



Auditor-General for the Northern Territory
Auditing for Parliament

August 2008 Report to the Legislative Assembly



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Northern Territory Auditor-General's Office

Auditing for Parliament

August 2008 Report to the Legislative Assembly

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Northern Territory Auditor-General's Office

Auditing for Parliament

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

11 September 2008

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 30 June 2008 and I request that you table the report today in the Legislative Assembly.

The larger part of the report deals with the results of compliance audits which were performed to assess the adequacy of controls over the administration of public monies, but also included are the results of financial statement audits in respect of those institutions that are required to report on a calendar year basis.

I also point out to Members that in this report I have referred to the public sector Agencies and Ministerial responsibilities as they existed at 30 June 2008 notwithstanding the changed Agency arrangements that came into force on 18 August 2008.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'F. McGuinness'.

F McGuinness

Auditor-General for the Northern Territory

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Guide to using this report

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

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

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

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

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

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

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

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

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

Guide to using this report cont...

Where there are delays in Agencies or entities completing financial statements it is sometimes necessary to comment on these activities in the next report.

This report summarises the results of the following types of audits conducted during the period 1 January 2008 to 30 June 2008:

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

This Report has 10 sections, each of which deals with a specific audit topic or with a particular Agency or entity. Each section provides a summary of key findings, if any, my audit opinion, background information, where relevant, and recommendations.

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

The audit opinion and summaries of key findings represent the more important findings. By targeting these sections, readers can quickly understand the major issues faced by a particular Agency or entity or by the public sector more broadly. Reports prepared following completion of financial statement audits include a brief financial analysis of the financial statements.

Information technology audits are undertaken as stand-alone audits of key government-wide, or Agency systems. Each of the systems selected for audit during the six months ended 30 June 2008 plays an important role in processing data and providing information for the purposes of financial management and, more particularly, for the purposes of financial reporting and the preparation of the Treasurer's Annual Financial Statement.

Guide to using this report cont...

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

Agencies and entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, their responses are detailed at the end of a particular section.

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Entities referred to in this report

By Ministerial Portfolio (as at 30 June 2008):	Page
Chief Minister;	
Minister for Police, Fire and Emergency Services;	
Minister for Information, Communications and Technology Policy	
Department of Corporate and Information Services	33
Department of the Legislative Assembly	17
Northern Territory Police, Fire and Emergency Services	17, 24
Minister for Employment, Education and Training;	
Minister for Family and Community Services;	
Minister for Arts and Museums	
Batchelor Institute of Indigenous Tertiary Education	41
Charles Darwin University	44
Charles Darwin University Foundation	47
Department of Employment, Education and Training	17, 24
Department of Health and Community Services	17, 27, 38
Department of Natural Resources, Environment and the Arts	20, 27
Minister for Planning and Lands;	
Minister for Infrastructure and Transport	
Department of Planning and Infrastructure	17
Minister for Health;	
Minister for Justice and Attorney-General	
Department of Health and Community Services	17, 27, 38
Department of Justice	17
Menzies School of Health Research	50

By Ministerial Portfolio (as at 30 June 2008):	Page
Minister for Business and Economic Development;	
Minister for Tourism;	
Minister for Housing;	
Minister for Regional Development;	
Department of Business, Economic and Regional Development	17, 20, 27
Department of Local Government, Housing and Sport	27
Tourism NT	24
Minister for Primary Industry and Fisheries;	
Minister for Mines and Energy	
Department of Primary Industry, Fisheries and Mines	17, 20, 27
Minister for Natural Resources, Environment and Heritage;	
Minister for Parks and Wildlife	
Department of Natural Resources, Environment and the Arts	20, 27
Minister for Arts and Museums	
Department of Natural Resources, Environment and the Arts	20, 27
Minister for Sport and Recreation;	
Minister for Corporate and Information Services	
Department of Corporate and Information Services	33
Department of Local Government, Housing and Sport	27
Minister for Local Government	
Department of Local Government, Housing and Sport	27

Auditor-General's overview

Audits included in this report

This Report outlines the results of audits conducted during the period 1 January 2008 to 30 June 2008.

It contains 10 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 31 December 2007.

Audits conducted during the past six months included statutory audits of the financial accounts of educational institutions that report on a calendar year basis, a post-implementation review of the Government's telecommunications contract and the administration of Special Purpose Payments provided to the Department of Health and Community Services.

In my August 2007 report to the Legislative Assembly I included comments about the need for sound systems of internal control as a means of ensuring that public monies are properly accounted for and spent only in accordance with law. That report also indicated that this issue would be the subject of continuing attention by the NTAGO.

Over the past six months, compliance audits were again conducted across a number of Agencies with the objective of ascertaining the extent to which internal control procedures that are required by the Treasurer's Directions were in place and whether those controls were operating effectively.

In keeping with a theme that is focused on the adequacy of internal controls, an audit of corporate credit card controls and the frequency of use of cards was undertaken across three Agencies to enable an opinion to be formed as to whether expenditure incurred through the use of corporate credit cards was appropriate. That audit was accompanied by a review across a further three Agencies of the extent to which all documents in support of expenditure incurred on corporate credit cards were submitted promptly and verified by the appropriate officers.

Finally, an audit of the extent to which an effective internal audit function existed was conducted across five Agencies. That audit was undertaken on the basis that a weak or non-existent internal audit function is likely to be accompanied by weaknesses in the internal controls systems within the Agency in question.

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Reporting on audits conducted in the six months ended 30 June 2008

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 30 June 2008, 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.

Other reporting arising from audits

More detailed findings from audits are included in reports issued to chief executive officers following the completion of each audit.

Structure of report to the Legislative Assembly

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).

Entities responses

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

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Auditing the Public Account and other accounts

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Selected Agencies

Agency Compliance Audits

Audit Scope and Objectives

Agency compliance audits are intended to ascertain the extent to which Agencies' Accountable Officers have implemented and maintained procedures that assist in ensuring that the requirements that are set out in Acts of Parliament, and subordinate and delegated legislation are adhered to.

