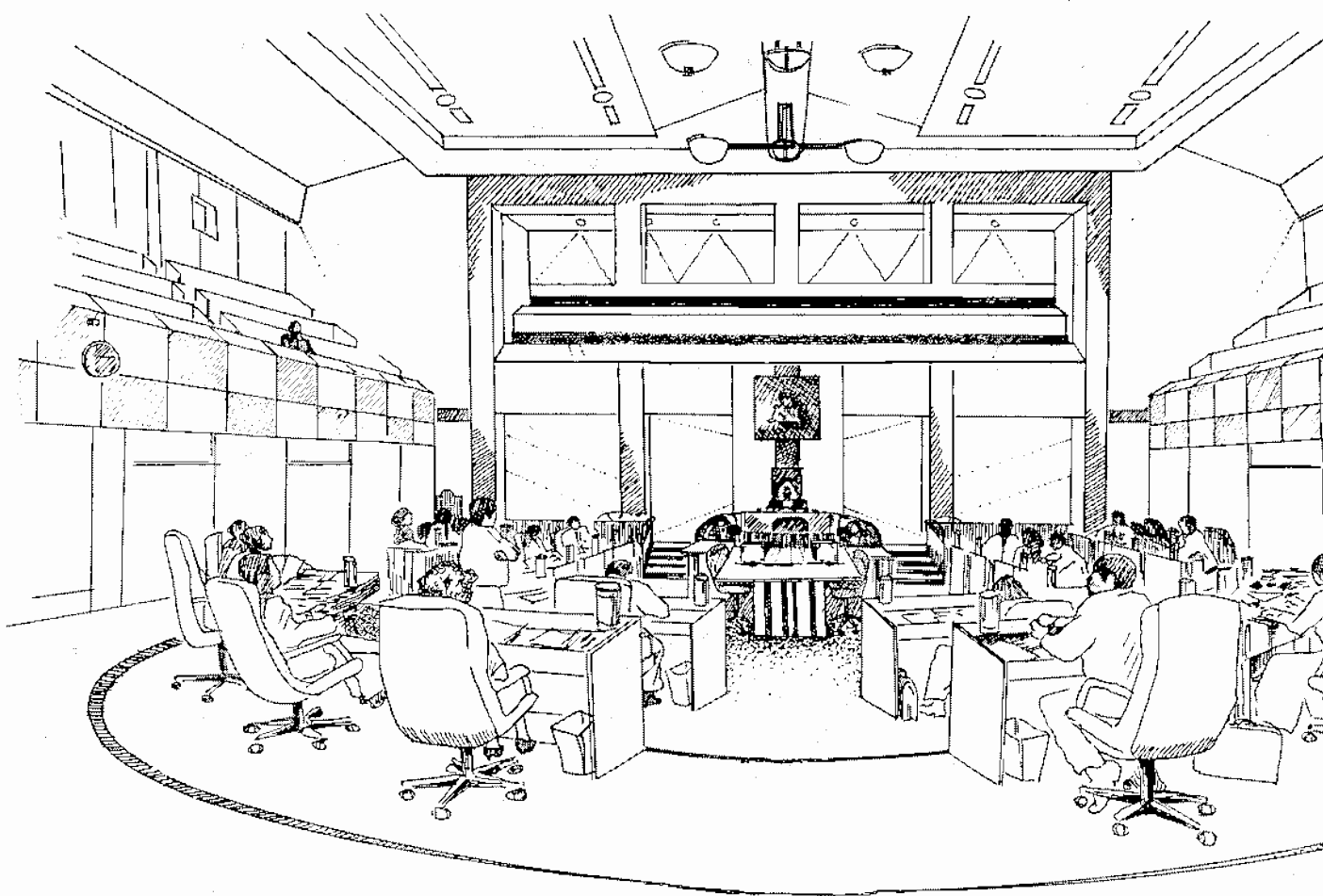




AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

AUGUST 2007 REPORT

TO THE LEGISLATIVE ASSEMBLY



Auditing for Parliament...
providing independent analysis

Auditing for Parliament... providing independent analysis

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

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

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

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

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

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

The Audit Act requires the Auditor-General to report to the Legislative Assembly at least once per year. Practice has been for reports to be submitted 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 calendar 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.

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

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

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Northern Territory Auditor-General's Office

Auditing for Parliament providing independent analysis



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

28 August 2007

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 30 June 2007 and I request that you table the report today in the Legislative Assembly.

In the main, the Report summarises the outcomes from audits undertaken in respect of statutory financial statements prepared for the calendar year ended 31 December 2006, interim audit work in respect of financial statements prepared for the financial year ended 30 June 2007, together with a summary of findings that arose as a result of compliance audits of Agencies that were conducted during the six months to 30 June 2007.

Yours faithfully,

Frank McGuinness
Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 January 2007 to 30 June 2007:

- Statutory audits of financial statements;
- Information Technology Audits; and
- Controls and Compliance Audits.

This Report has 11 sections, each of which deals with a specific audit topic or with a particular Agency or Entity. Each section provides a summary of key findings, if any, my audit opinion, background information, where relevant, and recommendations.

In the case of a **financial statement audit**, an ‘unqualified audit opinion’ means that I am satisfied that the Agency or Entity has prepared its financial statements in accordance with Australian Accounting Standards and other mandatory financial reporting requirements or, in the case of **acquittal audits**, the relevant legislation or the agreement under which funding was provided. It also means that I believe that the report is free of material error and that there was nothing that limited the scope of my audit. If any of these aspects should not be 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 brief financial analysis of the financial statements.

Information technology audits are undertaken as stand-alone audits of key government-wide systems or Agency systems. Each of the systems selected for audit during the six months ended 30 June 2007 plays an important role in processing data and providing information for the purposes of financial management and, more particularly, for the purposes of financial reporting and the preparation of the Treasurer’s Annual Financial Statement.

Controls and compliance audits are conducted of selected systems or accounting processes and these audits are also intended to assist me in my audit of the Public Account.

In reporting the results of information technology audits, I have followed a similar format as used for financial statement audits. In the case of compliance audits, I have listed the Agencies that were subject to audit and the scope of the audits. That is accompanied by a table that sets out the principal issues that arose during the course of audits, together with selected responses by Agencies.

Entities referred to in this Report

<i>By Ministerial Portfolio (as at 30 June 2007):</i>	<i>Page(s)</i>
Chief Minister	
Northern Territory Ombudsman's Office	37 – 42
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Treasurer; Minister for Justice and Attorney-General	
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Minister for Sport and Recreation; Minister for Essential Services	
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Minister for Natural Resources, Environment and Heritage; Minister for Parks and Wildlife; Minister for Arts and Museums	
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Minister for Local Government; Minister for Housing; Minister for Corporate and Information Services; Minister assisting the Chief Minister on Indigenous Policy	
Aboriginal Areas Protection Authority	37 – 42
Department of Corporate and Information Services	13, 14 – 15
Department of Local Government, Housing and Sport	37 – 42

Auditor-General's Overview

What's In This Report?

This report sets out the results of a range of audits that were conducted during the six months ended 30 June 2007. The audits fall into several classes:

- statutory audits of financial reports for tertiary educational and research institutions that report on a calendar rather than a financial year;
- audits of information technology systems that support the financial management processes of the Northern Territory Government and some of its major agencies; and
- compliance audits that are intended to assess the extent to which agencies adhere to legislated requirements and the extent to which the internal control environment in Agencies is adequate. In the case of compliance audits, reports on individual agencies are not included, but specific issues that arose from the audits, together with selected comments by Agencies have been presented.

The Improved Financial Position of the NTAGO for the 2007-08 Year

For a number of years the real value of the financial resources available to the NTAGO declined progressively as the rate of growth in the costs of engaging authorised auditors outstripped the rate of change in general price levels. As a result my ability to discharge my obligations to the Legislative Assembly became increasingly constrained.

The decline was corrected during 2006-07, with approval being given by the Government for an increase of \$200,000 in Output Revenue. In addition approval was given to extend the Office's cost recovery regime and this will take effect during 2007-08. As a result, the real value of the Office's budget for 2007-08 has returned to a level that prevailed almost a decade previously.

