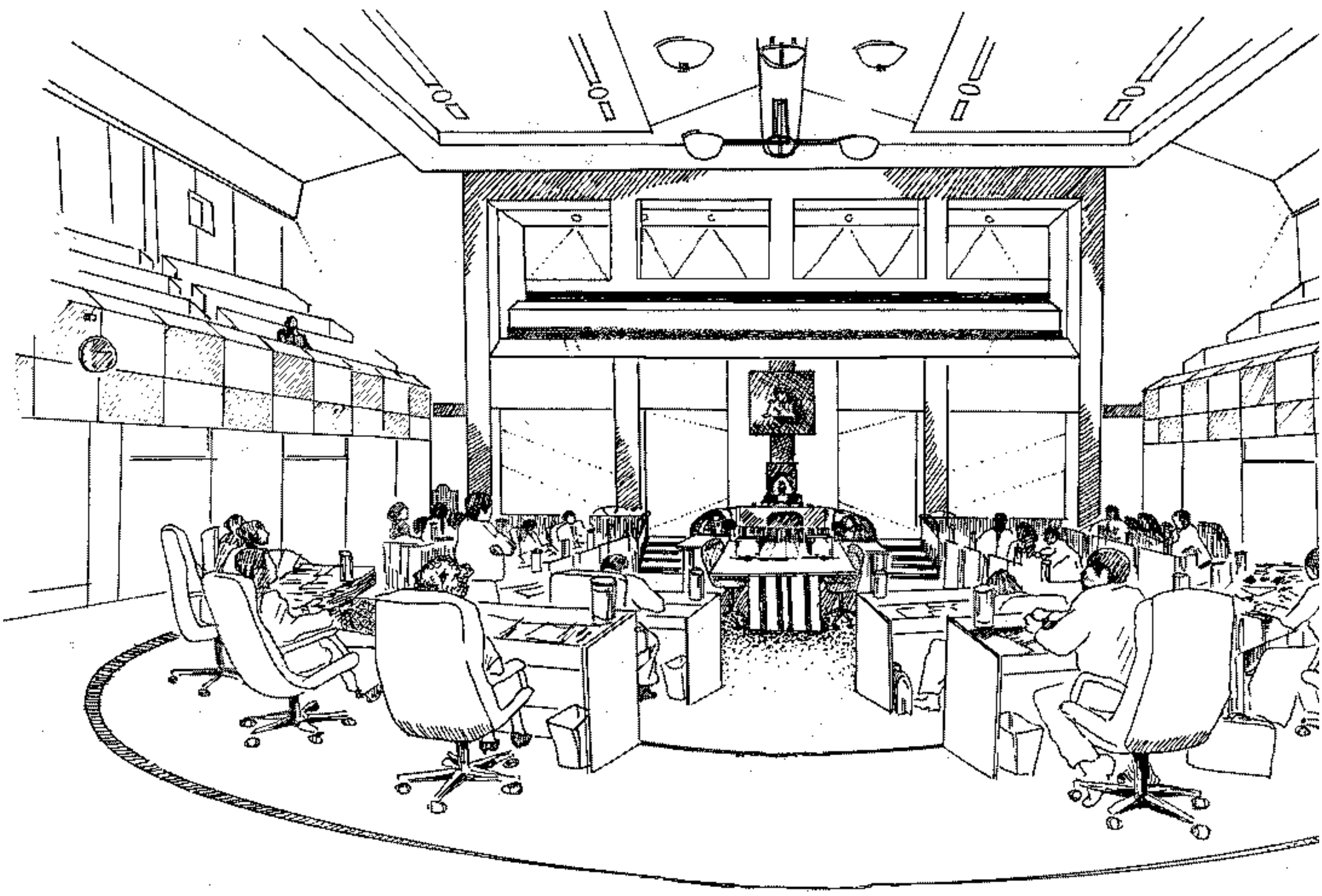
AUDITOR-GENERAL FOR THE NORTHERN TERRITORY

FEBRUARY 2008 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.

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

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

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Contents

Northern Territory Auditor-General's Office
Auditing for Parliament ..... providing independent analysis

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

20 February 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 31 December 2007 and I request that you table the report today in the Legislative Assembly.

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.

Yours faithfully,

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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 2007 to 31 December 2007:

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

This Report has 33 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 31 December 2007 plays an important role in processing data and providing information for the purposes of financial management and, more particularly, for the purposes of financial reporting and the preparation of the Treasurer’s Annual Financial Statement.

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.

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. 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

Entities Referred to in this Report cont…

Auditor-General's Overview

Audits included in this report

This Report outlines the results of audits conducted during the period 1 July 2007 to 31 December 2007.

It contains 33 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 2007.

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 the statements 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 used widely by governments. The Australian Accounting Standards Board, the body that is charged by the Commonwealth with the drafting and issue of accounting standards, has made considerable progress towards harmonising Government Finance Statistics with the principles set out in accounting standards and I anticipate that the need to continue to issue a qualified audit opinion on the Treasurer's Annual Financial Statement (TAFS) will be resolved within two years.

I have included a separate section in this report to provide some discussion and analysis on the TAFS which was tabled during the October 2007 sitting of the Legislative Assembly.

Auditor-General's Overview cont…

I issued three audit qualifications for 2006-07; 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 following the issue of an accounting standard that harmonises two quite different reporting frameworks.

The qualification issued in respect of the Power and Water Corporation's financial statements related to the 2005-06 operating result and closing balances. The 2006-07 closing balances were unqualified, however, the qualification of the 2005-06 closing balances, effectively the opening balances for 2006-07, have an effect on the operating result for 2006-07 and as such, the operating result for 2006-07 was also qualified. As the qualification event in 2005-06 was cleared in 2006-07 the financial effects will take another year to eventually 'wash out' of the reporting cycle with the operating result comparatives for the 2007-08 financial statements also requiring qualification.

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 2007

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 31 December 2007, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

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

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.

Auditing the Public and Other Accounts

Auditing the Public and Other Accounts cont…

Analysis of the Treasurer's Annual Financial Statement

Key Issues

Audit Opinion

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 2006-07 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 issued a qualified opinion on TAFS for the 2005-06 year as a result of my inability to satisfy myself about the appropriateness of the carrying amounts of certain utility assets controlled by the Power and Water Corporation. The qualification continued to affect the TAFS for 2006-07 inasmuch as the utility assets that were subject of the qualification form part of the comparative information presented for the year ended 30 June 2007.