Background

The use of delegated legislation, for example Treasurer's Directions and Procurement Directions, devolve responsibility to Accountable Officers of line Agencies. That devolution has an accompanying requirement for accountability by Accountable Officers to their Ministers. Compliance audits are intended to assess how well that accountability is being discharged. The audits for this period concentrated on the extent to which Agencies had complied with promulgated requirements with respect to:

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

Selected Agencies cont...

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

- Department of Business, Economic and Regional Development;
- Department of Employment, Education and Training;
- Department of Health and Community Services;
- Department of Justice;
- Department of Planning and Infrastructure;
- Department of Primary Industry, Fisheries and Mines;
- Department of the Legislative Assembly; and
- Northern Territory Police, Fire and Emergency Services.

Key Findings

A range of issues were raised as a result of the audits. These included:

- non-compliance with Procurement Directions, Treasurer's Directions, and procurement policies;
- weaknesses in the recording of fixed assets;
- a Receipt and Tracking System that allowed for the deletion of receipts after processing and also incorrectly rounded off GST amounts;
- weaknesses in the reconciliation of control accounts;
- weaknesses in the review and clearing of outstanding Travel Acquittals; and
- incomplete Agency Accounting and Property Manuals that did not comply fully with Treasurer's Directions.

Selected Agencies cont...

The Department of Employment, Education and Training has commented:

DEET supports the Auditor-General's general comments and will continue to monitor its systems to ensure compliance with NT Procurement Regulations.

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

The matters raised in your report are not considered to be of a significant nature and have already been dealt with by DPIFM. Where weaknesses have been identified relating to services provided by another Agency under a Service Level Agreement, we have also written to them outlining the issues so that we can jointly work to improve the process.

The management letter has been tabled to DPIFM's Risk Management and Audit Committee for monitoring and reporting on the implementation of your audit recommendations.

The Legislative Assembly of the Northern Territory has commented:

The department agrees with and is currently addressing the audit recommendations. The issue of budget management has already been implemented with in-house monthly financial reports and analysis provided for each meeting. The Audit Committee is reviewing the Strategic Business Risk Assessment (2003) to determine its currency in developing a three (3) year audit program rectifying those procedural deficiencies highlighted in the audit. Action has also been taken to update the Accounting and Property Manual to reflect changes in the Treasurer's Directions and Procurement Guidelines.

Selected Agencies

Government Corporate Credit Card Controls and Usage

Audit Scope and Objectives

The primary objective of this audit was to conduct sufficient audit work to form an audit opinion on whether the Agencies' processes and internal controls were adequate and capable of ensuring that public monies were not misappropriated through inappropriate use of Corporate Credit Cards.

Audit Opinion

Department of Business, Economic and Regional Development

In my opinion, processes and internal controls were not adequate and capable of ensuring that public monies are not misappropriated through inappropriate use of the cards.

Department of Natural Resources, Environment and the Arts; and the Department of Primary Industry, Fisheries and Mines

In my opinion, processes and internal controls were adequate and capable of ensuring that public monies are not misappropriated through inappropriate use of the cards.

Background

A review of Government credit card controls and usage was conducted at the following Agencies:

- Department of Business, Economic and Regional Development;
- Department of Natural Resources, Environment and the Arts; and
- Department of Primary Industry, Fisheries and Mines.

Selected Agencies cont...

Key Findings

Department of Business, Economic and Regional Development

A sample of credit card payments selected for examination revealed a statistically significant number of transactions where no tax invoice could be produced to support the recorded expenditure. The transactions in question should not have been submitted for approval or verified without the appropriate supporting documentation.

There were other significant areas where controls and processes could be improved as discussed below.

Department of Primary Industry, Fisheries and Mines; and the Department of Natural Resources, Environment and the Arts

In one instance, at the Department of Primary Industry, Fisheries and Mines, a credit card transaction was split to circumvent the credit card transaction limit.

At both Agencies, there were significant areas where controls and processes could be improved as discussed below.

Issues common to each of the Agencies

It was noted that credit cards were often used as a means of procurement when they should be used as a means of payment. This was highlighted by the number of credit card transactions where there was no evidence of prior approval given to the card-holder for the acquisition of goods or services.

In each of the three Agencies there were significant numbers of employees in possession of corporate credit cards where only minimal transactions were recorded during a twelve month period. As each card incurs a cost of \$19 per annum by the card issuer (Westpac Banking Corporation), plus a further \$35 per month notional charge by DCIS (reflecting the costs incurred by that Agency in administering corporate credit cards) the identification and cancellation of 'unused' or 'rarely used' cards may prove to be cost effective to the Agencies.

The Agencies could improve their efficiency in administering credit card transactions by obtaining appropriate and concise exception reports in relation to credit cards transactions. These exception reports would assist the Agencies to identify those cards that may no longer be required.

Selected Agencies cont...

The Department of Business, Economic and Regional Development has commented:

DBERD has a central verifying point and transactions are not approved unless the appropriate paperwork has been submitted but DBERD does note that in some situations the documentation has been produced after the event. Following this audit the department has been negotiating with DCIS to improve the filing and tracking of all credit card transactions and to obtain the recommended exception reports.

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

Whilst it is reassuring that your audit opinion confirmed processes and internal controls in DPIFM were adequate and capable of ensuring public monies are not misappropriated through inappropriate use of the cards, we have carefully noted your recommendations and taken prompt corrective actions, including discussions with the Department of Corporate and Information Services to develop additional exception reports. It should also be pointed out that DPIFM already have the policies and procedures in operation to overcome the very weaknesses prior to their detection by your audit. We will again be communicating and reinforcing to staff the importance of compliance with these policies and procedures. In addition, follow up reviews on credit card controls and their usage have been scheduled in our internal audit programs.

The management letter has been tabled to DPIFM's Risk Management and Audit Committee for monitoring and reporting on the implementation of your audit recommendations.

Selected Agencies cont...

The Department of Natural Resources, Environment and the Arts has commented:

The need to review the numbers of credit cards on issue is acknowledged but must be balanced with the challenges of staff operating in remote areas so as not to unduly restrict efficient business practices. Considerable effort has gone into implementing effective internal control structures to surround the use of credit cards, to address credit card risk and this is evident in the audit opinion.

