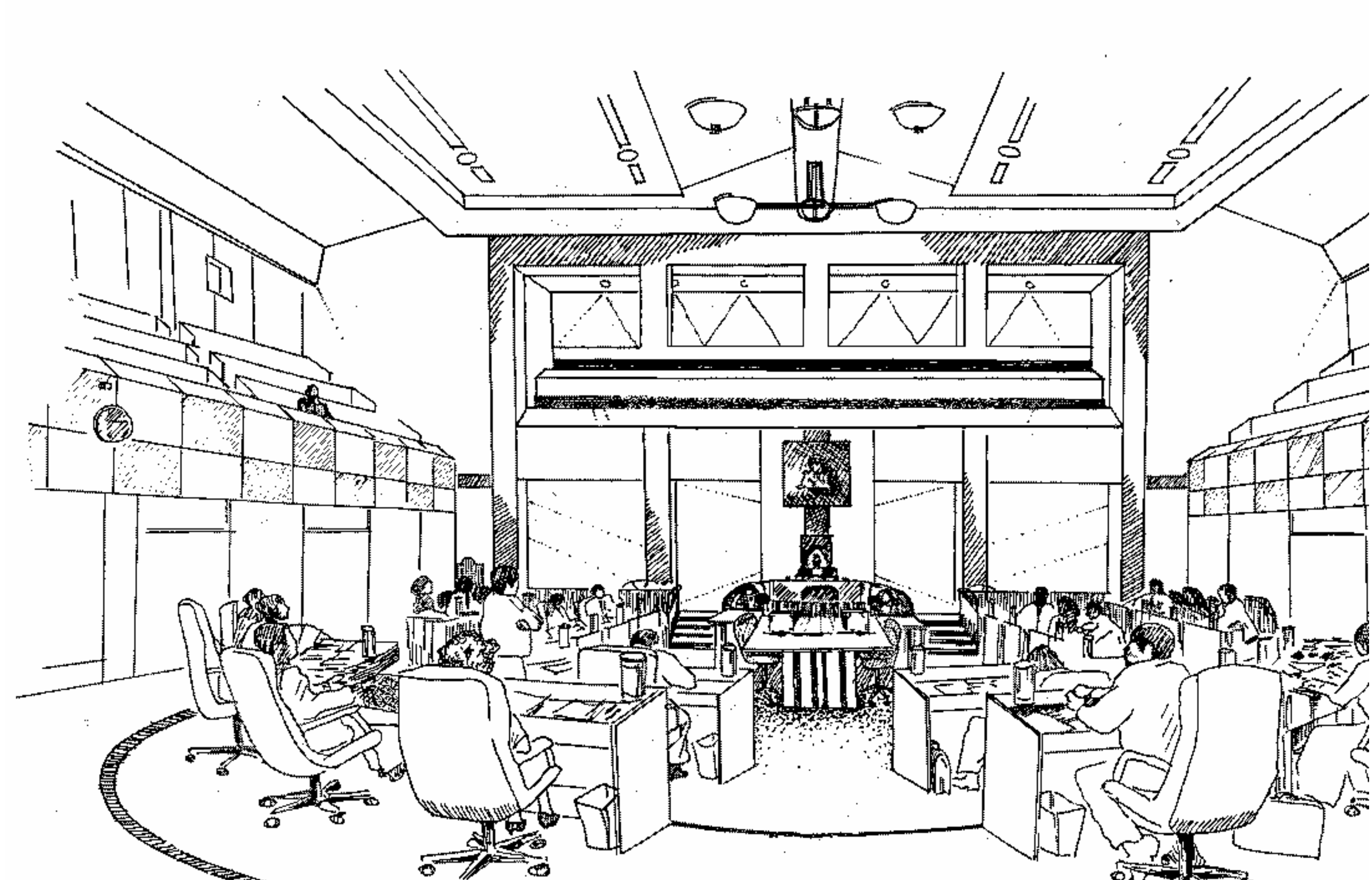
AUDITOR-GENERAL
FOR THE NORTHERN TERRITORY

FEBRUARY 2007 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

20 February 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 31 December 2006.

The larger part of the report deals with the results of audits of statutory financial reports. That type of information 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.

Also included in the report is a review of the Darwin City Waterfront and Convention Centre development project. This is a significant project to which funding has been committed by both the Territory and by private investors.

I request that you table the report today in the Legislative Assembly.

Yours faithfully,

F McGuiness
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Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 July 2006 to 31 December 2006:

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

This Report has 31 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 2006 to 31 December 2006.

It contains 31 separate reports most of which deal with the outcomes of audits and financial analyses of Agencies and Entities that were required to prepare financial reports as at 30 June 2006, or in the case of Charles Darwin University, the 31 December 2006.

Agencies have been directed by the Treasurer, through Treasurer's Directions issued pursuant to the *Financial Management Act* to prepare financial statements that comply with the requirements of Australian Accounting Standards. Agencies' financial statements are not audited separately, but are reviewed as part of the audit of the Public Account and of the Treasurer's Annual Financial Statement.

Government Business Divisions, statutory bodies and Government owned corporations are required by various Acts of Parliament to prepare annual financial statements. These statements are audited and an audit opinion is issued accordingly.

The Treasurer prepares a separate annual financial statement pursuant to the provisions of the *Financial Management Act*. Successive Auditors-General have issued qualified audit opinions on these statements over a period of years on the grounds that they do not comply with the relevant accounting standard. The Treasurer has chosen, quite appropriately in my view, to base the statement upon Government Finance Statistics, a model that is applied by almost all countries. The Australian Accounting Standards Board, the body that is charged by the Commonwealth with the drafting and issue of accounting standards, has made some progress towards harmonising Government Finance Statistics with the principles applied in accounting standards and I anticipate that the need to continue to issue a qualified audit opinion on the Treasurers Annual Financial Statement (TAFS) will be resolved within the foreseeable future.

I have included a separate section in this report to provide some discussion and analysis on the TAFS which was tabled during the October 2006 sitting of the Legislative Assembly.

I issued three audit qualifications for 2005-06; one in respect of the TAFS, one in respect of the financial statements of the Power and Water Corporation and one in respect of NT Build. The issue of the qualification of the TAFS is discussed, above. It is a technical qualification which should be resolved within a reasonable period as the Australian Accounting Standards Board completes the drafting and issue of an accounting standard that harmonises two quite different reporting frameworks.

The qualification of the statements of the Power and Water Corporation reflect a difference of opinion between the Corporation and me on the appropriate discount rate to be applied when determining the present values of certain classes of assets. In particular, I did not consider that the Corporation had properly applied the provisions of the appropriate accounting standard and that it did not approach the problem of determining an appropriate discount rate with sufficient rigour. The Corporation has responded to my report, putting forward the view that I may have given insufficient weight to conservative assumptions contained within the Corporation's cash flow model used for the purposes of determining the values of the assets in question. I am confident that this matter will be resolved satisfactorily before the end of the current financial year.

Executive Summary

In the case of NT Build, I was unable to satisfy myself that all revenues due to NT Build were included in its financial statements due to the nature of the building approval processes that currently apply in the Territory. The issue of a qualification in these circumstances is not a reflection on the performance of the Board. The issue that confronted the Board during the year was one in which the processes that govern building approvals did not enable the Board to have assurance that all prescribed building work could be identified so that the appropriate amount could be levied. Flowing from that, I could not be assured that all revenues due to the Board were included in its financial statements. The Board was well aware of the problem and was taking appropriate action to rectify the matter.

Reporting on audits conducted in the six months ended 31 December 2006

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 31 December 2006, 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; and
- 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 2005-06 did not satisfy the requirements of AAS31. The 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 when 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.
- I also issued a qualification in respect of the carrying amounts of Utility Assets reported as part of the TAFS. This flowed from a qualification issued in respect of the accounts of the Power and Water Corporation in which I advised that I was unable to accept the values placed by the Corporation on its water assets as a result of the application of too low a discount rate by the Corporation.

Operating results and financial position

- The revenues of the tax-supported General Government Sector for 2005-06 increased by $285.4 million compared with the actual result for 2004-05, and exceeded the original budgeted revenues by $249.7 million.
- GST revenue for 2005-06 increased by $110.6 million to $1,850.2 million.
- Expenses of the General Government Sector for 2005-06 increased by $232.5 million, rising to $2,974.2 million.
- The financial performance of the General Sector for 2005-06, as measured by the Net Operating Balance was $27.4 million. This compares with a deficit of $25.5 million for 2004-05 and an original budgeted result for 2005-06 of $33.7 million.
- The financial position of the Non-Financial Public Sector, as measured by Net Debt and Net Financial Worth, improved when compared with the position at 30 June 2005. That improvement was a reflection of the financial performance of the sector.

Auditing the Public Account and other accounts
Treasurer's Annual Financial Statement

Introduction

The Treasurer's Annual Financial Statement for 2005-06 paints a picture of a public sector that achieved sound financial performance for the year and flowing from that, also exhibited an improved financial position. Total revenues for 2005-06, on a whole-of-government basis, increased by 9.5 per cent to $3,512 million while total expenses increased by 7.4 per cent to $3,445.2 million. The result was an improvement in the Net Operating Balance from a deficit of $440,000 in 2004-05 to a surplus of $67.3 million for 2005-06. The Net Operating Balance is a measure of the extent to which the Territory's revenues were sufficient to finance the full cost of its operations for the year and it can also be viewed as a measure of the public sector's ongoing sustainability.

This financial result for 2005-06 should be viewed as a testament to tight budgetary control by the Government, coupled with continuing good fortune in the form of a buoyant national economy that continued to deliver growth in GST revenues and strong local economic activity that has maintained growth in local taxes. Information published by the Australian Bureau of Statistics[1] identifies the Territory's rate of growth of Gross State Product (7.5 per cent) as being the highest of all the Australian jurisdictions for 2005-06. That growth is reflected in the strong increase in taxation revenues, which increased by 25.2 per cent to $370.6 million for the year.

Goods and Services Tax revenues received by the Territory increased by 6.4 per cent to $1,850.2 million. The growth in GST revenues was a function of the total pool of GST revenues available for distribution to the states and the revenue sharing relativities that are applied by the Commonwealth Government, on the advice of the Commonwealth Grants Commission. The 2005 update to the revenue sharing relativities that was carried out by the Grants Commission had only a marginal effect upon the Territory's share of total grants; the larger part of the growth in GST grants received by the Territory reflected the continued growth in GST receipts by the Commonwealth for the year.

[1] Australian Bureau of Statistics, Australian National Accounts: State Accounts 2005-06 Reissue, Catalogue 5220.0, Canberra 2006

Auditing the Public Account and other accounts
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Fiscal Strategy and Associated Performance Measures

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

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

- formulate and apply spending and taxing 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
- manage financial risks faced by the Territory (having regard to economic circumstances), including the maintenance of Territory debt at prudent levels.

Budget Paper No 2 for 2005-06, *Fiscal and Economic Outlook* set out the Government's medium-term fiscal objectives and targets as follows:

- **sustainable service provision:** general government net operating balance by 2012-13;
- **infrastructure for economic and community development:** maintain total public sector infrastructure investment at appropriate levels and achieve a general government net lending balance by 2012-13;
- **competitive tax environment:** ensure territory taxes and charges are competitive with the average of the states; and
- **prudent management of liabilities:** net debt plus employee liabilities as a proportion of revenue to fall.

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As indicated above, targets were established for each principle and these are set out below together with audit comments:

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 positive Net Operating Balance by 2012-13.	The net operating balance for the tax-supported General Government Sector for 2005-06 was a surplus of $27.4 million. This represents an improvement on the result for 2004-05 which was a deficit of $25.5 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 ongoing sustainability.
Competitive tax environment	Ensure Territory taxes and charges are competitive with the average of the States.	The Territory's "tax effort" is the second lowest of all states, a stance consistent with the fiscal strategy. This should be viewed in the context of the Territory's lower revenue capacity compared with other Australian jurisdictions.
Prudent management of liabilities	Net Debt and employee liabilities as proportion of total revenue to fall.	Net debt plus employees of the Non-Financial Public Sector declined relative to the total revenues of the sector, consistent with the objectives of the strategy.

While the financial result for 2005-06 is sound and while the government has continued to adhere to its fiscal strategy there are, I believe, few grounds for complacency. As already indicated, the Territory relies heavily upon GST revenues and the amount distributed by the Commonwealth to the Territory is a function of the size of the GST pool and the relativities recommended by the Commonwealth Grants Commission.

The size of the GST pool has continued to grow in line with the growth in overall economic activity in Australia. However it is to be expected that at some point in the future that rate of growth will slow with the result that the amount of GST available for distribution to the States will plateau. At the same time, the recent strong growth of the Territory's own economy with a consequent growth in "own source" revenues represents an increase in the Territory's fiscal capacity. A growth in fiscal capacity relative to other jurisdictions may result in a downward revision of the relativity that applies to the Territory for the distribution of GST revenues.

Auditing the Public Account and other accounts
Treasurer's Annual Financial Statement

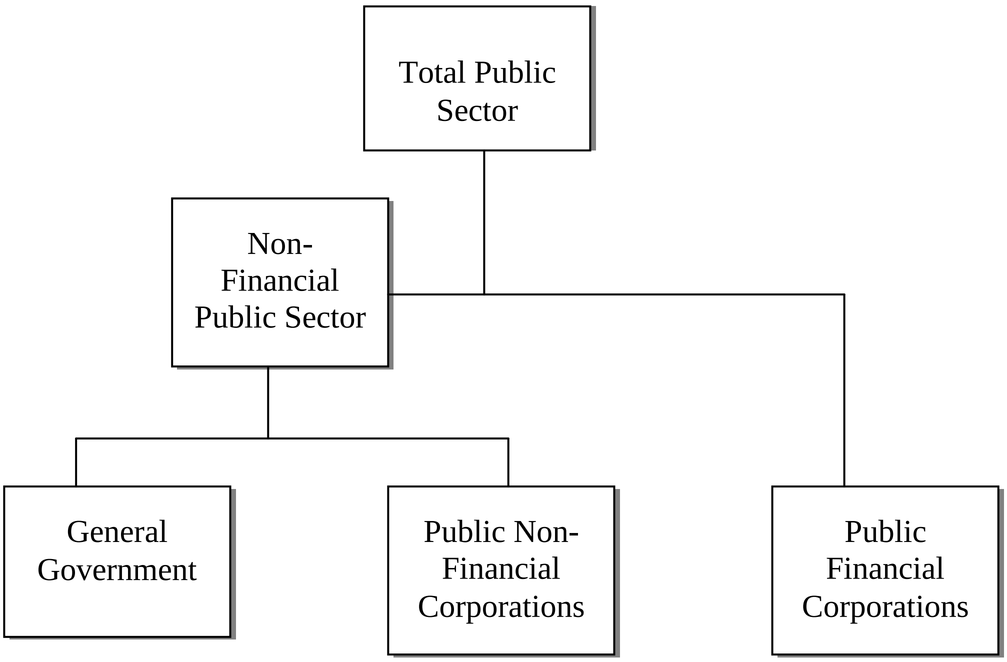
A combination of a slowing in the rate of growth of the size of the GST pool, coupled with a deteriorating GST relativity in the case of the Territory would see a of tightening of the level of revenue received from the Commonwealth. This suggests that continuing control over expenditure is essential to the maintenance of a sustainable public sector and the achievement of a sound financial position. This was achieved in 2005-06, with the increase in gross operating expenses for the Total Public Sector being held to less than 5 per cent notwithstanding the effects of enterprise bargaining outcomes on employee expenses for the year.

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 2006, 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 the TAFS in accordance with the requirements of the Uniform Presentation Framework (UPF). The UPF is a standard that is based on the accrual-based Government Finance Statistics (GFS) framework and which is recognised in the *Fiscal Integrity and Transparency Act* as being an appropriate basis for reporting, ranking equally with the Australian Accounting Standard AAS31, *Financial Reporting by Governments*. The GFS is arguably the superior of the two standards in a public sector context.

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 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".

The discussion about the financial performance and position of the sectors that follow is confined to the Total Public Sector and the General Government Sector. The Total Public Sector is examined because its financial statements provide an overall picture of the Northern Territory Government's financial performance and position, based on the performance and position of each of the entities that it controls. The General Government Sector is also examined because it is, arguably, the most important sector of government. It is that sector which is funded largely through taxation and on that basis alone deserves to be considered separately, but it is also the sector that is responsible for the provision of those services that the community commonly associates with the role of a government.

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 TAFS consolidation process involves the aggregation of all entities' financial reports into a single set of financial statements having eliminated inter and intra-sector transactions and balances in the process.

Auditing the Public Account and other accounts
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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
- 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.

Auditing the Public Account and other accounts Treasurer's Annual Financial Statement

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.

These statements incorporate a number of measures of financial performance and financial position as outlined below:

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

Auditing the Public Account and other accounts
Treasurer's Annual Financial Statement

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 2005-06 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 2006

	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	**67,347**	**27,427**	**1,139**	**28,566**	**38,781**
Add (Increase)/decrease in doubtful debts expense	(16,706)	(17,010)	508	(16,502)	(204)
Add gains on financial assets	47,015	39,047	-	39,047	7,968
Add Gains/(losses) on non-financial assets	4,614	(1,986)	5936	3,951	663
Add dividends paid or payable	-	-	10,124	-	18,278
Add revaluation of superannuation liability	55,600	55,600	-	55,600	-
AAS31 Net Operating Result	**157,871**	**103,079**	**17,708**	**110,663**	**65,486**

Note: Totals may not add due to rounding.

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 GFS is a system that has greater relevance when reporting upon the financial performance and position of the public sector.

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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 pursuing the harmonisation of GFS and AAS31. That has resulted in the issue of an accounting standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*. The Board is continuing to pursue the issue of a new accounting standard that will replace AAS31. When harmonisation is finally 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.

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 further qualified opinion has been issued for 2005-06. 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.

Auditing the Public Account and other accounts
Treasurer's Annual Financial Statement

Financial Performance and Position of the Total Public Sector

Financial Performance

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

The financial performance of the total public sector for 2005-06, as measured by both the Net Operating Balance and the Net Borrowing or Lending measures improved when compared with the prior year. This is illustrated in Table 2 below:

Table 2
Financial Performance of the Total Public Sector

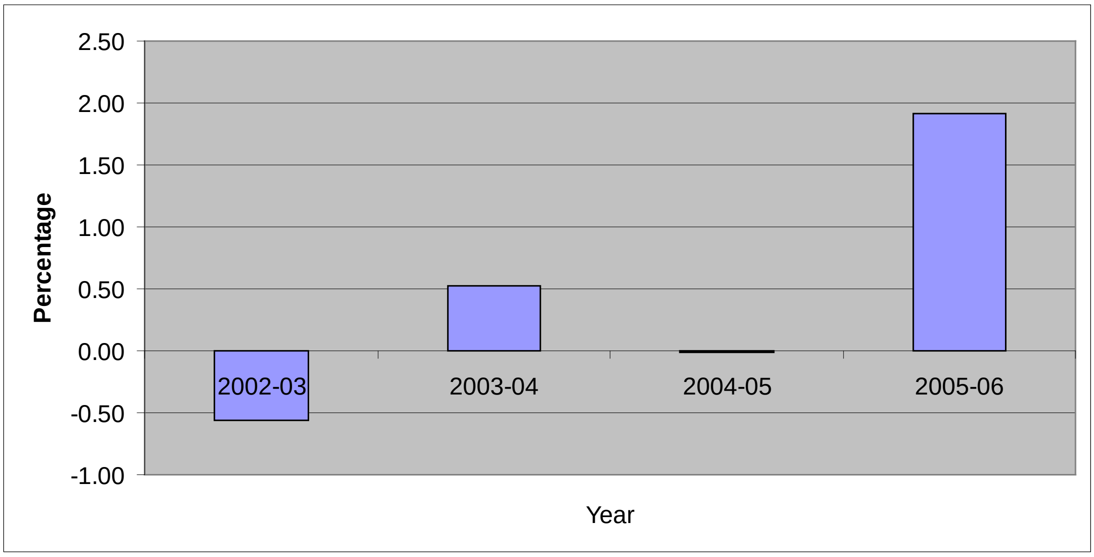
	2005-06 $'million	**2004-05 $'million**
Revenues	3,512.5	3,207.1
Expenses	(3,445.2)	(3,207.5)
Net Operating Balance	**67.3**	**(0.4)**
Net Acquisition of Non-Financial Assets	(122.3)	(92.4)
Net Lending/(Borrowing)	**(55.0)**	**(92.8)**

Table 2 contains two measures of performance: the Net Operating Balance which was a surplus of $67.3 million and Net Lending or Borrowing which was a deficit of $55.0 million. Both results represent an improvement over the results for 2004-05. The Net Operating Balance result, which is analogous to the corporate measure of net income, indicates that the revenues received by the public sector for the year were sufficient to meet the full costs of resources consumed in providing services to the community. The resulting surplus was applied towards the capital expenses incurred for the year, resulting in Net Borrowing by the Total Public Sector of $55.0 million. The Net Borrowing result indicates that the activities of the Sector for the year may require the Northern Territory Government to draw against the savings of other sectors of the economy at some point in the future.