Analysis of the Treasurer's Annual Financial Statement cont…

Operating results and financial position

- The revenues of the tax-supported General Government Sector for 2006-07 increased by $252 million when compared with the prior year, and exceeded the original budgeted revenues by $258 million.
- GST revenue for 2006-07 increased by $165 million to $2,015 million.
- Expenses of the General Government Sector for 2006-07 increased by $132 million to $3,146 million.
- The financial performance of the General Sector for 2006-07, as measured by the Net Operating Balance, was a surplus of $143 million, compared with a surplus of $22 million for 2005-06. The budgeted result for 2006-07 was a surplus of $17 million.
- The financial position of the Total Public Sector, as measured by Net Debt, improved when compared with the position at 30 June 2006. However, the Net Financial Worth of the Total Public Sector declined for the year as a result of a significant increase in the unfunded liability for superannuation.

Introduction

The Treasurer's Annual Financial Statement (TAFS), which was tabled in the Legislative Assembly in October 2007, is required to be prepared each year in accordance with the requirements of section 9 of the *Financial Management Act*. The Act requires the Treasurer to prepare the statement in a form that the Treasurer considers appropriate. This requirement needs to be considered in conjunction with the requirements of the *Fiscal Integrity and Transparency Act* (FITA). The FITA requires the Treasurer to prepare a final fiscal results report each year, with that report based on either the Australian Accounting Standard AAS31 *Financial Reporting by Governments* or the *Government Finance Statistics Australia, Concepts, Sources and Methods* (GFS). The Treasurer elected to adopt the GFS format for the preparation of the TAFS on the basis that the GFS is more appropriate for reporting the performance of the public sector.

Analysis of the Treasurer's Annual Financial Statement cont…

There is a general recognition that the reporting format required by AAS31 does not provide the most appropriate model for financial reporting by a government, where the emphasis is less upon the maintenance of some concept of capital for 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 has pursued the issue of the harmonisation of GFS and AAS31. That has resulted in the issue of an accounting standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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 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 has not complied with AAS31, successive Auditors-General have issued qualified audit opinions on TAFS over a period of years and a further qualified opinion was issued for 2006-07. I expect that there will be no further need to issue the technical qualification that has formed part of audit opinions on the TAFS after 2007-08.

AAS31 will cease to have effect from the 2008-09 year and will be replaced by a new accounting standard that is consistent with the GFS principles. As a result the dichotomy that has existed for several years with regards to financial reporting by the government and which has seen successive audit qualifications on the grounds of failure to adhere to Australian Accounting Standards will come to an end.

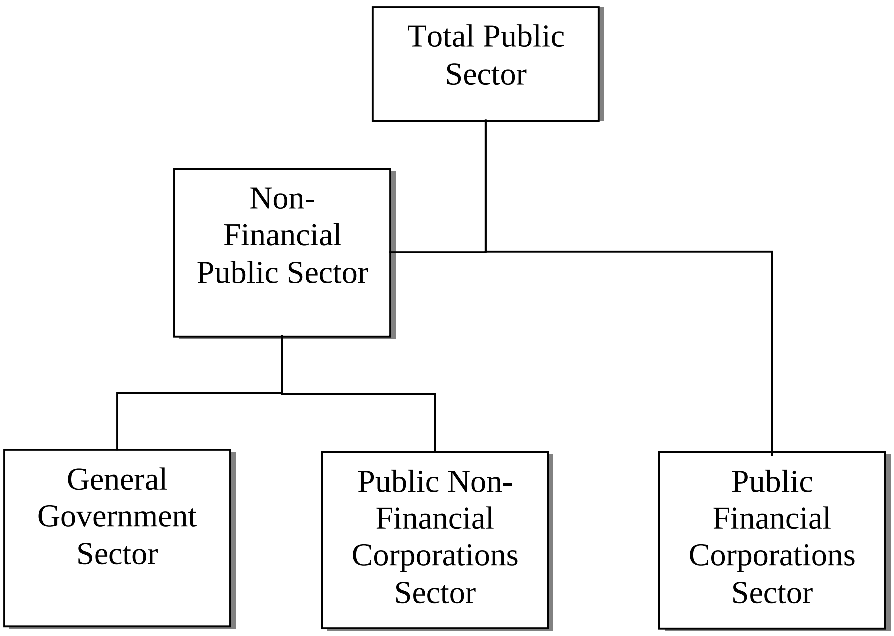
The use of the GFS framework for the presentation of TAFS also results in financial reports that are consistent with those required under the Uniform Presentation Framework (UPF). The UPF is the result of an agreement by all jurisdictions to publish financial information in a standard format in their budget papers and has been adopted by all governments to facilitate a better understanding of their respective budget papers and to provide a basis for meaningful comparisons of their financial results.

Analysis of the Treasurer's Annual Financial Statement cont…

The Uniform Presentation Framework and the Structure of the Public Sector

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 in Figure 1, below:

Figure 1
Structure of the Public Sector



Analysis of the Treasurer's Annual Financial Statement cont…

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".

Analysis of the Treasurer's Annual Financial Statement cont…

The discussion that follows about the financial performance and position of the sectors 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 consolidated financial statements for the Total Public Sector comprise 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 after eliminating inter and intra-sector transactions and balances in the process.

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
- Cobourg Peninsula Sanctuary and Marine Park Board
- Conservation Land Corporation
- Legislative Assembly Members' Superannuation Trust
- Local Government/Regional Councils
- Nitmiluk (Katherine Gorge) National Park Board

Analysis of the Treasurer's Annual Financial Statement cont…

- Northern Territory Government and Public Authorities Employees' Superannuation Fund
- Northern Territory Grants Commission
- Northern Territory Land Corporation
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Surveyors Board of the Northern Territory of Australia

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

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

Financial Reports Prepared as part of the Uniform Presentation Framework

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.

Analysis of the Treasurer's Annual Financial Statement cont…

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. 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 appropriate 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.

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.

Analysis of the Treasurer's Annual Financial Statement cont…

Budget Paper No 2 for 2006-07, Fiscal and Economic Outlook sets out the Government's medium-term fiscal objectives and targets as follows:

- **sustainable service provision:** general government positive 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.

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 2006-07 was a surplus of $143.1 million. This represents a significant improvement on the result for 2005-06, which was a surplus of $22.2 million and is the third successive year of Net Operating Balance surpluses.

