		2,143	1,120
Add Non Current Liabilities		-	-
Net Assets		**2,143**	**1,120**
Represented by:			
Equity			
Accumulated (Losses)		(3,534)	(4,557)
Contributed Equity		5,677	5,677
Total Equity		**2,143**	**1,120**

Explanatory notes:

1. As at 1 July 2002, the NT Holiday Centre was transferred from the Northern Territory Tourist Commission to become an operational unit of Territory Discoveries. Since Holiday Centre balances are held in trust until the tourism or travel service is used, balances had been reported as trust account assets and liabilities in the Commission's financial records. However, as a Government Business Division, Territory Discoveries was excluded by the *Financial Management Act* from having a Trust Account resulting in the transactions being treated as liabilities and assets of Territory Discoveries. An Accountable Officer's Trust Account has now been established under the *Financial Management Act* to allow Territory Discoveries to maintain a trust account from the 2004-05 financial year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of

Power and Water Corporation

KEY FINDING

- **The audit of Power and Water Corporation for the year ended 30 June 2005 resulted in a qualified independent audit opinion. I was unable to determine whether the fair value of property, plant and equipment did not differ materially from the carrying amount at 30 June 2005.**

Audit opinion

The audit of Power and Water Corporation (the Corporation) for the year ended 30 June 2005 resulted in a qualified independent audit opinion, which was issued on 13 October 2005.

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

Qualification

I was unable to satisfy myself that the carrying amounts of property, plant and equipment reported in the Corporation's Statement of Financial Position were reliable. Accordingly, I was required to issue a qualified audit opinion as required by Australian Auditing and Assurance Standards. An extract from that opinion follows:

"As disclosed in Note 10 "Property, Plant and Equipment" to the financial statements, the directors have reviewed the carrying amount of property, plant and equipment measured using the fair value basis to ensure there is no material difference between their fair value and carrying amount at reporting date. Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" requires where assets are recorded at fair value, revaluations must be made with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date. I was unable to obtain sufficient appropriate audit evidence to support the fair value of the property, plant and equipment assets and, accordingly I was unable to determine whether the fair value was at least equal to the carrying amount. In the event that the carrying amount of the property, plant and equipment assets exceeds the fair value, it would be necessary for the carrying amount of these assets to be written down to fair value on a class by class basis".

Auditing the Public Account and other accounts
Power and Water Corporation

Key issues (continued)

Retail Management System

At the conclusion of the interim audit in June 2005, I harboured reservations about the completeness and validity of data recorded in the recently implemented Gentrak Retail Management System and, flowing from this, concerns about the data contained in the general ledger. The Corporation's Retail Group formulated and delivered a program for testing data and quantifying any potential misstatements and I am satisfied that the sales and revenue data recorded in the system are sufficiently reliable to enable me to audit assertions about validity and completeness. The work required to satisfy my Authorised Auditors and I about the reliability of data was considerable and the project instituted by the Retail Group was well formulated and well executed. I have commended the General Manager, Retail and his team for the significant contribution that they made in support of the audit process.

Completion of financial statements

Issues that arose during the course of audit meant that the statutory date for the completion of the audit of 30 September 2005 could not be achieved. As a result I sought, and received, the approval of the Administrator, in accordance with Section 43(1) of the *Government Owned Corporations Act*, to extend the period for completion of the audit by fourteen days.

Australian Equivalents to International Financial Reporting

An additional implication for the Corporation's 2005-06 accounts and the accompanying audit is the introduction of the new reporting regime based on the Australian Equivalents to International Financial Reporting (A-IFRS). I advised the Corporation that I expect the new reporting framework to have a significant effect on the preparation of the financial statements for 2005-06. The comparative figures for the 2004-05 financial year will need to be restated, commencing with a restated balance sheet as at 1 July 2004.

Negative Cashflow

The Corporation's bank account was overdrawn by $2.38 million at 30 June 2005. This was a significant turnaround from the $38.9 million of cash assets held at the start of the year.

Net cash outflows from the Corporation for the year ended 30 June 2005 were $41.28 million, after taking into account additional proceeds from borrowing of $20 million, resulting in the Corporation's bank account being overdrawn by $2.38 million at 30 June 2005. Tax and dividends payable will result in a further deterioration in the cash position by $33.37 million, while the increase in commitments falling due within twelve months may also have a significant effect on the Corporation's financial position.

It is my understanding that some cash collection difficulties arose as a result of the implementation of the Retail Management System. In addition, the Corporation paid taxation for the first time during the financial year ended 30 June 2005. This and higher outlays as a result of higher oil prices were contributory factors to the deterioration in the Corporation's short-term financial position.