The Total Public Sector has achieved Net Operating Balance results that have tended to improve progressively over the period since the passing of the *Fiscal Integrity and Transparency Act*. This improvement is illustrated in Figure 2, below. It should be noted that the result for 2004-05 was distorted by a sharp increase in employee related expenses in that year, with a consequent effect on operating expenses and hence the Net Operating Balance.

Auditing the Public Account and other accounts
Treasurer's Annual Financial Statement

Figure 2
Total Public Sector
Net Operating Balance as Percentage of Total Revenue



Total Public Sector financial performance for 2005-06 was characterised by an increase in total revenues by 9.5 per cent, to $3,512.5 million. Commonwealth revenues continued to dominate, with almost 67 per cent of the Total Public Sector's revenues coming from that source. At the same time, revenues from the Commonwealth continued to grow strongly, increasing by 8.7 per cent for the year. As has been the case for several years, revenues from the Commonwealth were dominated by the Goods and Services Tax (GST). GST revenues for the year were $1,850.2 million compared with $1,739.6 million for 2004-05.

Taxation revenues raised under Territory legislation rose by $74.6 million or 25.2 per cent for the year. This increase was dominated by stamp duties, which increased by $57.7 million (or 73 per cent) compared with the prior year although it should be noted that the increase includes amounts received in respect of transactions that occurred in earlier periods. Taxes on employers' payroll and labour force taxes also grew strongly, increasing by $15.1 million (or 14.4 per cent) compared with 2004-05.

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Total Public Sector financial performance, as represented by the accrual based Net Operating Balance measure was also reflected in the Sector's cash flow results for the year. The Sector generated net cash flows of $435.9 million from operations for the year, a significant improvement over the result of $300.0 million for 2004-05. The operating cash surplus, supplemented by net cash inflows generated as a result of financing activities, was applied to financing the capital program, with the latter activity requiring net cash outlays of $549.7 million. This is illustrated in Table 3 below:

Table 3
Total Public Sector
Summary of Cash Flows

	2005-06 $'million	2004-05 $'million
Cash receipts from operations	3,517.9	3,162.0
Cash payments from operations	(3,082.0)	(2,862.0)
	435.9	300.0
Less: Cash used in investing activities	(549.7)	(390.0)
Cash received/(used) in financing activities	165.7	76.9
Net Increase/(Decrease) in Cash	51.9	(13.2)
Opening Balance of Cash and Deposits	145.0	158.2
Closing Balance of Cash and Deposits	**196.9**	**145.0**

As shown in Table 3, the Total Public Sector recorded an increase of $51.9 million in cash and deposits held at 30 June 2006, compared with a decrease for the previous year of $13.2 million.

As mentioned above, the net cash flows of $435.9 million generated by the operating activities of Total Public Sector formed part of the Sector's total cash inflows. These were supplemented with other cash receipts totalling $165.7 million being received by way of advances, deposits and borrowings, with a further $63.4 million being received from the sale of non-current assets. The resulting amount of $665.0 million was applied as follows:

	$'million
Investment in non-financial assets as part of the capital program	400.2
Investment in financial assets held for both liquidity and policy purposes	212.9
Increase in holdings of cash and deposits	51.9
Total	**665.0**

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Financial Position

The three measures of financial position employed by the UPF were outlined previously under "Introduction". Broadly, the financial position of the Total Public Sector had improved as at 30 June 2006 when compared with the same period last year and that improvement was reflected in each of the measures used. It should be noted that a significant component of the improvement in Net Worth at 30 June 2006 was the net increase in the value of Land and Fixed Assets which increased by almost $226 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 2006	Movement for 2005-06	Balance at 30 June 2005
	$' million	$'million	$'million
Cash and deposits	196.8	51.9	144.9
Advances paid	202.1	(23.3)	225.4
Investments, loans and placements	1,451.5	252.9	1,198.6
Deposits held	(589.0)	(113.2)	(475.8)
Advances received	(290.1)	17.7	(307.8)
Borrowings	(2,052.0)	(67.3)	(1,984.7)
Net Debt	**(1,080.7)**	**118.7**	**(1,199.4)**
Non-equity assets	240.4	21.1	219.3
Equity assets	0.1	(1.3)	1.4
Superannuation liabilities	(1,773.2)	(11.7)	(1,761.5)
Other employee entitlements and provisions	(749.2)	(41.2)	(708.0)
Other non-equity liabilities	(286.8)	(51.0)	(235.8)
Net Financial Worth	**(3,649.4)**	**34.6**	**(3,684.0)**
Carrying amount of non-financial assets	6,376.6	225.7	6,150.9
Net Worth	**2,727.2**	**260.3**	**2,466.9**

Note: Totals may not add due to rounding.

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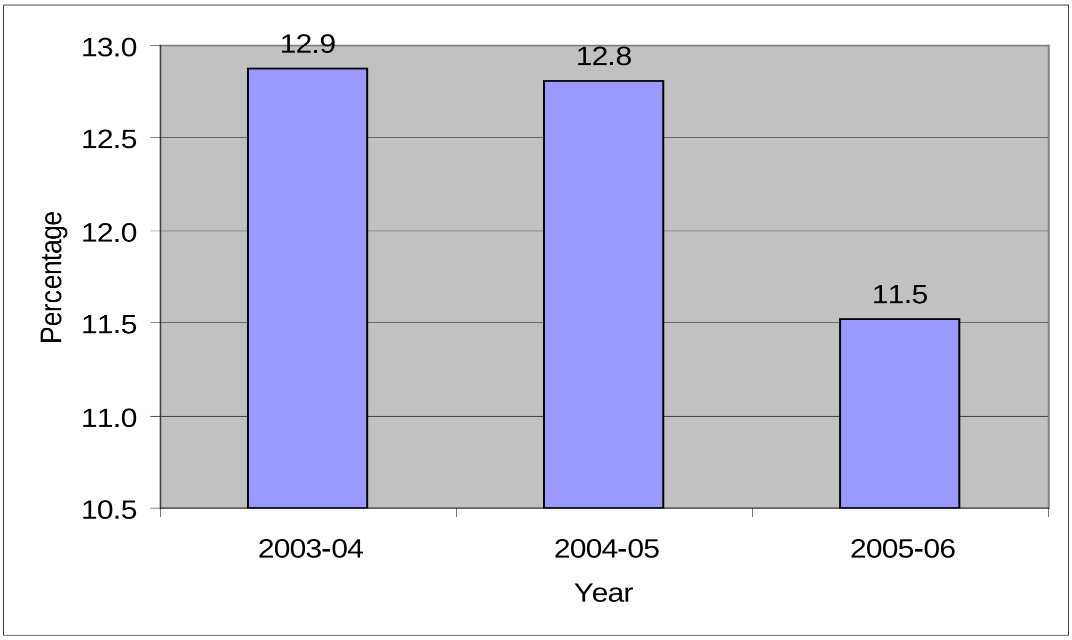
As indicated in Table 4, the measures of Net Debt, Net Financial Worth and Net Worth all improved when compared with the position as at 30 June 2005. This is a reflection of the strong financial performance of the Total Public Sector for the year which resulted in strong cash inflows and which saw growth in the levels of both financial and non-financial assets in excess of the increase in new borrowings and other financial liabilities for the year.

The improvement in the Total Public Sector financial position noted above represents a continuation of a pattern that has emerged since the adoption of a fiscal strategy by the Government. This improvement is illustrated by the decline in the Net Debt of the Total Public Sector as shown in Figure 3, below:

Figure 3
Total Public Sector
Net Debt as Percentage of Gross State Product



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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 can be viewed as 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.

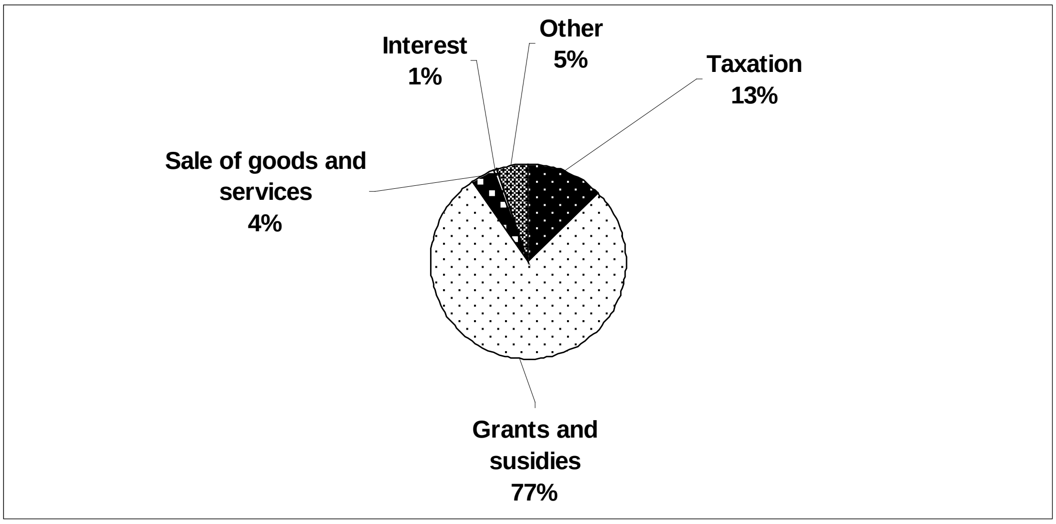
The Sources of Public Sector Revenue

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. 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 states. The relative shares of revenues to be transferred to states are agreed by the Premiers' Conference and 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 to raise revenues, and differences in the per capita amounts required to be spent by the states in providing an average standard of public services. The process by which the Commission's recommendations seek to ensure that each state 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 2005-06 are shown in Figure 4, below:

Figure 4
Components of General Government Sector Revenues – 2005-06



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As can be seen from Figure 4, the revenues of the General Government Sector for the year were dominated by the category of Grants and Subsidies which consists of both recurrent and capital grants from the Commonwealth. Of these, the single largest component of revenues received from the Commonwealth was GST revenue of $1.85 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 a combination of Commonwealth financial assistance grants and Territory taxes that have been abolished since the commencement 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, the Territory's own revenue raising capacity and its relative population growth.

An examination of GST revenues received by the Territory indicates that the rate of growth of those revenues increased in 2005-06 when compared with the prior year, reflecting a continuation of growth of the GST pool and changes to relativities which affect the amounts distributed to all jurisdictions. The expectation of a continuation in the annual rate of growth of GST revenues is also reflected in the expected outcome for 2006-07. Whereas the Commonwealth Budget for 2006-07 estimated that GST revenues of $1,968 million would be paid to the Territory, the Commonwealth *Mid-Year Economic and Fiscal Outlook,* which was released in December 2006, indicates that the Territory's share of GST revenue for the year will be $1,979 million, an increase of $11 million and that the annual rates of growth that have been experienced in recent years are expected to persist.

There are risks to the Territory if the rate of growth of GST revenues should fall below predictions and, in particular, if it should fall below the rate of growth of expenses. The risks surrounding the potential variability in GST revenues have been canvassed in successive years by the Treasurer in Budget Paper No 2 *Fiscal and Economic Outlook.* The risks that may accompany GST revenues are also dealt with in the Under Treasurer's *Mid-Year Report* of November 2006.

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General Government Sector Expenses

The expenses of the General Government Sector are shown in Figures 5 and 6, with Figure 5 showing expenditure on an object basis, while Figure 6 shows the same expenditure on a functional basis. Both bases are consistent with the requirements of the Uniform Presentation Framework.

Figure 5
General Government Sector Expenses 2004-05
Object Basis

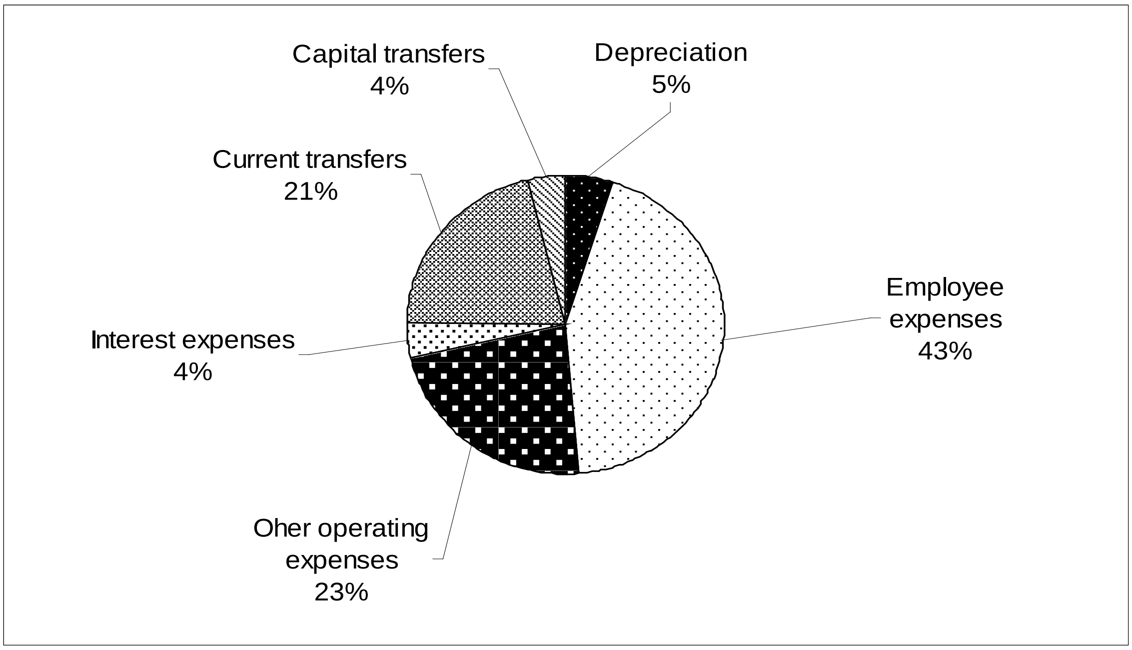

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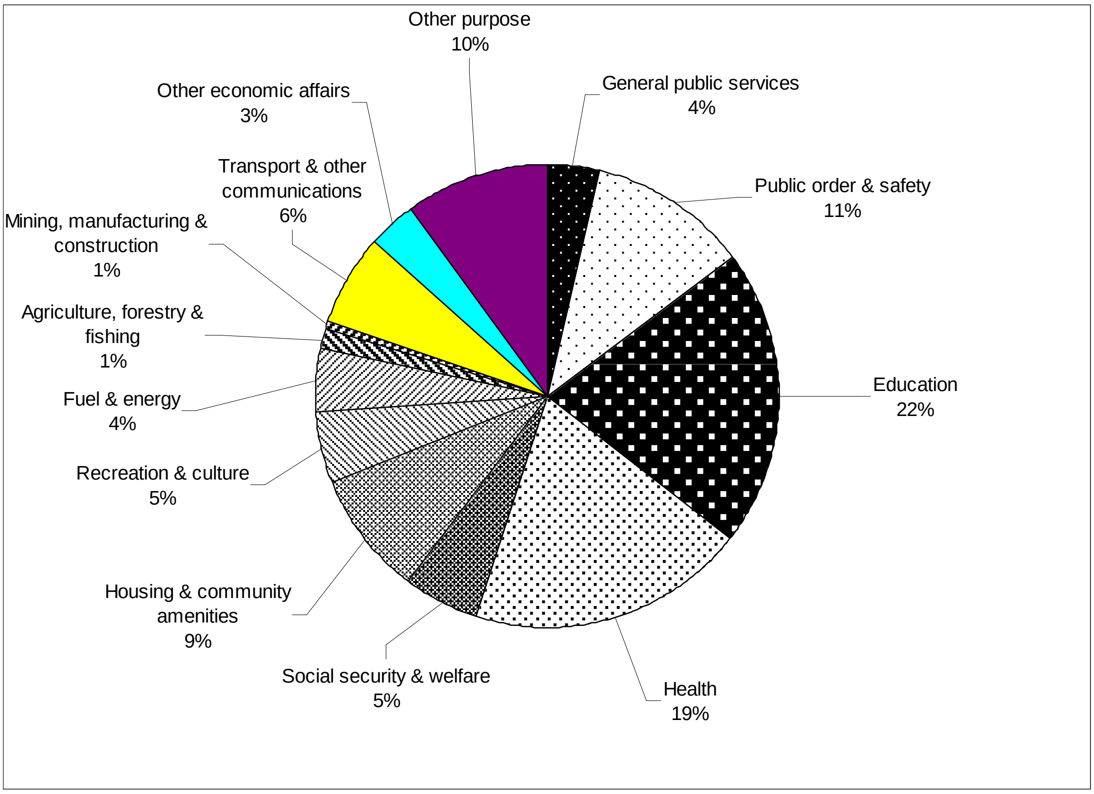
Figure 6
General Government Expenses 2005-06
Functional Basis



Figures 5 and 6 indicate that the expenses of the General Government sector are dominated by employment expenses, and that a significant proportion of total expenses are incurred in respect of three functional areas: education, health, and public order and safety. These functions represent over 50 per cent of the General Government Sector's total expenses. They also suggest that the amount of budgetary flexibility that may be available to any government may be limited.

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A comparison of revenues and expenses for the General Government Sector for the years 2005-06 and 2004-05 is shown in Table 5, below:

Table 5
General Government Sector
Operating Statement
For the Year Ended 30 June 2006

	2005-06 Actual $'million	2004-05 Actual $'million	Increase $'million
Taxation revenue	376.6	301.3	75.3
Current grants and subsidies	2,248.9	2,069.1	179.8
Capital grants	87.1	81.8	5.3
Sales of goods and services	112.5	105.8	6.7
Interest income	20.9	19.1	1.8
Other	155.6	139.1	16.5
Total Revenues	**3,001.6**	**2,716.2**	**285.4**
Depreciation	143.6	137.3	6.3
Employee expenses	1,209.1	1136.4	72.7
Other operating expenses	675.9	663.8	12.1
Nominal superannuation interest expense	96.1	87.9	8.2
Other interest expenses	116.9	128.9	(12.0)
Other property expenses	0.3	0.4	(0.1)
Current transfers	618.4	519.8	98.6
Capital transfers	113.9	67.1	46.8
Total Expenses	**2,974.2**	**2,741.7**	**232.5**
Net Operating Balance	**27.4**	**(25.5)**	**52.9**

Note: Totals may not add due to rounding.

Table 5 highlights the extent to which all classes of revenue earned during the year exceeded the corresponding amounts earned for the previous year. Of particular note are:

- current grants and subsidies which increased by $179.8 million; and
- "own source" taxation revenues which increased by $75.3 million.