The aggregate effect of both these initiatives is an increase in the NTAGO total budget for 2007-08 by \$439,000, or 14 per cent, when compared to the original budget for the Office that was approved by the Legislative Assembly in 2006.

The increased revenues that were received by the office in 2006-07 are reflected in an increase in the number of audit hours acquired from authorised auditors for the year. Whereas 14,021 hours were acquired in 2005-06, that figure rose to 16,040 hours in 2006-07, an increase of 14 per cent for the year. The further increase in revenues for 2007-08 will permit an expansion of the Office's audit activities and will see increased activity in the area of Performance Management System audits, an area that has not been addressed seriously for several years.

While the increase in the Office's revenues will translate into higher levels of audit hours acquired, those hours may not necessarily be reflected in a corresponding increase in the number of audits undertaken or audits of greater scope. The shift of the responsibility for the issue of auditing standards in Australia from professional accounting bodies to the Commonwealth Government has seen an accompanying expansion of the "black letter" obligations imposed upon auditors with a result that statutory financial statement audits now demand a greater number of audit hours than was the case previously.

The NTAGO and Auditing and Assurance Standards

Auditing and Assurance Standards govern auditing practice in Australia. They are issued by the Australian Auditing and Assurance Standards Board, a statutory body established pursuant to the *Australian Securities and Investments Commission Act*. The reconstitution of the Board as an independent statutory body now means that auditing and assurance standards have the force of law in circumstances where audits are undertaken pursuant to the requirements of the *Commonwealth Corporations Act 2001*.

The shift in the responsibility for issuing auditing and assurance standards with the accompanying change in their legal basis has only a limited direct effect on the operations of my Office given the small number of corporations that are controlled by the Northern Territory Government. Of greater importance are the significant revisions to the standards that coincided with the changes to the Australian standard-setting machinery.

The Australian Auditing and Assurance Standards Board bases its standards upon those issued by the International Auditing and Assurance Standards Board and the international standards continue to be the subject of review, often accompanied by substantial revisions. The changes to the international standards, possibly as a response to large well-publicised international corporate collapses and other failures in corporate governance, have seen a tightening of the requirements imposed upon auditors. In the Australian context this has seen the number of mandatory “black letter” provisions contained in the standards increase from 317 under the previous standard-setting regime to 412 under the new body of standards. The increase of 30 per cent in the specific statutory requirements has resulted, naturally, in an increase in time required to be devoted to statutory audits to ensure that mandatory requirements are adhered to.

The *Audit Act* permits me to “audit the Public Account and such other accounts in such manner as he or she thinks fit having regard to recognised professional standards and practices”. I have interpreted this as meaning that I, too, am required to adhere to Australian Auditing and Assurance Standards unless there is a valid reason not to do so and to justify any decision on my part to depart from those standards. At the same time, my Office relies upon each of my authorised auditors applying his or her firm’s audit methodology during the course of an audit and as these methodologies are designed to ensure strict compliance with audit standards the changes that have occurred to audit standards are reflected in higher costs faced by this Office for the conduct of audits.

Auditor-General's Overview

Issues Affecting NTAGO Operations

The approach adopted in the Northern Territory is unique in Australia in that virtually all audit activities conducted by my Office are performed by authorised auditors who are drawn from local accounting firms and who are appointed pursuant to section 17 of the *Audit Act*. Each private sector authorised auditor is appointed for a maximum period of three years following a formal tendering process. The existing contracts between this Office and the authorised auditors will expire on 31 December 2008.

The contracting out of audit services brings with it a number of benefits, particularly with regards to the availability of an appropriately skilled, experienced and stable workforce which has developed a good understanding of the public sector. The stability that has been enjoyed over a period of years is expected to diminish somewhat over the short to medium term as key staff of firms either retire, resign to pursue other career opportunities or relocate to other jurisdictions.

Any significant loss of experience available to the Office stemming from a loss of private sector authorised auditors presents a significant challenge for the Office. A strategy that is intended to increase the Office's internal capacity to conduct audits is unlikely to prove effective. There is a nationwide shortage of qualified auditors and should the Office seek to recruit audit staff directly it risks competing for staff with its own authorised auditors with the accompanying risk that the Office's activities may have an adverse on the wider practice of auditing in the Northern Territory.

While the scale of the Office's use of private sector auditors tends to result in competitive rates that advantage might well be lost if the Office's demand for audit services should decline as a result of a change in staffing policy, while any reduction in demand for audit services by the Office may have adverse effect on the viability of local firms' audit practices. At the same time, a policy that seeks to shift the staffing focus from external firms to one based on in-house employment would require the Office to assume responsibility for the quite significant costs of training and development that are currently borne by authorised auditors' firms.

The above factors, when taken together, tend to suggest that the existing model should be maintained, with the Office continuing to rely upon its ability to contract appropriate individuals as authorised auditors to enable the Office to meet its objectives. At the same time the maintenance of this approach must also include attempts to encourage new audit firms to establish themselves in the Darwin region and existing small firms to increase in size with a view to increasing the number of audit firms able to provide services to both this Office and to other organisations in the Territory.

Audit of the Financial Statements of the NTAGO

Section 27 of the *Audit Act* provides for the appointment by the Administrator of an auditor to audit the accounts of the Auditor-General's Office. The NTAGO's accounts for 2005-06 were audited by Mr Peter Whelan of the accounting firm PKF, Adelaide.

Mr Whelan's appointment lapsed in May 2007 and the Government has taken the necessary steps to recommend an appropriately qualified person to the Administrator for appointment as auditor.

Auditor-General's Overview

Preliminary Overview of the NTAGO's Performance for the 2006-07 Year

The operations of the NTAGO for the year resulted in an operating deficit of \$27,000. This can be compared with a budgeted break-even operating result for the year and an operating surplus for 2005-06 of \$170,000. The unaudited results are outlined in the following table:

Preliminary (Unaudited) Income Statement For the Year Ended 30 June 2007

	Actual Result 2005-06 \$'000	Budget 2006-07 \$'000	Preliminary Result 2006-07 \$'000
Income			
Output revenue	2,669	2,621	2,922
Audit costs recovered	298	311	282
Services received free of charge	<u>159</u>	<u>155</u>	<u>165</u>
Total Income	<u>3,126</u>	<u>3,087</u>	<u>3,369</u>
Operating Expenses			
Employee expenses	680	696	676
Purchases of goods and services	2,276	2,391	2,720
Total Operating Expenses	<u>2,956</u>	<u>3,087</u>	<u>3,396</u>
Net Surplus/(Deficit)	<u>170</u>	<u>0</u>	<u>(27)</u>

The foregoing table highlights the increase in Output Revenue for 2006-07 when compared with the budget for the year. The increase of \$301,000 represents:

	\$'000
Adjustment to the NTAGO budget base	200
Recovery of audit cost over-runs from CHA	<u>101</u>
	<u>301</u>

The increase in the allocation of \$200,000 to the NTAGO's budget base occurred as part of the process of addressing the Office's level of funding in response to cost increases that have been incurred over several years. This has been referred to previously. The additional amount of \$101,000 represents the recovery from the Central Holding Authority (CHA) of costs over-runs incurred by the NTAGO in auditing "commercial" entities in circumstances where the entity in question was deemed to have contributed to the over-runs. The NTAGO provides advice to the CHA each year about the extent of costs incurred in auditing "commercial" entities and those costs may then be recovered from the respective entities by the CHA. In this instance a portion of the costs recovered by the CHA were returned to the NTAGO.

Auditor-General's Overview

The higher income of the Office is reflected in increased expenses for the year, particularly expenses incurred in the purchase of goods and services, which in this case is the purchase of audit services from authorised auditors.