The Corporation's current financial position deteriorated during 2004-05 to the point where negative working capital existed at 30 June 2005. This emphasised the need for the Board to implement a cash management plan to ensure that the Corporation is able to meet its liabilities as and when they fall due. It is likely that the Corporation will need to increase its level of borrowings to fund ongoing capital expenditure.

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 2005

	Notes	2005	2004
		$'000	$'000
Revenue from ordinary activities	1	507,907	479,708
Less expenditure from ordinary activities:			
Raw materials and consumables used	2	223,513	201,332
Borrowing costs		24,458	25,368
Cost of sales		517	1,886
Repairs and maintenance expenses	3	35,761	39,415
Employee expenses	4	57,364	46,960
Depreciation and amortisation		49,219	46,940
Property costs		3,209	2,780
Information technology and communication expense		8,513	9,361
Insurance costs		3,452	3,323
Recoverable amount write down		12,951	14,142
Other expenses		36,917	33,155
Total expenditure		455,874	424,662
Net Profit from ordinary activities before income tax expense		52,033	55,046
Less income tax expense		(14,164)	(14,818)
Net Profit/(Loss) from ordinary activities after income tax expense		37,869	40,228
Less Dividends		(18,900)	(20,046)
Retained profits		**18,969**	**20,182**

Explanatory notes:

1. Revenue from ordinary activities increased by $28.2 million, or 5.88%, on last year. This is attributable mainly to: a $5.5 million increase in electricity sales revenue through increased consumption; a $2.6 million increase in revenue from water charges through increased consumption; a $7.9 million increase in community service obligation revenue; and a $1.5 million increase in developer and capital contributions. This was offset by a $1.97 million decrease in interest revenue as a result of the lower cash balances held during the year. Revenue received by the subsidiary Indigenous Essential Services Pty Ltd for providing services to remote communities increased by $7.4 million partly through increased charges of $1.05 million with most of this increase being received through recurrent and capital grants of $6.7 million. Gas sales to external parties also increased by $6.8 million.

Auditing the Public Account and other accounts
Power and Water Corporation

Financial results (continued)

2. Raw materials and consumables used increased by $22.2 million, or 11%, on the previous year with the main contributor being an increase of $9.9 million for distillate due to higher usage and increased prices. Gas prices have also increased as a result of increased fuel prices.

3. Repairs and maintenance expenditure is consistent with the prior year and in line with the Corporation's policy to reduce costs. There were no large maintenance projects conducted during the year; only routine maintenance of plant and equipment and the continuation of the replacement of the insulators on power lines throughout the Northern Territory.

4. Salaries increased during the year principally due to an Enterprise Bargaining Agreement that resulted in a 5% increase in wages. There was also a re-banding of staff classifications which resulted in salary or wage increases of up to 10% for some positions. There was also a slight increase in staff numbers for the year.

Abridged Statement of Financial Position of the Consolidated Entity at 30 June 2005

	Notes	**2005**	**2004**
		$'000	**$'000**
Current assets	**1**	82,662	123,145
Less Current Liabilities		118,936	125,940
Working capital		(36,274)	(2,795)
Add Non Current Assets	**2**	973,952	928,115
		937,678	925,320
Less Non Current Liabilities		288,468	295,080
Net Assets		**649,210**	**630,240**
Represented by:			
Equity			
Contributed equity		-	-
Reserves		381,770	381,770
Retained profits		267,440	248,470
Total Equity		**649,210**	**630,240**

Explanatory notes:

1. The negative cashflow of the Corporation as outlined on page 81 is the main contributor to the decrease in current assets. There was also a $15.8 million decrease in cash assets of the subsidiary companies.

2. Property, plant and equipment additions of $87 million were offset by depreciation of $42 million which accounts for the change in non-current assets.

Auditing the Public Account and other accounts
Power and Water Corporation

The Corporation has commented:

Audit Qualification

The Corporation has accepted the Auditor-General's audit qualification of the 2004-05 financial statements with regard to the valuation of property, plant and equipment. The qualification is a technical one associated with the operation of Accounting Standards. A full review of the fair value testing methodology (Recoverable Amounts Test) is being conducted as part of the adoption of Australian Equivalents to International Financial Reporting (AIFRS).

In addition, the Corporation has initiated a project to physically verify and value all property, plant and equipment. Project scope and tender documents are currently being prepared, while the project is scheduled to be under way by May 2006. The physical verification is a significant undertaking and is expected to take approximately 2 years to complete. A cycle of rolling stocktakes every 3 years will result from the project.