Selected Agencies

Government Credit Card Controls and Usage – further observations

Background

The review of the controls over the use of corporate credit cards was supplemented by a review of the extent to which expenditure incurred using those cards is entered promptly by card holders into the Electronic Card Management System that is administered by DCIS and whether supporting documentation is provided promptly to DCIS.

Paid-in-Absence reports prepared by the Department of Corporate and Information Services for April 2008 formed the basis of the selection of Agencies for this review. Those reports list all expenditure that has been incurred on corporate credit cards and paid by the Northern Territory Government, but for which appropriate supporting documentation remains outstanding.

The following Agencies were selected for review on the basis of value of unsubmitted transactions recorded in the reports referred to above:

- Department of Employment, Education and Training;
- Northern Territory Police, Fire and Emergency Services; and
- Tourism NT.

Key Findings

Department of Employment, Education and Training

The value of unsupported expenditure in respect of the Department of Employment, Education and Training at 30 April 2008 was \$443,199, of which \$139,756 was incurred during April 2008. Of the balance, \$150,268 had been incurred during the 2007 calendar year while \$86,783 had been incurred during the 2006 calendar year.

Northern Territory Police, Fire and Emergency Services

The value of unsupported expenditure in respect of the Northern Territory Police, Fire and Emergency Services at 30 April 2008 was \$178,896, of which \$58,226 was incurred during April 2008. Of the balance, \$30,642 had been incurred during the 2007 calendar year while a small amount of \$186 related to the 2006 calendar year.

Selected Agencies cont...

Tourism NT

The value of unsupported expenditure in respect of Tourism NT at 30 April 2008 was \$325,642, of which \$103,168 was incurred during April 2008. Of the balance, \$48,077 related to expenditure incurred during the 2007 calendar year.

Information was sought from the respective Accountable Officers about the delays in clearing expenditure incurred on their Agencies' corporate credit cards, suggesting at the same time that internal controls required by Treasurer's Direction may not be in place or, if in place, not functioning as intended and that the delays in submitting and verifying transactions did not appear to adhere to the policies and procedures issued by the Department of Corporate and Information Services.

Specific information was sought from the Agencies on:

- the reasons for the delays in ensuring that all data in respect of expenditure incurred on corporate credit cards were submitted promptly by the cardholder and verified;
- the action being taken by the Agency to address the backlog in uncleared expenditure incurred on corporate credit cards; and
- the proposed action to ensure that significant delays will not reoccur.

My approach to the Agencies in question also put the view that, as uncleared expenditure extended as far back as November 2006, officers who incurred the expenditure may have difficulty in providing documentation to support any contention that expenditure was properly incurred for official purposes. Flowing from this I sought advice on what action the Agencies proposed to take to satisfy themselves that expenditure was validly incurred.

The Agencies in question advised that the delays in ensuring that all credit expenditure was acquitted promptly were attributable to a range of factors including a lack of a dedicated officer to effectively manage the process, staff shortages, high workloads, insufficient reporting and monitoring, and the skill level of corporate card holders.

Two of the Agencies advised that in the absence of proper supporting documentation, they relied upon statutory declarations to support the contention that expenditure was incurred for official purposes, while the third Agency advised that suppliers were asked to provide copies of relevant tax invoices which confirmed that the expenses was properly incurred.

Selected Agencies cont...

Tourism NT has commented:

Tourism NT has implemented systems to monitor and report on any future delays in clearing expenditure incurred on Tourism NT Corporate Credit Cards.

Northern Territory Police, Fire and Emergency Services has commented:

New arrangements were put in place to improve the management of the Corporate Credit Card function. As a result, the majority of old transactions were cleared and transactions are promptly entered into the system and cleared. The new arrangements should ensure that these problems will not recur in the future.

Selected Agencies

Review of Selected Agency's Internal Audit Function

Audit Scope and Objectives

The primary objective of this audit was to conduct sufficient audit work to form an opinion on whether the internal audit functions of selected Agencies were adequate.

Audit Opinion

Department of Local Government, Housing and Sport; and Department of Natural Resources, Environment and the Arts

In my opinion, neither the Department of Natural Resources, Environment and the Arts, nor the Department of Local Government, Housing and Sport had maintained an adequate internal audit function.

*Department of Business, Economic and Regional Development;
Department of Primary Industry, Fisheries and Mines; and
Department of Health and Community Services*

In my opinion, nothing has come to my attention that causes me to believe that these Agencies had not maintained, in all material respects, an adequate internal audit function.

Background

The requirement for Agencies to institute and maintain appropriate internal audit capacity is contained in the *Financial Management Act* where section 15 states '*The Accountable Officer of an Agency shall ensure that the Agency has an adequate internal audit capacity to assist the Accountable Officer in the performance of his or her functions under this Act.*'

Furthermore, Part 3 Section 2 of the Treasurer's Directions states 'One of the primary responsibilities of an Accountable Officer is to ensure his/her Agency has an adequate internal audit capacity.'

Over the past two years the responsibility for ensuring that the legislated requirements regarding internal audit are met has been placed unambiguously with Agencies themselves in place of an earlier approach that saw oversight provided by the Department of the Chief Minister.

Selected Agencies cont...

My review examined the adequacy of the internal audit function in the five Agencies referred to above; it did not attempt to assess the extent to which internal audit was effective. The Agencies selected are among the larger government Agencies, where it might be reasonably assumed that the role of internal audit and its potential value to management is well understood.

Excluded from the scope of this audit were government owned corporations and other statutory bodies where boards of management tend to give greater weight to the need for good governance, with reliance being placed on the internal audit function to assist those boards in the discharge of their obligations.

The results of this audit revealed that no internal audit function existed in two of the five selected Agencies, while opportunities for improvement were identified in the remaining three.

It became apparent during my review that a general misconception prevailed within these Agencies about what constitutes adequate internal audit capacity. It is likely that the findings in respect of the five Agencies examined during this audit would be replicated if the scope of the audit were to be widened to include a greater number of entities in the General Government Sector.

Key Findings

Department of Local Government, Housing and Sport

No internal audit function existed within the Agency during the period covered by the review.

The Agency's internal audit committee had not met during the period between 1 July 2007 and the date of the completion of my review.