Against this, total expenses increased by almost $232.5 million, or 8.5 per cent, when compared with the prior year. The most significant contributor to the increase was employee expenses which increased by $72.7 million or 6 per cent for the year. This increase was principally due to enterprise bargaining salary increases that occurred during the year and which ranged from 3 per cent for public service employees to 9.5 per cent for police officers.

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Significant increases in expenses also occurred in respect of both current and capital transfers, with this increase reflecting the effects of higher special purpose receipts from the Commonwealth with the accompanying requirement on the part of the Territory to incur expenditure on specified programs.

The overall outcome was an improvement in the sector's Net Operating Balance to $27.4 million for the year, an improvement of $52.9 million.

The financial performance of the Sector for the year was also reflected in its cash flows that are summarised at Table 6. Overall, the General Government Sector's cash and deposit balances at 30 June 2006 were $55.8 million, compared with the original Budget projection of $41.0 million. This was the result of higher than budgeted cash flows from operations of $273.1 million and net financing cash outflows $126.6 million offset, by net investing cash outflows of $369.1 million.

Table 6
General Government Sector
Summary of Actual and Budgeted Cash Flows
For The Year Ended 30 June 2006

	Actual 2005-06 $'million	Budget 2004-05 $'million	Variance $'million
Cash receipts from operations	2,987.1	2,749.7	237.4
Cash payments from operations	(2,714.0)	(2,562.5)	(151.5)
	273.1	**187.2**	**85.9**
Less: Net cash used in investing activities	(369.1)	(235.2)	(133.9)
Net cash received from financing activities	126.6	11.3	115.3
Net Increase/(Decrease) in Cash	30.6	(36.7)	67.3
Opening Balance of Cash and Deposits	25.2	77.7	(52.5)
Closing Balance of Cash and deposits	**55.8**	**41.0**	**14.8**

Note: Totals may not add due to rounding.

As illustrated in Table 6, the increase in actual cash and deposits held by the Sector at the end of the 2005-06 year when compared with the Budget for the year was the result of:

- significantly higher than budgeted cash received from operating activities such as taxes and charges, and receipts from the Commonwealth;
- higher than budgeted net cash inflows through increased liabilities, principally deposits; offset by
- higher than budgeted net cash outlays in connection with the capital program.

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Financial Position of the General Government Sector

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 financial position of the General Government Sector as at 30 June 2006 represents an improvement upon the position as at 30 June 2005 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 for 2005-06 was the result of an increase in total assets to $6,839.7 million ($6,403.8 million as at 30 June 2005) which more than offset the increase in total liabilities. Total liabilities increased to $4,112.4 million ($3,936.9 million as at 30 June 2005), with the increase in the value of deposits held representing the largest component of this increase. Within these broad aggregates there are, however, a number of movements of specific asset and liability classes and these are summarised at Table 7:

Table 7
General Government Sector
Components of Financial Position

	Balance at 30 June 2006 $'million	Movement for 2005-06 $'million	Balance at 30 June 2005 $'million
Cash and deposits	55.8	30.6	25.2
Advances paid	31.0	(43.7)	74.7
Investments, loans and placements	642.9	189.9	453.0
Deposits held	(214.7)	(126.3)	(88.4)
Advances received	(8.2)	15.0	(23.2)
Borrowings	(1,651.9)	(14.2)	(1,637.7)
Net Debt	**(1,145.1)**	**51.3**	**(1,196.3)**
Other non-equity assets	127.5	14.2	113.3
Equity assets	2,240.1	90.0	2,150.1
Superannuation liabilities	(1,773.2)	(11.7)	(1,761.5)
Other employee entitlements and provisions	(377.0)	(22.7)	(354.3)
Other non-equity liabilities	(87.4)	(15.5)	(71.9)
Net Financial Worth	**(1,015.1)**	**105.5**	**(1,120.6)**
Net carrying amounts of non-financial assets	3,742.3	154.8	3,587.5
Net Worth	**2,727.2**	**260.3**	**2,466.9**

Note: Totals may not add due to rounding.

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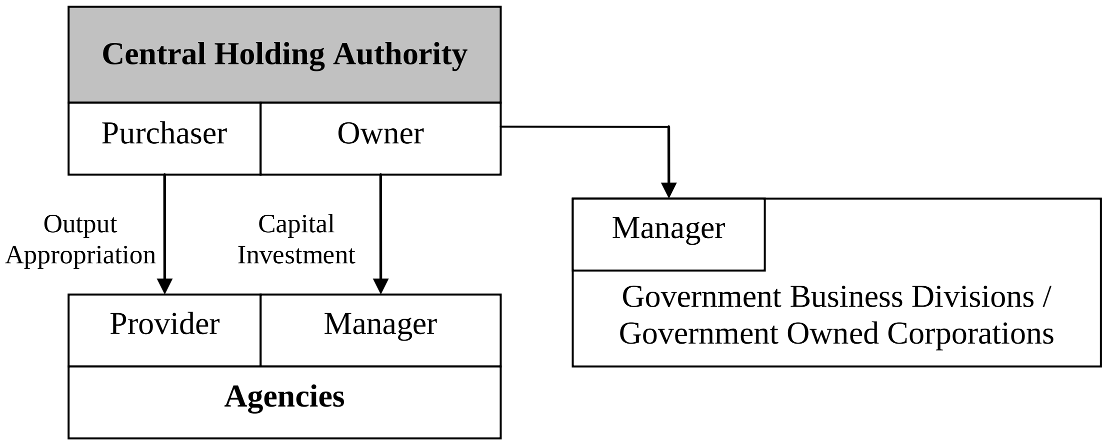
Some care needs to be exercised when considering the net worth of the General Government sector as one of the most material assets consists of equity – the value of the reported net assets of the Public Non-Financial Corporations (PNFC) Sector and the Public Financial Corporations (PFC) Sectors that are deemed to be "controlled" by the General Government Sector through the Central Holding Authority. The value of this asset class at 30 June 2006 was $2,240.1 million. This asset is, in the case of the PNFC Sector, essentially illiquid and its underlying value to the General Government Sector is ultimately dependant upon the value of the dividend and tax equivalent payments received by the General Government Sector. For 2005-06, the General Government sector received $28.4 million by way of dividends ($39.7 million in 2004-05) and $22.1 million by way of tax equivalent payments ($30.7 million in 2004-05) from both the PNFC and PFC sectors.

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 7.

Figure 7
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.

Auditing the Public Account and other accounts
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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.

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 2005-06, compared with that of 2004-05 is illustrated in Table 8, below:

Table 8
Central Holding Authority
Financial Performance

	2005-06 $'000	**2004-05 $'000**
Taxation	457,561	386,915
Grants and subsidies	1,872,046	1,739,624
Royalties, rents and dividends	89,469	91,032
Other	124,758	122,828
Total Revenues	**2,543,834**	**2,340,399**
Output expense	2,073,400	1,873,379
Interest expense	117,379	129,256
Superannuation expense	111,496	386,730
Other	23,901	27,835
Total Expenses	**2,326,176**	**2,417,200**
Net Operating Surplus/(Deficit)	**217,658**	**(76,801)**

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As can be seen from the preceding table, revenues of the CHA grew quite strongly, increasing by $203.4 million for the year consistent with the preceding discussion on the General Government Sector. At the same time, expenses for the year declined principally as a result of lower superannuation and interest expenses. In the case of superannuation expense, the decline for 2005-06 reflects an extraordinary increase in that expense, flowing from an accompanying increase in the liability, for 2004-05 as the result of a review of the parameters used to determine the liability.

The cash position of the CHA was stronger at 30 June 2006 than at the same time for 2005. Among the factors that affected the end-of-year cash position were:

- an increase in operating cash receipts ($203.4 million);
- higher levels of funding provided to agencies for the provision of outputs ($200.0 million);
- higher outlays for capital purposes ($236.5 million); and
- an increase in liabilities in form of deposits ($299.9 million).

The CHA's cash flows for the year are summarised in Table 9:

Table 9
Central Holding Authority
Abridged Statement of Cash Flows

	2005-06 $'000	2004-05 $'000
Net cash inflows from operating activities	209,298	202,812
Cash outflows from investing activities	(336,605)	(88,259)
Cash inflows/(outflows) from financing activities	146,358	(153,504)
Net increase/(decrease) in cash held	19,051	(38,951)
Opening Balance of Cash and Deposits	18,704	57,655
Cash at end of financial year	**37,755**	**18,704**

Note: Totals may not add due to rounding.

From the above table it can be seen that the net cash flows recorded by the CHA as a result of the operational activities of the General Government Sector were supplemented by an increase in liabilities. That cash was applied to the financing of the Government's capital program for the year and to an increase in cash held by the CHA at 30 June.

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Central Holding Authority and Appropriation of Moneys by the Legislative Assembly

Notwithstanding the use of the accrual basis of accounting by 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 2005-06, the *Appropriation Act* authorised an amount of $2,434,389,000 to be applied from the CHA. The actual amounts applied, compared with the Budget, were as follows:

Purpose	**Actual $,000**	**Budget $'000**	**Variance $'000**
Output Appropriation	2,073,400	1,928,073	145,327
Interest, Taxes and Administration	117,815	146,427	(28,612)
Employee Entitlements	118,578	126,971	(8,393)
Treasurer's Advance*	7	30,000	(29,993)
Total Appropriated and Expended for Operating Activities	**2,309,800**	**2,231,471**	**78,329**
Capital Appropriation	189,399	202,918	(13,519)
Total	**2,499,199**	**2,434,389**	**64,810**

*****The figure shown here represents the net effect of Treasurer's Advance upon the CHA. The total amount of supplementation of Agencies' Allocations made pursuant to section 18 of the *Financial Management Act* and transfers of excess Allocation to Agencies made pursuant to section 20 of the Act was $94.803 million. This was funded by the initial Allocation to the CHA of $30 million, with a further amount of $64.810 million being credited against Treasurer's Advance in accordance with section 19 of the Act.

Auditing the Public Account and other accounts
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Public Sector Superannuation Liabilities

The largest liability of Northern Territory Government is that of superannuation. The liability for superannuation represents the value of unfunded employee benefits and at 30 June 2006 that liability was $1,773.2 million ($1,761.5 million at 30 June 2005). That liability is held entirely by the General Government Sector.

The various schemes, and the unfunded liability in respect of each at 30 June 2006 were as follows:

Scheme	2006 $'million	2005 $'million
Northern Territory Government and Public Authorities Superannuation Scheme	585.6	588.4
Commonwealth Superannuation Scheme	960.2	942.2
Northern Territory Supplementary Scheme	162.2	162.7
Northern Territory Police Supplementary Benefit Scheme	29.4	29.4
Other Schemes	35.8	38.8
	1,773.2	**1,761.5**

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.

The profile of both the liability for superannuation and the consequential superannuation payments indicates that the value of the liability is likely to peak at about 2012-13, followed by a slow decline until mid-century. The cash outflows associated with the payment of superannuation benefits are expected to peak in 2017-18.

Auditing the Public Account and other accounts

Darwin Port Corporation

Review of PortCAM

KEY FINDING

- **IT controls over the PortCAM system were considered satisfactory, however opportunities for improvement were identified in the areas of user access, system development and change process, supporting documentation, data accuracy and business process.**

Background

The Darwin Port Corporation uses the PortCAM system for shipping and cargo management functions. The PortCAM system has undergone a number of system upgrades and business process reviews.

Audit objectives and scope

The objectives of the audit were to assess the IT controls in place for PortCAM at the Darwin Port Corporation. In particular the audit assessed:

- General computer controls;
- Application controls (including appropriateness of user access);
- Interface/validation controls for key interfaces;
- Information/KPI's available from PortCAM for management decision making;
- Supporting documentation;
- Security over PortCAM and the appropriateness of user profiles allocated to users; and
- Controls over system development and change process.

Audit Findings

Opinion

IT controls over the PortCAM system were considered satisfactory, however opportunities for improvement were identified in the areas of user access, system development and change process, supporting documentation, data accuracy and business process.

Auditing the Public Account and other accounts
PortCAM

Audit Findings (continued)

Specific findings

The audit noted that PortCAM had effective application controls in the areas of control tables, pre-defined options and security preventing changes to batched invoices once generated. Effective segregation of duties in areas around creating proforma documentation and subsequent generating of tax invoices were also noted.

The user access controls in place to protect access rights to PortCAM were identified as requiring improvement. Testing indicated there was no review of the appropriateness of user access, and there were a high number of PortCAM user accounts with inappropriate access levels.

There was a lack of supporting documentation in connection with processes and procedures undertaken by key PortCAM staff. Work performed by key staff members relied heavily on their experience rather than documentation and may be lost to DPC should key staff not be available.

The system development and change process requires improvement. Testing identified no evidence of documented procedures supporting system development and change control. Additionally, there was no logging of requests for system changes, authorisation of requests, development, testing and implementation.

It was noted there is insufficient data validation on the commodity code field within PortCAM. Testing identified four commodity codes which did not adhere to the Australian Transport Freight Commodity Classifications (ATFCC) standard convention.

There were different pricing schedules within PortCAM compared to the Financial Management and Payroll System. This has created confusion amongst staff regarding the accuracy of the data within PortCAM. It is understood a project is in place to review pricing schedules and develop a standard pricing structure.

The Darwin Port Corporation has commented:

The Corporation acknowledges the review work undertaken by your office and supports the findings. These findings strengthen the Corporation's business case and commitment to review and upgrade / replace the Corporation's current Port Management System.

The Corporation has commissioned a consultant from the NTG ITC panel to review the Port Management System and we are expecting this report to be delivered in January. It is envisaged an upgrade / replacement system for Portcam will be recommended by the consultant, with the Corporation undertaking development work on a revised / new system during 2007.

The Corporation thanks your office for its assistance on this matter.

Auditing the Public Account and other accounts

Department of Planning and Infrastructure

Review of Motor Vehicle Registration System (MOVERS)

KEY FINDING

- **IT controls over the MOVERS system were considered satisfactory, however opportunities for improvement were identified in the areas of user access, supporting documentation, the preparation of management reports and the revenue allocation codes with MOVERS.**

Background

MOVERS is a specialised, purpose built system which supports the Motor Vehicle Registry (MVR) for motor vehicle registration and driver licensing.

In addition to cash receipts, MVR had implemented the MVR Quick Pay system in December 2004 which processes simple motor vehicle registration and driver's license transactions via the internet. Further enhancements occurred in June/July 2006 when the Quick Pay service was extended by introducing interactive voice recognition software.

MOVERS has been subjected to audits previously and this has seen the Department make a number of improvements to the control environment for the system. Additionally, I have noted previously the adequacy of the interface controls between MVR Quick Pay and MOVERS.

Audit objectives and scope

The objectives of the audit were to assess the IT controls in place for MOVERS. In particular the audit considered:

- General computer controls;
- Application controls (including appropriateness of user access);
- Interface/validation controls for key interfaces;
- Information/KPI's available from MOVERS for management decision making;
- Supporting documentation;
- Security over MOVERS and the appropriateness of user profiles allocated to users; and
- Controls over system development and change process.

Auditing the Public Account and other accounts MOVERS

Audit Findings

Opinion

IT controls over the MOVERS system were considered satisfactory, however opportunities for improvement were identified in the areas of user access, supporting documentation, the preparation of management reports and the revenue allocation codes with MOVERS.

Specific findings

The current user access controls in place to protect access rights to MOVERS were identified as requiring improvement. Testing indicated there was informal review of the appropriateness of user access and that there were a number of MOVERS user accounts with segregation of duties issues.

There was a lack of supporting documentation in connection with processes and procedures undertaken by two key MOVERS users. Work performed by these staff members relies heavily on their experience and may be lost to the department should they not be available.

Revenue processed through MOVERS is allocated to various parties via revenue cost allocation codes. The codes are driven by Treasury Instructions. There is no evidence the revenue allocation codes within MOVERS have been authorised.

Management reports are prepared from data extracted from MOVERS. It was noted there is manual intervention in the preparation of these reports which could result in the reporting of inaccurate data.

Auditing the Public Account and other accounts

Department of Corporate and Information Services

IT Outsourcing - Desktop and Help Desk Services

KEY FINDING

- **Nothing came to my attention that would indicate that the processes in place and used to award the Desktop and Helpdesk Services contract were not based on sound economic and financial reasons, and that DCIS compliance management processes will not be able to actively manage Fujitsu with reference to performance and service delivery standards.**

Background

In 2001 Computer Science Corporation Pty Ltd (CSC) was awarded the contract for Whole of Government (WoG) Desktop, Local Area Network (LAN) and Helpdesk Services. This expired on 29 June 2006.

The NTG initiated a tendering process to award the successful tender(s) by March 2006, for a period of four years, at an estimated cost of $44 million per annum.

Objectives of the tendering process included selecting a vendor that would:

- *"Meet or exceed increased service levels;*
- *Provide contemporary technology solutions;*
- *Establish sound relationships with NTG and other Service Providers;*
- *Provide and lead end-to-end service delivery;*
- *Deliver real ICT industry benefits and outcomes;*
- *Provide predictable and reliable cost to NTG; and*
- *Reduce costs."*

The scope of the Fujitsu contract included:

- *"10,442 workstations;*
- *2012 printers;*
- *249 file and print servers;*
- *102 business application servers;*
- *319 sites across Northern Territory and growing (WAN); and*
- *Helpdesk services."*

From August to October 2005, eight potential vendors met pre-qualification criteria and were requested to respond to the Request for Tender (RFT). These responses were then assessed by four Evaluation Teams, each with relevant skills and experience (Core, Financial, Industry Development and Compliance/Contractual teams). The Request for Tender process later short-listed potential vendors to three.

Each short-listed vendor was given the opportunity to present to the Evaluation Teams before final results were collated and presented to the Steering Committee.

Background (continued)

Fujitsu was awarded the contract, and the Northern Territory Government (NTG) initiated concurrent processes of incumbent disengagement (CSC) and transition to Fujitsu. As at 13 November 2006 DCIS had transitioned to Fujitsu and disengaged from CSC. Fujitsu have commenced transformation, whereby a technical refresh (amongst other Fujitsu initiatives) is planned to occur to meet increased Service Level Agreement requirements. This is planned to be implemented as at 30 June 2007.

A probity auditor was assigned to monitor the tendering process and provide advice where necessary. The auditor attended key decision making activities (e.g. tenderer interview sessions) and vendors were encouraged to contact him with any concerns. A report was issued by the probity auditor in September 2006 and no probity issues were raised.

Audit objectives and scope

The audit objective was to assess the Agency's approach to the outsourcing of Desktop and Help Desk Services to determine whether:

- the awarding of the contract was based on sound economic and financial reasons; and
- the contract will allow DCIS to actively manage with reference to performance and service delivery standards.

The scope of this engagement focused on the adequacy of controls in place within the following stages of the sourcing process:

- the IT outsourcing processes in place, including consideration of:
  - alignment of sourcing strategy with the business strategy;
  - preparation and development of a business case and objectives; and
  - selection of the most suitable supplier;
- transition management processes;
- vendor management processes; and
- identification of opportunities for improvement where appropriate.

Audit Findings

Opinion

As DCIS disengaged from CSC in early November 2006, the processes to manage Fujitsu's performance of the Desktop and Help Desk Services contract were at an initial stage of maturity at the time of the audit. Future challenges for DCIS include relationship management with stakeholders (i.e. DCIS, other Government Agencies and Departments, and Fujitsu) and appropriate management of Service Level Agreements (SLAs), whilst being responsive to changes during the Transformation phase.

Based on the work performed nothing came to my attention that would indicate that the processes in place and used to award the Desktop and Helpdesk Services contract were not based on sound economic and financial reasons, and that DCIS compliance management processes will not be able to actively manage Fujitsu with reference to performance and service delivery standards.