Negative Cashflow

The Corporation, like any business, optimises the use of its working capital. The maintenance of minimum cash balances, the use of overdraft facilities and the maximisation of gearing are part of this mix. The Corporation's debt levels are below industry norms and its capacity to service debt, as evidenced by all liquidity measures, remains strong.

The Corporation will therefore continue to borrow to fund its capital investment program up to its maximum capacity.

To support the tight management of cash flow, forecasting processes have been reviewed and changes instigated to improve robustness of forecasting tools. The 12-month rolling cash requirement is monitored on a daily basis and detailed reviews are completed on a quarterly basis, with results communicated to the senior management and the Board. NT Treasury is also informed if there is a major deviation from Statement of Corporate Intent.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 5 October 2005.

Background

The Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS) was established by the Superannuation Act and was opened to new members on 1 October 1986, and closed to new members on 9 August 1999. The NTGPASS is a defined benefit scheme which means that the Government must provide a specified amount of benefits that are linked to years of membership and salary levels.

While the scheme was closed to new members in 1999, approximately 250 employees were subsequently found to be eligible for membership and were offered membership during 2004-05. The NTGPASS Rules were amended during the year to enable these employees to join the scheme retrospectively and to specify the methodology for calculating their accrued benefit entitlement upon joining. Of those eligible to join, 108 responded to the offer of membership and of these, 48 accepted the offer and elected to repay arrears back to their date of eligibility. A further 57 accepted the offer, but chose not to repay arrears, and a further 3 declined the offer of membership.

The future liability of the Government, and each year's emerging costs, for providing benefits to withdrawing members is calculated by appropriately qualified actuaries and I have relied upon the work performed by those actuaries when conducting my audit. The actuarial review of the scheme was performed in 2004, although the actuary has updated calculations in the intervening period. The next review is scheduled to be performed in 2007.

The unfunded liability of the scheme at 30 June 2005, after taking into account the value of assets held by the scheme at that date, was $552.1 million, compared with an unfunded liability of $469.9 million at 30 June 2004.

Key issues

The audit did not identify any matters of consequence.

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 2005

	2005	2004
	$'000	$'000
Net investment revenue	48,470	41,904
Member contributions	28,647	25,801
Member surcharge payments received	308	298
Territory contributions	41,624	37,372
Transfers and rollovers	36,607	29,215
Benefits expense	(78,878)	(72,514)
Other expenses	(1,028)	(707)
Revenue less expenses before income tax	75,750	61,369
Income tax expense	(2,389)	(4,999)
Change in Net Assets	**73,361**	**56,370**

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	$'000
Cash at bank and other assets	16,327	13,937
Investments	464,851	394,455
Total assets	481,178	408,392
Less Liabilities	27,703	28,278
Net Assets	**453,475**	**380,114**
Vested Benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	1,075,700	924,900

The increase in Net assets of the Fund is mainly due to the increase in market value of investments. Member contributions and transfers and rollovers into the fund also increased in total.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 5 October 2005.

Background

The provision of superannuation benefits to Members of the Legislative Assembly was affected by two Acts passed by the Legislative Assembly during 2004-05. The first, the *Legislative Assembly Members' (Scheme Closure) Act* closed the defined benefits scheme to new members. Members of the Legislative Assembly who were re-elected at the general election held on 18 June 2005 continue as members of the defined benefit scheme. The second Act, the *Legislative Assembly Members' Superannuation Contributions Act*, established a new superannuation arrangement for Members elected to the Legislative Assembly for the first time at the general election on 18 June 2005. The new arrangement provides for the payment of the 9% superannuation guarantee to the Member's superannuation fund of choice and, in the absence of a nomination of a fund by a Member, to a default fund.

The triennial Actuarial Review of the defined benefit scheme was conducted in 2004 and the next review is scheduled for 2007. The estimated value of vested benefits (the value of members' rights that were not conditional upon continued scheme membership) of the defined benefit scheme at 30 June 2005 were $48.72 million.

Key issues

The audit did not identify any matters of consequence.

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 2005

	2005 $'000	2004 $'000
Net investment (deficiency)/revenue		
Sundry income	1	4
Interest and distributions	200	199
Changes in net market value of investments	4,526	3,898
Member contributions	391	365
Territory contributions	2,800	4,100
Benefits paid	(2,289)	(1,495)
Superannuation contribution surcharge	(293)	(310)
Other expenses	(3)	(6)
Surplus before income tax	5,333	6,755
Income tax expense	(425)	(619)
Change in Net Assets	**4,908**	**6,136**

The performance of the investments held by the Trust improved during the year, resulting in an increased net market value of $4,526,000 compared to $3,898,000 in 2004.