Complementing the income statement is the preliminary cash flow statement for the year which is shown below:

Preliminary (Unaudited) Cash Flow Statement For the Year Ended 30 June 2007

	Actual Result 2005-06 \$'000	Budget 2006-07 \$'000	Preliminary Result 2006-07 \$'000
Operating Receipts			
Output revenue	2,669	2,621	2,922
Audit costs recovered	<u>515</u>	<u>311</u>	<u>578</u>
Total Income	<u>3,184</u>	<u>2,932</u>	<u>3,500</u>
Operating Payments			
Payments to employees	654	696	664
Purchases of goods and services	<u>2,510</u>	<u>2,236</u>	<u>2,837</u>
Total Operating Payments	<u>3,164</u>	<u>2,932</u>	<u>3,501</u>
Net cash from operating activities	<u>20</u>	<u>-</u>	<u>(1)</u>
Financing Payments			
Equity withdrawal	<u>157</u>	<u>-</u>	<u>-</u>
Net Decrease in Cash Held	<u>(137)</u>	<u>-</u>	<u>(1)</u>
Cash at beginning of the Year	<u>157</u>	<u>20</u>	<u>20</u>
Cash at the end of the year	<u>20</u>	<u>20</u>	<u>19</u>

It must be stressed that the information contained in the above tables is unaudited. The Office's financial statements for the year will be audited immediately following the appointment of the auditor pursuant to section 27(1) of the *Audit Act* and the audited accounts tabled in the Legislative Assembly as required by section 27(6) of the Act. It is possible that the final, audited statements may differ in some respects from those shown here. Notwithstanding, it is thought useful to provide the Legislative Assembly with preliminary information about the financial performance of the Office for the past year.

What Audits are Included In This Report?

This Report outlines the results of audits conducted during the period 1 January 2007 to 30 June 2007. It contains 11 separate reports three of which deal with the results of financial statement attest audits intended to determine whether the financial statements prepared by the various entities comply with Australian accounting standards and appropriate legislation and whether they present a reliable picture of the entity's financial performance and position. These audits comprise those of Charles Darwin University and its controlled entities; the Menzies School of Health Research and the Charles Darwin University Foundation. The Batchelor Institute of Indigenous Tertiary Education also reports upon a calendar year basis, but it was unable to provide me with a final copy of its statements, complete in all respects, by the cut-off date for inclusion in this report.

Other aspects of this report deal with the results of audits of information systems which play an essential role in financial management at both the individual agency and the whole-of-government levels, and acquittals of road funding grants provided by the Commonwealth. Also included, in summary form, are results of Agency compliance audits. A total of ten audits in this class were undertaken to assess the adequacy of internal controls in a number of areas, and the extent to which legislative requirements had been adhered to.

A theme that emerges from the audits of the past six months is one of weaknesses in internal controls across a number of areas. For example, weaknesses were noted in both general accounting controls and in information technology controls, and in areas involving expenditure on procurement, travel, banking, telephones and hospitality. While individual issues identified may not, when considered in isolation, be considered to be material they may be indicative of a more widespread lack of attention to basic control issues thereby creating an environment in which loss of assets, fraud and a lowered quality of management reporting may emerge.

The issues that were identified during compliance audits did not emerge during the past six months; similar issues have been identified regularly as part of these audits over a period of years, suggesting that persistent weaknesses exist in Agencies' internal controls systems.

The issues identified during compliance audits might also be seen as those that should be addressed by Agencies' own internal audit functions. The *Financial Management Act* places the onus upon the Accountable Officer of each Agency to ensure that an adequate internal audit function exists with the capacity to assist the Accountable Officer with the discharge of his or her functions. The existence and adequacy of the internal audit function was an area of interest by this Office and by the Public Accounts Committee in earlier years. Given the nature of the issues that have been identified, I intend to again examine the adequacy of the internal audit function in Agencies in the coming months with a view to ensuring that the internal audit function is adequate and effective.

A notable exception to the issues that I have set out here is the Territory Insurance Office where the recently completed interim financial audit highlighted the continuing improvement by that organisation to the point where the results of the audit were notable for the lack of critical comment by me.

Reporting on audits conducted in the six months ended 30 June 2007

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 30 June 2007, 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.

It is often the case that records of parliamentary debates, requests and suggestions to the Auditor-General by Members, and public interest in issues, may influence the decisions on the selection of audit topics, and matters to be reported. However, the six months to June 2007 saw an increased audit focus upon agency internal controls and systems. This was a result of heightened concern that the internal control systems and processes in Agencies may not be functioning as effectively as might be expected. Weaknesses in these areas may increase the level of risk of fraud, loss of assets, poor financial information and lead to the need for additional audit effort to gain sufficient assurance about the reliability of information presented to the Legislative Assembly.

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 chief executive officers following the completion of 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).

Are entities able to include their responses in the Report?

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

Matters Arising from auditing the Public Account and other accounts

	Pages
Department of Corporate and Information Services – Information Control Environment	13
Department of Corporate and Information Services – Review of the Government Accounting System and the Personnel Information and Payroll System	14 – 15
Department of Planning and Infrastructure – Acquittals of Commonwealth Road Funding	16 – 17
Darwin Port Corporation – Review of Finance One Financial Management System	18 – 20
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Department of Corporate and Information Services

Information Technology Control Environment

Background

This audit was conducted to assess the level of risk and to test the internal control structures within the service-wide information technology mainframe environment at Data Centre Services (DCS), a Government Business Division of the Department of Corporate and Information Services.

Particular emphasis was placed upon:

- Government Accounting System (GAS) application security that falls within the area of responsibility of Data Centre Services;
- Information systems operations and hardware support; and
- GAS upgrade interface testing, functional testing and wizard development.

Audit Findings

The results of the audit were considered to be satisfactory and I am of the opinion that the GAS application security, the information system controls and hardware support controls are appropriate. The results of the audit enabled me to comment positively about:

- job scheduling and monitoring systems;
- hardware support arrangements; and
- automated access control software employed by DCS.

Notwithstanding this, I did recommend to the Department that:

- the processes governing user access administration for GAS applications be standardised; and
- that further attention be given by the Department to implementing recommendations contained in a 2006 consultant's report dealing with disaster recovery.

The Department of Corporate and Information Services has commented:

Users access administration for GAS applications will be standardised and strengthened through an updated identity access and management system currently being developed for implementation across government.

With regard to the Chan Data Centre disaster recovery consultancy, recommended actions to strengthen the resiliency of the facility to withstand a disaster-level event has been implemented.

Options to provide a level of redundant capacity to enable operation of business critical systems in event of the facility being completely disabled are being examined. The costs of establishing a secondary standby site with the requisite IT infrastructure are significant.

Department of Corporate and Information Services

Government Accounting System and the Personnel Information and Payroll System

Background

Audits were conducted of the Government Accounting System and the Personnel Information and Payroll System, both of which are administered by the Department of Corporate and Information Services, as a precursor to the audit of the Treasurer's Annual Financial Statement. The audits' objectives were to determine whether *inter alia* internal controls were satisfactory in respect of:

- ledger reconciliation;
- financial reporting;
- accounts payable and receivable processing;
- advances and official bank accounts;
- preparation of Business Activity Statements for Goods and Services Tax receipts and payments;
- payroll and leave information held on PIPS is reliable, and identification and recovery of salary overpayments;
- the level of control against fraud in PIPS; and
- the effectiveness of communication between DCIS and its client agencies.

Audit Findings

Opinion

In both cases the results of the audits indicated that the internal controls in respect of each system are satisfactory.

Specific findings

While the audit found that controls in the GAS and PIPS systems are satisfactory, a number of matters were raised with the Department as follows:

- delays in reconciling some clearing accounts, the general ledger and subsidiary ledger;
- the need for enhanced controls over payments of accounts;
- the need to ensure that vendor records in GAS include Australian Business Numbers;
- delays in reviewing the GAS security profile report;
- the need for improved monitoring of debtors;
- the need for regular reviews of Advance Accounts, and the review and follow-up of PIPS exception reports; and
- deviations from standard PIPS operating procedures with regard to the recording the commencement and termination of employees and controls over payroll disbursement.

**Auditing the Public Account and other accounts
Department of Corporate and Information Services
Government Accounting System and the Personnel Information
and Payroll System**

The Department of Corporate and Information Services has commented:

It is noted that GAS and PIPS controls provide assurance that these key corporate systems are operating satisfactorily. The specific issues raised have not been reviewed and primarily relate to instances where existing procedures were not properly observed. DCIS has taken action to reiterate and strengthen procedures and has improved processes to further enhance system controls.