The Agency had not conducted a formal risk assessment. As a result, no strategic audit plan or audit program was in place and no internal audits or reviews were conducted during the 2007-08 financial year.

The internal audit position was vacant for the period November 2007 up until the date of the completion of my review.

Selected Agencies cont...

Department of Natural Resources, Environment and the Arts

Although an audit Committee existed there was no adequate internal audit function present within the Agency.

Specifically:

- no Agency wide risk assessment and no internal audits had been conducted in the period 1 July 2007 to the date of completion of my review;
- while the Agency had an internal audit charter, it was considered to require improvement;
- there was no internal audit procedures manual that documented standard operating procedures, policies or methodologies to be applied by the internal audit function;
- the internal audit function was not adequately identified as being independent of line Agency management and the reporting line to the executive was considered to be unclear as a consequence;
- it was considered that a strategic audit plan should be completed following the completion a formal Agency-wide risk assessment. An internal audit program should then be developed from that strategic plan; and
- no formal training program had been identified for staff involved in the internal audit function.

Selected Agencies cont...

Department of Business, Economic and Regional Development; and Department of Health and Community Services

Both the Department of Business, Economic and Regional Development, and the Department of Health and Community Services had an internal audit charter and an internal auditor. However, for both Agencies, some enhancement of the internal audit charter was considered necessary. That enhancement relates primarily to the need for a clear distinction of reporting lines between the internal auditor and the Chief Executive to avoid the internal audit function being influenced by those who may be subject to audit.

Both Agencies lacked a strategic internal audit plan. The strategic internal audit plans should be developed based on formal Agency-wide risk assessments.

The following specific issues were noted at the Department of Business, Economic and Regional Development:

- areas of non compliance with, and executive override of, the Internal Audit Charter were observed;
- the delineation of reporting lines from the Internal Audit Committee to the Executive had the potential to reduce the independence of the internal audit function;
- a strategic audit plan should be completed after conducting a formal Agency wide risk assessment;
- greater emphasis should be given in the Agency's Audit and Review Protocols manual to the need for independence from line management of the internal audit/review team members;
- there was no formal training provided to staff involved in the internal audit function; and
- there were occasions where Agency staff members had not cooperated fully with reasonable requests by internal audit staff, suggesting that operational staff did not have a sound understanding of the role of internal audit within the Agency.

Selected Agencies cont...

The following specific issues were noted in the case of the Department of Health and Community Services:

- the Internal Audit Charter required improvement;
- areas of non compliance with the Internal Audit Charter were identified;
- there was no Internal Audit Procedures Manual;
- the reporting line from the Internal Audit Committee to the Executive was not clearly established. This had the potential to compromise the independence of the internal audit function;
- a strategic audit plan should be completed after conducting a formal Agency-wide risk assessment;
- monitoring of the progress of internal audits could be improved; and
- there was no formal training provided to staff involved in the internal audit function.

Department of Primary Industry, Fisheries and Mines

The Department of Primary Industry, Fisheries and Mines was the only Agency of those examined to have conducted an Agency wide strategic business risk assessment. This provides an opportunity for the Agency to develop a strategic audit plan based on the risks identified. In addition, the Internal Audit Charter could be enhanced and supported by the introduction of an internal audit procedures manual.

Specifically:

- the Internal Audit Charter required improvement;
- there was a lack of an Internal Audit Procedures Manual;
- there was no formal training provided to staff involved in the internal audit function; and
- a strategic audit plan should be completed based upon the completed agency wide risk assessment.

Selected Agencies cont...

The Department of Business, Economic and Regional Development has commented:

DBERD is reviewing its audit committee structure, charter and Audit and Review Protocols as a result of this audit. It is also currently addressing the recommendations to complete a strategic audit plan.

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

We note with interest your comments on your review of the Department's internal audit capacity and welcome your suggestions to bolster its effectiveness.

DPIFM has completed a Strategic Internal Audit Program which has been approved by the DPIFM Executive for implementation and work has commenced on an internal audit procedures manual. The remaining audit observations will be addressed by governance strategies approved by DPIFM's Risk Management and Audit Committee.

The management letter has been tabled to DPIFM's Risk Management and Audit Committee for monitoring and reporting on the implementation of your audit recommendations.

The Department of Natural Resources, Environment and the Arts has commented:

The need for an effective internal audit function is acknowledged. In the three years since the Agency was established the focus has been on implementing effective financial management systems. The outcome of the credit card audit is testament to this.

Risk management and internal audit frameworks are now a priority. The Agency has an established Audit Committee and intends to build on this to develop effective internal audit capacity.

Department of Corporate and Information Services

Telecommunications Contract – Post Implementation

Audit objectives and scope

The objective of the audit was to assess the Agency's approach to the management of the Telstra Telecommunications Services Contract with reference to performance and service delivery standards.

The audit scope included an assessment of the adequacy of controls in place in regards to ongoing vendor management, including:

- service level monitoring, reporting and relationship management;
- issue identification, escalation and resolution, including dispute resolution processes; and
- financial management processes, including invoicing and cost monitoring.

Consideration was also given to risk management planning and processes and identification of opportunities for improvement where appropriate.

The approach was based on:

- observation and enquiry with appropriate personnel;
- identification of potential risks;
- inspection of appropriate documentation; and
- "walkthrough" testing of key controls.

The focus did not include:

- IT general controls and business process / application controls;
- risks and responsibilities with respect to the Telecommunications Contract specific to individual Agencies. i.e. this engagement primarily focused on the areas that DCIS are responsible for and not those of individual Agencies or Telstra; or
- probity audits / issues, and initial vendor selection / transition.

Department of Corporate and Information Services cont...

Audit Opinion

Based on the work performed, nothing came to my attention that would indicate that the Agency's approach to managing the outsourcing contract with Telstra was not appropriate, apart from the findings outlined below. These findings relate to the overarching contract / strategic risk management, and resolving accuracy of performance reports and corresponding service credits.

Background and key findings

In June 2005 Telstra became the telecommunication services provider to the Northern Territory Government (NTG).