Auditing the Public Account and other accounts
IT Outsourcing - Desktop and Help Desk Services

Audit Findings (continued)

Specific findings

Strengths were noted in the following areas:

- retention of key management personnel with experience in sourcing selection, contract management, transition, and delivery;
- formation of evaluation teams with relevant skills and experience (Core, Financial, Industry Development and Compliance / Contractual teams);
- use of All Purpose Evaluation Tool (APET) to facilitate the evaluation process; and
- a probity audit was undertaken.

Auditing the Public Account and other accounts

Department of Corporate and Information Services

GAS Upgrade

KEY FINDING

- **The primary driver of the GAS Upgrade project was to gain ongoing support from SSA Global. A focus of the project was to minimise the number of changes to the system, reducing the level of inherent risk. While a lower level of documentation may be commensurate with a project of this nature, it was noted that processes in place around benefits realisation was informal.**

Background

The NT Government's previous Government Accounting System (Masterpiece 1.1) was implemented in 2000. The vendor (SSA Global) had subsequently released a number of new versions and support for Masterpiece Version 1.1 could no longer be assured. A project was initiated to examine alternatives and it was decided to migrate to SSA Financial Management 2.0. The project was originally scheduled to go-live in March 2006, but the final go live date was 8 May 2006. The delay was primarily attributed to server hardware availability at Data Centre Services.

As the principal reason for the GAS Upgrade project was to ensure a continuation of vendor support, changes to system functionality and operational issues were minimised. No formal Business Process Re-engineering (BPR) activities were undertaken as part of the project and, as a result, much of the system's core functionality remains relatively unchanged. In addition to maintaining vendor support, key anticipated benefits of the project included:

- migration from a "green screen" environment to a more intuitive web enabled platform means that the product can be rolled out to a wider audience. This could also reduce the time it takes for new users to become familiar with the system;
- data input "wizards" were improved from previous versions to help improve data input productivity and processing; and
- extra functionality as part of the new software.

Audit objectives and scope

The audit objective was to review the GAS upgrade project at the Department of Corporate and Information Services (DCIS) to identify whether there were any issues arising in regard to the audit of the Public Account and other accounts, the financial statements of GBDs and the Treasurer's Annual Financial Statement.

I reported to the Agency in December 2005 on the first stage, which examined:

- project planning;
- testing and verification of the software changes; and
- communication of changes and user training.

Auditing the Public Account and other accounts
GAS upgrade

Audit objectives and scope (continued)

In this review, the following were examined:

- achievement of expected benefits; and
- support and maintenance arrangements for the new hardware.

The focus of this review was on:

- anticipated benefits expected from the GAS upgrade project;
- benefits realised to date, including consideration of the quality of those benefits;
- preparation of a report incorporating analysis and consolidation of benefits identified by key stakeholders; and
- processes in place to provide adequate support and maintenance for the new hardware, if required.

Audit Findings

Opinion

The principal reason for initiating the GAS Upgrade project was to ensure ongoing support from SSA Global. A focus of the project was to minimise the number of changes to the system thereby reducing the level of inherent risk. While a lower level of documentation may be commensurate with a project of this nature, it was noted that processes in place to gauge benefits realisation was informal.

Significant modifications to the mainframe hardware environment were not required. However, new web and other midrange servers were required as part of the upgrade. Additional support arrangements have been entered into with DCS, and early indications are that the level of service and support is adequate.

The Department of Corporate and Information Services has commented:

The main benefit to be achieved from the GAS Upgrade was to ensure ongoing vendor support and to migrate from a 'green screen" environment to a modern web enabled user friendly environment. This has been achieved. A post implementation review is being undertaken to enable DCIS to assess the benefits realised and level of success of the project scheduled for completion in March 2007.

Auditing the Public Account and other accounts

Charles Darwin University

IT Assistance for Financial Statement Audits

There are no key findings

Background

The *Charles Darwin University Act 2003* established the Charles Darwin University (the University).

It is not an agency under either the *Financial Management Act* or the *Public Sector Employment and Management Act*.

The University reports on a calendar year basis. The audit of the financial statements occurs in April/May of the following year and the interim audit for the current year in October/December. Both audits are supported by reviews of the IT systems in place at the University.

Audit objectives and scope

The objective of the IT component of the audit was to provide assistance to authorised auditors in the audit of the 2006 financial statements. The particular objectives of this audit were:

- To provide IT support for and such further system query assistance, if any, sought by, the financial authorised auditor; and
- Follow up of the outstanding issues arising from the reviews of the University's IT systems and IT control environment conducted in previous years.

Audit Findings

Specific findings

Control deficiencies were identified around change control procedures and segregation of duties for the Callista (Student Services) and Alesco (Human Resources) systems. The development teams for Callista and Alesco have access to servers in the production environment. The change control process can be bypassed as it does not force users to document change requests in the log. No monitoring or reconciliation of changes is performed between change logs and actual system changes.

Control deficiencies were identified in the termination of user accounts from the applications (Oracle Financials, Callista, Alesco). Termination procedures are dependant on the monthly circulation of a terminations list to system owners to remove application level accounts. This list is reviewed and redundant accounts are disabled/deleted/modified accordingly. This allows redundant accounts to remain in place for up to one month.

Auditing the Public Account and other accounts
IT Assistance for Financial Statement Audits - CDU

Audit Findings (continued)

Specific findings (continued)

Control deficiencies were also identified in the segregation of duties within the Oracle Financials system. Segregation of duties at an administration level is enabled through two Super User security roles. These roles segregate the system privileges to ensure that a single user can not circumvent controls within Oracle Financials. It was noted that two systems administration users have access to both Super User roles thus negating segregation of duties.

The Charles Darwin University has commented:

The University appreciates the advice provided noting that issues concerning segregation have been discussed previously.

The University is continuing to work towards solutions to mitigate any risks which may arise noting that the current organisation size and resultant staffing levels will impact on the overall level of duty segregation which may be achieved.

Auditing the Public Account and other accounts

Audit findings and Analysis of the 30 June 2006 financial statements of:

Tourism NT (previously Northern Territory Tourist Commission)

There are no key findings

Audit opinion

The audit of Tourism NT for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 9 November 2006.

Background

Tourism NT 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 Tourism NT after eliminating the effects of transactions between Tourism NT and Territory Discoveries. The results of Territory Discoveries are also separately reported within the annual report of Tourism NT.

Key issues

Tourism NT undertakes various activities and programs that are monitored by different divisions. Each division maintains its own records giving details of who should be invoiced or the income generated. My audit noted that while information flows from the various divisions to the finance department, regular reconciliations are not performed to agree the division's records to the general ledger. Differences were noted between some of the balances as per the divisions' records and the general ledger. These differences were not significant and no audit adjustments were necessary.

Other issues raised as a result of the audit included:

- the need for a high level management review of the draft financial statements before they are presented for audit;
- the need for a review of the annual report prior to publication; and
- the need for Tourism NT to adhere to its Accounting and Policy Manual and ensure that official documents are used for the requisition of goods and services and for the purchase of goods.

Auditing the Public Account and other accounts
Tourism NT

Financial results

Abridged Income Statement for the year ended 30 June 2006 – Tourism NT only

	2006	2005
	$'000	$'000
Revenue from ordinary activities	38,574	40,814
Less expenditure from ordinary activities:		
Employee Expenses	7,258	6,701
Strategic and Business Services	6,677	7,212
Marketing	17,183	16,704
Destination Development	1,122	1,999
Grants and Subsidies	5,143	5,511
Total expenditure	37,383	38,127
Net Surplus	**1,191**	**2,687**

The decrease in profit of $1.496 million was due primarily from reduction in government funding from $37.5 million in 2005 to $35.6 million in 2006.

Auditing the Public Account and other accounts
Tourism NT

Financial results (continued)

Abridged Balance Sheet at 30 June 2006 – Tourism NT only

	2006	2005
	$'000	$'000
Current assets		
Bank balance	1,983	408
Receivables and other	331	1,230
Total Current Assets	2,314	1,638
Less Current Liabilities	2,262	1,884
Working Capital / (Deficiency in Working Capital)	52	(246)
Add Non Current Assets	2,914	2,353
	2,966	2,107
Less Non Current Liabilities	211	174
Net Assets	**2,755**	**1,933**
Represented by:		
Equity		
Accumulated Losses	(219)	(1,410)
Contributed equity	2,974	3,343
Total Equity	**2,755**	**1,933**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of Government Business Divisions (GBDs)

Construction Division

There are no key findings

Audit opinion

The audit of Construction Division for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 11 October 2006.

Background

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

The host Agency during 2005-06 was the Department of Planning and Infrastructure.

Key issues

I noted that the Division is continuing with work intended to improve its internal control systems.

During the year several initiatives were undertaken including the formation of the 'Revenue Working Group' and the review of the billing system. In addition the Division's staff advised that several key reconciliations will be performed on a monthly basis from July 2006 and that there is now a reconciliation of the billing system to the general ledger, together with a reconciliation of consultants' expenses as shown in the Asset Information System to the general ledger.

The Division's management should consider introducing a monthly reconciliation between the Personnel Information and Payroll System (PIPS) and the general ledger. This will enhance the controls over the employee expenses as reported in the general ledger.

The commercial focus of the Division is also being strengthened through regular updates of business plans and regular reporting by managers. It is pleasing to note also that a long term commercial strategy has also been developed and that the Division is also developing a "road map for project management" to enhance this commercial focus.

Auditing the Public Account and other accounts
Construction Division

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Revenue from ordinary activities	38,465	41,464
Less expenditure from ordinary activities:		
Operational costs	10,175	9,652
Employee expenses	18,664	19,064
Consultants fees	8,669	11,230
Depreciation and amortisation	49	51
Borrowing costs	450	322
Total expenditure	38,007	40,319
Net surplus before income tax expense	458	1,145
Less income tax expense	-	-
Net surplus	458	1,145
Less Dividends	-	-
Retained surplus	**458**	**1,145**

The Division's revenues decreased by $2,999,000 compared to the previous year. This is predominantly due to the nature of work undertaken by the Division for the 2005-06 year and the number of projects delivered.

This resulted in a corresponding decline in expenditure on private sector consultants of $2,561,000.

Despite the decrease in revenues the Division decreased its year-end overdraft from $860,000 at 30 June 2005 to $380,000 at 30 June 2006.

Auditing the Public Account and other accounts
Construction Division

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Current assets		
Bank	1	1
Receivables, accrued revenue and other	7,151	5,777
Total current assets	7,152	5,778
Less Current Liabilities		
Payables	1,236	916
Overdraft	380	860
Employee, dividend and other provisions	2,312	2,393
Total current liabilities	3,928	4,169
Working Capital	3,224	1,609
Add Non Current Assets	124	1,213
	3,348	2,822
Less Non Current Liabilities	3,641	3,573
Net Liabilities	**(293)**	**(751)**
Represented by:		
Equity		
Accumulated losses	(476)	(934)
Contributed equity	183	183
Total Equity	**(293)**	**(751)**

During the year, the Division reclassified the 'Recoverable Establishment Fund' of $1,046,000 from a non-current to a current asset. This was due to the likelihood that the amount in question will be paid by Treasury to the Division. The receipt of this amount by the Division should considerably improve the Division's cash position.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 6 October 2006.

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 Planning and Infrastructure (DPI) on a 'kilometres provided' basis. Bus fares are collected on behalf of DPI and form part of the revenues of that Department. DBS continues to receive revenues from DPI at the contracted rate in circumstances where it may be directed by Government to provide free services to the public on special occasions.

The host Agency during 2005-06 was the Department of Planning and Infrastructure.

Key issues

The audit did not disclose any matters of concern.

Auditing the Public Account and other accounts
Darwin Bus Service

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	**$'000**
Revenue from ordinary activities	7,079	6,699
Less expenditure from ordinary activities:		
Employee expenses	3,230	3,203
Supplies and services	2,728	2,501
Depreciation	895	918
Total expenditure	6,853	6,622
Net surplus before income tax expense	226	77
Less income tax expense	(68)	(23)
Net surplus	158	54
Less Dividends	(78)	(83)
Retained surplus	**80**	**(29)**

Revenue increased by $380,000 mainly due to an additional $211,000 fuel subsidy being received to cater for the increased fuel cost noted below.

Interest income increased by $22,000. This was primarily due to a high cash level being maintained throughout the year.

The remaining increase arose as a result of Darwin Bus Service obtaining more guaranteed kilometres in 2005-06 compared to 2004-05.

Costs increased by approximately $231,000 during the year mainly due to the increase in the cost of diesel. Cost savings was experienced in other areas as a result of management's strict control over operating costs.

The consequence of the above was to increase the pre-tax profits to $226,000 from $77,000 in the previous year.

Auditing the Public Account and other accounts
Darwin Bus Service

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Current Assets	3,842	3,463
Less Current Liabilities	600	550
Working Capital	3,242	2,913
Add Non Current Assets	5,731	5,967
	8,973	8,880
Less Non Current Liabilities	159	146
Net Assets	**8,814**	**8,734**
Represented by:		
Equity		
Accumulated funds	8,467	8,387
Contributed equity	347	347
Total Equity	**8,814**	**8,734**

During the year Darwin Bus Service acquired a new articulated bus at $649,000. This was in line with the new asset replacement strategy for 2006 to 2011 approved in January 2006.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of Government Business Divisions (GBDs)

Darwin Port Corporation (the Corporation)

There are no key findings

Audit opinion

The audit of Darwin Port Corporation (the Corporation) for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 2 November 2006.

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 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

Carrying value of assets

The Corporation has made significant investments in the East Arm port facilities. Until 2004-05 the Corporation was regarded as a "profit-seeking" body with the accompanying requirement that it value its assets at amounts not exceeding their recoverable amounts in order to comply with Australian Accounting Standards. For this purpose, recoverable amount was deemed to be the net cash amount expected to be recovered through the continued use and subsequent disposal of an asset. The application of accounting standards in those circumstances saw a total of $177.7 million in asset values being written off by the Corporation during the period 1998-99 to 2003-04.

The Corporation's status has now altered and it has been deemed to be a "not-for-profit" entity commencing with the 2005-06 year. Flowing from this, the Corporation's assets are now valued at their written down current costs on the basis that their utility is no longer solely dependant upon their abilities to generate cash flows. The change in policy has resulted in an increase of $120 million in the carrying amounts of assets.

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Revenue from ordinary activities:		
Rendering services	11,247	15,535
Other revenue from ordinary activities		
Community Service Obligations	2,284	2,993
Value of services received free of charge	18	40
Gross proceeds from sale of non-current assets	-	1
Interest earned	494	871
Total revenue from ordinary activities	14,043	19,440
Less expenditure on ordinary activities:		
Employee expenses	6,052	5,523
Operational expenses	5,674	5,183
Repairs and maintenance expenses	1,640	1,464
Depreciation expenses	6,779	6,842
Borrowing expenses	1,780	1,842
Total expenditure before asset valuation decrement	21,925	20,854
Net operating loss before related income tax expense	(7,882)	(1,414)
Income tax benefit/(expense) relating to ordinary activities	1,350	(20)
Net Loss	**(6,532)**	**(1,434)**

The Corporation's operations for the year resulted in a net loss of $6.532 million. This represents a $5.098 million increase over the AIFRS restated net loss of $1.434 million for 2004-05. This increase in the reported loss was predominately due to reduced income from the rendering of services by 27% ($4.288 million) in 2005-06 which, in turn, was largely due to changes in port activity following reductions in the level of subsidies to the petroleum industry and a smaller cargo profile than experienced in 2004-05.

Auditing the Public Account and other accounts
Darwin Port Corporation

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Current Assets		
Bank and cash	4,508	14,054
Receivables and other assets	3,009	3,182
Total current assets	7,517	17,236
Less Current Liabilities		
Payables and current debt repayable	3,394	2,793
Employee and other provisions	1,309	1,257
Total current liabilities	4,703	4,050
Working Capital	2,814	13,186
Add Non Current Assets	198,613	184,446
	201,427	197,632
Less Non Current Liabilities	29,977	31,159
Net Assets	**171,450**	**166,473**
Represented by:		
Equity		
Accumulated funds	72	6,431
Reserves	13,176	13,176
Contributed Equity	158,202	146,866
Total Equity	**171,450**	**166,473**

Despite the loss for the 2005-06 year, the Corporation's net asset position increased by $4.977 million. This was a result of the receipt by the Corporation of equity injections from the Territory Government of $11.2 million to assist with the completion of the capital works program, in particular the construction of the bulk ship loading facilities at East Arm Port.

The Corporation's short-term liquidity position declined to a current ratio of 1.59 (2004: 4.25). Cash assets reduced by $9.546 million predominately as a result of the need to fund the capital works program. This was reflected in an increase in capital works in progress to $29.772 million (2004: $11.128 million).

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 24 October 2006.

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 Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	**$'000**
Revenue from ordinary activities	17,052	16,318
Less expenditure from ordinary activities:		
Operational costs	8,508	9,744
Employee expenses	4,138	3,347
Depreciation and amortisation	1,085	711
Borrowing costs	65	94
Total expenditure	13,796	13,896
Net surplus before income tax expense	3,256	2,422
Less income tax expense	(977)	(725)
Net surplus	2,279	1,697
Less Dividends	(1,139)	(1,010)
Retained surplus	**1,140**	**687**

The most significant factor that contributed to the increase in the net surplus before income tax and dividends was the $812,000 (5.1%) increase in sales of goods and services due, in part, to a 21% increase in the number of servers hosted. There also has been a continued uptake by agencies of the ePASS (Identity Authentication System).

The total expenses have remained relatively consistent with that of the prior year, despite an increase in sales of goods and services. DCS has reported a decrease of $1.3 million (13%) in purchases of goods and services, offset by increases in depreciation expenses and employee expenses of $374,000 and $791,000 respectively. The 13% decrease in purchases of goods and services is the result of improved efficiencies and active implementation of cost reduction methods during the year. Expenses which declined during the year included information technology charges ($224,000 decline), IT consultants ($391,000 decline), and IT hardware and software expenses ($659,000 decline). The increase in depreciation is predominantly the result of the acquisition of the new zSeries Virtual Mainframe during the financial year, whilst the increase in employee expenses is consistent with the increase in number of employees from 55 employees as at 30 June 2005 to 57 employees as at 30 June 2006 (14 new employees and 12 terminated employees).

Auditing the Public Account and other accounts
Data Centre Services

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	$'000
Current assets		
Bank and cash	3,908	4,105
Receivables, prepayments and other	3,045	2,881
Total current assets	6,953	6,986
Less Current Liabilities		
Payables and debt repayments	440	550
Taxation, employee provisions and other	3,468	2,788
Total current liabilities	3,908	3,338
Working capital	3,045	3,648
Add Non Current Assets	2,780	1,493
	5,825	5,141
Less Non Current Liabilities	144	603
Net Assets	**5,681**	**4,538**
Represented by:		
Equity		
Accumulated funds	5,356	4,213
Contributed equity	325	325
Total Equity	**5,681**	**4,538**

DCS continues to demonstrate a strong net asset position as at 30 June 2006.

The $1.14 million (29%) improvement on the prior year is largely attributable to the increase in net surplus from prior year, offset by the increase in dividend payable of $293,000 and tax payable of $252,000.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of Government Business Divisions (GBDs)

Department of Local Government, Housing and Sport: Territory Housing

KEY FINDINGS

- **Territory Housing reported a pre-tax surplus of $1.1 million which is an improvement from the prior year's deficit of $7.9 million. This is Territory Housing's first reported surplus since 1999-2000.**
- **The Division's operating deficits, in previous financial years, highlighted the inability of revenues to fund expenditures with Territory Housing incurring annual interest charges of approximately $26 million on Commonwealth and Northern Territory loans.**

Audit opinion

The audit of Territory Housing for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 9 November 2006.

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.

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 2005-06 is the Department of Local Government, Housing and Sport.