Department of Planning and Infrastructure

Acquittals of Commonwealth Road Funding

KEY FINDING

- **Qualified audit opinions were issued in relation to four out of the five acquittals of grants prepared by the Department in respect of road funding grants received from the Commonwealth.**

Audit opinion

The audit of four of the Department of Planning and Infrastructure's financial acquittals for the year ended 30 June 2006 resulted in qualified independent audit opinions being issued on 1 June 2007. The four acquittals, under the *AusLink (National Land Transport) Act* were the:

- AusLink Roads to Recovery Program;
- Supplementary AusLink Roads to Recovery Program;
- Road Safety (Black Spot) Program; and
- National Highways and Roads of National Importance Programs.

The qualifications related to the Department's failure to comply with the requirement that the acquittals be provided to the relevant Commonwealth department before 31 October 2006 (for the AusLink acquittals) and 31 December 2006 (for the Road Safety and National Highways acquittals).

The audit of the Department of Planning and Infrastructure's financial acquittal of the *Interstate Road Transport Act 1985* for the year ended 30 June 2006 resulted in an unqualified independent audit opinion also being issued on 1 June 2007.

Background

AusLink Roads to Recovery Program

Clause 5.2 of Part 8 of the *AusLink (National Land Transport) Act 2005* requires that an Annual Report be submitted to the Department of Transport and Regional Services no later than 31 October. The Department did not comply with this requirement in that the Statement of Receipts and Expenditure of Funds for the year ended 30 June 2006 was not provided to me until 3 May 2007.

Supplementary AusLink Roads to Recovery Program

Clause 4.2 of Part 4 of Funding Conditions – Supplementary AusLink Roads to Recovery Programme of the *AusLink (National Land Transport) Act 2005* requires that an Annual Report be submitted to the Department of Transport and Regional Services no later than 31 October. The Department did not comply with this requirement in that the Statement of Receipts and Expenditure of Funds for the year ended 30 June 2006 was not provided to me until 3 May 2007.

**Auditing the Public Account and other accounts
Department of Planning and Infrastructure
Acquittals of Commonwealth Road Funding**

Road Safety (Black Spot) Program

Section 82 of the *AusLink (National Land Transport) Act 2005* requires that an Annual Report be submitted to the Department of Transport and Regional Services no later than 31 December. The Department did not comply with this requirement in that the Statement was not provided to me for the purposes of auditing until 3 May 2007.

National Highways and Roads of National Importance Programs

Section 21 of the *AusLink (National Land Transport) Act 2005* requires that an Annual Report be submitted to the Department of Transport and Regional Services no later than 31 December. The Department did not comply with this requirement in that the Statement of Receipts and Expenditure was not provided to me for the purposes of audit until 3 May 2007.

The Department of Planning and Infrastructure has commented:

The Department of Planning and Infrastructure has taken measures to ensure that in future, the submission of audited reports is in accordance with the timeframes stipulated in the bilateral agreements with the Australian Government.

Darwin Port Corporation

Review of Finance One Financial Management System

KEY FINDING

- **IT controls over the Finance One system were considered unsatisfactory. Opportunities for improvement were identified in the areas of user access, system development and change process, supporting documentation, business continuity and disaster recovery.**

Background

The Finance One system is used by the Darwin Port Corporation (DPC) as its primary financial management system.

Audit objectives and scope

The objective of this audit was to assess the IT controls in place for the Finance One system at the Corporation.

In particular the audit assessed the adequacy of:

- general computer controls;
- application controls (including appropriateness of user access);
- interface/validation controls for key interfaces;
- the information/KPI's available from Finance One for management decision making;
- the supporting documentation;
- security over Finance One and the appropriateness of user profiles allocated to users; and
- controls over system development and change processes.

Audit Findings

Opinion

IT controls over the Finance One system were considered unsatisfactory. Opportunities for improvement were identified in the areas of user access, system development and change process, supporting documentation, business continuity and disaster recovery.

Auditing the Public Account and other accounts Darwin Port Corporation Finance One

Audit Findings (continued)

Specific findings

IT controls over the Finance One system were considered unsatisfactory in that:

- there were no documented change management procedures in place at DPC for the Finance One system;
- there was insufficient segregation of duties around change control;
- there was no formal procedure or controls in place for the management of logical access to Finance One;
- there was a lack of IT policies and procedures;
- there were ineffective controls for security over the server room;
- there were ineffective controls around business continuity management; and
- there were insufficient controls over the process of transferring data between Finance One and the PortCam system.

The Darwin Port Corporation has commented:

- *There were no documented change management procedures in place at DPC for the Finance One System;*

The Corporation has determined that the Finance One servers will be owned, housed and maintained by a third party contractor through a standard Department of Corporate and Information Services (DCIS) Service Level Agreement (SLA). The SLA will identify system patch arrangements to be undertaken by the contractor and other support and maintenance requirements. SLA arrangements are currently being developed.

- *There was insufficient segregation of duties around change control;*

Server access will be administered by the third party contractor at the Chan Building. The Corporation's staff will not be able to access the Finance One server. Procedures to test and record application changes will be developed and established and authorised by senior personnel.

- *There was no formal procedure or controls in place for the management of logical access to Finance One;*

The system administration role will administer access, but will be reviewed and verified by senior personnel. The Corporation has also identified a more appropriate segregation of duties for the systems administration role, and the activities of payroll, accounts payable, accounts receivable and cheque signatory will not be included in a single role.

**Auditing the Public Account and other accounts
Darwin Port Corporation
Finance One**

The Darwin Port Corporation has commented (continued):

- *There was a lack of IT policies and procedures;*

The SLA arrangement with DCIS will establish controls on access and the Corporation will adopt NTG policy and procedures in the management of its IT and Finance One system.

- *There were ineffective controls over security of the server room;*

In addition to the Corporation recording movements in the server room, the Corporation's decision to move the Citrix and application servers under the control of a third party contractor, off-site, (to the Chan Building) will mitigate this risk for the Corporation. Arrangements are being made for this to occur during the next quarter.

- *There were ineffective controls around business continuity management; and*

With DCIS housing the Citrix and application servers in the Chan Building, the Corporation's BCM and DRP requirements are enhanced.

- *There were insufficient controls over the process of transferring data between Finance One and the Portcam system.*

The Corporation has removed the payroll operation from the organisation. This is now performed by DCIS. This has alleviated the risk in regards to data transfer between Finance One and Portcam. This has also decreased the risk of sensitive payroll data being accessed.

The Corporation is currently investigating options for a Port Management Systems and, as part of this review, total automation / synchronisation between the finance and port management systems is being sought. In the meantime reconciliation of data transfers will be undertaken and reviewed by senior personnel.

Power and Water Corporation

Review of Information Technology Systems

KEY FINDING

- **Initiatives within the Corporation's Information Technology group during the past year that involved internal restructures, re-tendering of support services, a server upgrade project and the introduction of an internal user group offer improvements in the ability of the group to meet the demands placed upon it.**
- **Information security controls have remained stable throughout the year.**
- **Security weaknesses identified in 2006 are yet to be addressed.**

Background

The Power and Water Corporation relies upon several key information technology systems to support its financial and operational activities. An audit of these systems was undertaken as a precursor to the audit of the 2006-07 financial statements to gain assurance about the reliability of data held in the systems and their ability to provide information that would satisfy statutory financial reporting requirements.

Audit Objectives and Scope

The objective of the audit was to establish the level of confidence that could be placed upon the:

- Financial Management System (FMS);
- Works Information Management System (WIMS); and
- Retail Management System (RMS).

with emphasis upon:

- information security;
- network support;
- hardware support;
- application maintenance, implementation and support;
- database maintenance, implementation and support;
- systems software; and
- information systems operations.

Auditing the Public Account and other accounts Power and Water Corporation Review of Information Technology Systems

Audit Objectives and Scope (continued)

During the period since the last audit, a number of initiatives had been undertaken within the Corporation's Information Technology group. These included:

- the establishment of a formal project office with the IT Business Services group;
- the introduction of a system and formal processes to record and monitor application issues and changes;
- formal re-tendering for support and maintenance of all the Corporation's applications;
- commencement of a server upgrade project for FMS, WIMS and Datamart reporting environment; and
- introduction of an RMS user group to report to the RMS Steering Committee.