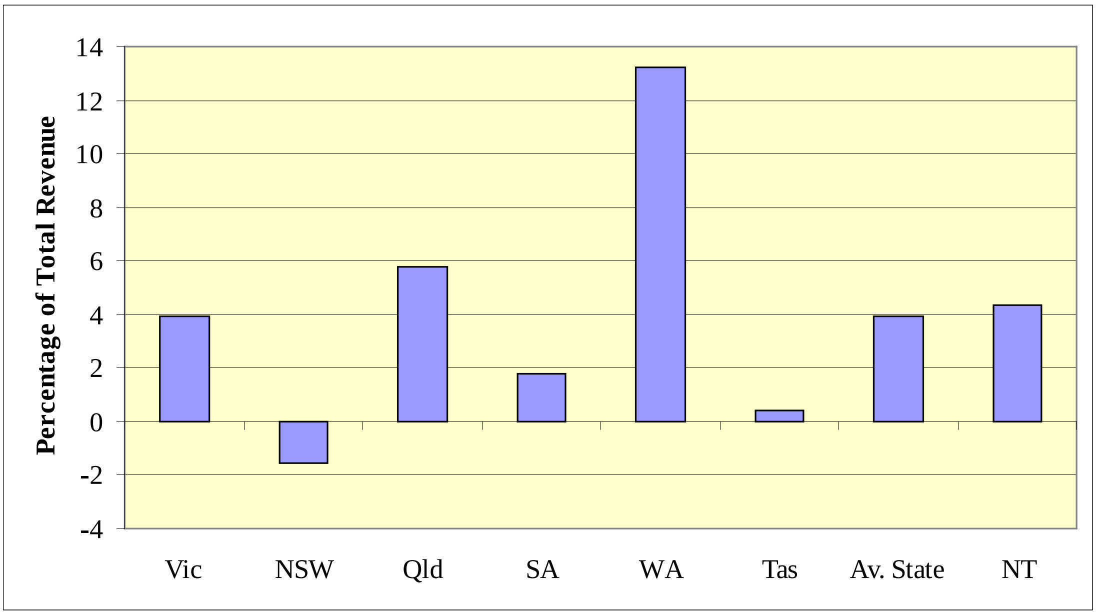
Analysis of the Treasurer's Annual Financial Statement cont…

Principal	What Is Required?	Extent To Which Target Achieved
Competitive tax environment	Ensure Territory taxes and charges are competitive with the average of the States.	Based upon the average tax effort of all jurisdictions and taking into account levies and charges that are imposed in other jurisdictions, but not in the Territory, the total tax effort by the Territory is comparable with the average of all other jurisdictions.
Prudent management of liabilities	Net Debt and employee liabilities as proportion of total revenue to fall, with the target being 110 per cent by 2010-11.	The ratio for 2006-07 was 106 per cent at 30 June 2007. This ratio may exhibit some growth in the short to medium term as superannuation liabilities continue to increase and as borrowings to finance the Power and Water Corporation capital program are undertaken. However the forecast decline in superannuation liabilities after 2016-17 should see the published target achieved.

Analysis of the Treasurer's Annual Financial Statement cont…

While the financial result for 2006-07 is sound and while the government has continued to adhere to its fiscal strategy there are, I believe, few grounds for complacency. For example, the financial performance achieved by the General Government sector for 2006-07 is comparable with that of the Australian states as illustrated in Figure 2, below:

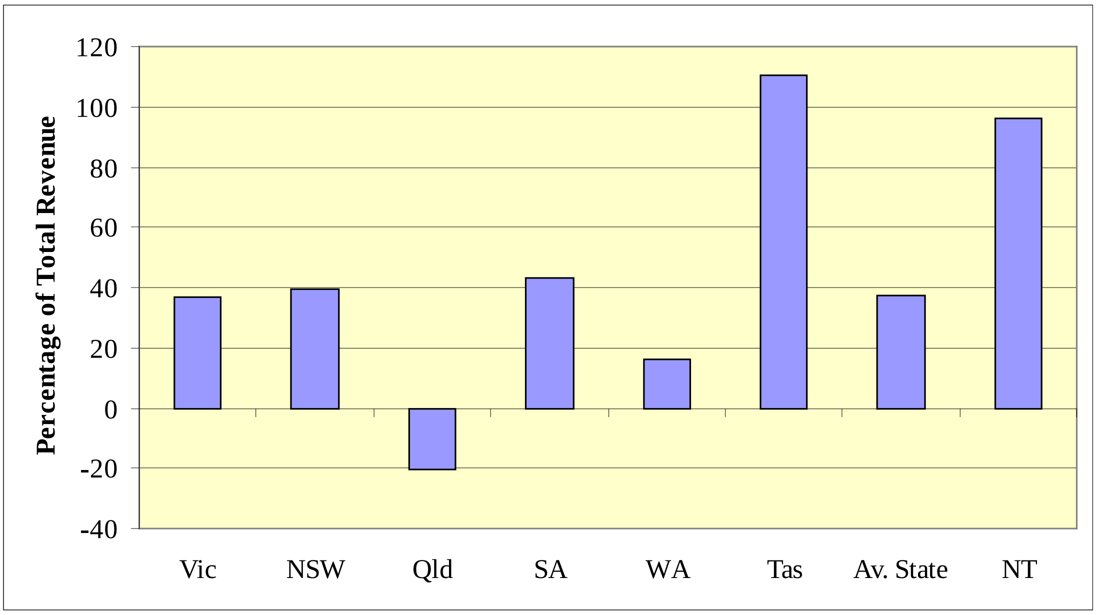
Figure 2
Comparative Net Operating Balance As Percentage of Total Revenue
General Government Sector
2006-07



Analysis of the Treasurer's Annual Financial Statement cont…

However, the Northern Territory continues to lag other jurisdictions in terms of its financial position. This is illustrated in Figure 3 which shows the Net Debt plus unfunded superannuation liabilities as a percentage of total revenue of the respective General Government sectors of the Northern Territory and each of the Australian states:

Figure 3
Comparative Net Debt Plus Unfunded Superannuation Liabilities as Percentage of Total Revenue General Government Sector As At 30 June 2007



The relatively high level of liabilities, including superannuation, suggests that the Territory will need to continue to achieve sound financial results for the foreseeable future if the overall level of liabilities is to decline to a level that approaches the average liability of the states.

As already indicated, the Territory relies very 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.

Analysis of the Treasurer's Annual Financial Statement cont…

The size of the GST pool has continued to grow in line with the growth in overall economic activity in Australia. However it is possible that at some point in the future that rate of growth may 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. An increase 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.

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 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.