Services provided are:

- Fixed Voice;
- Mobile Voice (Including Smartphones and Satellite);
- Tele (Audio) Conferencing;
- Video Conferencing;
- Data/WAN (including Satellite);
- Management of components of LAN (from 29 June 2006);
- Remote access (to Data/WAN); and
- Internet (including ISP accounts).

The IT Service Management Contracts team at DCIS manages the telecommunications contract from both a service delivery and contract compliance perspective. While the total telecommunications spend is monitored by IT Service Management Contracts at an aggregate level, each Agency is ultimately responsible for monitoring their telecommunications spending against their individual budgets.

Strengths were noted in the following areas:

- there is a designated business unit for managing outsourced contracts;
- a regularly monitored activity register is used to capture contract related variations and issues;

Department of Corporate and Information Services cont ...

- weekly service delivery meetings, monthly contract management meetings, quarterly reviews and steering committee meetings are held to communicate and discuss specific issues with Telstra;
- a contract variation proposal and approval process for additions and modification to the contract exists; and
- there are mechanisms in place for negotiating and improving service levels (e.g. benchmarking exercises).

While risks were considered on a day-to-day operational and service delivery basis, there were no formal risk management framework and corresponding risk assessment processes relating to contract management and strategic risks.

Discussion with DCIS contract management and a “walkthrough” of IT contract procedures identified there were no formal processes in place to identify and measure contract risks, including processes to enable appropriate resources to be put in place to help mitigate risks. These risks may range from medium / long term strategic risks to changes made to particular areas of the contract (e.g. modifications to Schedules within the contract).

If risks are not reviewed and updated periodically, there is the potential that they may not be identified and managed in a timely manner and this could lead to a reduced level of service to the Northern Territory Government.

It was recommended to the Agency management that they:

- formalise / document a risk management framework relating to contract management and strategic risks. As part of the risk framework, proper guidance should be formed on risk assessment (e.g. including likelihood and impact matrix) and review of activities (e.g. a roadmap outlining the authorisation and review requirements for making changes to specific Schedules); and
- conduct such a risk assessment / review periodically or after changes to the contract.

Department of Corporate and Information Services cont ...

Service credits have not been provided to Agencies since the commencement of the contract and this appears to be due largely to reporting inaccuracies on the part of the Contractor.

Through discussion with DCIS contract management and inspection of the Agreement for the provision of Services it was noted that service level reporting inaccuracies provided by the Contractor has led to uncertainty and impacted the distribution of service credit to Agencies, where due. This issue has existed since the commencement of the contract in 2005.

The lack of the provision of service credits, where due, may mean that the Agencies and government business divisions are not getting value for the telecommunication services they are paying for.

It is acknowledged that DCIS have, in conjunction with the service provider, initiated processes to rectify current issues surrounding the telecommunications contract. This includes:

- a Service Improvement Plan (SIP), to provide a process for Telstra to continuously improve the service provided under the whole of government contract. This is focussed on five key areas, including service level management, reporting processes, people / skills, suppliers and tools;
- a self-assessment process (developed by DCIS), to provide details on how to maintain and coordinate the self-assessment of contractual compliance by the service providers;
- the DCIS Senior Cost Analyst working with Telstra resources to analyse and determine where service credits are applicable, by rerunning past reports and identifying errors; and
- a planned audit by DCIS of Telstra's processes around service level and service credit reporting. This is expected to be performed by August 2008, with recommendations appropriately actioned, including a resolution of service level agreement reporting inaccuracies.

It was recommended that DCIS continue to address the matters set out above as expeditiously as possible and continue to monitor Telstra's performance. Where issues arise, it should be escalated to the appropriate level and resolved.

Department of Corporate and Information Services cont ...

There are potential opportunities for improvement surrounding the incorporation of performance-linked payments for future contracts.

While penalties are in place for not reaching target service levels, there is no performance-based component for exceeding agreed service levels or innovation leading to efficiencies.

There appears to be little incentive for the provider to do more than the minimum required to meet each service level. As a result, the service provider may be less likely to provide suggestions for service improvement or innovation and NTG may not receive the best possible value from the contract.

It was recommended that consideration be given to the use of performance-based payments as an incentive for improved performance and /or innovation, rather than purely as a penalty for non-performance.

The Department of Corporate and Information Services has commented:

Contract management and strategic risks are currently considered on a regular basis and appropriate action taken but it is acknowledged that this does not take place within a formal risk management framework. DCIS will formalise this process.

Appropriate measures are in place to resolve the issue of outstanding service credits with the contractor and progress is monitored jointly by senior representatives of DCIS and the contractor on a monthly basis.

DCIS will consider the option of performance linked payments in the development of future contracts.

Department of Health and Community Services

Application of, and Accountability for, Special Purpose Payments

Audit objectives and scope

The objective of the audit was to review the Agency's compliance with conditions stipulated as part of the provision of special purpose grants by the Commonwealth and the extent to which accountability requirements in connection with those grants were met.

Audit Opinion

The results of the audit were satisfactory in that no significant issues concerning either compliance with conditions imposed by the Commonwealth or accountability for grants received were identified.

The audit highlighted the extent of the resources applied by the Agency in ensuring the proper application of, and accountability to the Commonwealth for, the special purpose payments received. However, it did not attempt to quantify the cost to the Northern Territory Government of complying with those requirements.

It was noted however, that the 2006-07 acquittal for Disability Services that was due by 31 December 2007 remained outstanding as at 30 April 2008. An explanation for the delay was not forthcoming. However, the acquittal was completed during the time of the audit.

Background to this audit

This was an audit pursuant to section 13 of the *Audit Act*. It was intended to complement Agency Compliance Audits and other audits of Agencies that are undertaken each year, to contribute to the audit of the Public Account and the Treasurer's Annual Financial Statement and to provide a basis upon which further audits of specific programs may be undertaken.

The Northern Territory receives substantial health funding from the Commonwealth in the form of specific purpose grants. The extent of any carry forward commitments at 30 June may have relevance for the audit of the Treasurer's Annual Financial Statement for the financial year.

Department of Health and Community Services cont...

In 2006-07 the Agency received the following funding from the Commonwealth:

Australian Health Care Agreement	\$110.1 million
Other Special purpose grants	<u>\$ 74.8 million</u>
Total grants received	<u>\$184.9 million</u>

The audit included a review of the process by which the Agency acquits its expenditure against the following grants received from the Commonwealth.