Audit Findings

Opinion

The Corporation had maintained, in all material respects, effective control procedures in relation to general computer controls tested. However, the Corporation's attention was drawn to several matters which, if addressed, could enhance the control environment. These matters dealt with the need to:

- formalise the project for the upgrade critical business system services for FMS;
- review and implement improvements in security in the Unix operating system environment;
- improve security over network user accounts;
- continue work on the development of a firewall that would give the Corporation greater control of incoming traffic;
- review of all database accounts for FMS, WIMS, and RMS to remove all opportunities for inappropriate access to the systems;
- introduce regular, forced, changes to users' passwords;
- ensure that terminated users are removed from the system in a timely manner; and
- implement access restrictions that limit users' rights to update or deleted jobs with the FMS system.

Northern Territory Treasury

Territory Revenue Management Electronic Returns System

Background

The Treasury Revenue Management Electronic Returns System (TRMeR) is an internet based application that currently provides payroll tax lodgement facilities. A trial version of TRMeR was introduced in July 2006 and rolled out to approximately 240 users. The extension of TRMeR functionality to permit the on-line assessment and payment of stamp duty is at an early stage of scoping.

During the 2006-07 financial year TRMeR has operated only as an optional payroll tax lodgement application. Actual payments have continued to be made via the NTG Payment Gateway, and subject to separate authentication and receipting controls.

Audit objectives and scope

This audit was intended to determine the adequacy of the controls in place for:

- general high-level computer controls;
- application controls, including appropriateness of user access;
- interface/validation controls for key interfaces;
- strategic management of the systems to determine whether processes are in place to ensure that the application is meeting the needs of its users;
- Key Performance Indicators (KPI's) information available from TRMeR for management decision making;
- security over TRMeR and the appropriateness of user profiles allocated to users with a focus on application controls; and
- high level controls over system development and change processes.

Audit Findings

The new system will provide external businesses and government agencies with access to a system that will allow automated payroll tax lodgement, and future processing of stamp duty and receipting functionality. The current approach to developing TRMeR has been by a trial version of the system, incorporating approximately 240 users.

The specific issues raised as a result of the audit were:

- a formal and documented system development methodology was not used for the development of the trial version of TRMeR, or for new stamp duty functionality.
- some TRMeR application and Territory Revenue Office network user access authentication control weaknesses were noted.
- there was neither a formal Territory Revenue Office change control policy nor a central repository in place to manage the process of requesting either the TRMeR technical changes to be submitted to Fujitsu, or problems identified with TRMeR functionality.

**Auditing the Public Account and other accounts
Northern Territory Treasury
Territory Revenue Management Electronic Returns System**

Audit Findings (continued)

While any additions to TRMeR will depend on the success of the current implementation phase, future TRMeR functionality may be extended include on-line receipting and a replacement of Tax Administration System front-end. As the role of TRMeR is extended to incorporate a wider range of functions, additional controls will need to be implemented to accommodate the emergence of risks that accompany greater functionality.

The Northern Territory Treasury has commented:

A structured decision process was employed as part of TRMeR's proto-type development arrangements, which included processes for change control and to record issues identified during system testing. The system has been released under a clearly defined trial arrangement in which users agreed to the terms of the trial usage of the system. User access processes were developed for TRMeR as an interim measure only, until user access authentication can be placed with a whole of government system. It is noted that the audit did not highlight any issues with the functionality or operation of TRMeR.

Audit findings and Analysis of the financial statements for the year ended 31 December 2006 of:

Charles Darwin University

Background

The Charles Darwin University (the University) is established under the *Charles Darwin University Act*. The University controls two subsidiary entities; the Menzies School of Health Research and the Charles Darwin University Foundation, a public company that acts as trustee of the Charles Darwin University Trust. As a consequence the financial statements of the University are consolidated and include the revenues, expenses, assets and liabilities of the “economic entity” after eliminating inter-entity transactions and balances.

The University provides both Higher Education and Vocational Education and Training (VET). Higher Education funding is provided by the Commonwealth Government through direct grants, and through the Higher Education Contribution Scheme revenues collected by the Commonwealth. VET funding is provided by the Northern Territory Government through monies appropriated by the Legislative Assembly to the Department of Employment, Education and Training. The University also attracts research funding from a variety of sources.

The University produces annual financial statements as at 31 December each year and these are required to be audited by the Auditor-General pursuant to the requirements of the University’s enabling legislation.

An issue that has the potential to affect the University and its relationship with the Legislative Assembly and the Northern Territory Government is the recent approach by the Commonwealth Government to the States and Territories seeking “in-principle” agreement to the referral of powers in respect of financial reporting and audit of all universities. Details of arrangements that might apply are to be determined through meetings of officials from all jurisdictions in the coming months.

Audit opinion

The audit of the financial statements of the Charles Darwin University for the year ended 31 December 2006 resulted in an unqualified independent audit opinion, which was issued on 20 June 2007.

Key issues

The University’s end of the year accounting and control procedures were found to be generally satisfactory. However the audit indicated that there are some areas that would benefit from further enhancement in particular:

- the register of plant and equipment that was provided for audit did not provide an adequate audit trail reconciling the opening balance and the movement during the year; and
- the valuation certificate provided to the University at year end lacked clarity and detailed information surrounding the values of assets at year end.

Auditing the Public Account and other accounts

Charles Darwin University

Financial analysis

Abridged Income Statement – CDU only – excluding controlled entities

	2006	2005
	\$'000	\$'000
Revenue from continuing operations		
Financial assistance from the Commonwealth	46,215	41,335
Financial assistance from the NT Government	50,613	51,377
Other revenue (HECS, fees, interest, etc)	<u>45,647</u>	<u>39,759</u>
Total revenue from ordinary activities	<u>142,475</u>	<u>132,471</u>
Less expenses from continuing operations		
Employee related costs	79,099	70,448
Administration, operational and other expenses	<u>60,277</u>	<u>55,849</u>
Total expenses from ordinary activities	<u>139,376</u>	<u>126,297</u>
Operating result for the year	<u>3,099</u>	<u>6,174</u>

Revenue has increased by \$10.6 million or 7% from the prior year. In particular:

- Australian Government Funding increased by \$3.5 million;
- HECS increased by approximately \$1.0 million or 8.7%;
- Northern Territory Government Financial Assistance decreased \$0.6 million;
- Consultancy and Contracts income increased by \$2.3 million or 27%; and
- Other income increased by \$4.6 million.

Expenses have increased by \$11.1 million or 7.8% from the prior year. In particular:

- Employee Benefits and On-costs increased by \$9.4 million or 11.9%;
- Depreciation and Amortisation decreased by \$0.8 million; and
- Other expenses increased by \$2.3 million with the most significant movement being an increase to Travel, Staffing and Related Costs of \$1.5 million from the prior year.

Auditing the Public Account and other accounts Charles Darwin University

Financial analysis (continued)

Abridged Balance Sheet – CDU only – excluding controlled entities

	2006	2005
	\$'000	\$'000
Current assets		
Bank, and other financial assets	44,378	47,065
Receivables and other current assets	14,846	7,566
Less Current Liabilities	<u>(24,815)</u>	<u>(18,283)</u>
Net Current Assets	34,409	36,348
Add Non Current Assets	<u>230,479</u>	<u>221,752</u>
	264,888	258,100
Less Non Current Liabilities	<u>(1,741)</u>	<u>(3,499)</u>
Net assets	<u>263,147</u>	<u>254,601</u>
Represented by:		
Equity (reserves, restricted and accumulated funds)	<u>263,147</u>	<u>254,601</u>

The Charles Darwin University has commented:

The year end valuation certificate provided by the Australian Valuation Office was lacking in detail in some areas and you are aware of the additional work which was required to be done to satisfy the year end audit. The University has appointed Colliers International to undertake the valuations for 2007. The University has also instigated some changes to the automated assets register system and these will improve the year end reconciliation process.