Total revenue compared to the prior year decreased due to a decline in Territory contributions received. This is due to a one off contribution of $1,900,000 in additional contributions in 2004 approved by the Treasurer to improve the funding situation.

Lump sum benefits increased to $871,000 (2004: $100,000) and an increase in pensions paid to $1,418,000 (2004: $1,394,000). The increase in lump sum benefits is a result of the election held in June 2005 in which seven members exited the scheme, of which four did not meet the pension criteria and were recorded as creditors. Pensions are indexed to the base parliamentary salary and increased pensions are a result of the increase in salaries.

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

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	**$'000**
Cash at bank and other assets	682	2,325
Investments	43,499	36,112
Total assets	44,181	38,437
Less Liabilities	2,129	1,293
Net assets	**42,052**	**37,144**
Vested benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	48,720	44,079

Net assets now represent 86.3% of vested benefits (2004: 84.27%), a strengthening in the position of the Trust. The Actuary has previously suggested that the current funding level of 70% be maintained with an additional contribution of $500,000 per year from the Territory until the shortfall has been reduced.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 5 October 2005.

Background

The NTPSBS differs from other superannuation schemes discussed in this report in that it was established under a Trust Deed rather than by legislation and is intended to supplement pensions payable from the Commonwealth Superannuation Scheme (CSS) for members of the Northern Territory Police, Fire and Emergency Services (NTPFES).

Eligibility for membership of the CSS ceased from 1 January 1988 and all members of police force recruited after that date were required to join the NT Government and Public Authorities Superannuation Scheme. The NTPSBS is therefore closed to new members and membership of the scheme is declining steadily as a consequence. At 30 June 2005 there were 154 (167 in 2004) members and 110 (98 in 2004) pensioners.

Members finance a share of scheme benefits by contributing one per cent of their salary to the fund, which is managed by the Trustees. Each member has an accumulation account in the fund representing the member’s contributions and interest earnings.

A member qualifies for a supplementary benefit if:

- the member is at least 50 years of age or has at least 25 years CSS contributory service when ceasing to be a member of the scheme; and
- the member becomes entitled to a CSS age retirement pension, early retirement pension, deferred pension or postponed pension on or after ceasing to be a member of the scheme.

The supplementary benefit is based on the amount of the member’s CSS employer-financed pension and the member’s age when ceasing to be a member of the NT Police Force or a CSS contributor, whichever occurs later. Upon qualification for a supplementary benefit, the member’s accumulated contributions and interest are paid to the Territory, which is responsible for the payment of the supplementary benefit.

The supplementary benefit is paid as a lifetime indexed pension, which commences when the CSS employer-financed pension begins to be paid. A supplementary pension may be commuted to a lump sum equal to ten times the annual amount of supplementary pension. Where a member ceases membership and is not entitled to a supplementary benefit, an amount equal to the member’s contributions with interest is paid to the member.

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

Key issues

No matters of significance were raised as a result of the audit.

Financial results

Abridged Statement of Changes in Net Assets for the year ended 30 June 2005

	2005	2004
	$'000	$'000
Net investment revenue	405	393
Contribution revenue	133	129
Benefits		
Refunds of accumulated contributions	(98)	(68)
Payment of accumulated contributions to the Territory	(282)	(245)
Superannuation contribution surcharge	(10)	(10)
Other expenses	(2)	(3)
(Deficit)/Surplus before income tax	146	196
Income tax expense	-	-
Change in Net Assets	**146**	**196**

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	$'000
Cash at bank and other assets	315	39
Investments	3,143	3,193
Total assets	3,458	3,232
Liabilities	258	178
Net Assets	**3,200**	**3,054**
Vested Benefits	27,739	23,200
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

A significant factor in the increase in net assets for the current year was the increase of $399,000 in the net market value of investments.

Thirteen members exited the fund during the 2005 financial year resulting in payments of accumulated contributions to members and the Territory of $380,000 compared to fifteen member exits in the prior year with associated payments of accumulated contributions amounting to $313,000.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of:

Territory Insurance Office (TIO)

There are no key findings

Audit opinion

The audit of the Territory Insurance Office (TIO) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 3 October 2005.

Background

TIO is a wholly owned entity of the NT Government. It operates under its own Act, with its own Governing Board, but may be directed by the Minister. Its mandate 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. There was no significant change in the nature of these activities during the year with the exception that TIO will no longer act as agent for Mutual Community Health Insurance from 1 July 2005.

Key Issues

No matters of significance were raised as a result of the audit.