DHCS Grants & Subsidies Revenue	2006-07 Revenue Budget	2006-07 Revenue Actual	2007-08 Revenue Budget	2007-08 Revenue Received to Feb 08
	\$'000	\$'000	\$'000	\$'000
Health Care Grants (AHCA)	109,922	110,104	116,188	69,667
Trauma Centre	13,200	13,200	13,500	-
Highly Specialised Drugs	6,726	6,631	6,426	4,486
Disabilities Services	6,470	6,470	6,586	3,314
Home and Community Care	6,444	5,876	6,560	4,566
Public Health Outcomes Access program – service extension	5,273	4,131	4,843	4,339
National Public Health	5,272	4,020	4,071	2,384
Health Connect	5,355	5,326	-	3,246
	<u>158,662</u>	<u>155,758</u>	<u>158,174</u>	<u>92,002</u>

In particular the audit assessed:

- the reliability of the underlying records used for the compilation of the acquittal data;
- the method in which the Agency acquits the expenditure to the Commonwealth where required; and
- the controls the Agency has in place to ensure the funds are expended in accordance with the conditions of the funding agreement.

Department of Health and Community Services cont...

Key Findings

The audit identified a lack of consistency in conditions set out in funding agreements. Variations between agreements may include:

- a requirement for “dollar for dollar” funding by the Commonwealth and the Territory;
- specific program funding requirements;
- the cumulative rate of growth of “own source” funding by the Northern Territory to at least match the cumulative rate of growth of Commonwealth funding to the Territory (AHCA); and
- funding to an agreed pricing formula (Australian Immunisation Agreement).

The acquittal requirements for the various funding agreements also varied, ranging from self-certification to a requirement for certification by the Auditor-General or some other appropriately qualified auditor.

It was noted that in some cases the expenditure of funds was classified according to the source of the funds in question, i.e. whether the source of funds was the Commonwealth or the Northern Territory Government.

In the majority of the funded programs, it was noted that total expenditure exceeded the level of Commonwealth funding and minimum matching level of funding by the Territory.

Where specific program funded expenditure had not occurred in the relevant financial year approval had been sought from the Commonwealth to carryover the funding to the following year.

Batchelor Institute of Indigenous Tertiary Education

Audit findings and analysis of the financial statements for the year ended 31 December 2007

Background

The Batchelor Institute of Indigenous Tertiary Education (the Institute) was established under the *Batchelor Institute of Indigenous Tertiary Education Act* with effect 1 July 1999. The Institute is located at Batchelor.

Section 46 of the Act requires the Institute to produce financial statements within 3 months of the end of the Institute's financial year (31 December) and submit them to the Auditor-General for audit.

The Commonwealth Department of Education, Science and Training (DEST) issued "Financial Statement Guidelines for Australian Higher Education Providers for 2007 Reporting Period" for financial reporting of higher education funding and expenditure. The guidelines are prepared under the *Commonwealth Higher Education Act*, and the Institute's financial statements are required to comply with those guidelines.

Audit Opinion

The audit of the Batchelor Institute of Indigenous Tertiary Education for the year ended 31 December 2007 resulted in an unqualified independent audit opinion, which was issued on 17 June 2008.

Key issues

There were no significant issues arising as a result of the audit.

I was pleased to note that the Institute was able to finalise its financial statement within the statutory time limit.

Batchelor Institute of Indigenous Tertiary Education cont...

Financial analysis

Abridged Income Statement

	2007	2006
	\$'000	\$'000
Revenue from ordinary activities	44,700	39,891
Less expenses from ordinary activities		
Employee Expenses	(24,512)	(22,319)
Depreciation and amortisation	(898)	(884)
Repairs and maintenance	(1,612)	(1,460)
Bad and doubtful debts	(73)	6
Other expenses	(17,859)	(15,340)
Total expenses from ordinary activities	(44,954)	(39,997)
Operating result for the year	(254)	(106)

Significant movements in revenue and expenses, when compared with the prior year, were as follows:

- revenue has increased by \$4.8 million or 12%, in particular:
 - increase in Commonwealth Government funding of \$4.39 million, comprising \$2.122 million for the Institutes new E Learning building and \$2.191 million for the Workplace Productivity Program, a new initiative in the current year; and
 - increase in NT Government funding of \$0.766 million, primarily in relation to funding for the E Learning Building.
- expenses have increased by \$4.96 million or 12%, in particular:
 - increase in employee costs of \$2.19 million or 9.8% from the prior year, as a result of a rise in staff numbers and EBA provisions; and
 - increase in other expenses of \$2.5 million, as a result of the following items:
 - increase in travel costs of \$0.602 million, mostly student interstate travel; and
 - increase in contracted services of \$1.4 million, primarily in relation to the Workplace Productivity Program.

Batchelor Institute of Indigenous Tertiary Education cont...

Abridged Balance Sheet

	2007	2006
	\$'000	\$'000
Current Assets		
Cash and cash equivalents	6,833	8,753
Receivables and other current assets	1,808	604
Less Current Liabilities	(3,940)	(4,481)
Working Capital	4,701	4,876
Add Non Current Assets	19,214	18,702
	23,915	23,578
Less Non Current Liabilities	(1,425)	(1,155)
Net assets	22,490	22,423
Represented by:		
Retained surplus	5,000	5,254
Reserves	17,490	17,169
Equity	22,490	22,423

Charles Darwin University

Audit findings and analysis of the financial statements for the year ended 31 December 2007

Background

The Charles Darwin University (the University) is established under the *Charles Darwin University Act*. The University controls two subsidiary entities; the Menzies School of Health Research and the Charles Darwin University Foundation, a public company that acts as trustee of the Charles Darwin University Trust.

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

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

Audit Opinion

The audit of the financial statements of the Charles Darwin University for the year ended 31 December 2007 resulted in an unqualified independent audit opinion, which was issued on 26 June 2008.

Key issues

The audit did not identify any matters of significance and no material weaknesses in controls were identified.

Charles Darwin University cont...