Audit findings and Analysis of the financial statements for the year ended 31 December 2006 of:

Menzies School of Health Research

KEY FINDING

- **End of the year accounting and control procedures were found to be generally satisfactory.**
- **IT controls over the payroll and finance systems were considered to be unsatisfactory.**
- **An attempt was made by an unknown party to gain unauthorised entry to the School's computer network in December 2006.**

Audit opinion

The audit of the financial statements of Menzies School of Health Research (the School) for the year ended 31 December 2006 resulted in an unqualified independent audit opinion that was issued on 3 April 2007.

Background

The School was established under the *Menzies School of Health Research Act* in 1985 and operates as a medical research institute within the Northern Territory. The School is deemed to be controlled by Charles Darwin University through the requirement under Section 11(1) of the *Menzies School of Health Research Act* which specifies that nominated office holders of the University will be *ex officio* members of the School's Board, and through Section 11(2)(d) which specifies that five of the ten persons appointed to the Board by the Administrator are appointed on the nomination of the University.

The largest part of the School's revenues are represented by research grants.

Key issues

The School's end of the year accounting and control procedures were found to be generally satisfactory. However, past and current audits have indicated that there are some areas that would benefit from further enhancement in particular:

- advances provided to employees for "Consumable Research" expenses were not being appropriately acquitted; and
- weaknesses were identified in relation to control over bank accounts in that it was noted that only one signatory was required, while a former Director of the School continued to be one of the authorising signatories on the account.

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

Key issues (continued)

An IT Support audit was conducted in conjunction with the end of year financial statement audit. The IT Support audit highlighted that IT controls over the payroll and finance systems were unsatisfactory. Specifically:

- there were no change management procedures in place for either the payroll system or financial management system;
- there were no formal procedures or controls in place to limit access to the payroll system or the financial management system;
- there were no procedure for creating, maintaining or deleting user accounts in the financial management system;
- there was a lack of IT policies and procedures, including policies governing business continuity management;
- system directories intended to govern access to the network were not being reviewed for appropriateness of access and controls in this area were ineffective;
- there were ineffective controls for security over the room that houses the School's server. This was particularly acute given that flooding had occurred during the previous twelve months;
- there were ineffective controls relating to network and server security procedures;
- there was no evidence of incident handling and response procedures. It was noted that an attempt to gain unauthorised access to the School's computer network occurred in December 2006. Neither an incident report nor a post incident report was available setting out the details of the incident, the extent of damage to the network or to any of the applications accessible by way of the network; and
- it was not possible to extract data from the School's financial systems during the audit due to the limited experience of IT staff.

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

Financial analysis

Abridged Income Statement

	2006	2005
	\$'000	\$'000
Revenue from continuing operations	<u>16,716</u>	<u>15,913</u>
Less expenses from continuing operations		
Employee benefits	8,930	8,222
Administration, operational and other expenses	<u>5,845</u>	<u>7,850</u>
Total expenses from ordinary activities	<u>14,775</u>	<u>16,072</u>
Net operating result for the year	<u>1,941</u>	<u>(159)</u>

The reduction in total expenses was largely due to reduced expenditure across a number of areas of activity, with areas such as consultancy, education, research, and laboratory expenses being notable.

Abridged Balance Sheet

	2006	2005
	\$'000	\$'000
Current assets	17,697	14,312
Non-current assets	<u>796</u>	<u>940</u>
Total assets	<u>18,493</u>	<u>15,252</u>
Current liabilities	7,008	5,612
Non-current liabilities	<u>163</u>	<u>264</u>
Total liabilities	<u>7,171</u>	<u>5,876</u>
Net assets	<u>11,322</u>	<u>9,376</u>
Represented by		
Retained earnings	9,587	8,097
Asset Revaluation Reserve	59	60
Capital Equipment Reserve	1,588	1,137
Investment Revaluation Reserve	<u>88</u>	<u>82</u>
	<u>11,322</u>	<u>9,376</u>

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

The Menzies School of Health Research has commented:

- *Advances provided to employees for “Consumable Research” expenses were not being appropriately acquitted.*

The School acknowledged that there had been some difficulties with a limited number of employees in them submitting appropriate acquittal documentation. Even though the actual dollar amount of these inappropriately acquitted expenses was small, a new policy was introduced that is now minimising this issue.

- *Weakness were identified in relation to control over bank accounts in that it was noted that only one signatory was required, while a former Director of the School continued to be one of the authorising signatories on the account.*

This issue is not entirely correct. There was only bank account (sic) where one signatory was required and this related only to the transfer of funds from the investment account back to another pre designated bank account of the School. As such, there were no security issues or opportunities for fraud. The former Director has now been removed as an authorising signatory from the account.

- *An IT Support audit was conducted in conjunction with the end of year financial statement audit. The IT Support audit highlighted that IT controls over the payroll and finance systems were unsatisfactory.*

Menzies School of Health Research acknowledges the issues that have been raised in the IT Audit. In conjunction with Charles Darwin University (CDU), who for the past three years has provided IT support services to the School under an outsourcing arrangement, actions were immediately implemented to ensure the integrity of the School's IT systems. A consultant was engaged to further review the findings of the IT Audit and to ensure that all necessary policies and procedures were developed and implemented. A recommendation of the consultant was to employ an IT Manager to coordinate the outsourcing of the School's IT services from Charles Darwin University and to review the IT service level agreement. The IT Manager has now been appointed and is actively monitoring IT service delivery from CDU.

Audit findings and Analysis of the financial statements for the year ended 31 December 2006 of:

Charles Darwin University Foundation

KEY FINDING

- **At least three authorities and signatories to the general cheque account were no longer employees of CDU or, in one instance, no longer the Chairperson of the Foundation.**

Audit opinion

The audit of the financial statements of the Charles Darwin University Foundation (the Foundation) and the Charles Darwin University Foundation Trust (the Trust) for the year ended 31 December 2006 resulted in an unqualified independent audit opinion.

Background

The Charles Darwin University Foundation is a public company limited by guarantee that acts as trustee of the Charles Darwin University Foundation Trust. The company incurs liabilities on behalf of the Trust and discharges them out of the assets of the Trust.

The Company and the Trust were established with approval from the former Northern Territory University Council as the fundraising arm of the University and both entities are controlled entities of the University within the meaning of section 41 of the *Charles Darwin University Act*.

The purpose of the Foundation is to enhance the relationship between the University and the wider Northern Territory community and to generate funds for the University for investment in programs, projects and infrastructure. In pursuit of this objective the Foundation seeks to encourage donations and other contributions and it guarantees the security of funds raised to promote the University's development.

The company was governed by a board of seven directors, two of whom were appointed during the year in place of retiring directors.

Auditing the Public Account and other accounts Charles Darwin University Foundation

Key issues

Controls over bank accounts

It was noted that at least three signatories to the general cheque account were no longer employees of the University or, in one instance, no longer the Chairperson of the Foundation.

Cash Donations

The audit identified a weakness in the control over the receipt of “over the counter” cash donations. However as the amounts received by this method occur relatively infrequently, I did not consider it necessary to qualify my audit opinion in relation to the completeness of revenue.

Donations

During the year the Foundation received donations comprising:

	\$
Cash and cash equivalents	656,063
Listed securities	165,950
In-kind donations at estimated values	<u>259,736</u>
	<u>1,081,749</u>

In-kind donations received during the year were received from eighteen separate donors and included:

- motor vehicles;
- professional services;
- equipment; and
- goods and services

In most instances in-kind donations are provided to the Foundation without any supporting evidence to substantiate the donors’ advice as to their value. However, the risk of misstatement of the financial statements is not considered to be material given that in-kind donations are recorded as income and expense in the same period in which they are received.