Auditing the Public Account and other accounts
Territory Insurance Office

Financial results

Summarised operating results for the year ended 30 June 2005	TIO		MACA		Total	
	2005 $m	2004 $m	2005 $m	2004 $m	2005 $m	2004 $m
Underwriting result:						
Net Premium revenue	47	46	37	34	84	80
Net Claims expense	(31)	(34)	(31)	(27)	(62)	(61)
Acquisition costs	(6)	(8)	(1)	(1)	(7)	(9)
Underwriting result (loss)	10	4	5	6	15	10
Other revenues and expenses:						
Interest receivable					38	32
Change in value of investments					7	5
Other investment income					30	22
Total investment revenue	47	42	28	17	75	59
Borrowing costs	(24)	(19)	(1)	(1)	(25)	(20)
Other costs and depreciation	(15)	(16)	(6)	(8)	(21)	(24)
Net other revenues and expenses	8	7	21	8	29	15
Net (loss) profit before tax	**18**	**11**	**26**	**14**	**44**	**25**

TIO, excluding the Motor Accidents (Compensation) Scheme (MACA), achieved an after tax profit for the year of $14.5m (up 107%) compared to $7.0m in 2003-04. MACA, managed by TIO also reported a surplus of $26.4m (up 91%) compared to $13.8m in the previous year. Overall total operating revenue increased 18.3% from $174.3m in 2004 to $206.3m in 2005.

The improvements to the results of both TIO and MACA were mainly due to controlled claims development, increased investment income and the reversal of the additional Board provisions of $14.1m. These improvements were partly offset by the unfavourable impact of the future inflation rates and market interest rate movements on outstanding claims provisioning.

Auditing the Public Account and other accounts
Territory Insurance Office

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	2005 $'million	2004 $'million
Assets		
Cash assets	116	91
Receivables	42	41
Investments	772	692
Reinsurance and other recoveries receivable	33	37
Other assets	22	28
Total Assets	**985**	**889**
Liabilities		
Outstanding claims	327	328
Unearned premiums	60	60
Interest bearing liabilities	460	404
Payables	23	27
Subordinated loans	26	26
Self insurance fund	2	1
Other liabilities	8	5
Total Liabilities	**906**	**851**
Net Assets	**79**	**38**
Represented by:		
Contributed equity	16	16
Retained profits (TIO Insurance & Banking)	21	6
MACA reserve	42	16
Total Equity	**79**	**38**

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 1 December 2005.

Background

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

Key Issues

No issues of significance were raised as a result of the audit.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	2004
	$'000	$'000
Revenue from ordinary activities	7,050	6,059
Less expenditure from ordinary activities:		
Depreciation	63	77
Salaries and employee benefits	3,178	2,980
Legal	2,424	1,991
Administration	994	818
Other	383	413
Total expenditure	7,042	6,279
Net profit /(deficit) from ordinary activities	**8**	**(220)**

Approximately 90% of the Commission's revenue is received in the form of grants from the Commonwealth and Northern Territory Government. As a result of a new agreement with the Commonwealth and other funding submissions, Commonwealth grants increased from $2.940 million in the previous year to $3.951 million in 2004-05. Northern Territory Government grants increased by $75,000 to $2.575 million.

The increase in expenditure is predominantly due to the increase in legal costs expenditure and administration expenses. Legal costs have increased from $1.991 million to $2.424 million as a result of a number of expensive cases during the year, one of which cost approximately $400,000 during the 2005 financial year. 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 2005

	2005	**2004**
	$'000	**$'000**
Current assets	3,830	3,781
Less Current Liabilities	846	803
Net Current Assets	2,984	2,978
Add Non Current Assets	804	545
	3,788	3,523
Less Non Current Liabilities	110	134
Net Assets	**3,678**	**3,389**
Represented by:		
Reserves	2,884	3,300
Accumulated funds	794	89
Total Equity	**3,678**	**3,389**

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of:

Desert Knowledge Australia

KEY FINDING

- **While the financial statements of Desert Knowledge Australia were not qualified, attention was drawn to the absence of a Board, which was required to have been appointed, pursuant to section 11 of the *Desert Knowledge Australia Act 2003*, upon the dissolution of the interim Board.**
- **In the absence of a Board, the Chief Executive, relying upon the powers granted by section 31 of the Act, took such actions as he deemed necessary for the proper management and administration of DKA.**

Audit opinion

The audit of the Desert Knowledge Australia (DKA) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 28 November 2005.

Background

Desert Knowledge Australia (DKA) was established under the *Desert Knowledge Australia Act 2003* (the Act) which came into force on 18 September 2003.