Analysis of the Treasurer's Annual Financial Statement cont…

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 2006-07, 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 1, below:

Table 1
Financial Performance of the Total Public Sector

	2006-07	2005-06
	$'million	$'million
Revenues	3,850.9	3,512.5
Expenses	(3,616.5)	(3,445.2)
Net Operating Balance	**234.4**	**67.3**
Net Acquisition of Non-Financial Assets	(147.5)	(122.3)
Net Lending/(Borrowing)	**86.9**	**(55.0)**

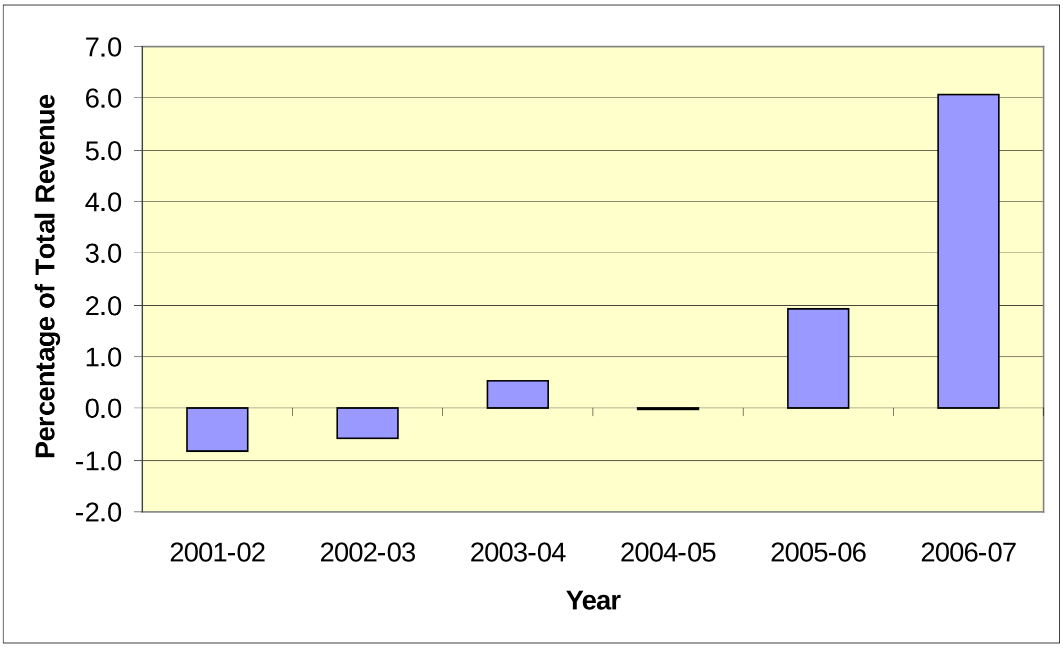
Table 1 contains two measures of performance: the Net Operating Balance which was a surplus of $234.4 million and Net Lending or Borrowing, which recorded a surplus for the year of $86.9 million. Both results represent a significant improvement over both the results for 2005-06 and the Budget for 2006-07.

Analysis of the Treasurer's Annual Financial Statement cont…

The Net Operating Balance, 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 Lending by the Total Public Sector of $86.9 million.

The Net Operating Balance for the Total Public Sector has exhibited a general improvement in both absolute and relative terms since the passing of the *Fiscal Integrity and Transparency Act* in December 2001, with the improvement being most marked in the past two years. The relative improvement over the past six financial years is illustrated in Figure 4, below.

Figure 4
Total Public Sector
Net Operating Balance as Percentage of Total Revenue



Analysis of the Treasurer's Annual Financial Statement cont…

Total Public Sector financial performance for 2006-07 was characterised by an increase in total revenues by 9.6 per cent to $3,850.9 million. Revenues received from the Commonwealth continued to dominate the Territory's revenue sources, with approximately 66 per cent of the Total Public Sector's revenues being provided by the Commonwealth in the form of GST, and current and capital grants.

Revenue from the Commonwealth continued to grow strongly, increasing by 8.7 per cent for the year to $2,556.8 million. This amount was again dominated by the Goods and Services Tax (GST) revenues. GST revenues for the year were $2,015.3 million compared with $1,850.2 million for 2005-06, an increase of 8.9 per cent for the year.

The Territory's "own source" taxation revenues for the year were dominated by payroll and related taxes, which increased by 3.3 per cent to $122.4 million, while stamp duties for the year were also significant, with $112.2 million in revenues being recognised for the year.

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 almost $567 million from operations for the year, a significant improvement over the result of $436 million for 2005-06. The operating cash surplus, supplemented by net cash inflows as a result of financing activities, was applied to financing the capital program, with the latter activity requiring net cash outlays of $579.5 million. This is illustrated in Table 2 below:

Analysis of the Treasurer's Annual Financial Statement cont…

Table 2
Total Public Sector
Summary of Cash Flows

	2006-07	2005-06
	$'million	**$'million**
Cash receipts from operations	3,843.3	3,517.9
Cash payments from operation	(3,276.3)	(3,082.0)
Net cash flows from operating activities	**567.0**	**435.9**
Less: Cash used in investing activities	(579.5)	(549.7)
Cash received in financing activities	69.5	165.7
Net Increase in cash	**56.9**	**51.9**
Opening balance of cash and deposits	196.9	145.0
Closing Balance of Cash and Deposits	**253.8**	**196.9**

Note: Totals may not add due to rounding.

As shown in Table 2, the Total Public Sector recorded an increase of $56.9 million in cash and deposits held at 30 June 2007, compared with the increase for the previous year of $51.9 million.

The net cash flows of $567.0 million that were generated by the operating activities of Total Public Sector were supplemented by net cash receipts totalling $217.5 million by way of advances received and by borrowings, with a further $89.6 million being received from the sale of non-current assets. The resulting amount of $874.1 million was applied as follows:

Analysis of the Treasurer's Annual Financial Statement cont…

	$'million
Capital expenditure as part of the capital program	411.6
Investment in financial assets for both liquidity and policy purposes	257.5
Repayment of net deposits, and other financing cash flows	148.0
Increase in holdings of cash and deposits	56.9
Total	**874.1**

Note: Totals may not add due to rounding.

Financial Position

The three measures of financial position employed by the UPF were outlined previously under "Introduction". The Territory's Net Debt position as at 30 June 2007 improved significantly when compared with the prior year. The improvement of $241.7 million resulted from increased holdings of cash, and investments, loans and placements. A significant part of the increase in investments is the result of a decision by the Government to set aside an amount of $150 million to meet the emerging liability for superannuation, with those funds being held as part of the Conditions of Service Reserve. Emerging superannuation costs are expected to place an increasing burden upon the Territory's budget over the next decade and the decision to establish a fund will permit a portion of the emerging costs of superannuation to be met from a pool of investments rather than by attempting to meet the costs from revenues at the time. This may go some way to avoiding a need to impose costs upon future taxpayers in the form of either higher taxes, increased borrowings or constrained services.