Financial analysis

Abridged Income Statement – CDU only – excluding controlled entities

	2007	2006
	\$'000	\$'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	52,495	46,215
Financial assistance from the NT Government	52,315	50,613
Other revenue (HECS, fees, interest, etc)	59,775	45,647
Total revenue from ordinary activities	164,585	142,475
Less expenses from ordinary activities		
Employee related costs	(85,472)	(79,099)
Administration, operational and other expenses	(68,110)	(60,277)
Total expenses from ordinary activities	(153,582)	(139,376)
Operating result for the year	11,003	3,099

Other revenue (HECS, fees, interest, etc):

- HECS has increased by \$2.8 million or 22.8% generally due to an increase in student numbers;
- Fees and Charges has increased by \$2.4 million mostly in the category of fee paying overseas students which has increased \$1.4 million; and
- Other income has increased by \$5.0 million which mostly relates to an increase in facility hire, property rent and student accommodation, reflecting the increased activity during the year.

Administration, operational and other expenses:

- Other expenses increased by \$6.3 million with the most significant movement being an increase in Course Materials of \$2.2 million, reflective of the increased student activity.

Charles Darwin University cont...

Abridged Balance Sheet – CDU only – excluding controlled entities

	2007	2006
	\$'000	\$'000
Current Assets	73,480	59,224
Less Current Liabilities	(24,119)	(24,815)
Working Capital	49,361	34,409
Add Non Current Assets	304,424	230,479
	353,785	264,888
Less Non Current Liabilities	(2,072)	(1,741)
Net assets	351,713	263,147
Represented by:		
Reserves, restricted and accumulated funds	351,713	263,147
Equity	351,713	263,147

Charles Darwin University Foundation

Audit findings and analysis of the financial statements for the year ended 31 December 2007

Background

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

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

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

Audit Opinion

The audit of the financial statements of the Charles Darwin University Foundation (the Foundation) and the Charles Darwin University Foundation Trust (the Trust) for the year ended 31 December 2007 resulted in unqualified independent audit opinions.

Key issues

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

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

Charles Darwin University Foundation cont...

Financial analysis

Abridged Income Statement – Trust

	2007	2006
	\$'000	\$'000
Revenue from ordinary activities	1,251	1,217
Less expenses from ordinary activities		
Trust donations disbursed	(490)	(512)
Donations in kind - operational	(154)	(260)
Other expenses	(2)	(2)
Total expenses from ordinary activities	(646)	(774)
Net operating result for the year	605	443

The movement in the net operating result was due largely to an increase of \$173,640 in cash donations during the year, together with an increase in scholarships funded by the Northern Territory Treasury.

The increase in cash donations received was offset by a decrease in donations of listed securities and a decrease in in-kind donations.

Trust disbursements also decreased as donations were received late in the year and were therefore not disbursed prior to the end of the year.

Charles Darwin University Foundation cont...

Abridged Balance Sheet – Trust Only

	2007	2006
	\$'000	\$'000
Current Assets	2,890	2,373
Less Current Liabilities	(2)	(14)
Working Capital	2,888	2,359
Add Non Current Assets	423	316
Net assets	3,311	2,675
Represented by:		
Investment Revaluation Reserve	31	-
Retained Earnings	3,280	2,675
Equity	3,311	2,675

Menzies School of Health Research

Audit findings and analysis of the financial statements for the year ended 31 December 2007

Background

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

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

Audit Opinion

The audit of the Menzies School of Health Research for the year ended 31 December 2007 resulted in an unqualified independent audit opinion, which was issued on 9 May 2008.

Key issues

The School's end of the year accounting and control procedures were found to be generally satisfactory.

However, past and current audits have indicated that there are some areas that would benefit from further enhancement in relation to Information Technology – in particular:

- The Service Level Agreement ("SLA") between Charles Darwin University and Menzies School of Health Research had expired. In addition, the content of the scope of services within the SLA was considered to be inadequate;
- There was no evidence of incident handling and response procedures;
- There were ineffective change management procedures in place for the Aurion payroll system;
- There were ineffective logical access controls within Aurion;
- There were ineffective program change controls within SUN Financials;

Menzies School of Health Research cont...

- There were ineffective logical access controls within SUN Financials;
- There was a lack of IT policies, procedures and documentation;
- There were ineffective controls around business continuity management;
- Active Directory was not being reviewed for appropriateness of access;
- There were ineffective controls relating to Active Directory Group Policy;
- There were ineffective controls for security of the server room; and
- There were ineffective controls relating to network and server security procedures.

Menzies School of Health Research cont...

Financial analysis

Abridged Income Statement

	2007	2006
	\$'000	\$'000
Revenue from continuing operations	21,599	16,716
Less expenses from continuing operations		
Employee Expenses	(11,293)	(8,930)
Administration, operational and other expenses	(7,483)	(5,845)
Total expenses from continuing operations	(18,776)	(14,775)
Net operating result for the year	2,823	1,941

The increased operating result was predominantly due to:

- an increase of \$3 million in grants from the Commonwealth and Territory governments - the School was successful in attracting more grants from the National Health and Mental Research Council (an increase of \$764,000);
- increased funding from the Department of Health and Aged Care of \$2.1 million as a result of a change of focus from a pure research approach to one that places more emphasis on social research/service delivery; and
- an increase in income from the Charles Darwin University (an increase of \$976,000) predominantly due to an increase in student fees and the School 's share of grants as a controlled entity of CDU.

This increase in revenue was offset by an increase in expenses of \$4.1 million or 28% from the prior year, in particular:

- an increase in employee benefits (including salaries and wages) of \$2.4 million due to an increase in staff numbers as a result of the continued growth of the School and more projects being undertaken; and
- an increase of \$630,000 in Research Project Costs as a result of more projects being undertaken. In line with this, staff travel costs also increased (an increase of \$357,000) due to the requirement for staff to travel to the outlying communities.

Menzies School of Health Research cont...

Abridged Balance Sheet

	2007	2006
	\$'000	\$'000
Current Assets	25,281	17,697
Less Current Liabilities	(12,153)	(7,008)
Working Capital	13,128	10,689
Add Non Current Assets	1,159	796
	14,287	11,485
Less Non Current Liabilities	(93)	(163)
Net assets	14,194	11,322
Represented by:		
Retained earnings	12,140	9,587
Reserves	2,054	1,735
Equity	14,194	11,322

The Menzies School of Health Research has commented:

Menzies School of Health Research acknowledges the issues that have been raised in the IT Audit. We are currently addressing the recommendations.