Desert Knowledge Australia is a body corporate, having a common seal and capable, in its corporate name, of acquiring, holding and disposing of real and personal property and of suing and being sued.

The financial statements of DKA for 2003-04 recorded no assets, liabilities, revenues or expenses. All costs associated with the operations of DKA in that year were borne by the Department of the Chief Minister (DCM), with an appropriate note included in DKA's financial statements. DCM advised at the time that DKA would assume responsibility for its finances from 1 July 2004 and would, in the first instance, be funded by way of grants from DCM.

Key issues

The audit opinion on the financial statements of DKA was not qualified, but it did include the following emphasis of matter paragraph:

"Without qualification to the opinion expressed above, attention is drawn to the following matter. Under the heading of Details of interim Board Members, Note 2, DKA refers to the failure to appoint a Board pursuant to section 11 of the *Desert Knowledge Australia Act 2003* (the Act) upon the dissolution of the interim Board on the 23 March 2005 and up to the date of presentation of the financial report. In the absence of a Board the Chief Executive has relied upon the provisions of section 31 of the Act and taken whatever actions he has deemed necessary for the proper management and administration of DKA, including the preparation of the annual report as required by section 47 of the Act."

Auditing the Public Account and other accounts
Desert Knowledge Australia

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005 $'000	2004 $'000
Revenue from ordinary activities	1,015	-
Less expenditure from ordinary activities:		
Wages and IT	383	-
Business and Innovation Centre	125	-
Salaries/Consultants	56	-
Other	83	-
Total expenditure	647	-
Net (loss)/profit	**368**	**-**

Abridged Statement of Financial Position at 30 June 2005

	2005 $'000	2004 $'000
Current Assets	456	-
Less Current Liabilities	88	-
Net Assets	**368**	**-**
Represented by:		
Equity		
Retained profits	368	-
Total Equity	**368**	**-**

Desert Knowledge Australia has commented:

The Chairperson for Desert Knowledge Australia, the Hon Fred Chaney AO, was announced by the Minister on Friday 9 December 2005. The remaining 10 members have accepted their respective offers of appointment and the required Instruments are now being prepared by Parliamentary Counsel. The new Board is scheduled to meet in Alice Springs on 17 February 2006 when decisions of the former Interim Board will be considered with a view to ratification.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 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 2005 resulted in an unqualified independent audit opinion, which was issued on 20 December 2005.

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 2005, 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 2005

	2005	2004
	$'000	$'000
Revenue from ordinary activities	318	241
Less expenditure from ordinary activities:		
Administration expenses	142	106
Amortisation of town infrastructure	63	63
Total expenditure	205	169
Net (loss)/profit	**113**	**72**

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	$'000
Current Assets	3,984	3,815
Less Current Liabilities	11	17
Working Capital	3,973	3,798
Add Non Current Assets	1,733	1,795
	5,706	5,593
Less Non Current Liabilities	8,805	8,805
Net (Deficiency)	**(3,099)**	**(3,212)**
Represented by:		
Equity		
Accumulated (Deficit)	(3,099)	(3,212)
Total Equity	**(3,099)**	**(3,212)**

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 financial report of:

Northern Territory Major Events Company Pty Ltd

KEY FINDING

- **The Company's profit of $646,398 was due to the recognition in 2004-05 of government grant funding of $950,000 for the 2005 V8 Supercar event conducted in early 2005-06. Ticket sales revenue and the majority of the expenditure for that event have been recognised in the 2005-06 financial year.**

Audit opinion

The audit of Northern Territory Major Events Company Pty Ltd (the Company) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 20 December 2005.

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 rights to run the event in Darwin were transferred from Hidden Valley Promotions Pty Ltd (HVP) to the Company along with the remaining assets and liabilities of HVP.

The 2005 event was held in July 2005.

Key issues

Generally accepted accounting principles, as set out in Australian Accounting Standards, required the Company to recognise grant revenues of $950,000 in respect of the V8 Supercar race at the time those revenues were received notwithstanding that the race was scheduled to be held in the 2005-06 financial year. Some race-related expenses that were incurred for the provision of goods or services prior to year end were also recognised during 2004-05. All other V8 Supercar race-related transactions have been recognised in the 2005-06 year.

The recording of this revenue during 2004-05, while associated expenses were not recognised until 2005-06, resulted in an accounting profit of $646,398 for the year.