The components of the changes in each of the measures of financial position for the year are summarised in Table 3, below:

Analysis of the Treasurer's Annual Financial Statement cont…

Table 3
Total Public Sector
Components of Financial Position

	Balance at 30 June 2007	Movement for 2006-07	Balance at 30 June 2006
	$' million	**$'million**	**$' million**
Cash and deposits	253.8	57.0	196.8
Advances paid	167.0	(35.1)	202.1
Investments, loans and placements	1,751.4	336.1	1,415.3
Deposits held	(441.6)	147.4	(589.0)
Advances received	(285.8)	4.3	(290.1)
Borrowings	(2,320.0)	(268.0)	(2,052.0)
Net Debt	**(875.2)**	**241.7**	**(1,116.9)**
Non-equity assets	233.3	(7.1)	240.4
Equity assets	-	-	-
Superannuation liabilities	(2,087.4)	(314.2)	(1,773.2)
Other employee entitlements and provisions	(764.9)	(15.7)	(749.2)
Other non-equity liabilities	(294.3)	(7.5)	(286.8)
Net Financial Worth	**(3,788.5)**	**(102.9)**	**(3,685.7)**
Carrying amount of non-financial assets	6,507.6	116.4	6,391.2
Net Worth	**2,719.1**	**13.5**	**2,705.6**

Note: Totals may not add due to rounding.

From the table shown above, 2006-07 saw:

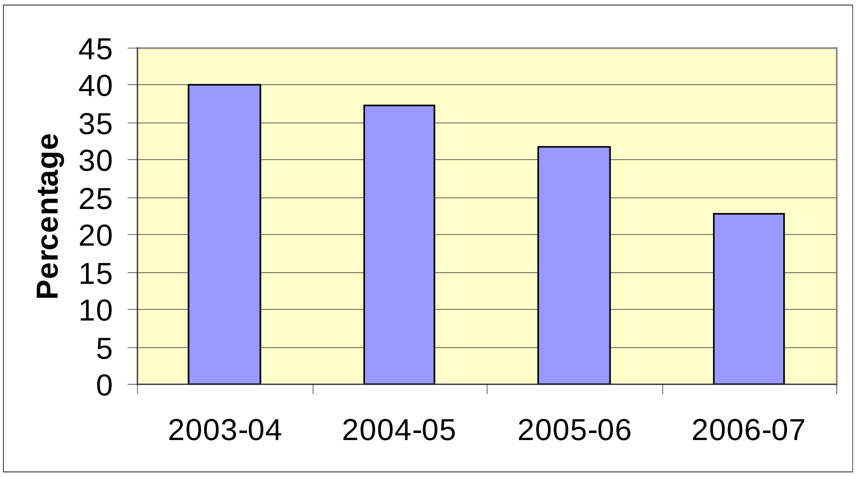
- An improvement in the total public sector net debt position, primarily as a result of the growth in financial assets in the form of investments, loans and placements which, together with the reduction in liabilities in the form of deposits held, outweighed the increase in borrowings for the year.

Analysis of the Treasurer's Annual Financial Statement cont…

- A decline in net financial worth, due largely to the increase in the value of unfunded superannuation liabilities.
- An increase in net worth as a result of the increase in the net carrying amounts of non-financial assets.

The continued improvement in the Total Public Sector Net Debt position represents a continuation of a pattern that has emerged since the adoption of a fiscal strategy by the Government. This improvement is illustrated in Figure 5, below:

Figure 5
Total Public Sector
Net Debt as Percentage of Total Revenue



From a public finance perspective, the trend in the public sector's net debt position is appropriate. One widely used argument in favour of reducing debt levels is linked to the accompanying reduction in the cost of debt servicing. However, there is also a strong case for ensuring that the Territory ensures that it has adequate borrowing capacity that would permit it to assume higher levels of debt in future years to finance the replacement of the existing stock of fixed assets, but without placing a significant burden on future budgets.

Analysis of the Treasurer's Annual Financial Statement cont…

There appears to be no integrated approach to the management of data and information about the age and condition of the public sector asset stock. Data about the age and condition of assets controlled by the public sector are stored within a number of systems, such as the Government Accounting System, the Building Asset Management System and the Roads Information System. However, these systems do not include the tools to enable information to be provided in a centralised manner that would assist the Government to assess the likely effect on the Public Account of future asset replacement and maintenance decisions. Accordingly the Government has commissioned the procurement of a new integrated asset management system to enhance existing information. Given the scale of the project, it is anticipated that approximately two years will elapse before the system is fully commissioned.

Analysis of the Treasurer's Annual Financial Statement cont…

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

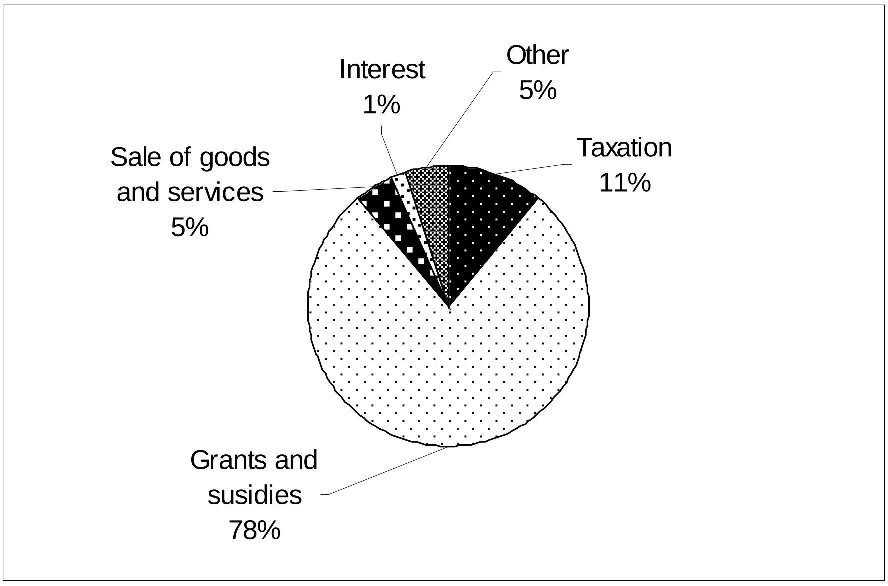
The financial relationship between the Commonwealth, and the states and territories, is affected by the existence of what is known as "vertical fiscal imbalance". This is the result of a progressive shift of taxing powers from the states to the Commonwealth in the years following federation, while the 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".

Analysis of the Treasurer's Annual Financial Statement cont…

The sources of revenue of the Northern Territory General Government Sector for 2006-07 are shown in Figure 6, below:

Figure 6
Components of General Government Sector Revenues – 2006-07



As can be seen from Figure 6, 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 $2,015.3 million.

The introduction of the Goods and Services Tax, and the accompanying arrangements under which GST 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 might have received otherwise if the previous system of a combination of Commonwealth financial assistance grants and Territory taxes had been maintained.