Key issues

Territory Housing'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 system issues were noted that affected the Asset Information System (AIS) and the Tenancy Management System (TMS) and which resulted in large reconciling items between:

- AIS and the Government Accounting System (GAS) General Ledger (GL); and
- TMS and GAS GL.

Auditing the Public Account and other accounts
Territory Housing

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Revenue from ordinary activities:		
Rendering of services	41,758	39,811
Interest revenue	13,842	13,243
Community Service Obligations (CSO)	35,752	29,910
Gain on sale of assets	2,741	2,400
Gain on revaluation of investments	3,978	2,940
Other revenues from ordinary activities	6,335	1,733
Total revenue from ordinary activities	104,406	90,037
Less expenditure on ordinary activities:		
Employee expenses	10,321	8,932
Repairs and maintenance	16,164	19,155
Depreciation and amortisation	19,405	19,752
Borrowing costs	26,145	24,695
Rates	17,072	14,974
Other expenses on ordinary activities	14,163	10,442
Total expenditure	103,270	97,950
Net Profit/(Loss)	**1,136**	**(7,913)**

The most significant factors contributing to current year's surplus are:

- an increase in total rent revenue of $1.9 million attributable to the increase in the total number of government employee housing and public housing dwellings (40 new government employee dwellings and 6 new public housing dwellings);
- $5.8 million increase in Community Service Obligation receipts to offset the effect of no increase in rental charges for government employee rental dwellings;
- $3.5 million increase in capital grants received;
- $1.0 million increase in gain on revaluation of investments due to the increase in property prices in the urban areas; and
- $3.0 million reduction in repairs and maintenance expenses due to the capitalisation of vacate expenditure on public housing dwellings.

Auditing the Public Account and other accounts
Territory Housing

Financial results (continued)

The above increase in surplus is offset by:

- $1.4 million increase in employee expenses which is in line with the increase in number of employees from 126 employees in the prior year to 153 employees this year;
- $1.5 million increase in interest expenses which is consistent with the increase in borrowings of $13 million from prior year;
- $1.1 million increase in grant and subsidies expenses due to the expansion of the grants program during the year; and
- $2.1 million increase in rates and other expenses which is in line with the increase in the number of rental dwellings.

As has been noted over the previous five financial years, Territory Housing's operating deficits highlighted 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 2005-06.

Type of Subsidy	**$'000**
Rental rebates	25,027
Rent foregone	1,069
Government Employee Housing Rents	5,000
Interest subsidy- low interest rates	926
Assist Interest Subsidy Scheme	290
Stamp Duty Differential	84
Fringe Benefits Tax	48
Crisis Accommodation	404
Community Housing	652
Indigenous Housing Advisory Services	297
Welfare	1,315
Industry Housing	640
Total	**35,752**

Auditing the Public Account and other accounts
Territory Housing

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006 $'000	2005 $'000
Current Assets		
Bank and cash	20,699	14,385
Receivables and other	10,369	11,078
Total current assets	31,068	25,463
Less Current Liabilities		
Payables and interest bearing debt	10,132	10,161
Employee provisions and other	2,445	2,541
	12,577	12,702
Working Capital	18,491	12,761
Add Non Current Assets		
Property, plant & equipment	1,215,356	1,203,736
Receivables	186,728	178,002
Investments	54,505	48,034
	1,475,080	1,442,533
Less Non Current Liabilities	(355,161)	(342,189)
Net Assets	**1,119,919**	**1,100,344**
Represented by:		
Equity		
Accumulated Losses	(47,038)	(48,174)
Reserves	1,119,926	1,101,487
Contributed Equity	47,031	47,031
Total Equity	**1,119,919**	**1,100,344**

Territory Housing recorded a strong net assets position as at 30 June 2006 from $1,100 million in prior year to $1,120 million this year. The increase in net assets is predominantly represented by the $21.9 million revaluation increment for land and buildings.

Auditing the Public Account and other accounts
Territory Housing

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

In relation to Key Finding 1:

Territory Housing last reported a profit in 1999-2000 of $5.9 million.

Territory Housing has continued to show strong improvements in its financial performance posting a net profit of $1.1 million in 2005-2006 compared with a loss of $7.9 million in 2004-05, the most significant factors contributing to the current year's surplus were an increase in CSO and grant receipts, an increase in the total number of government employee housing and public housing dwellings (46 new dwellings in total).

While the net profit was better than expected the outcome continued the trend of improved operating results through more efficient operational processes and improved financial management.

In relation to Key Finding 2:

Generally agreed, however Territory Housing 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 Ownership continued to make a modest profit of $8.3 million, this profit continues to improve primarily due to the new HomeNorth Extra schemes implemented on 1 July 2004;*
- *The Government Employee Housing made a $2 million profit in contrast to last years $5.2 million loss primarily due to additional CSO's, the construction of new dwellings and additional head-leasing of properties which increased rent by 8.6%;*
- *Public Housing continued to make a loss at $8.8 million 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 $17 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; and*
- *Indigenous and Community Housing made a loss of $385,000. Losses are also due to the business lines inability to raise sufficient revenues to cover operating costs.*

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. However in comparison to 2004-2005 ($19.7 million) there was a $347,000 reduction in the 2005-2006 depreciation expense ($19.4 million).

Notwithstanding these issues, the 2005-06 operating results represent an improvement in Territory Housing's financial performance for the fifth consecutive year. This trend is expected to continue in 2006-07.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 23 October 2006.

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 and no material weaknesses in controls were identified. However, the audit did draw attention to the undesirability of responding to customer requests and pre-invoicing for work that has not yet commenced.

Auditing the Public Account and other accounts
Government Printing Office

Financial results

Abridged Operating Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Income	6,478	6,947
Less expenses:		
Operational costs	3,580	3,660
Employee expenses	2,322	2,358
Depreciation and amortisation	240	254
Total expenditure	6,142	6,272
Net surplus before income tax expense	336	675
Less income tax expense	(102)	(34)
Net surplus	234	641
Less dividends	(119)	(317)
Retained surplus	**115**	**324**

The net surplus before income tax and dividends declined by $339,000 (50%) from prior year. This was attributable to a decline in revenues of 6.8% compared to a corresponding decline in expenses of 2.1%. The most significant factors that contributed to the declines in revenues and expenses were:

- $529,000 (7.7%) decline in sales of goods and services due to fewer printing jobs undertaken at GPO due to lower demand from the NT Government;
- $36,000 (1.5%) decline in employee expenses which is consistent with the decrease in number of employees from 40 employees as at 30 June 2005 to 37 employees as at 30 June 2006; and
- $67,000 (1.9%) decline in purchases of goods and services. This flows from the decline in revenues, offset by the increase in consultants costs associated with the PRISM Information Management System upgrade undertaken during the financial year.

Auditing the Public Account and other accounts
Government Printing Office

Financial results (continued)

Abridged Balance Sheet as at 30 June 2006

	2006	2005
	$'000	**$'000**
Current assets	3,915	3,515
Less current liabilities	1,411	1,336
Working capital	2,504	2,179
Add non current assets		
Property plant and equipment	569	758
Less non current liabilities (provisions)	(156)	(135)
Net Assets	**2,917**	**2,802**
Represented by:		
Equity		
Accumulated funds	2,544	2,429
Capital	373	373
Total equity	**2,917**	**2,802**

GPO continued to display a strong net asset position as at 30 June 2006.

The increase in Net assets is due to the net surplus, after tax and divided, of $115,000.

The Department of Corporate and Information Services has commented:

The Government Printing Office is no longer pre invoicing agencies for work that has not commenced.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 2 October 2006.

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 key issues were identified during the course of this audit.

Auditing the Public Account and other accounts
Northern Territory Treasury Corporation

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	**$'000**
Revenue	166,339	174,970
Less expenditure:		
Interest	137,983	147,642
Other expenses	206	190
Administration	2,038	2,076
Total expenditure	140,227	149,908
Profit before income tax expense	26,112	25,062
Less income tax expense	(7,834)	(7,519)
Net profit from ordinary activities after income tax expense	18,278	17,543
Less Dividends	(18,278)	(20,670)
Retained (losses)/profits	**-**	**(3,127)**

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Total Assets	2,368,274	2,318,590
Less Total Liabilities	2,348,079	2,299,876
Net Assets	**20,195**	**18,714**
Represented by:		
Equity		
Contributed Capital	18,714	18,714
Reserves	1,481	-
Total Equity	**20,195**	**18,714**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 23 October 2006.

Background

NT Fleet manages the motor vehicles of the NT Government. 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 Operating Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Income		
Revenue from vehicle lease rentals	30,953	28,596
Gain on disposal of assets	939	1,929
Other revenues	179	94
	32,071	30,619
Less expenses:		
Operational costs	9,745	8,749
Employee expenses	1,983	1,967
Depreciation and amortisation	12,743	11,772
Borrowing costs	13	-
Total expenditure	24,484	22,488
Net surplus before income tax expense	7,587	8,131
Less income tax expense	(2,276)	(2,442)
Net surplus	5,311	5,689
Less Dividends	(2,656)	(2,888)
Retained surplus	**2,655**	**2,801**

NT Fleet has reported a net surplus before tax and dividends of $7.59 million which is a decrease of over the previous year. The most significant factors that contributed to the $0.54 million decrease in net surplus before tax and dividends were:

- $0.99 million (51%) drop in gain on disposal of assets which is attributable to the decline in resale value of light passenger vehicles, particularly vehicles with six cylinder engines; and

- $0.99 million (15%) rise in repairs and maintenance expenses and $0.97 million (8%) rise in depreciation expenses, both of which are consistent with the increase in fleet size and the rising age of the heavy vehicles; offset by

- $2.4 million (8%) increase in sales of goods and services which is in line with the acquisition of additional light vehicle fleet from 2,344 vehicles in 2005-06 to 2,413 vehicles in 2005/6 as the demand for vehicles by the NT Government rose.

Auditing the Public Account and other accounts
NT Fleet

Financial results (continued)

Abridged Balance Sheet as at 30 June 2006

	2006	2005
	$'000	$'000
Current assets		
Cash assets	632	2,110
Receivables and other current assets	490	848
Total current assets	1,122	2,958
Less Current Liabilities		
Payables	2,028	3,037
Taxation, employee entitlements and other	5,277	5,688
Total current liabilities	7,305	8,725
Deficiency in working capital	(6,183)	(5,767)
Add Non Current Assets (Vehicle fleet)	76,668	73,549
Less Non Current Liabilities (provisions)	(174)	(167)
Net Assets	**70,311**	**67,615**
Represented by:		
Equity		
Accumulated funds	69,783	67,110
Capital	528	505
Total equity	**70,311**	**67,615**

NT Fleet continues to display a strong net asset position as at 30 June 2006.

The $2.7 million (4%) improvement on the prior year is predominantly due to the net surplus after tax and dividends.

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 3 November 2006.

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 is the Department of Natural Resources, Environment and the Arts.

Key issues

There were no significant issues arising from the audit.

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006 $'000	2005 $'000
Income (excluding CSO)	1,948	2,352
Less expenditure from ordinary activities:		
Employee expenses	5,359	5,205
Depreciation and amortisation	1,465	1,452
Other expenses	5,021	4,263
Total expenditure	11,845	10,920
Net deficit before CSO	(9,897)	(8,568)
Community Service Obligation funding	7,817	7,445
Net deficit	**(2,080)**	**(1,123)**

Auditing the Public Account and other accounts
Territory Wildlife Parks

Financial results (continued)

The decrease in income (excluding CSO) is mainly attributed to reduced number of visitors to both parks. The number of visitors to the Alice Springs Desert Park decreased by 2,801 or 3% and the Berry Springs Park experienced a decrease of 3,299 visitors or 4.7% when compared to the previous year.

The reduced income for the year was not matched with reduction in the level of overhead expenditure. Total expenses other than depreciation and payroll related expenses increased by 17.7%, or $757,819, in the current year. The significant drivers of expenses were:

- Consumables, increased by 62% or $453,997 from previous year; and
- Equipment expense, increased by 83.3% or $70,651 from previous year.

In line with stable asset values depreciation expense increased by 1% compared to the prior year. Salaries and employee benefit expenses, as the major expense for the GBD, increased by 3%.

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	$'000
Current assets	1,594	1,958
Less current liabilities	1,078	823
Net current assets	516	1,135
Add non current assets (primarily buildings and infrastructure)	31,136	32,313
Less non current liabilities (provisions)	(166)	(124)
Net Assets	**31,486**	**33,324**
Represented by:		
Accumulated funds	(128)	1,952
Contributed equity	14,511	14,269
Asset revaluation reserve	17,103	17,103
Total Equity	**31,486**	**33,324**

The deterioration in current year results has resulted in a reduction in the net current position of the GBD. While the cash balance remains above $1 million accounts payable and provisions now also total over $1 million. On a cash flow basis the GBD is operating just below a breakeven basis.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 9 November 2006.

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 Tourism NT.

Key issues

During the year the management of Territory Discoveries identified instances of irregularities relating to manual adjustments and refunds involving the Calypso System.

Previous audits conducted by this office had highlighted control issues involving the Calypso System. These control issues included potential breaches of segregations of duty, and specific control weaknesses relating to logical access.

As a result of the irregularities identified Territory Discoveries management has introduced new controls to deter and detect irregularities and fraud. These include:

- A second officer approves refunds to customers;
- The weekly refund report is being reviewed in detail;
- Manual batches are now being considered in doing the daily transactions reconciliation to the bank statements; and
- Exception reports capturing manual transactions are now being generated and reviewed.

Auditing the Public Account and other accounts
Territory Discoveries

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	**$'000**
Revenue	7,060	6,558
Less expenditure:		
Employee expenses	2,474	2,312
Operational costs	3966	3,206
Depreciation and amortisation	16	16
Total expenditure	6,456	5,534
Net Surplus before income tax expense	604	1,024
Less income tax expense	-	-
Net Surplus after income tax expense	604	1,023
Less Dividends	-	-
Net Surplus	**604**	**1,023**

The decrease in surplus of $419,000 was as a result of several factors including a reduction in the amounts received as grants and subsidies from $2.6 million in 2005 to $2.2 million in 2006.

An increase in sales of goods and services revenue of $0.82 million was offset by an increase in the purchases of goods and services expense category by $0.74 million.

Auditing the Public Account and other accounts
Territory Discoveries

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	Notes	2006	2005
		$'000	$'000
Current Assets			
Cash assets		8,440	6,737
Receivables		73	55
Inventories		59	44
Total current assets		8,572	6,836
Less Current Liabilities			
Deposits held		5,180	3,919
Payables		433	545
Provisions		161	199
Total current liabilities		5,774	4,663
Working Capital		2,798	2,173
Add Non Current Assets		18	34
		2,816	2,207
Less Non Current Liabilities		(25)	(20)
Net Assets		**2,791**	**2,187**
Represented by:			
Equity			
Contributed Equity		5,677	5,677
Accumulated Losses		(2,886)	(3,490)
Total Equity		**2,791**	**2,187**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of

Power and Water Corporation

KEY FINDINGS

- **The audit of Power and Water Corporation for the year ended 30 June 2006 resulted in a qualified independent audit opinion.**
- **I was unable to determine whether the recoverable amount of property, plant and equipment for the Corporation and the consolidated entity was at least equal to the carrying amount as at 30 June 2005; and I was unable to determine whether the profit reported in the income statement and the statement of changes in equity for the Corporation and the consolidated entity was fairly stated for the year ended 30 June 2005**
- **I was of the opinion that the value of the Corporation's water system assets were overstated by $38.045 million at 30 June 2006; and I was unable to determine whether the profit reported in the income statement and the statement of changes in equity for the Corporation and the consolidated entity was fairly stated for the year ended 30 June 2006.**

Audit opinion

The audit of Power and Water Corporation (the Corporation) for the year ended 30 June 2006 resulted in a qualified independent audit opinion, which was issued on 10 October 2006.

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 issued a qualified audit opinion on the financial statements of the Corporation and the consolidated entity for the year ended 30 June 2006 in addition to the inability to form an opinion reported within the financial statements for the year ended 30 June 2005. The qualification reported within the audit opinion follows:

Auditing the Public Account and other accounts
Power and Water Corporation

Key issues (continued)

" 1 Application of AASB 136 *Impairment of Assets* to the comparative results reported for the year ended 30 June 2005

Accounting Standard AASB 136 *Impairment of Assets* requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. As at 30 June 2005 I was unable to obtain sufficient appropriate audit evidence of the recoverable amount of property, plant and equipment reported as $1,062 million for the Corporation (consolidated entity $898.6 million) in Note 11 to the financial statements and, accordingly, I am unable to determine whether the recoverable amounts of property, plant and equipment were at least equal to their carrying values at that date.

In the event that the carrying values of property, plant and equipment exceeded their recoverable amounts, it would have been necessary for the carrying values of property, plant and equipment to be written down to their recoverable amounts.

For the reasons set out above:

- I am unable to determine whether the recoverable amount of property, plant and equipment for the Corporation and the consolidated entity is at least equal to the carrying amount as at 30 June 2005; and
- I am unable to determine whether the profit reported in the income statement and the statement of changes in equity for the Corporation and the consolidated entity is fairly stated for the year ended 30 June 2005.

2 Application of AASB 136 *Impairment of Assets* to the results reported for the year ended 30 June 2006

Note 11 to the financial statements reports the value of the Corporation's and consolidated entity's water system assets as $334.042 million. Accounting Standard AASB 136 *Impairment of Assets* requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. The discount rate applied by the Corporation in determining the recoverable amount of water system assets was a nominal, pre-tax rate of 6.65%. Using this discount rate, the Corporation determined that the water system assets were not impaired. AASB 136 *Impairment of Assets* requires the discount rate used to determine the recoverable amount to reflect current market assessments of the risks specific to the asset for which future cash flow estimates have not been adjusted. In my opinion, use of a discount rate of 6.65% is not in accordance with AASB 136 *Impairment of Assets* and I consider that a discount rate of 10.0% should be used in determining the recoverable amount. Application of this discount rate would result in the assets being written down by $38.045 million to $295.997 million as at 30 June 2006.

Due to the limitations outlined in paragraph 1 above associated with the determination of the recoverable amount as at 30 June 2005, I am unable to determine the extent to which an impairment write-down of $38.045 million would be recognised in the income statement and the statement of changes in equity for the years ended 30 June 2005 and 30 June 2006.

In the event that an impairment loss was recognised for the year ended 30 June 2005, it would have been necessary to assess at 30 June 2006 whether there is any indication that the impairment loss recognised in the prior year may no longer exist.

For the reasons set out above:

- I am of the opinion that the value of the Corporation's water system assets are overstated by $38.045 million at 30 June 2006; and
- I am unable to determine whether the profit reported in the income statement and the statement of changes in equity for the Corporation and the consolidated entity is fairly stated for the year ended 30 June 2006."

Key issues (continued)

Selection of discount rate in determination of asset impairment

The adoption by Australia of International Financial Reporting Standards from the 2005-06 year introduced significant changes to ways assets are measured for the purposes of financial reporting. The latitude that existed under the previous body of accounting standards has been removed. The new accounting standards require property, plant and equipment assets to be carried at amounts that do not exceed their "recoverable amounts". For this purpose, recoverable amount is defined as the higher of an asset's fair value (essentially its net selling price in an arm's length transaction between informed and willing parties) and its value in use (the present value of the asset's net cash flows).

The use of a recoverable amount concept leads to carrying amounts of assets that are proxies for market values that might apply in the circumstances that characterise the asset in question. Flowing from that, the discount rates used to determine asset values under an income approach should reflect market interest rates and on that basis it can be argued that the Corporation should apply a "commercial" discount rate when discounting cash flows. In the case of the Corporation's water and sewerage assets, the Corporation elected to discount the respective assets' cash flows using an interest rate that applies to its borrowings from the Northern Territory Treasury Corporation.