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 2005

	2005	2004
	$'000	**$'000**
Revenue from ordinary activities before government grants	535	1,970
Less expenditure from ordinary activities:		
Employee expenses	370	481
Depreciation	5	2
Other	1,899	3,972
Total expenditure	2,274	4,455
Net (loss) from ordinary activities before government grants	(1,739)	(2,485)
Add Government grants	2,385	2,163
Net profit (loss) from ordinary activities	**646**	**(322)**

A major activity of the Company is the annual promotion of the Darwin round of the V8 Supercar Championship. The 2005 race was held in July and apart from the 2005 government grant and expenditure on goods and services received before year end the majority of transactions concerning the 2005 race will be accounted for as part of the Company's 2005-06 financial year.

The company also provided funding to the following events.

- Bass in the Grass
- Bass in the Dust 2004
- Alice Springs Concert Funding
- Finke Desert Race 2005
- Barkly May Day Muster
- Central Australia Bike Challenge

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

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	**$'000**
Current assets	2,204	696
Less Current Liabilities	1,573	690
Net Current Assets	631	6
Add Non Current Assets	29	8
Net assets	**660**	**14**
Represented by:		
Contributed equity ($2)	-	-
Accumulated profits	660	14
Total equity	**660**	**14**

The increase in current assets is due mainly to the holding of the V8 super cars event after year end. As noted previously, grant funding of $950,000 for the event was received prior to year end and in accordance with Australian Accounting Standards was recognised as income in the 2004-05 financial year, notwithstanding that the majority of the related expenditure was not incurred or recognised until the 2005-06 financial year.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 financial report of:

Territory Motor Sports Board Pty Ltd

There are no key findings

Audit opinion

The audit of Territory Motor Sports Board Pty Ltd (the Company) for the year ended 30 June 2005 resulted in an unqualified independent audit opinion, which was issued on 27 October 2005.

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.

Key issues

No significant issues were raised during the course of the audit.

Financial results

Abridged Statement of Financial Performance for the year ended 30 June 2005

	2005	**2004**
	$'000	**$'000**
Revenue from ordinary activities before government grants	349	15,211
Less expenditure from ordinary activities:		
Employee expenses	128	106
Depreciation	1,685	1,505
Other	279	398
Total expenditure	2,092	2,009
Net (Loss)/Profit from ordinary activities before government grants	(1,743)	13,202
Add Government grants	72	90
Net (Loss)/Profit from ordinary activities	**(1,671)**	**13,292**

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

Financial results (continued)

Abridged Statement of Financial Position at 30 June 2005

	2005	2004
	$'000	**$'000**
Current assets	166	167
Less Current Liabilities	126	130
Net Current assets	40	37
Add Non Current Assets	12,144	13,818
Net assets	**12,184**	**13,855**
Represented by:		
Contributed equity	-	-
Accumulated profits	12,184	13,855
Total equity	**12,184**	**13,855**

Appendix 1 - Audit opinion reports issued since 30 June 2005

	Date 2004-05 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2005	Date of Audit Report Year ended 30 June 2004
Sec 9 *Financial Management Act*			
Treasurer's Annual Financial Statement	20 October 05	17 October 05	11 October 04
Government Business Divisions; Sec 10 *Financial Management Act*			
Construction Division	1 December 05	11 November 05	9 November 04
Darwin Bus Service	1 December 05	14 October 05	12 October 04
Darwin Port Corporation	1 December 05	27 October 05	12 October 04
Government Printing Office	20 October 05	11 October 05	7 October 04
Data Centre Services	20 October 05	11 October 05	7 October 04
NT Fleet	20 October 05	11 October 05	8 October 04
Northern Territory Treasury Corporation	19 October 05	5 October 05	28 September 04
DCDSCA: Territory Housing	30 November 05	22 November 05	16 November 04
Territory Wildlife Parks	1 December 05	24 October 05	4 November 04
Territory Discoveries	30 November 05	16 November 05	21 October 04
Government Owned Corporation Sec 42 *Government Owned Corporations Act*			
Power and Water Corporation	19 October 05	13 October 05	13 October 04
Entities to which Sec 10 *Financial Management Act* applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	Not yet finalised	6 December 04
Jabiru Town Development Authority	Not yet tabled	20 December 05	7 December 04
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	Not yet finalised	28 June 05
NT Grants Commission	29 November 05	21 November 05	15 November 04
Surveyors Board of the NT	29 November 05	3 October 05	1 December 04
Territory Insurance Office	1 December 05	3 October 05	1 October 04