Auditing the Public Account and other accounts Charles Darwin University Foundation

Financial analysis

Abridged Income Statement – Trust only

	2006	2005
	\$'000	\$'000
Revenue from continuing operations	<u>1,217</u>	<u>668</u>
Trust donations disbursed	(512)	(483)
Donations in kind - operational	(260)	(124)
Other expenses	<u>(2)</u>	<u>(4)</u>
Net operating result for the year	<u>443</u>	<u>57</u>

The Trust reported an operating result, for the year ended 31 December 2006, of \$443,474 in comparison to a surplus of \$56,602 in the previous year. This movement in profit resulted predominantly from:

- An increase of \$522,535 in “Donations Received”. This can be further broken down as an increase of \$220,388 in “Cash Donations”, an increase of \$136,197 in “In-Kind Donations” and \$165,950 was received in the form of listed shares during the year.
- The increase in “In-Kind” Donations relates mainly to the donation of two vehicles during the year, one from Centralian Motors to the value of \$55,000 and one from Frost Motor Group with a value of \$75,000.
- Trust disbursements were only slightly higher this year, up \$29,181 from the prior year.

Abridged Balance Sheet – Trust only

	2006	2005
	\$'000	\$'000
Current assets	2,373	2,090
Non-current assets	<u>316</u>	<u>150</u>
Total assets	<u>2,689</u>	<u>2,240</u>
Current liabilities	<u>14</u>	<u>9</u>
Net assets	<u>2,675</u>	<u>2,231</u>
Represented by		
Asset Revaluation Reserve	51	51
Investment Revaluation Reserve	<u>2,624</u>	<u>2,180</u>
	<u>2,675</u>	<u>2,231</u>

Auditing the Public Account and other accounts Charles Darwin University Foundation

Financial analysis (continued)

At 31 December 2006 the financial assets of the Trust included an amount of \$2,179,908, representing the aggregate balances of both tied and untied funds in respect of:

	\$
Tied Funds	
Alicia Johnson Memorial Trust	71,484
Harry Chan Memorial Bursary	129,820
Jose Yu Foundation	422,072
Research Fund	67,176
Scholarships and Prizes Fund	236,646
Special Projects Fund	<u>572,088</u>
Total Tied Funds	1,499,286
Untied Funds	<u>680,622</u>
Total	<u>2,179,908</u>

Audit findings and Analysis of the financial statements for the year ended 31 December 2006 of:

Batchelor Institute of Indigenous Tertiary Education

The Batchelor Institute of Indigenous Tertiary Education (the Institute) was not able to provide a final signed copy of its financial statements for the year ended 31 December 2006 before 30 June 2007, the period covered by this report.

The Institute submitted a final signed copy of its financial statements for audit in late July 2007 and a report on the Institute's financial statutory financial report will be included in my next report to the Legislative Assembly in February 2008.

Agency Compliance Audits

Agency compliance audits are intended to ascertain the extent to which Agencies' Accountable Officers have implemented and maintained procedures that assist in ensuring that the requirements that are set out in Acts of Parliament, and subordinate and delegated legislation are adhered to. The use of delegated legislation, for example Treasurer's Directions and Procurement Directions, devolve responsibility to Accountable Officers of line Agencies. That devolution has an accompanying requirement for accountability by Accountable Officers to the Minister and the Legislative Assembly. Compliance audits are intended to assess how well that accountability is being discharged. The audits for this period concentrated on the extent to which Agencies had complied with promulgated requirements with respect to:

- the maintenance of registers of financial interests, contingencies, guarantees and indemnities;
- validation of accounts payable and claims for payment, including funds availability;
- compliance with the *Procurement Act*, Regulations made under that Act and Procurement Directions;
- the maintenance of registers of losses, and whether investigation and reporting and recovery of losses accorded with the requirements of Treasurer's Directions;
- ensuring that expenditure on official travel, telephones and hospitality was properly authorised, recorded and acquitted;
- the recording and accounting for trust monies;
- the legal and statutory arrangements governing the recovery of certain debts, the retention of financial management records, the granting of *ex-gratia* payments, the maintenance of Registers of Fees and Charges;
- the control of physical assets; and
- budget management, including financial and performance reporting.

Compliance audits were performed in each of the following Agencies during the six months covered by this report:

- Aboriginal Areas Protection Authority;
- Department of Employment, Education and Training;
- Department of Health and Community Services;
- Department of Justice;
- Department of Local Government, Housing and Sport;
- Department of Natural Resources, Environment and the Arts;
- Department of Planning and Infrastructure;
- Northern Territory Ombudsman's Office;
- Northern Territory Police, Fire and Emergency Services; and
- Northern Territory Treasury.

Auditing the Public Account and other accounts Agency Compliance Audits

A range of issues were raised as result of those audits, including:

Issue	Selected Agency Responses
Failure to adhere to the Agency's own policies for the approval of hospitality expenditure	<p>“Procedures for paying for entertainment costs as well as the new financial delegation levels have been communicated to all staff on a number of occasions.....Entertainment registers were also established in two branches as a means to monitoring if staff were following the correct procedures”.</p>
Raising of purchase orders following the receipt of invoices from suppliers	<p>“Of the eleven sampled purchase orders identified as been raised subsequent to the invoice being issued only five were required to have an internal requisition (IR) and purchase order. The other six transactions were either for services exempt from the public tender requirements under PR7 Attachment A or for services listed in the APM as not requiring an IR and therefore not a Purchase Order”.</p> <p>“The Procurement section of the Accounting and Property Manual will be updated by the end of 2007”.</p> <p>“The Department continues to independently monitor and enhance its procurement systems. The agency will endeavour to achieve compliance with the Procurement Directions”.</p>
Deficiencies in the recording of fixed assets	<p>“The ...improvements that were capitalised in error and identified in the audit have been removed from the asset register and expensed. (The Department) will reinforce asset disposal and trade-in requirements by communicating them to staff in the Finance Newsletter”.</p>

Auditing the Public Account and other accounts Agency Compliance Audits

Issue	Selected Agencies' Responses
Lack of evidence of the receipt of goods and services notwithstanding that payment had been made.	<p>“(The Agency) has recognised that there are internal control issues with current procurement practices and complete Agency policies relating to all procurement tiers are being developed to remove any ambiguity.</p> <p>“In relation to ‘evidence of goods received’, it is recognised that this is a particular and important weakness in current systems. Whilst TDs require that payments are for goods and services actually received, (the Agency)relies on the responsibility of the delegate approving the payment to ascertain this prior to approval...The current review of procurement practices proposes to change this with an emphasis on segregation of duties. A substantial change in practice takes time to implement and enforce across the Agency. There is a definitive (sic) commitment to improving internal controls”.</p>
Inadequate documentation to support the reimbursement of telephone costs for official business	<p>“Although the dollars spent for 06/07 are only approximately \$40,000, (the Department) will be looking at ways to tighten up compliance with the department’s Policy”.</p> <p>“Agency financial delegations, the Accounting and Property Manual and the Telephone Policy are being amended to more clearly show the distinction between the delegation to ‘determine that a telephone at an employee’s residence is an official phone’ and the authority to approve reimbursement of semi official telephone expenses”.</p> <p>“The findings of the audit have been noted and internal procedures will be reviewed to address deficiencies identified. The Department has recently conducted an external review of its Corporate Credit Card policies and procures which should address the audit finding above”.</p>

Auditing the Public Account and other accounts Agency Compliance Audits

Issue	Selected Agencies' Responses
Inconsistencies between Departmental Accounting and Property Manuals and the requirements of Treasurer's Directions and Procurement Directions.	<p>“The Department’s Accounting and Property Manual is currently under review and will be update to incorporate the finds (sic) above”.</p> <p>“The Department supports the finding that the Procurement Directions, Treasurer’s Directions, and the Accounting and Property Manual are complied with in all instances. Internal procedures will be reviewed to ensure better compliance with these mandatory requirements”.</p>
Lack of documentation to support official travel	<p>“The Corporate Support Travel section within (the Department) was unable to provide all the documentation requested by the auditors through Finance. The lack of documentation is a shortcoming of Corporate Support Services management to prioritise the allocation of resources to find and provide the paperwork, rather than a lapse of internal controls that could result in the department incurring financial losses”.</p> <p>“It is now the practice to not pay Travelling Allowance to an employee who has an outstanding travel acquittal”.</p> <p>“The lack of travel acquittals within the Agency will be overcome with the introduction of Travel Request Information Processing System (TRIPS) which is an NTG intranet application that automates many of the tasks required to process official travel requests including numbering of movement requisitions, travel approval by the delegated officer, calculation of Travelling Allowance and acquittals”.</p> <p>“The Department has recently implemented (in its corporate areas initially) the ‘TRIPS’ electronic lodgement of movement requisitions etc. This incorporates automatic reminders to staff for acquittal of travel. The Department will monitor this area in the coming period”.</p>