The interest rate applied by the Corporation when discounting its water and sewerage assets was a pre-tax nominal rate of 6.65 per cent. That rate is lower than rates that the Corporation might be expected to face if it were required to borrow in the open market on its own account. At the same time the rate chosen by the Corporation did not reflect:

- the time value of money as represented by the risk-free rate of interest;
- the price for bearing the uncertainty inherent in the assets in question.

When risk-adjusted discount rates estimated by audit were applied to the assets in question it was apparent that water assets were over-valued and that a write-down of the value of those assets was necessary.

The discount rate used by the Corporation for the purpose of discounting its water assets can be compared with those used by similar enterprises in Australia and overseas. For example, a review by my office of discount rates applied by water authorities elsewhere indicated that rates ranged from:

- real, post-tax rates of between 4.2% and 5.3% in the United Kingdom, with a mean of 5.1 per cent;
- real pre-tax rates in the range of 6% to 7% applied in other Australian jurisdictions;
- one case where a post-tax rate of 9.85% was recommended in respect of an Australian water authority.

Auditing the Public Account and other accounts
Power and Water Corporation

Key issues (continued)

Notwithstanding that the Corporation's approach to the selection of a discount rate based upon the interest rate for debt is not synonymous with the concept of a risk-adjusted discount rate required by accounting standards, it is also worth noting that an interest rate faced by a government trading enterprise, while observable, is unlikely to be an accurate measure of the true cost of debt to that enterprise than is the case of a firm that actively trades debt in capital markets.

The existence of implicit guarantees and debt pooling arrangements often associated with government borrowing may afford entities such as the Corporation debt financing on better terms than their private counterparts. An adjustment should, therefore, be made to the actual rates faced by the Corporation to reflect the true cost of providing debt capital.

In essence the discount rate applied by a government trading enterprise such as the Corporation should be estimated as if the Corporation was not owned by government and had to raise capital in direct competition with other enterprises and pay interest according to the risk borne by the holders.

In considering the prospect of an audit qualification, I took into account the provisions of section 4 of the *Government Owned Corporations Act* requiring a government owned corporation to operate at least as efficiently as any comparable business. This suggests that the Corporation should adopt practices that would be expected, or required, to be applied by similar businesses. The use of a discount rate that is lower than those which other, similar, businesses would be required to apply implies a lower level of efficiency on the part of the Corporation. I also took into account the provisions of section 44(3) of the Act that require the annual report of the Corporation (which includes the financial accounts) to comply with the relevant provisions of the *Commonwealth Corporations Act 2001*. That Act places the onus on directors and officers of a company to comply with accounting standards.

The Corporation has stated that it believes that it has complied with the requirements of the relevant accounting standard and that I failed to give sufficient regard to the "inherent conservatism built into Power and Water's cash flow model". I took the Corporation's views into account, but continue to maintain my view that the assumptions made in respect of cash flows should be independent of the determination of the appropriate discount rate. At the same time I formed the view that the Corporation's stated approach was internally contradictory. While the adoption of a set of conservative assumptions in respect of cash flows might suggest that the assets in question are risky, the selection of discount rate that is consistent with a low level of risk neutralises the cash flow assumptions.

Other matters raised with the Corporation as a result of the audit included:

- the absence of a supportable basis for the calculation of the provision for obsolete stock;
- general ledger balances in respect of inventories were not supported by the annual stock-take results, requiring adjustments of $1.74 million to financial records;
- disclosures regarding property, plant and equipment within the financial statements were inconsistent with information contained within the Corporation's general ledger and were not able to be reconciled with the prior year's financial information;
- difficulties encountered in reconciling databases and hence the unit consumption of power, water and sewerage with the value of reported revenues;
- the need to ensure that customers were allocated to correct tariff classes;

Auditing the Public Account and other accounts
Power and Water Corporation

Key issues (continued)

- inventory listings that suggested a possibility that over 8,500 inventory items had no recorded value;
- unreconciled items totalling $284,000 between the general ledger and accounts payable subsidiary ledger;
- a delay of approximately five years in billing one major customer;
- the need to ensure that high value purchase orders are reviewed independently; and
- the need to approve changes to the supplier master file prior to loading for payment, to reduce the risk of inappropriate alterations to supplier details.

Financial results

Abridged Income Statement of the Consolidated Entity for the year ended 30 June 2006

	2006	**2005**
	$'000	**$'000**
Revenue	497,513	489,913
Less expenditure from ordinary activities:		
Raw materials and consumables used	243,840	218,750
Finance costs	24,465	24,458
Repairs and maintenance expenses	24,867	25,289
Employee expenses	62,623	58,996
Property costs	4,582	3,324
Information technology and communication expense	8,247	8,814
Insurance costs	3,416	3,458
Depreciation and amortisation	58,906	56,594
Other expenses	37,508	39,628
Total expenditure	468,454	439,311
Profit before income tax expense	29,059	50,602
Less income tax expense	(8,541)	(14,950)
Net Profit	20,518	35,652
Less Dividends	(10,045)	(18,900)
Retained profits	**10,473**	**16,752**

The reported decrease in net profit largely resulted from increases in the costs of raw materials and recognition of the effects required under Australian equivalents of International Financial Reporting Standards.

Auditing the Public Account and other accounts
Power and Water Corporation

Abridged Balance Sheet of the Consolidated Entity at 30 June 2006

	2006	2005
	$'000	**$'000**
Current assets	135,208	90,508
Less Current Liabilities	142,238	125,088
Working capital	(7,030)	(34,580)
Add Non Current Assets	1,125,893	1,101,390
	1,118,863	1,066,810
Less Non Current Liabilities	495,376	453,796
Net Assets	**623,487**	**613,014**
Represented by:		
Equity		
Contributed equity	-	-
Reserves	-	-
Retained profits	623,487	613,014
Total Equity	**623,487**	**613,014**

The Corporation was able to reverse the decline in its cash balances noted last year by increasing borrowings by an additional $60 million with $20 million received in June 2006 to meet quarterly and half-yearly gas and interest payments due during June.

The net asset position as at 30 June 2005 has decreased by $36.2 million from that reported in the prior year due to the first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS). A full reconciliation of the changes is provided in note 29 of the Corporation's financial statements. Main drivers of the change were:

- Assets owned by the not for profit subsidiary, Indigenous Essential Services Pty Ltd were previously written down to nil. Under AIFRS this write down is not required. As a result the consolidated entity's property plant and equipment increased by $163.5 million.
- The Corporation's asset values have decreased by $31.5 million to their recoverable amount as assessed by the Corporation.
- Government grants of $169.2 million previously recognised as income were recognised as a liability for unearned income.

Auditing the Public Account and other accounts
Power and Water Corporation

The Power and Water Corporation has commented:

Audit Qualification

The Auditor-General issued a qualified audit opinion in relation to the 30 June 2005 financial reports, and this has carried over for the comparative information included in the current year's reports.

In relation to the financial reports for the year ended 30 June 2006, the Auditor-General feels that Power and Water has not complied fully with Accounting Standard AASB 136: Impairment of Assets in relation to the Corporation's water assets. In particular, he has expressed the view that the discount rate used by the Corporation in modelling the future cash flows from these assets is too low, and that as a result the Corporation should have recognised an impairment loss on these assets.

Power and Water's Board and management have considered this issue carefully and are satisfied that there is no material impairment of the Corporation's water and sewerage assets, other than the $31 million asset write-down processed as at 1 July 2004 as a result of the first-time adoption of AIFRS.

The Corporation's interpretation of the Standard, which is supported by independent advice from Ernst & Young, is that the Standard requires the Corporation to determine the present value of the future cash flows expected to be derived from the water assets respectively (the "value in use").

In calculating the "value in use", the Standard requires consideration to be given to uncertainty and risk associated with the amount or timing of the cash flows, as well as uncertainty inherent in the assets themselves, and other market factors. These uncertainty and risk factors can either be reflected as adjustments to the future cash flows or as adjustments to the discount rate.

In forming his view regarding the appropriateness of the discount rate to be used in this model, Power and Water believe that the Auditor-General has not shown sufficient regard to the inherent conservatism built into Power and Water's cash flow model.

The Corporation has carried out a sensitivity analysis on the model used to calculate the "value in use" of these assets and is satisfied that there is no material impairment of the Corporation's water assets as at 30 June 2006.

Other Audit Matters raised

The Auditor General annually provides a "management letter" to the Board of Directors outlining matters arising during the audit. The Other Matters raised reflect items contained in the "management letter". Power and Water Corporation's management are given the opportunity to have input into this letter and provide detailed comment on how matters that are raised have been or will be dealt with and the timeframes for this to occur. The Power and Water Corporation Board's Audit and Compliance Committee require management to provide an "action update" on all audit matters raised at each Committee meeting thereby ensuring issues raised are addressed within committed timeframes.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 4 October 2006.

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.

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 2006, after taking into account the value of assets held by the scheme at that date, was $650.1 million, compared with an unfunded liability of $622.2 million at 30 June 2005.

Key issues

While the audit did not identify matters of consequence, it did note the need for timely reconciliations between the superannuation Superb system and GAS. However the audit also noted that other compensating controls were in place throughout the year that helped to ensure the integrity of data.

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 2006

	2006	2005
	$'000	**$'000**
Net investment revenue	68,018	48,470
Member contributions	32,474	28,647
Member surcharge payments received	349	308
Territory contributions	46,511	41,624
Transfers and rollovers	45,263	36,607
Benefits expense	(94,369)	(78,878)
Other expenses	(1,179)	(1,028)
Revenue less expenses before income tax	97,067	75,750
Income tax expense	(5,458)	(2,389)
Change in Net Assets	**91,609**	**73,361**

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Cash at bank and other assets	15,158	16,327
Investments	559,981	464,851
Total assets	575,139	481,178
Less Liabilities	30,055	27,703
Net Assets	**545,084**	**453,475**
Vested Benefits	1,195,100	1,075,700
(The value of benefits payable on voluntary withdrawal from the scheme at that date.)		

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 4 October 2006.

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 2006 were $46.077 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 2006

	2006	2005
	$'000	$'000
Net investment (deficiency)/revenue		
Sundry income	95	1
Interest and distributions	104	200
Changes in net market value of investments	5,882	4,526
Member contributions	310	391
Member surcharge contributions	489	-
Territory contributions	1,875	2,800
Benefits paid	(2,555)	(2,289)
Superannuation contribution surcharge	(258)	(293)
Other expenses	(41)	(3)
Surplus before income tax	5,901	5,333
Income tax expense	(125)	(425)
Change in Net Assets	**5,776**	**4,908**

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

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Cash at bank and other assets	1,131	682
Investments	47,775	43,499
Total assets	48,906	44,181
Less Liabilities	1,078	2,129
Net assets	**47,828**	**42,052**
Vested benefits (The value of benefits payable on voluntary withdrawal from the scheme at that date.)	46,077	48,720

Net assets now represent 103.8% of vested benefits (2004: 86.3%), a strengthening in the position of the Trust.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 12 October 2006.

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 2006 there were 135 (154 in 2005) members and 123 (110 in 2005) 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 2006

	2006	2005
	$'000	$'000
Net investment revenue	460	405
Contribution revenue	115	133
Benefits		
Refunds of accumulated contributions	(2)	(98)
Payment of accumulated contributions to the Territory	(392)	(282)
Superannuation contribution surcharge	(10)	(10)
Other expenses	(2)	(2)
(Deficit)/Surplus before income tax	169	146
Income tax expense	2	-
Change in Net Assets	**167**	**146**

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	$'000
Cash at bank and other assets	142	315
Investments	3,430	3,143
Total assets	3,572	3,458
Liabilities	205	258
Net Assets	**3,367**	**3,200**
Vested Benefits	31,945	27,739

(The value of benefits payable on voluntary withdrawal from the scheme at that date.)

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 29 September 2006.

Background

TIO is a wholly owned entity of the NT Government which operates under its own enabling Act and has its own Governing Board although it may be directed by the Minister. TIO's mandate limits its conduct of insurance business to the Northern Territory and it also manages the Northern Territory Government's motor vehicle third party insurance arrangements under the *Motor Accidents (Compensation) Act* (MACA). TIO also provides financial services, which include deposit taking, lending, management of the HomeNorth Scheme for Territory Housing, and acting as an agent for financial planning services. There was no significant change in the nature of these activities during the year.

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 2006	TIO		MACA		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Underwriting result:						
Net Premium revenue	48	47	40	37	88	84
Net Claims expense	(31)	(30)	(29)	(31)	(60)	(61)
Acquisition costs	(5)	(6)	(1)	(1)	(6)	(7)
Underwriting result (loss)	12	11	10	5	22	16
Other revenues and expenses:						
Interest receivable					40	38
Change in value of investments					6	5
Other investment income					31	27
Total investment revenue	46	42	31	28	77	70
Other revenue	7	7	-	-	7	7
Borrowing costs	(26)	(24)	-	(1)	(26)	(25)
Other costs and depreciation	(20)	(21)	(9)	(5)	(29)	(26)
Net other revenues and expenses	7	4	22	22	29	26
Net (loss) profit before tax	**19**	**15**	**32**	**27**	**51**	**42**

The improvements to the results for both TIO and MACA were mainly due to an increase in investment income and the impact of increased interest rates on the outstanding claims valuation. Investment revenue, excluding interest revenue, rose from $32.3 million to $37.2 million, an increase of $4.9 million. This increase largely related to income from and movements in the value of the managed funds TIO invests in.

Auditing the Public Account and other accounts
Territory Insurance Office

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006 $'million	2005 $'million
Assets		
Cash assets	139	116
Receivables	37	37
Financial assets	307	288
Loans	476	423
Property, plant and equipment	34	31
Reinsurance and other recoveries receivable	49	38
Other assets	62	58
Total Assets	**1,104**	**991**
Liabilities		
Outstanding claims	343	327
Unearned premiums	61	60
Interest bearing liabilities	508	460
Payables	32	28
Subordinated loans	18	26
Self insurance fund	-	2
Other liabilities	13	8
Total Liabilities	**975**	**911**
Net Assets	**129**	**80**
Represented by:		
Contributed equity	17	17
Asset revaluation reserve	5	1
Retained profits (TIO Insurance & Banking)	32	19
MACA reserve	75	43
Total Equity	**129**	**80**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 1 December 2006.

Background

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

Key issues

No key issues were identified during this audit.

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Revenue	7665	7,050
Less expenditure from ordinary activities:		
Depreciation	96	63
Salaries and employee benefits	3,223	3,178
Legal	2,445	2,424
Administration	940	994
Other	565	383
Total expenditure	7,269	7,042
Net profit	**396**	**8**

Approximately 92 percent of the Commission's revenue was received in the form of grants from the Commonwealth and Northern Territory Governments. Revenue received by way of quarterly grant funding from the Northern Territory Government increased by $0.72 million and from the Commonwealth decreased by $0.2 million.

Auditing the Public Account and other accounts
NT Legal Aid Commission

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	$'000
Current assets	3,759	3,830
Less Current Liabilities	881	846
Net Current Assets	2,878	2,984
Add Non Current Assets	1,298	804
	4,176	3,788
Less Non Current Liabilities	101	110
Net Assets	**4,075**	**3,678**
Represented by:		
Reserves	2,884	2,884
Retained earnings	1191	794
Total Equity	**4,075**	**3,678**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of:

NT Build

KEY FINDINGS

- **A qualified audit opinion was issued on the financial statements of NT Build for the year ended 30 June 2006.**
- **Due to the current nature of the approval process within the Northern Territory construction industry, there exists significant uncertainty regarding the ability of NT Build to capture all building projects which fall within the scope of the Long Service Levy. As such, I am unable to satisfy myself as to the completeness of the $3,219,927 disclosed as 'Contributions from levy payers' in the income statement.**
- **As indicated in Note 10 to the financial statements, no provision for the long service benefit liability has been made in the financial statements of NT Build at 30 June 2006 as there was inadequate information to be able to reasonably estimate the level of the accrued liability.**

Audit opinion

The audit of NT Build for the year ended 30 June 2006 resulted in a qualified independent audit opinion, which was issued on 3 November 2006. The audit opinion also included an emphasis of matter paragraph.

Background

NT Build is the name of the Board established under the *Construction Industry Long Service Leave and Benefits Act 2005* (the Act) which came into force on 1 July 2005. The role of the Board is to administer a scheme also established under the Act to provide for entitlements to long service leave and long service leave benefits for construction workers.

Key issues

Qualification

I issued a qualified audit opinion on the financial statements of NT Build for the year ended 30 June 2006. The qualification reported within the audit opinion follows:

Auditing the Public Account and other accounts
NT Build

Key issues (continued)

"The statutory obligation to notify NT Build of the commencement of a project rests with the developer. NT Build has implemented a number of mechanisms to help monitor compliance and identify leviable projects and consequently payers. For areas in the Northern Territory where building permits are required under the *Building Act* the regulations currently do not require payment of the levy at the time of lodgement of a building approval application. Also, it is noted that not all types of construction work carried out in the Northern Territory requires a permit irrespective of location.

Due to the current nature of the approval process within the Northern Territory construction industry, there exists significant uncertainty regarding the ability of NT Build to capture all building projects which fall within the scope of the Long Service Levy. As such, I am unable to satisfy myself as to the completeness of the $3,219,927 disclosed as 'Contributions from levy payers' in the income statement."

In addition the following emphasis of matter paragraph was included in the opinion report.

"Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 10 to the financial statements, no provision has been made in the financial statements of NT Build at 30 June 2006 as there is inadequate information to be able to reasonably estimate the level of the accrued liability. NT Build appointed an Actuary to estimate the balance of the long service benefit liability outstanding at 30 June 2006. As discussed in Note 10, the actuarial report provided an estimate of approximately $2.6 million, but this figure must be considered to lie within a wide range of uncertainty."

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006
	$'000
Revenue from ordinary activities	3,329
Less expenditure from ordinary activities:	
Employee expenses	326
Occupancy costs	78
Amortisation and depreciation	72
Fees and allowances	49
Long service leave benefit payments	25
Other	419
Total expenditure	969
Net surplus	**2,360**

Auditing the Public Account and other accounts
NT Build

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006
	$'000
Current Assets	2,770
Less Current Liabilities	411
Working capital	2,359
Add Non Current Assets	298
Net Assets	**2,657**
Represented by:	
Equity	
Implementation funding	297
Retained surplus	2,360
Total Equity	**2,657**

NT Build has commented:

The NT Build Board is currently investigating whether amendments to the Building Legislation approval process would strengthen NT Build's ability to maximise compliance. However, it should be noted, that the current approval process in the Northern Territory does not extend to remote areas. Other construction work as defined by the Construction Industry Long Service Leave and Benefits Act 2005, is not subject to the same permit process as applies to building control areas.

As a consequence the Board is also pursuing other non-regulatory methods to strengthen compliance. For example; inter Agency co-operation in identifying construction activity through out the Northern Territory.

In regard to estimating the level of accrued liability, NT Build will in the short term undertake regular actuarial reviews to determine more precisely the Scheme's liability as the available data permits on an emerging basis.

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of:

Desert Knowledge Australia

There are no key findings

Audit opinion

The audit of the Desert Knowledge Australia (DKA) for the year ended 30 June 2006 resulted in the issue of an unqualified independent audit opinion on 25 October 2006.

Background

Desert Knowledge Australia (DKA) was established under the *Desert Knowledge Australia Act 2003* (the Act). which came into force on 18 September 2003. DKA is a body corporate that has been declared by its enabling Act to be excluded from the provisions of the *Commonwealth Corporations Act 2001*. The objectives of DKA are centred on a range of activities intended to promote economic and social development in desert and arid land areas.

DKA is managed by a Board, the members of which hold office in accordance with the provisions of the Act. The Act also provided for an Interim Board which was to hold office for a period of eighteen months after the commencement of the Act. The Interim Board duly retired upon the expiration of the statutory period in March 2005. However there was a delay in appointing a replacement Board, with the new Board assuming office in February 2006.