Analysis of the Treasurer's Annual Financial Statement cont…

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 2006-07 when compared with the prior year, reflecting the continuing growth of the pool of GST 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 reflected in the forward estimates set out in Budget Paper 2 *Fiscal and Economic Outlook* and these suggest an annual rate of growth of the order of 3.7 per cent is expected through to 2010-11.

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*.

Analysis of the Treasurer's Annual Financial Statement cont…

General Government Sector Expenses

The expenses of the General Government Sector are shown in Figures 7 and 8, with Figure 7 showing expenditure on an object basis, while Figure 8 shows the same expenditure on a functional basis. Both bases are consistent with the requirements of the Uniform Presentation Framework.

Figure 7
General Government Sector Expenses 2006-2007
Object Basis

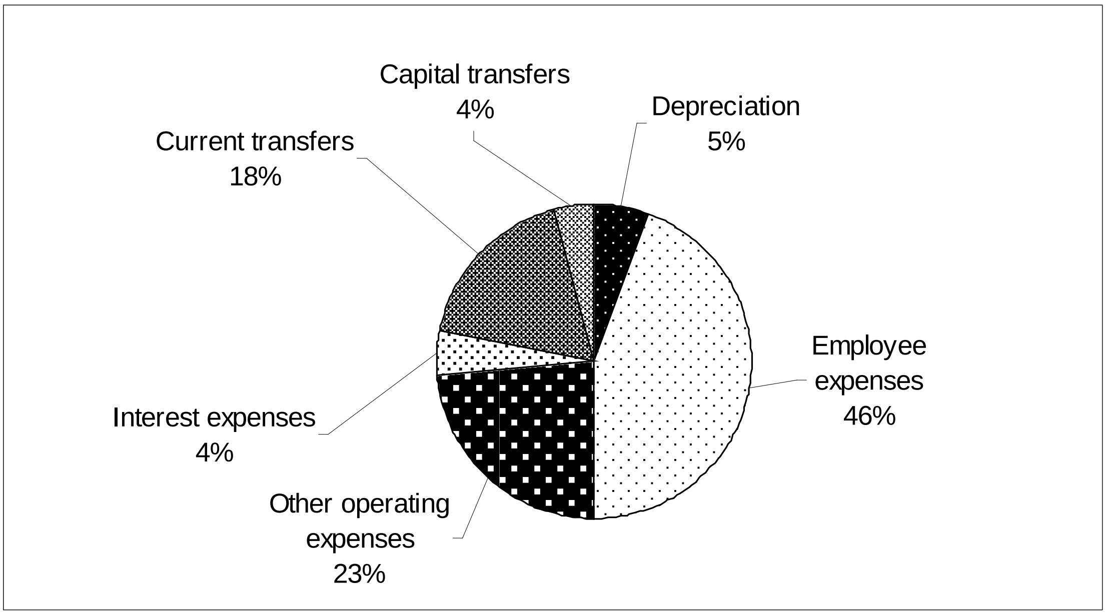


Figure 7 highlights the extent to which General Government sector expenses are dominated by employee expenses. Employee expenses consist of two principal components; salary and wage expenses, and expenses associated with the provision of superannuation.

Analysis of the Treasurer's Annual Financial Statement cont…

Table 4
General Government Employment Expenses 2006-07

	2006-07	2005-06
	$'million	**$'million**
Wages and salaries	1,162.8	1,097.0
Funded superannuation expense	53.5	47.6
Unfunded superannuation expense	83.3	71.0
Nominal interest expense on unfunded superannuation	104.8	96.1
	1,404.4	**1,311.7**

As can be seen from the above table, wage and salary growth for the year was almost 6 per cent. This growth was generally attributable to growth of approximately 2 per cent in the number of persons employed, coupled with salary increases of 3 per cent paid during the year as a result of earlier enterprise bargaining agreements.

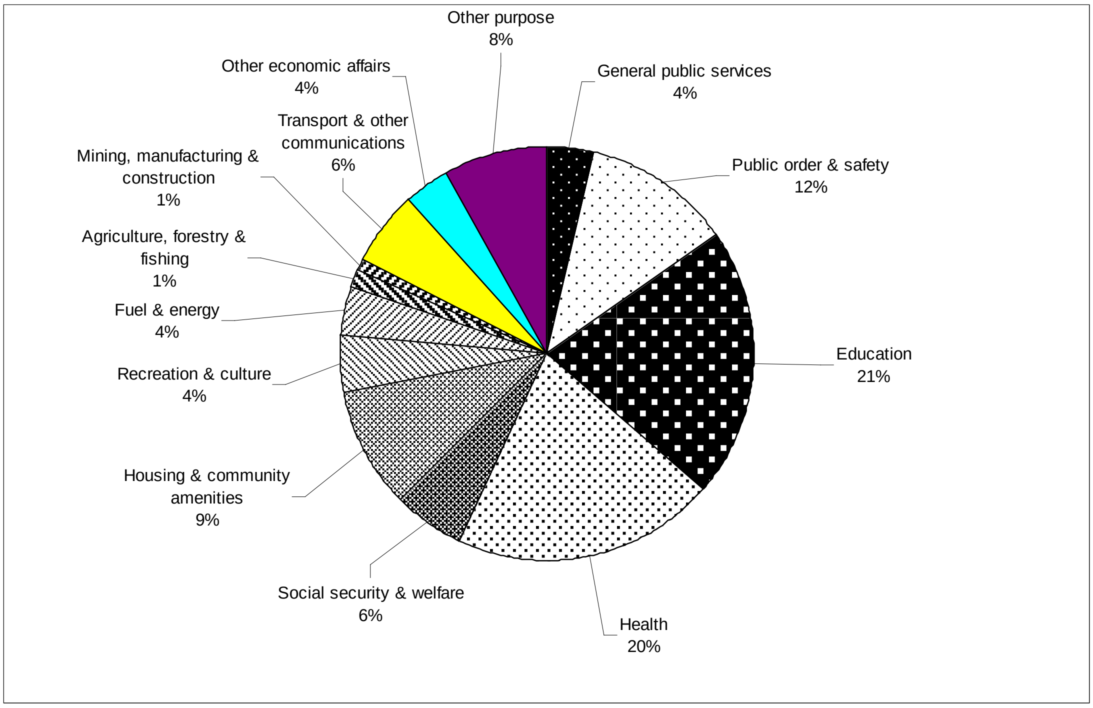
The funded superannuation expense represents the value of payments by the Government to superannuation schemes, in respect of services provided by employees during 2006-07, to finance future superannuation benefits. Also included are unfunded superannuation expenses, which are superannuation expense accrued for services provided by employees during 2006-07.