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Appendix 1: Audit opinion reports issued since 31 December 2007

	Date 2007 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2007	Date of Audit Report Year ended 31 December 2006
Entities with Specific Legislation or Trust Deeds			
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	17 June 08	2 August 07
Charles Darwin University	Not yet tabled	26 June 08	20 June 07
Charles Darwin University Foundation (a company limited by guarantee)	N/A	11 April 08	22 May 07
Charles Darwin University Foundation Trust	N/A	11 April 08	22 May 07
Menzies School of Health Research	N/A	9 May 08	3 April 07
	Deadline for submission of Audited Financial Statement	Date of Audit Report Year ended 31 December 2007	Date of Audit Report Year ended 31 December 2006
Inter-Government Statements by Agreement			
Charles Darwin University Higher Education Research Data Collection	31 August 08	23 May 08	5 June 07
2005-08 Commonwealth-State Agreement for Skilling Australia's Workforce – State-Sourced Recurrent Expenditure	30 June 08	30 June 08	3 September 07

N/A – Not applicable

Not yet completed – as at 30 June 2008

Not yet tabled – as at 30 June 2008

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Appendix 2: Status of audits which were identified to be conducted in the six months to 30 June 2008

In addition to the routine audits, primarily compliance audits of selected Agencies, interim audits of entities requiring financial statement opinions and follow up of outstanding issues in previous audits, the following audits, were identified in Appendix 3 of the February 2008 as being scheduled for the period.

Department of Corporate and Information Services

Advanced Communications Contract Refer page 33

Department of Health and Community Services

Application of, and accountability for, Special Purpose Payments Refer page 38

Selected Agencies

Corporate Credit Card review Refer page 20

Review of Selected Agency's Internal Audit Function Refer page 27

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Appendix 3: Proposed audit activity in the six months ending 31 December 2008

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 have been scheduled for the period.

Department of Corporate and Information Services

Information Security

Department of Health and Community Services

Information Security Management

Department of Justice

Community Benefit Fund

Department of the Chief Minister

Ministerial Travel

Northern Territory Police, Fire and Emergency Services

Information Security Management

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

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

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

What is the Public Account?

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

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

Audit of the Public Account

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

- 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*; and
- 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.

Appendix 4: Overview of the approach to auditing the Public Account and other accounts cont...

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

- 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
- 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.

Other accounts

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

Audit of the Treasurer's Annual Financial Statement

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

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

Appendix 5: Agencies not audited in the year ended 30 June 2008

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

For activities relating to the financial year ended 30 June 2008, no audits were conducted at the following Agencies:

- Aboriginal Areas Protection Authority;
- Department of the Chief Minister;
- Land Development Corporation;
- Northern Territory Electoral Commission;
- Office of the Commissioner for Public Employment; and
- Ombudsman's Office.

The increasingly stringent requirements of Australian Accounting Standards, and Auditing and Assurance Standards has required that audit effort be directed towards financial audits of those Agencies that are deemed to represent greater materiality and greater risk. It is proposed that each of the listed Agencies will be included in audit coverage at least once every three years.

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

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Appendix 6: Engagement letter

Services provided by the Northern Territory Auditor-General's Office

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

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

Meeting the Legislative Assembly's expectations

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

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

Financial attest and compliance audits

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

Appendix 6 – Engagement letter cont...

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

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

An audit does not guarantee that every amount and disclosure in the financial report is error free. An audit does not examine every transaction of an organisation, as this would be prohibitively expensive and time-consuming. A financial compliance or attest audit is a combination of systems checks and examination of samples of transactions for all items in the financial report that are considered to be material or of high risk and which, if materially misstated as a result of an error or fraud, could affect the judgements made by users on the basis of that report.

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

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

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

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

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

Appendix 6 – Engagement letter cont...

Audit of performance management systems

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

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

Performance management systems audits can be conducted at a corporate, output or category of cost level. My Office has developed a framework for its approach to the conduct of performance management system audits

Over the years the Northern Territory Auditor-General's Office has encouraged improved reporting of performance by Agencies and other Government entities. It has also encouraged Agencies and other entities to report performance indicators that address the criteria of economy, efficiency and effectiveness. In applying the audit framework referred to above, the Office continues to apply the following definitions that are contained in Australian Auditing Standard ASAE 3500

Performance Engagements:

- Economy – the acquisition of the appropriate quality and quantity of resources at the appropriate times and the lowest cost.
- Efficiency – the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- Effectiveness – the achievement of the objectives or other intended effects of activities at a program or entity level.

Appendix 6 – Engagement letter cont...

Reporting to the Legislative Assembly

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

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

Management letters to Agencies

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

Procedural fairness

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

Enhancing the value of the audit function

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

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

Appendix 6 – Engagement letter cont...

Audit fees

Audit fees are not charged by the Audit Office for audits of Agencies or other organisations that form part of the Public Account. In these circumstances the costs of the audit are met from monies appropriated by the Legislative Assembly. However, in some circumstances, the Central Holding Authority may seek to recover from the organisation in question an amount equal to the cost of the audit.

Where an audit is performed in respect of an organisation that does not form part of the Public Account or where the audit is performed for a third party, for example, audits of acquittals of expenditure on behalf of the Commonwealth, the costs of the audit are recovered directly from the organisation in question.

Independence

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

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Appendix 7: Abbreviations

AAS	Australian Accounting Standard
CSO	Community Service Obligation
DCIS	Department of Corporate and Information Services
DHCS	Department of Health and Community Services
DPI	Department of Planning and Infrastructure
DPIFM	Department of Primary Industry, Fisheries and Mines
GAS	Government Accounting System
GBD	Government Business Division
GL	General Ledger
GST	Goods and Services Tax
ICT	Information and Communications Technology
IMC	Information Management Committee
IT	Information Technology
NTAGO	Northern Territory Auditor-General's Office
TAFS	Treasurer's Annual Financial Statement

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