Key Issues

While no matters of significance were raised as a result of the audit, a number of minor matters were brought to the attention of the Board. These included the need:

- to review retrospectively the actions taken by the Chief Executive Office for the period 23 March 2005 until 9 February 2006 during which no Board of DKA existed;
- to improve internal control through the use of purchase orders;
- to ensure that suppliers' invoices are approved prior to payment;
- for reconciliation of credit card accounts and the segregation of duties in respect of approval of credit card accounts for payment;
- for an appropriate segregation of duties to ensure that all rent revenues are correctly received and recorded;
- for a rental agreement between DKA and Territory Housing in respect of student accommodation;
- for regular reconciliations of petty cash; and
- for a service level agreement between DKA and DCIS for services provided by DCIS.

The Chair of Desert Knowledge Australia has commented:

During the audit process Desert Knowledge Australia accepted the auditor's findings and, upon determining the issues were minor, resolved to implement the recommendations which I am pleased to report are already underway.

Auditing the Public Account and other accounts
Desert Knowledge Australia

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	**$'000**
Revenue from ordinary activities	1,664	1,015
Less expenditure from ordinary activities:		
Wages and IT	453	383
Business and Innovation Centre	125	125
Salaries/Consultants	105	56
Media/marketing/advertising	90	17
Travel	63	13
Other	116	53
Total expenditure	952	647
Surplus	**712**	**368**

The main reason for the increase in revenue was the increase in the grant for the DKA Business Centre Project, which increased from $125,000 in 2004-05 to $775,000 for 2005-06.

The increase in expenditure was predominantly due to an increase in salaries, and payments to consultants. The increase is consistent with the increase in grants received by DKA, and DKA's increased maturity that saw additional project activity for 2005-06 compared to the prior year.

The surpluses must be looked at in conjunction with the unexpended tied funding DKA has carried forward, which in 2006 was $737,397 (2005: $120,065).

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Current Assets	1,263	456
Less Current Liabilities	183	88
Net Assets	**1,080**	**368**
Represented by:		
Equity		
Accumulated surplus	1,080	368
Total Equity	**1,080**	**368**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 audited financial statements of:

Jabiru Town Development Authority

KEY FINDING

- **The Authority's ability to continue as a going concern is dependent on the continuation of the moratorium on future payments by the Authority of interest and principal in respect of loans of $8.8 million due to the Northern Territory Government.**

Audit opinion

The audit of the Jabiru Town Development Authority (the Authority) for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 16 November 2006.

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 for administration, management 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 which were constructed to facilitate expansion of the town to its final estimated population. During the period January 1984 to June 1986 this debt increased to $8.8 million due to the capitalisation of net unpaid interest. In August of 1986 the Government granted the Authority a moratorium on future interest and loan repayments on existing loans. That moratorium continued to apply at 30 June 2006.

A 1985 Cost Sharing Agreement set 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 Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Revenue from ordinary activities	406	318
Less expenditure from ordinary activities:		
Administration expenses	739	142
Amortisation of town infrastructure	63	63
Impairment loss	621	10
Total expenditure	1,423	215
Net (loss)/profit	**(1,017)**	**103**

The major factor in the net loss for the year was the impairment loss recognised of $621,200 in relation to the valuation of the land held for sublease. The write-down was necessary because of the limited tenure remaining on these leases.

Management fees increased by $166,048 and reimbursements to the Jabiru Town Council increased by $295,843 under a new service agreement.

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	$'000
Current Assets	3,656	3,984
Less Current Liabilities	16	11
Working Capital	3,640	3,973
Add Non Current Assets	957	1,641
	4,597	5,614
Less Non Current Liabilities	8,805	8,805
Net Deficiency	**(4,208)**	**(3,191)**
Represented by:		
Equity		
Accumulated Deficit	(4,208)	(3,191)
Total Equity	**(4,208)**	**(3,191)**

Non current assets decreased by the $63,000 amortisation of the town infrastructure and the $621,000 impairment loss recognised in the year.

Auditing the Public Account and other accounts

Analysis of the financial statements for the year ended 30 June 2006 of:

Cobourg Peninsula Sanctuary and Marine Park Board

There are no key findings

Audit Opinion

The audit of the financial statements of Cobourg Peninsula Sanctuary and Marine Park Board (the Board) for the year ended 30 June 2006 resulted in an unqualified independent audit opinion that was issued on 16 November 2006.

Background

The Board was formed in 1981 under the *Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park Act* (the Act) to acknowledge and secure the right of Aboriginals to occupy and use certain land on the Cobourg Peninsula in the Northern Territory of Australia, to vest that land in trustees for Aboriginals, to declare that land to be a national park, making certain provisions relating to the management of adjacent marine areas and for related purposes.

Key issues

There were no significant issues arising from the audit.

Financial analysis

Abridged Statement of Financial Performance

	2006	2005
	$'000	$'000
Park Income	290	254
Payments to traditional owners	(268)	(241)
Other revenue	102	65
Revenue from ordinary activities	124	78
Less expenditure from ordinary activities:		
Operational costs	101	96
Depreciation and amortisation	6	6
Total expenditure	107	102
Net Profit/(Loss)	**17**	**(24)**

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

Financial analysis (continued)

Abridged Statement of Financial Position

	2006	2005
	$'000	**$'000**
Current Assets	349	274
Less Current Liabilities	93	41
Working Capital	256	233
Add Non Current Assets	2	8
	258	241
Less Non Current Liabilities	-	-
Net Assets	**258**	**241**
Represented by:		
Equity		
Accumulated Surplus	258	241
Total Equity	**258**	**241**

Auditing the Public Account and other accounts

Analysis of the financial statements for the year ended 30 June 2006 of:

Nitmiluk (Katherine Gorge) National Park Board

There are no key findings

Audit Opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board (the Board) for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 16 November 2006.

Background

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

Key issues

There were no significant issues arising from the audit.

Financial analysis

Abridged Statement of Financial Performance

	2006	2005
	$'000	**$'000**
Revenue from ordinary activities		
Park income	847	971
NT Government funding and service provision and sundry income	43	47
Total revenue from ordinary activities	890	1,018
Less expenditure on ordinary activities:		
Operational expenses	889	1,013
Total expenditure on ordinary activities	889	1,013
Net surplus from ordinary activities	**1**	**5**

Financial analysis (continued)

Abridged Statement of Financial Position

	2006	2005
	$'000	$'000
Current assets	311	479
Less Current Liabilities	(292)	(461)
Working capital	19	18
Add Non Current Assets	-	-
Less Non Current Liabilities	-	-
Net liabilities	**19**	**18**
Represented by:		
Accumulated surplus	**19**	**18**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 financial report of:

Northern Territory Major Events Company Pty Ltd

There are no key findings

Audit opinion

The audit of Northern Territory Major Events Company Pty Ltd (the Company) for the year ended 30 June 2006 resulted in an unqualified independent audit opinion, which was issued on 5 December 2006.

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 2006 event was held over the weekend commencing 30 June 2006.

Key issues

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

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

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	2005
	$'000	**$'000**
Revenue before government grants	2,607	535
Less expenditure from ordinary activities:		
Employee expenses	508	370
Depreciation	7	5
Other	3,885	1,899
Total expenditure	4,400	2,274
Net (loss) from ordinary activities before government grants	(1,793)	(1,739)
Add Government grants	2,144	2,385
Net profit	**351**	**646**

The operating results of the Company are significantly affected by the timing and recognition of revenue and expenses surrounding the V8 supercar championship events, which have been held just after (1 to 3 July 2005) or over (30 June to 2 July 2006) the year end balance date. The net effect of the timing differences is a $432,195 reduction in the current year results compared to the prior year.

The incurring of both the 2004 and 2005 Bass in the Grass events in the prior year compared to the one event in the current year results in a $174,142 reduction in net event costs.

Other items affecting the operating results have been a $118,228 reduction in administration expenses and a $138,256 increase in employee expenses.

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

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Current assets	2,836	2,204
Less Current Liabilities	1,848	1,573
Net Current Assets	988	631
Add Non Current Assets	24	29
Net assets	**1,012**	**660**
Represented by:		
Contributed equity ($2)	-	-
Accumulated profits	1,012	660
Total equity	**1,012**	**660**

Auditing the Public Account and other accounts

Analysis of the 30 June 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 1 November 2006.

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.

The company has ceased to trade from 30 September 2006 with the business of the Company transferred to the Department of Local Government, Housing and Sport.

Key issues

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

Financial results

Abridged Income Statement for the year ended 30 June 2006

	2006	**2005**
	$'000	**$'000**
Revenue before goods and services received free of charge	376	362
Less expenditure from ordinary activities:		
Employee expenses	125	128
Depreciation	1,784	1,685
Other	317	279
Total expenditure	2,226	2,092
Net (Loss) before goods and services received free of charge	(1,850)	(1,730)
Add goods and services received free of charge	2,089	59
Net Profit/(Loss)	**239**	**(1,671)**

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

Financial results (continued)

Abridged Balance Sheet at 30 June 2006

	2006	2005
	$'000	**$'000**
Current assets	75	166
Less Current Liabilities	68	126
Net Current assets	7	40
Add Non Current Assets	12,417	12,144
Net assets	**12,424**	**12,184**
Represented by:		
Contributed equity	-	-
Accumulated profits	12,424	12,184
Total equity	**12,424**	**12,184**

Auditing the Public Account and other accounts

Review of Darwin City Waterfront and Convention Centre Development

KEY FINDING

- **The project management framework is considered to be sound and capable of ensuring a successful outcome for the project.**

A review of Darwin City Waterfront and Convention Centre Project was undertaken during the second half of 2006. This review follows an earlier review of the appropriateness of the processes that governed the tendering, assessment and selection of the successful consortium for the project, the results of which were included in my August 2005 report to the Legislative Assembly.

The objective of this review was to provide the Legislative Assembly with an understanding of the nature and scope of the project, with an emphasis on the total costs of the project, project risks and project management.

To achieve the broad objective set out above, the review included:

- an examination of the business case prepared at the outset of the project to gauge the extent to which economic and financial modelling was performed to support the project and the preferred procurement route;
- an examination of legal documentation with a view to understanding the legal relationships created and any factors that may give rise to exposure for non-performance together with any associated remedies that may be available;
- an examination of the expected total cost of the project;
- the extent to which project risks are shared between the private consortium and the Northern Territory Government and flowing from this, whether the implicit interest rate faced by the Northern Territory Government represents an appropriate "price" paid for the assumption of risk by the consortium; and
- whether the project management framework that has been established to manage the project is likely to contribute to a successful outcome.

Overview of Public Private Partnerships

A Public Private Partnership (PPP) is an arrangement for the procurement of goods and services using franchises and similar arrangements with the private sector. PPPs are most commonly employed in the procurement of large and complex infrastructure facilities and services and have been used increasingly by governments in a number of countries (and in most states in Australia) to provide a range of services including roads, public buildings, health and educational facilities, prisons, public transport and other public services.

A PPP may take a number of forms including:

Build Own and Operate (BOO): requiring a private sector partner to develop, finance, build, own and operate a facility for a defined period. At the conclusion of that period the risks of ownership associated with the facility remain with the partner.

Build Own Operate and Transfer (BOOT): requiring a private sector partner to develop, finance, build, own and operate a facility for a defined period. At the expiration of that period the facility is transferred to the government.

Build Own and Maintain **(BOM):** requiring a private sector partner to build, own and maintain a facility for a specified period. The facility is leased and staffed by the government.

Lease Develop and Operate (LDO): under which a private developer is given a long-term lease to operate and expand an existing facility in return for agreeing to invest in improvements to the facility, with the lease payments by the government being sufficient to enable the developer to recover the investment and a reasonable return over the life of the lease.

Traditional Design and Construction (TDC): a government, as principal, prepares a brief setting out project requirements before inviting tenders for the construction of the project. Private sector contractors undertake to design the project in accordance with the brief, and construct it for an agreed sum, which may be fixed or subject to escalation.

Description of the Darwin Waterfront Project

The Darwin Waterfront Project, when viewed as a whole, includes two of the PPP types outlined above. The Darwin Convention Centre is a partnership that involves private financing and which can be described as a Build, Own, Operate and Transfer model under which the private sector partner will build a convention centre, which it will own. The partner will operate that facility for 25 years and transfer the facility to the Northern Territory at the end of that period. The Community Infrastructure element of the project, on the other hand, is consistent with a design and construct model. More than half of the contract price for the Community Infrastructure is fixed, with the balance being subject to a competitive pricing process, with the Territory retaining the option of either instructing the private sector partner to proceed with the works or utilising an alternative delivery method.

The overall project is also characterised by high level of investment by the private sector in connection with the residential and hospitality components of the project.

The project consists of:

- ***The Darwin Convention Centre (DCC*).** The DCC will have a design life of 40 years (subject to proper replacement, refurbishment, maintenance and repair) and will include a 1,500 seat auditorium, 4,000 square meters of exhibition space and 500 square metres of function rooms. The planned construction period is 35 months and this will be followed by an operating period of 25 years, including a 3 year hand-over phase. The Territory has entered into a contractual arrangement with the Darwin Cove Convention Centre Pty Ltd (the Concession Holder). In return for the right to operate a convention centre, the Concession Holder is required to design, finance, construct, commission, control, operate, maintain, repair and refurbish the Centre. The Concession Holder, in turn, has entered into a contractual arrangement with Ogden IFC (Darwin) Pty Ltd (the Operator) to operate and manage the Centre. The Concession Holder has also entered into separate contractual arrangements with Honeywell Ltd (the Facilities Manager) for the maintenance, repair and refurbishment of the facility over the period until the Centre is handed over the Territory.
- ***Community Infrastructure Works*.** This includes roads and services, a multi level car park, a seawall, wave pool, beach areas, public promenade, parklands and picnic areas.
- ***Residential Development***. This will be undertaken in two stages and will result in the development of 138 units in Stage 1 with up to 1,262 additional units and approximately $60 million of public infrastructure in Stage 2, to be funded by a significant level of investment by the private sector.
- ***Hospitality Development***. This will comprise a 141 room “Medina” apartment hotel, a 100 room “Vibe” hotel and harbour-side cafes and restaurants. As is the case with the residential component, the construction costs will be met by the private sector.

The precinct within which the waterfront development resides will be managed by the Darwin Waterfront Corporation, a body corporate established pursuant to the *Darwin Waterfront Corporation Act.*

The Case for the Project

Proposals for a convention or entertainment centre in Darwin have been put forward over a number of years, but have rarely progressed beyond a conceptual stage. In the case of the convention centre project that is now underway, the decision to proceed was made following the completion of a report by PriceWaterhouseCoopers that was commissioned in late 2002 on the potential economic and financial impact of a convention and exhibition centre.

Convention Centre

Research undertaken by PriceWaterhouseCoopers as part of an examination of the potential economic impact of a convention centre in Darwin suggested that, based upon experience elsewhere, over 12,000 delegates to conventions could be reasonably achieved each year once the centre was fully established and functioning. This could be expected to translate into approximately 83,000 “visitor nights” per annum. The economic analysis in respect of the convention centre concluded that the most likely outcome for incremental tourism spending in the Territory as a result of the Centre would be of the order of $193 million, with an accompanying increase to Gross State Product of $139 million (measured in 2003 dollars) over 20 years.

The report included a number of scenarios which yielded results as follows:

Scenario	Incremental Tourism Spend	Incremental Addition to Gross State Product
	$m (2003 dollars)	$m (2003 dollars)
Pessimistic	154	111
Optimistic	290	208

In the case of the optimistic scenario, the increase to Gross State Product was estimated to rise to $290 million if incremental construction spending was also included and to the extent to which that spending did not represent a transfer from alternative construction projects that may be undertaken.

The analysis of the options available to the Territory if it were to proceed with the development of a convention centre included the use of a “public sector comparator” (PSC). The use of a PSC is intended to assist in determining whether a project is better delivered by a government alone, a government in partnership with the private sector, or the private sector alone. It is also intended to provide a benchmark for assessing the value of a private sector bid, including the benefits that may flow as a result of shifting project risk from the Territory to a private party.

The Case for the Project (continued)

The public sector comparator that was developed for this project was compared with:

- the net present cost of the various bids that had been normalised for the purposes of comparison;
- the level of risk implicit in each bid as reflected in the discount rates used; and
- the level of risk transferred from the Territory to the private sector, together with the marginal increase in the discount rate compared with the proposed level of risk transfer.

The analysis that was undertaken, based on the PSC, was comprehensive and indicated strongly that the cost to the Territory, if it were to act alone, was significantly greater than would be the case if private sector involvement was included.

Wharf Precinct

Proposed investment in the Wharf Precinct is additional to that in the Convention Centre. The most likely outcome in terms of an increase in Gross State Product (which includes flow-on effects) was estimated to be $154 million (measured in 2003 dollars) over a period of 14 years.

If the most likely forecast total increase in total Gross State Product are re-stated in terms of values that applied in November 2006, that increase rises to an amount of the order of $350 million compared with the figure of $293 million in 2003.

The Legal Framework

During the course of the audit I reviewed the various legal agreements that were executed as part of the overall contract for development of the Convention Centre and the Wharf Precinct and received briefings from the firm Mallesons Stephen Jacques and officers of the Department of Justice. The Northern Territory is party to a number of contracts and deeds intended to procure the design and construction, maintenance, operation, and transfer back of the Darwin Convention Centre (DCC), community infrastructure, hospitality development residential development and the management of the Centre, with agreements dealing with issues such as:

- the establishment of concession arrangements between the Northern Territory and the Operator of the DCC;
- design and construction of the DCC;
- operation of the DCC;
- DCC facilities management;
- community infrastructure project delivery;
- community infrastructure design and construction;
- hospitality development project delivery;
- residential development project delivery; and
- financial matters.

In essence, the legal framework provides for the construction of the convention centre under a fixed price contract, and for the operation and maintenance of the Centre for the concession period. As might be expected, the various contracts and agreements provide for damages in the event of a failure on the part of one of the parties to perform, or for delays occasioned by defined events.

The contractual arrangements between the Territory and the Concession Holder also deal with the procedures to be adopted by both parties over the period leading up to the handover of the facility to the Territory. These provisions include the conduct of handover surveys to establish whether the DCC is in a condition consistent with good operating practice and compliance with the DCC asset management plans and that no asset management is outstanding, the establishment of a Handover Fund and the lodgement of a Handover Bond with the Territory.

The legal framework developed at the commencement of the project allocates risks to those parties best able to manage the risk in question. This is consistent with the principles that should govern any public-private partnership. Given this, the allocation of risks between the Territory and the Consortium is as follows:

The Legal Framework (continued)

Risks Allocated to the Consortium	Risks Allocated to the Territory
Design risk	Native title applications
Construction risk	Conservation order
Unexploded ordnance risk (shared – Concession Holder assumes initial time risk of 2 days if UXO is found and up to 5 days if UXO detonates)	Unexploded ordnance (shared- Territory assumes time risk over and above that taken by the Concession Holder and cost risk of removal)
Industrial relations risk	Provision of the site
Delay in completion	Pre-existing contamination
New Contamination	Relics (if Territory elects to retain)
Maintenance, repair and refurbishment risk	Operational expenses (capped against business base case)
Operational risk	Patronage risk (shared)
Patronage risk (shared)	Risk of certain changes in law
Risk of certain non-discriminatory changes in law	
Force Majeure (shared)	Force Majeure (shared)

At the date of the review the only known event that had given rise to penalties as a result of risks faced by the Territory had been settled by negotiation for an amount of $360,000 due to delays associated with the identification and neutralisation of unexploded ordnance. This cost was partly offset by an agreement for the reduction in unexploded ordnance surveys undertaken by the Territory.