Under a GFS model, the employer is regarded has having borrowed from employees an amount equal to the increase in the superannuation liability each period. For purposes of determining expenses for the period, the increase in the unfunded superannuation liability is divided between the superannuation expense and a nominal interest expense.

Employee, depreciation and interest expenses together represented 55 per cent of total General Government sector expenses. A consequence of this relatively high level of costs that are essentially fixed is a lack of budgetary flexibility available to any government.

Analysis of the Treasurer's Annual Financial Statement cont…

Figure 8
General Government Expenses 2006-07
Functional Basis



Figures 7 and 8 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 three functional areas: education; health; and public order and safety. These functions represent approximately 53 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.

Analysis of the Treasurer's Annual Financial Statement cont…

A comparison of revenues and expenses for the General Government Sector for the years 2006-07 and 2005-06 is shown in Table 5, below:

Table 5
General Government Sector
Operating Statement
For the Year Ended 30 June 2007

	2006-07 Actual $'million	2006-07 Budget $'million	Variance $'million
Taxation revenue	368.0	326.3	41.7
Current grants and subsidies	2,450.5	2,365.8	84.7
Capital grants	106.3	75.2	31.1
Sales of goods and services	148.2	112.0	36.2
Interest income	48.2	15.7	32.5
Other	167.7	135.5	32.2
Total Revenues	**3,288.9**	**3,030.5**	**258.4**
Depreciation	(170.9)	(143.0)	27.9
Employee expenses	(1,299.6)	(1,236.8)	62.8
Other operating expenses	(736.1)	(750.7)	(14.5)
Nominal superannuation interest expense	(104.8)	(99.2)	5.6
Other interest expenses	(139.3)	(111.9)	27.4
Other property expenses	(0.7)	-	0.7
Current transfers	(564.5)	(586.5)	(22.0)
Capital transfers	(129.9)	(85.4)	44.5
Total Expenses	**(3,145.8)**	**(3,013.5)**	**132.3**
Net Operating Balance	**143.1**	**17.0**	**126.1**

Note: Totals may not add due to rounding.

Analysis of the Treasurer's Annual Financial Statement cont…

Table 5 highlights the extent to which all classes of revenue earned during the year exceeded the amounts set out in the Budget that was considered by the Legislative Assembly in 2006, with total revenues exceeding the budget by $258.5 million, or 8.5 per cent. Of particular note is the extent to which current grants and subsidies exceeded the budgeted amount by $84.7 million, with GST revenues representing $47.6 million of this amount.

Against the backdrop of the growth in revenues for the year, total expenses exceeded the budget by $132.4 million, or 4.4 per cent. The most significant contributor to the growth in expenses was employee expenses which exceeded the original budget by $62.8 million or 5.1 per cent.

Other interest expenses for the sector were $27.4 million higher than budgeted, reflecting higher levels of borrowings following the transfer of Territory Housing to the General Government Sector, together with an increase in the weighted average cost of borrowing for the year.

The overall outcome was an improvement in the sector's Net Operating Balance to $143.1 million for the year compared with a budgeted outcome for a deficit of $17 million; an improvement of $160.1 million.

The financial performance of the Sector for the year was also reflected in its cash flows that are summarised at Table 6.

Analysis of the Treasurer's Annual Financial Statement cont…

Table 6
General Government Sector
Summary of Actual and Budgeted Cash Flows
For The Year Ended 30 June 2007

	Actual 2006-07	Budget 2006-07	Variance
	$'million	**$'million**	**$'million**
Cash receipts from operations	3,285.9	3,018.8	267.1
Cash payments from operations	(2,855.5)	(2,806.1)	(49.4)
	430.4	**212.7**	**217.7**
Less: Net cash used in investing activities	(352.4)	(203.9)	148.5
Net cash used in financing activities	(60.3)	22.5	82.8
Net Increase/(Decrease) in Cash	**17.7**	**31.1**	**(13.4)**
Opening Balance of Cash and Deposits	55.8	47.8	8.0
Closing Balance of Cash and deposits	**73.5**	**79.0**	**(5.5)**

Note: Totals may not add due to rounding.

The increase in actual cash and deposits held by the General Government Sector at the end of the 2006-07 year when compared with the Budget for the year was the result of:

- significantly higher than budgeted cash receipts from the Commonwealth ($114.6 million), increased taxes and charges ($42.9 million), increased cash flows from the sale of goods and services ($34.1 million) and other receipts (eg royalties and transfer to General Government Sector of Territory Housing) which were $75.4 million greater than budgeted;
- higher than budgeted operating cash payments ($49.3 million);
- higher than budgeted net outflows on account of the transfer of $150 million to the Condition of Service Reserve to meet future superannuation obligations; and
- lower than budgeted net cash outlays in connection with investment in non-financial assets ($6.5 million).

Analysis of the Treasurer's Annual Financial Statement cont…

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 2007 represents an improvement upon the position as at 30 June 2006 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 2006-07 was the result of an increase in total assets to $7,506.0 million ($7,163.9 million as at 30 June 2006) which more than offset the increase in total liabilities. Total liabilities increased to $4,787.0 million ($4,458.3 million as at 30 June 2006), with the increase being due largely to the increase in the liability for superannuation. Within these broad aggregates there are, however, a number of movements of specific asset and liability classes and these are summarised at Table 7:

Analysis of the Treasurer's Annual Financial Statement cont…

Table 7
General Government Sector
Components of Financial Position

	Balance at 30 June 2007	Movement For 2006-07	Balance at 30 June 2006
	$'million	$'million	$'million
Cash and deposits	73.5	17.7	55.8
Advances paid	185.1	(35.0)	220.1
Investments, loans and placements	868.9	226.0	642.9
Deposits held	(161.4)	34.4	(195.8)
Advances received	(295.3)	28.6	(323.9)
Borrowings	(1,745.7)	(50.4)	(1,695.3)
Net Debt	**(1,074.9)**	**221.3**	**(1,296.2)**
Other non-equity assets	116.5	(17.6)	134.1
Equity assets	1,069.9	(28.8)	1,098.7
Superannuation liabilities	(2,087.4)	(314.2)	(1,773.2)
Other employee entitlements and provisions	(399.5)	(20.9)	(378.6)
Other non-equity liabilities	(97.6)	(6.1)	(91.5)
Net Financial Worth	**(2,473.0)**	**(166.3)**	**(2,306.7)**
Net carrying amounts of non-financial assets	5,192.0	179.8	5,012.2
Net Worth	**2,719.0**	**13.5**	**2,705.5**

Note: Totals may not add due to rounding.