Appendix 1 - Audit opinion reports issued since 30 June 2005

	Date 2004-05 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2005	Date of Audit Report Year ended 30 June 2004
Agency Financial Statements at the request of the Agency			
NT Tourist Commission	30 November 05	16 November 05	25 October 04
Other Entities/Separate Acts/Trust Deeds			
Desert Knowledge Australia	30 November 05	28 November 05	13 October 04
Legislative Assembly Members' Superannuation Trust	19 October 05	5 October 05	1 October 04
Northern Territory Government and Public Authorities Employees Superannuation Fund	19 October 05	5 October 05	1 October 04
Northern Territory Major Events Company Pty Ltd	N/A	20 December 05	17 December 04
Northern Territory Police Supplementary Benefits Scheme	N/A	5 October 05	1 October 04
NT Legal Aid Commission	Not yet tabled	1 December 05	17 November 04
Territory Motor Sports Board Pty Ltd	N/A	27 October 05	4 November 04
Common Funds of the Public Trustee	Not yet tabled	19 October 05	29 November 04

Appendix 1 - Audit opinion reports issued since 30 June 2005

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2005	Date of Audit Report Year ended 30 June 2004
Inter-Government Statements By Legislation			
Australian Land Transport Development	31 December 05	9 December 05	22 December 04
Interstate Road Transport	31 December 05	9 December 05	22 December 04
Local Government Financial Assistance	ASAP	21 November 05	15 November 04
Roads to Recovery	30 September 05	23 December 05	N/A
By Agreement			
Commonwealth-State Housing Agreement	31 December 05	21 December 05	19 November 04
Indigenous Housing Authority of the Northern Territory	30 September 05	8 September 05	10 September 04
National Disaster Relief Arrangements	31 December 05	20 December 05	11 February 05

By Agreement	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 31 December 04	Date of Audit Report Year ended 31 December 03
Australian National Training Authority Agreement	30 September 05	17 October 05	16 July 04
Australian National Training Authority Agreement 2001 to 2003 Framework for Funding for Growth	30 June 05	6 July 05	22 October 04
By Legislation			
Vocational Education and Training Financial Data	30 September 05	27 July 05	29 July 04

Not yet finalised - as at 31 December 2005

Not yet tabled - as at 31 December 2005

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 2005

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 2005 Report as being scheduled for the period.

Department of Corporate and Information Services	
Review of the implementation of the PAPMS payroll processing system	Refer pages 41 - 43
Review of the GAS upgrade project	Refer pages 44 - 46
Department of the Chief Minister	
Review of the waterfront development project	ongoing
NT Fleet	
Review of the Fleet Business System	No matters to report

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

Department of Corporate and Information Services	
Review of procurement procedures at CAPS	ongoing
Department of Justice	
Victims of crime compensation	Refer pages 36 - 40
Charles Darwin University	
A review of the University's spend of the additional funds advanced by the NT Government to fund salary increases	No matters to report

Appendix 3
Proposed audit activity in the six months ending 30 June 2006

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 the Chief Minister

Ministerial travel

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
Agencies not audited in the year ended 30 June 2005

Section 13(3) of the *Audit Act* permits the Auditor-General to dispense with an audit of an Agency.

For activities relating to the financial year ended 30 June 2005, no audits were conducted at the following Agencies.

- Aboriginal Areas Protection Authority
- Department of the Legislative Assembly
- Land Development Corporation
- Northern Territory Electoral Commission
- Ombudsman's Office

The increasingly stringent requirements of Australian Accounting Standards, and Auditing and Assurance Standards has required that audit effort be directed towards financial audits of those Agencies that are deemed to represent greater materiality and greater risk. Accordingly, no audits of the listed Agencies were conducted for 2004-05. Notwithstanding, it is proposed that each of the listed Agencies will be included in audit coverage at least once every three years.

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

Appendix 7 - Abbreviations

AAS	Australian Accounting Standards
ACA	Agency Compliance Audit
CHA	Central Holding Authority
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
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
DIPE	Department of Infrastructure, Planning and Environment
GAS	Government Accounting System
GBDs	Government Business Divisions
GFS	Government Finance Statistics
GPO	Government Printing Office
GST	Goods and services tax
HVP	Hidden Valley Promotions Pty Ltd
IT	Information technology
MACA	Motor Accidents (Compensation) Act
NTG	Northern Territory Government
NTGPASS	Northern Territory Government and Public Authorities Superannuation Scheme
NTPSBS	Northern Territory Police Supplementary Benefit Scheme
NTT	Northern Territory Treasury
PFC	Public Financial Corporations Sector
PIPS	Personnel Information and Payroll System
PNFC	Public Non-Financial Corporations Sector
TAFS	Treasurer’s Annual Financial Statement
TDs	Treasurer’s Directions
TIO	Territory Insurance Office
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 2006 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 2006 sittings.

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