The Legal Framework (continued)

Other possible areas of risk include:

Design risk. There are three components to design risk:

1. Design life and fitness for purpose. This risk rests with the Concession Holder who must meet the required design life of 40 years specified in the Project Requirements as well as the fitness for purpose criteria that are defined in the Project Requirements and the benchmark of the Cairns Convention Centre. The Territory has the ability to call upon substantial Professional Indemnity Insurances in the event that the Concession Holder is unable to fund rectification and design issues which may become evident during the concession period.

2. Functional design. This risk rests with the Concession Holder who must satisfy all design criteria specified in a Functional Design Brief. At the same time the Concession Holder, the Operator, Maintenance Provider and the designer of the Centre have warranted that requirements of the Design Brief have been incorporated into the final design solutions.

3. Asset life at handover to the Territory. This risk rests with the Concession Holder who is required to implement an agreed preventative maintenance plan and to replace capital equipment items on an agreed replacement schedule. This process is intended to ensure that, at the date of handover of the Centre, the major plant and equipment assets will have at least a further 7 years of operational life. Further, 3 years prior to the date of handover, an independent survey is required to be performed to verify that plant and equipment has been maintained such that it will have the required post-handover life. The Concession Holder will be required to provide a bond to ensure that sufficient funds can be called upon by the Territory if the survey should identify inadequate maintenance of plant and equipment assets.

Changes in costs of operating the facility. This risk relates to the possibility that relevant costs could be significantly higher or lower at later years of the contract, affecting the overall profitability of the project. Any material change in the level of operating costs will affect the Territory by way of the level of payments made under what are referred to as Territory Operating Payments. The operating subsidy may be greater or less than the base business case subsidy, but it is capped at the level agreed in the business case. If a budget that exceeds the base business case should be proposed by the Concession Holder, this must be agreed to by the Territory or otherwise referred to dispute resolution.

Risk of obsolescence. This risk relates to the probability that costs made need to be incurred in the future to ensure that the facility can continue to deliver the services required. In the case of the DCC this risk is transferred to the Concession Holder, but any risk associated with the functionality of the asset at the point of transfer of the facility to the Territory at the end of the concession period is borne by the Territory.

The Legal Framework (continued)

Demand risk. The payments made by the Territory under the contractual arrangements with the operator of the facility (the Concession Holder) include a Territory Incentive Payment. This payment may increase up to a capped amount if the number of "delegate days" should exceed forecasts included as part of the business case in order to provide an incentive to the Concession Holder and the Operator to exceed forecast delegate numbers.

The Expected Cost of the Project

The costs to the Northern Territory arising from the project consist of both capital and operating expenses which are summarised below:

Territory Availability Payment to be paid over the life of the DCC concession period of 25 years from the end of construction of the Centre. This payment primarily represents payments made in respect of debt, equity, construction and maintenance aspects of the project. A significant portion (up 75 per cent) of this payment is subject to abatement if the facility should be unavailable, if the facility fails to meet availability standards or if the operator fails to achieve key performance indicators. Key performance indicators have been designed to ensure that the facility will be available for use by convention delegates and that the Centre is well maintained.

Territory Operating Payment that comprises the net cash shortfall arising from the operation of the DCC during a year. The legal framework for the DCC includes incentives intended to encourage the Operator to exceed benchmark levels of performance included as part of the business case.

Territory Incentive Payment is a payment per delegate (both national and international). The contract with the Territory includes incentives intended to encourage both the Concession Holder and the Operator to exceed benchmark levels of performance included in the business case.

Community Infrastructure. The costs of constructing community infrastructure will be met by the Territory progressively over the construction period.

Value of Assets Transferred to the Project. The hospitality and residential components of the project will see land that is presently controlled by the Territory transferred progressively to end users as development and sales proceed.

The Expected Cost of the Project (continued)

The expenses that will be incurred by the Territory by way of both operating and capital cash flows extend over a period of 25 years beyond the date of practical completion. That is, until 2033. While nominal expenses are set out this report, the use of real values is considered to be superior if users of the report are to gain an understanding of the likely costs after taking into account the loss of purchasing power, over a period of 25 years, of the nominal amounts to be expended until the handover of the Centre to the Territory. Thus in real terms the net costs to the Territory are expected to be:

	$ million(1)
Convention Centre	114.6
Community infrastructure	97.1
Sub Total	211.7
Less: Property returns	112.8
Net Cost to the Territory (Relating to the Consortium)	98.9
Other engineering expenses	36.3
Net Cost to Territory	**135.2**

(1) Amounts shown are based on values applying in November 2006.

The estimated value of gross expenses of $248.0 million that is shown in the preceding table can be compared with the estimated real increase in Gross State Product, as a result of the project, of $350 million and which has been referred to earlier in this report.

The Expected Cost of the Project (continued)

The expected net capital and operating expenses, restated in nominal terms, in connection with the DCC project, together with community infrastructure and associated supporting engineering works, will be of the order of $283.84 million, comprising $529.87 million in gross expenses, offset by $246.03 million in returns from property sales and leasing. These aspects of the project cost are described below:

Payments in Connection with the Convention Centre

	$'million
Construction Period Payments	35.02
Territory Availability Payment	277.74
Territory Incentive Payment	15.58
Other Operating Period Payments	65.69
Total	**394.03**

Payments in Connection with Community Infrastructure

Further expenses totalling $99.54 million are expected to be incurred in constructing the community infrastructure, which as already indicated, will include roads and services, a multi level car park, a seawall, wave pool, beach areas, public promenade, parklands and picnic areas.

The Expected Cost of the Project (continued)

Other Engineering Expenses

Programmed expenses associated with the project, and amounting to $36.3 million have been, or are expected to be, incurred in respect of:

	$ million
Roadworks	5.0
Utility services	5.2
Environmental studies	3.5
Decontamination	11.0
Removal of UXO Debris	2.0[1]
Demolition	4.5
Project Management Costs	3.9
Other	1.2
	36.3[2,3]

Note 1. Includes $0.36 million delay cost referred to previously.

Note 2. Of this amount, $4 million was programmed for expenditure in 2003-04, $6 million for 2004-05, $13.3 million for 2005-06, with the balance programmed to be expended in 2006-07 and subsequent years.

Note 3 It is possible that further expense may be incurred as part of the second stage of the project. These expenses are related to the demolition and decontamination of the iron ore ship-loading facility and remaining sheds, together with associated project management expenses.

The Expected Cost of the Project (continued)

Property Returns

Offsetting the costs outlined above are the returns to the Territory and which arise through a revenue sharing arrangement between the Territory and the property developer.

Under the arrangements that govern the returns on property sales, the Territory is to receive a guaranteed amount of $10.4 million in respect of Stage 1 of residential and commercial development, with a percentage of gross proceeds on the sale of residential apartments if apartments should be sold at prices greater than forecast. For Stage 2, the Territory will share a percentage of gross residential sales and non-residential sales. The Territory's return on this stage will also include a return on commercial property rentals.

A key element of the property returns to the Territory are specified percentages of the gross proceeds from the sales of both residential and non-residential properties. The specified rates of return are:

Stage 1

- 12 per cent of the gross proceeds from sale of residential properties; and
- 10 per cent of the gross proceeds from sale of non-residential properties.

Stage 2

- 18 per cent of the gross proceeds from sale of residential properties; and
- 10 per cent of the gross proceeds from sale of the non-residential properties.

The expected returns to the Territory from Stage 1 of the project were originally forecast to be $10.4 million. However, as at November 2006, that amount had increased to $12.8 million, based upon sales outcomes up till then. If that experience should be repeated with the remainder of Stage 1 and with Stage 2, returns to the Territory from residential and commercial development could be expected to be of the order of $233 million.

In addition to the financial costs outlined in the above table, the Northern Territory will also incur an additional cost in the form of the value of land set aside for development of the residential and hospitality components of the project. The land in question was valued by the Australian Valuation Office in 2003 and this resulted in a value of the order of $26.9 million being attributed to the total site. Approximately 60 per cent of the total site is expected to be transferred ultimately to other entities as residential and commercial developments are finalised.

Accounting Issues Arising from the Project

Community Infrastructure

Payments by the Territory have been made progressively during the construction phase of community infrastructure and the assets that are constructed are included as part of the value of land and fixed assets held by the General Government Sector. The cost to the Territory of this phase was $35.6 million as at 30 June 2006.

Darwin Convention Centre

Outlays in connection with the construction of the Convention Centre are financed by the consortium. Those costs will be ultimately recovered from the Territory by way of a Territory Availability Payment (TAP). The Territory will recognise a liability progressively over the period of construction, with that liability reaching its maximum value at the date of practical completion. The value of the liability at 30 June 2006 was $24.9 million. The recorded liability is matched by an asset of equal value, being the value of the Territory's ownership rights to the Centre.

For the purposes of financial reporting, the Convention Centre will be treated as if it were the subject of a finance lease and flowing from this the TAP will be deemed to comprise both principal and interest components, with the interest component being treated as part of the General Government Sector's operating expenses while the principal component will reduce the value of the Territory's outstanding liability. Thus in the periods that follow the date of practical completion the value of the liability will reduce progressively as payments are made by the Territory as part of the TAP.

Extent to Which the Implicit Interest Rate Compares With the Territory's Own Borrowing Costs

In a project such as the waterfront redevelopment, the choice exists between the Territory undertaking the project on its own account, using debt to finance the construction, or entering into a public-private partnership with a view to having a private sector partner finance the construction and operate the facility in return for a periodic fee that covers the full costs incurred by the partner.

There are sound reasons why a government may choose to enter into a PPP, among them being the ability to reduce its exposure to risk by having some of that risk assumed by a partner. It is to be expected that, in the case of a PPP, the effective cost of funds faced by the Territory will be higher than might be the case if the Territory chose to follow a traditional design and construct approach, and finance the project itself. The effective cost of funds that the Territory faces in the case of a PPP will reflect the level of risk faced by the partner in the project. While the Territory may be able to acquire funds at a lower cost than most corporate entities (for reasons unrelated to the risks of specific projects) if it chose to pursue the traditional design and construction approach, it would also be faced with a wider set of operational and project risks. Thus notwithstanding the possibility of a lower cost of funds in those circumstances, the overall cost of a project to the Territory may well be higher as it would bear all the risks.

The higher cost of funds faced by the Territory by having a private sector partner provide financing in the case of the DCC can be viewed as the "price" that is paid to have the partner assume risks associated with its construction and operation, but this higher cost of funds to the Territory can be offset by efficiencies that flow from the involvement of a partner who is knowledgeable and skilled in the fields of construction and operation of a facility such as the DCC and which can lead to lower capital and operating expenses as a consequence.

Based on the expected cash flows over the 25 years from the date of practical completion until the facility is returned to the Territory, the implicit rate has been estimated by audit to be 6.54 per cent. In contrast, if the Territory had chosen to finance construction of the Centre itself, it could have been expected to have faced a marginal cost of borrowing of the order of 5.8 per cent. The difference between the two rates represents the "price" paid by the Territory in order to have a range of risks assumed by the PPP partner.

Management of the Project

A project management structure exists that is consistent with the principles laid down as part of the Territory Partnerships policy. Broadly:

- each of the six principal contracts executed in relation to the Waterfront Redevelopment Project include formal contract management clauses, endorsed by the contracting parties. These clauses provide for the appointment of independent progress certifiers (for the Convention Centre and Community Infrastructure), the appointment of either a project working group or a coordination committee, project reporting requirements covering financial and non-financial matters, and quality control procedures;
- there exists a government project team, including a Project Administrator, Chief Financial Officer and Technical Officers. That project team has access to legal, financial, engineering, operational and probity specialists as required;
- appropriate daily, weekly and monthly reporting exists.

Overall, the project management framework is considered to be sound and capable of ensuring a successful outcome for the project.

The on-going responsibility for the management of the waterfront precinct, including the convention centre project, rests with the Darwin Waterfront Corporation. The Corporation was established pursuant to the *Darwin Waterfront Corporation Act* and it is a body corporate consisting of at least three members. The functions of the Corporation are broad and include the following:

- development construction activities;
- management of property (including land and marine infrastructure);
- promotion of the precinct;
- preservation of good order;
- provision of municipal services;
- development and maintenance of civic amenities and facilities, including the staging of public events; and
- the power to make by-laws that are consistent with the intent of the Act.

The Corporation is required to prepare an annual report that includes audited financial statements. That report should provide the Legislative Assembly with progressive information on the on-going development of the residential, commercial and entertainment facilities within the precinct, together with the management of the precinct as a whole.

Appendix 1 - Audit opinion reports issued since 30 June 2006

	Date 2005-06 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2006	Date of Audit Report Year ended 30 June 2005
Sec 9 *Financial Management Act*			
Treasurer's Annual Financial Statement	19 October 06	13 October 06	17 October 05
Government Business Divisions; Sec 10 *Financial Management Act*			
Construction Division	19 October 06	10 October 06	11 November 05
Darwin Bus Service	19 October 06	6 October 06	14 October 05
Darwin Port Corporation	30 November 06	2 November 06	27 October 05
Government Printing Office	29 November 06	23 October 06	11 October 05
Data Centre Services	29 November 06	24 October 06	11 October 05
NT Fleet	29 November 06	23 October 06	11 October 05
Northern Territory Treasury Corporation	19 October 06	2 October 06	5 October 05
Territory Housing	29 November 06	9 November 06	22 November 05
Territory Wildlife Parks	29 November 06	3 November 06	24 October 05
Territory Discoveries	30 November 06	9 November 06	16 November 05
Government Owned Corporation Sec 42 *Government Owned Corporations Act*			
Power and Water Corporation	19 October 06	10 October 06	13 October 05
Entities to which Sec 10 *Financial Management Act* applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	16 November 06	5 April 06
Jabiru Town Development Authority	Not yet tabled	16 November 06	20 December 05
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	16 November 06	10 March 06
NT Grants Commission	28 November 06	29 September 06	21 November 05
Surveyors Board of the NT	Not yet tabled	14 November 06	3 October 05
Territory Insurance Office	29 November 06	29 September 06	3 October 05

Appendix 1 - Audit opinion reports issued since 30 June 2006

	Date 2005-06 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2006	Date of Audit Report Year ended 30 June 2005
Agency Financial Statements at the request of the Agency			
Tourism NT	30 November 06	9 November 06	16 November 05
Other Entities/Separate Acts/Trust Deeds			
Desert Knowledge Australia	28 November 06	25 October 06	28 November 05
Legislative Assembly Members' Superannuation Trust	12 October 06	4 October 06	5 October 05
Northern Territory Government and Public Authorities Employees Superannuation Fund	19 October 06	4 October 06	5 October 05
Northern Territory Major Events Company Pty Ltd	N/A	5 December 2006	20 December 05
Northern Territory Police Supplementary Benefits Scheme	N/A	12 October 06	5 October 05
NT Legal Aid Commission	Not yet tabled	1 December 06	1 December 05
Territory Motor Sports Board Pty Ltd	N/A	1 November 06	27 October 05
Common Funds of the Public Trustee	Not yet tabled	20 December 06	19 October 05

Appendix 1 - Audit opinion reports issued since 30 June 2006

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2006	Date of Audit Report Year ended 30 June 2005
Inter-Government Statements By Legislation			
Local Government Financial Assistance	ASAP	24 October 06	21 November 05
By Agreement			
Commonwealth-State Housing Agreement	31 December 06	18 December 06	21 December 05
National Disaster Relief Arrangements	31 December 06	21 December 06	20 December 05
By Agreement		**Date of Audit Report Year ended 31 December 05**	**Date of Audit Report Year ended 31 December 04**
Department of Education, Science and Training (previously ANTA)	30 September 06	3 August 06	17 October 05
Australian National Training Authority Agreement 2001 to 2005 and 2005-08 Commonwealth-Sate Agreement For Skilling Australia's Workforce: Framework for Funding for Growth	30 June 06	22 August 06	6 July 05
By Legislation			
Vocational Education and Training Financial Data	30 September 06	8 August 06	27 July 05
By Legislation		**Date of Audit Report Period ended 31 January 05**	
Compensation and Administration Payments under the National Handgun Buyback Act 2003	31 January 06	5 October 06	27 July 05

Not yet finalised - as at 31 December 2006

Not yet tabled - as at 31 December 2006

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 2006

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.

Darwin Port Corporation

An IT review of PortCAM — Refer pages 36 - 37

Department of Corporate and Information services

A review of IT Outsourcing with reference to Desktop Services — Refer pages 40 - 42

A review of the GAS upgrade – post implementation — Refer pages 43 - 44

Department of Planning and Infrastructure

An IT review of the Motor Vehicle Registry System (MOVERS) — Refer pages 38 - 39

Review of the Darwin Waterfront and Convention Centre development project — Refer pages 115 - 130

Appendix 3
Proposed audit activity in the six months ending 30 June 2007

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.

No additional audits identified at time of this report.

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

The requirements of the *Audit Act* in relation to Auditing the Public Account and other accounts are found in:

- Section 13, which requires the Auditor-General to audit the Public Account and other accounts, with regard to:
- the character and effectiveness of internal control, and
- professional standards and practices.
- Section 25, which requires the Auditor-General to issue a report to the Treasurer on the Treasurer's Annual Financial Statement.

What is the Public Account?

The Public Account is defined in the *Financial Management Act* as:

a) the Central Holding Authority, and

b) Operating accounts of agencies and Government Business Divisions.

Audit of the Public Account

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

1. annual financial statement audits of entities defined to be within the Public Account, in particular Government Business Divisions, which have a requirement for such audits under the *Financial Management Act*;

2. an audit approach which the Northern Territory Auditor-General's Office terms the Agency Compliance Audit. This links the existence of the required standards of internal control over the funds administered within the Public Account, to the responsibilities for compliance with required standards as defined for Accountable Officers.

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

3. specific topic audits of the adequacy of compliance with prescribed internal control procedures. These can be initiated as a result of Agency Compliance Audits, or pre-selected because of the materiality or inherent risk of the activity; and

4. reviews of the accounting processes used by selected agencies at the end of the financial year, to detect if any unusual or irregular processes were adopted at that time.

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

Other accounts

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

Audit of the Treasurer's Annual Financial Statement

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

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

Appendix 5 - Overview of the approach to auditing performance management systems

Legislative Framework

A Chief Executive Officer is responsible to the appropriate Minister under section 23 of the *Public Sector Employment and Management Act* for the proper, efficient and economic administration of his or her agency. Under section 13 (2)(b) of the *Financial Management Act* an Accountable Officer shall ensure that procedures "in the agency are such as will at all times afford a proper internal control". Internal control is further defined in section 3 of the Act to include "the methods and procedures adopted within an agency to promote operational efficiency, effectiveness and economy".

Section 15 of the *Audit Act* complements the legislative requirements imposed on Chief Executive Officers by providing the Auditor-General with the power to audit performance management systems of any agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.

A performance management system is not defined in the legislation, but section 15 identifies that: " the object of an audit conducted under this section includes determining whether the performance management systems of an agency or organisation in respect of which the audit is being conducted enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively."

Operational Framework

The Northern Territory Auditor-General's Office has developed a framework for its approach to the conduct of performance management system audits, which is based on our opinion that an effective performance management system would contain the following elements:

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity's corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;
- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress with that achievement;
- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

Performance management system audits can be conducted at a corporate level, a program level, or at a category of cost level, such as capital expenditure. All that is necessary is that there be a need to define objectives for intended or desired performance.

Appendix 6 - Abbreviations

AAS	Australian Accounting Standards
CHA	Central Holding Authority
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DBS	Darwin Bus Service
DCIS	Department of Corporate and Information Services
DCS	Data Centre Services
DPI	Department of Planning and Infrastructure
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
PFC	Public Financial Corporations Sector
PIPS	Personnel Information and Payroll System
PNFC	Public Non-Financial Corporations Sector
TAFS	Treasurer’s Annual Financial Statement
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 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 August 2007 sittings.

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