Auditing the Public Account and other accounts Agency Compliance Audits

Issue	Selected Agencies' Responses
Lack of evidence of approval for purchases using corporate credit card.	“(The Agency) recognised that this is insufficient segregation of duties and changed its delegation structure in January 2007, however it was acknowledged (by Audit) that due to the nature of the Agency there would be times when prior approval is not practical..... Any credit card transactions in the audit sample that occurred prior to this change in delegations, providing they did not exceed the card holder’s limits, complied with the delegations in existence at that time”.
Lack of internal audit capacity as required by the <i>Financial Management Act</i> .	“(The Agency’s) Audit Committee was established20 June 2007. The internal audit function will be financially resourced in 2007-08 through internal budget reallocation”.
Reconciliation and review processes for bank reconciliation report could be improved.	<p>“Procedures are in place to ensure that banking and recovery of monies are dealt with on a timely basis. Reports are checked daily and supervisors advised of any discrepancy or outstanding deposit as soon as notified by the bank statement”.</p> <p>“The new office manager has since taken measures and tightened security procedures to reduce the possibility of any future reoccurrence (of missing bank deposit packet). The time delay in applying for write off of the cash amount was caused by the time lag in awaiting action by one customer whose cheque was included in this deposit”.</p> <p>“The amount represents Handyway amounts carried forward from 1994 which are in the process of being transferred to CHA as unclaimed monies. In the case of pre-2005 Handyway transactions, it was not possible to identify the cashier or customer to seek reimbursement. The current system does allow us to identify where discrepancies have occurred and ensures recovery from customers in a timely manner. The Handyway machine number/s are governed by the centre where it is receipted and supervisors now balance the Handyway totals on a daily basis which ensures a more timely reconciliation”.</p>

Auditing the Public Account and other accounts Agency Compliance Audits

Issue	Selected Agencies' Responses
Inadequate procedures for the collection of public money in that appointment of officers performing the collection function had not been officially appointed and no cash register was maintained.	“The Department will ensure that appropriate procedures and official appointments will be carried out”.
Lack of regular reconciliations between work in progress and land asset balances	“Reconciliations of expenditure are carried out monthly to ensure that reporting to Executive Management Board is accurate, and this is the key control. Completed WIP reports are prepared every two months and journals for the appropriate amounts are entered into GAS, so there is limited opportunity for reconciliation differences. Full reconciliation differences are completed as resources permit, but will always be completed at the end of the financial year”.

Several of the issues set out in the preceding table were encountered at more than one Agency. In some cases the delays in instituting appropriate internal controls might be seen as being attributable to the Agency restructures that occurred early in the 2005-06 year with the result that new procedures may still need to be instituted in the restructured Agencies. However, similar issues were also encountered in Agencies that have been stable for a considerable period of time. This suggests that the need for sound internal controls, intended to ensure that public moneys are properly accounted for and spent only in accordance with legal requirements and that value for money is achieved, may not always be appreciated by management.

This is an area that will be the subject of continuing attention by the NTAGO.

Appendix 1 - Audit opinion reports issued since 31 December 2006

	Date 2006 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2006	<i>Date of Audit Report Year ended</i> <i>31 December 2005</i>
Entities with specific Legislation or Trust Deeds			
Charles Darwin University	Not yet tabled	20 June 07	<i>30 June 06</i>
Charles Darwin University Foundation (a company limited by guarantee)	N/A	22 May 07	<i>5 April 06</i>
Charles Darwin University Foundation Trust	N/A	22 May 07	<i>5 April 06</i>
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	Not yet completed	<i>24 July 06</i>
Menzies School of Health Research	N/A	3 April 07	<i>12 April 06</i>

Not yet tabled – as at 30 June 2007

Not yet completed – as at 30 June 2007

Appendix 1 - Audit opinion reports issued since 31 December 2006

	Deadline for submission of Audited Financial Statement	Date of Audit Report Year ended 31 December 2006	<i>Date of Audit Report Year ended</i> <i>31 December 2005</i>
Inter-Government Statements by Agreement			
Charles Darwin University Higher Education Research Data Collection	31 August 07	5 June 07	<i>24 May 06</i>
Inter-Government Statements by Legislation			
<i>AusLink (National Land Transport) Act 2005 – Road Safety (Black Spot)</i>	31 December 06	1 June 07	<i>9 December 05</i>
<i>AusLink (National Land Transport) Act 2005 – National Highways and Roads of National Importance</i>	31 December 06	1 June 07	<i>9 December 05</i>
<i>AusLink (National Land Transport) Act 2005 – Roads to Recovery</i>	31 October 06	1 June 07	<i>23 December 05</i>
<i>AusLink (National Land Transport) Act 2005 – Supplementary AusLink Roads to Recovery</i>	31 October 06	1 June 07	N/A
<i>Interstate Road Transport Act 1985</i>	31 December 06	1 June 07	<i>9 December 05</i>

Appendix 2 - Status of Audits which were identified to be conducted in the six months to 30 June 2007

No audits other than the routine audits, primarily being compliance audits of selected Agencies, interim audits of entities requiring financial statements opinions, and follow-up of outstanding issues in previous audits, were identified in Appendix 3 of the February 2007 as being scheduled for the period.

Appendix 3 - Proposed audit activity in the six months ending 31 December 2007

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

Department of the Chief Minister

Procurement processes for acquisition of publicity, advertising, design and similar services.

Department of Health and Community Services

How well does IT fit the Agency's business needs?

Review of Qantel IT System.

Review of Ascribe IT System.

Department of Planning and Infrastructure

How well does IT fit the Agency's business needs?

Department of Primary Industry, Fisheries and Mines

Process for determining the adequacy of the financial security lodged in connection with McArthur River mine expansion.

Cross-Agency

Review of the systems, processes and accompanying methodologies used to estimate the proportion of NT Government expenditure that is related to the Territory's indigenous population.

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:

- the Central Holding Authority, and
- Operating accounts of Agencies and Government Business Divisions.

Audit of the Public Account

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

1. annual financial statement audits of entities defined to be within the Public Account, in particular Government Business Divisions, which have a requirement for such audits under the *Financial Management Act*;
2. an audit approach which the Northern Territory Auditor-General's Office terms the Agency Compliance Audit. This links the existence of the required standards of internal control over the funds administered within the Public Account, to the responsibilities for compliance with required standards as defined for Accountable Officers.

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

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

Appendix 4 - Overview of the approach to auditing the Public Account and other accounts

Other accounts

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

Audit of the Treasurer's Annual Financial Statement

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

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

Appendix 5

Agencies not audited in the year ended 30 June 2007

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 2007, no audits were conducted at the following Agencies.

- Department of Business, Economic and Regional Development
- Department of Primary Industry, Fisheries and Mines
- Department of the Legislative Assembly
- Land Development Corporation
- Northern Territory Electoral Commission
- Office of the Commissioner for Public Employment

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. 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 6 - Abbreviations

APM	Accounting and Property Manual
CDU	Charles Darwin University
CHA	Central Holding Authority
DCS	Data Centre Services
DCIS	Department of Corporate and Information Services
DPC	Darwin Port Corporation
FMS	Financial Management System
GAS	Government Accounting System
HECS	Higher Education Contribution Scheme
IR	Internal Requisition
IT	Information Technology
KPI's	Key Performance Indicators
NTAGO	Northern Territory Auditor-General's Office
NTG	Northern Territory Government
PIPS	Personnel Information and Payroll System
PR	Procurement Regulation
RMS	Retail Management System
TD's	Treasurer's Directions
TRIPS	Travel Request Information Processing System
TRMeR	Territory Revenue Management Electronic Returns System
VET	Vocational Education and Training
WIMS	Works Information Management System
WIP	Work in Progress

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Further information

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

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

Further copies of the August 2007 Report are also available from the Northern Territory Auditor-General's Office.

The next general Report by the Auditor-General to the Legislative Assembly will be scheduled for tabling in the February 2008 sittings.

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