Analysis of the Treasurer's Annual Financial Statement cont…

From the table shown above, 2006-07 saw:

- An improvement in the total public sector net debt position, primarily as a result of a strong increase in the level of investments, loans and placements, with the movements in other components also contributing to the improvement.
- A decline in net financial worth, due largely to the increase in the value of unfunded superannuation liabilities.
- An increase in net worth as a result of the increase in the net carrying amounts of non-financial assets.

Some care needs to be exercised when considering the net worth and net financial 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 2007 was $1,069.9 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 2006-07, the General Government sector received $16.7 million by way of dividends ($28.4 million in 2005-06) and $24.0 million by way of tax equivalent payments ($22.1 million in 2005-06) from both the PNFC and PFC sectors.

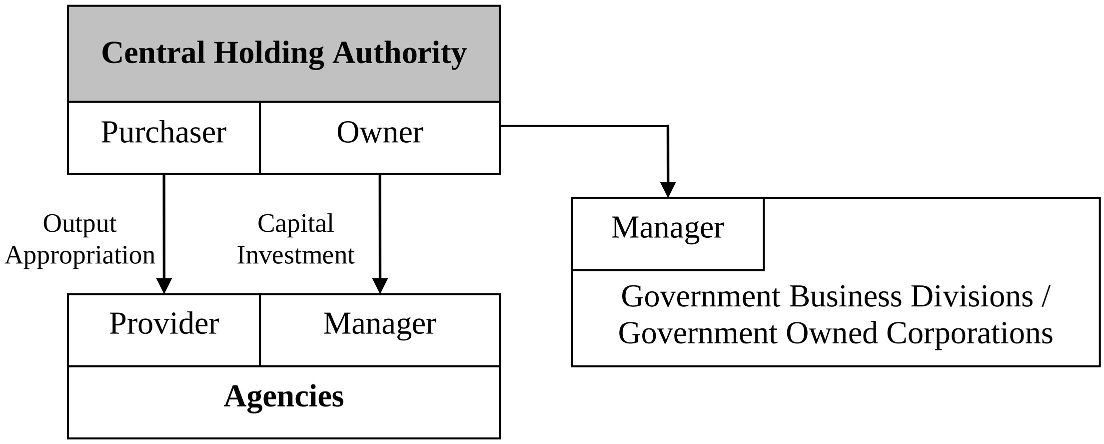
The Central Holding Authority

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 9.

Analysis of the Treasurer's Annual Financial Statement cont…

Figure 9
Central Holding Authority Relationship



Source: Northern Territory Treasury

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

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

- all revenues that are received by the Northern Territory Government with the exception of those revenues that are permitted to be credited to an Operating Account or an Accountable Officer's Trust Account. The principal revenues credited to the CHA are taxation, and untied grants (predominately GST revenues and fines);
- all expenses incurred in relation to the provision of outputs by Agencies, together with those expenses that are managed at a whole-of-government rather than at an Agency level such as borrowing expenses, superannuation expenses and long service leave expenses;

Analysis of the Treasurer's Annual Financial Statement cont…

- 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 2006-07, compared with that of 2005-06 is illustrated in Table 8, below:

Table 8
Central Holding Authority
Financial Performance

	2006-07	**2005-06**
	$'000	**$'000**
Taxation	452,694	457,561
Grants and subsidies	2,030,562	1,872,046
Royalties, rents and dividends	103,439	89,469
Interest revenue	32,490	18,786
Other	104,721	105,972
Total Revenues	**2,723,906**	**2,543,834**
Output expense	(2,127,603)	(2,073,400)
Interest expense	(118,674)	(117,379)
Superannuation expense	(424,970)	(111,496)
Other	(23,736)	(23,901)
Total Expenses	**(2,694,983)**	**(2,326,176)**
Net Operating Surplus	**28,923**	**217,658**

Analysis of the Treasurer's Annual Financial Statement cont…

As can be seen from the preceding table, revenues of the CHA grew strongly, increasing by $180.1 million for the year (compared with $203.4 million for the prior year). The principal contributors to the increased CHA revenue were:

- GST revenue, which increased by $165.2 million to $2,015.3 million; and
- interest revenue which increased by $13.7 million to $32.5 million.

Taxation revenue recognised by the CHA declined by $4.9 million when compared with 2005-06. However, this decline reflects the receipt during 2005-06 of an extraordinary amount of $47.5 million in stamp duty that had been assessed, but which was the subject of appeal by the taxpayer. In decisions brought down by the Supreme Court of the Northern Territory in February and in December 2007 the taxpayer's appeal was allowed and an amount received previously, plus interest, was refunded to the taxpayer during the current financial year.

Output expense incurred by the CHA increased $54.2 million when compared with the prior year, while superannuation expenses increased by $313.5 million, largely as a result of the revaluation of the General Government Sector's liability for unfunded superannuation.

The cash position of the CHA at 30 June 2007 was stronger than for the prior year. Among the factors that affected the year-end cash position were:

- an increase in cash received from the Commonwealth ($158.5 million); and
- increased cash inflows from royalties, rents and dividends ($19.3 million).

with these being offset by:

- increased output payments ($54.2 million);
- increased superannuation benefit payments ($11.0 million); and
- lower cash inflows from deposits received ($108.9 million).

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

Analysis of the Treasurer's Annual Financial Statement cont…

Table 9
Central Holding Authority
Abridged Statement of Cash Flows

	2006-07	2005-06
	$'000	**$'000**
Net cash inflows from operating activities	316,978	209,298
Cash outflows from investing activities	(330,883)	(336,605)
Cash inflows from financing activities	37,538	146,358
Net increase in cash held	**23,632**	**19,051**
Opening Balance of Cash and Deposits	37,755	18,704
Cash at end of financial year	**61,387**	**37,755**

Note: Totals may not add due to rounding.

Central Holding Authority and Appropriation of Monies by the Legislative Assembly

It is a fundamental principle of the Westminster system of government that no money may be spent without proper approval. The *Financial Management Act* sets out the mechanisms that govern the expenditure of public money in the Northern Territory and to this end all monies appropriated for specified purposes are applied from the Central Holding Authority (CHA).

The *Appropriation Act 2006* authorised an amount of $2,523,068,000 to be applied from the CHA. Increases to amounts appropriated for the year occurred in response to increased GST and Territory "own source" revenues received and those increased allocations were financed by either Treasurer's Advances made pursuant to Section 18 of the *Financial Management Act* or by the transfer, pursuant to Section 20 of the Act, of excess allocations originally made for other purposes.

Analysis of the Treasurer's Annual Financial Statement cont…

Table 10
Allocations By Central Holding Authority
2006-07

	Approved	Budget	Variance
	$,000	**$'000**	**$'000**
Purpose			
Output Appropriation	2,127,603	2,060,814	66,789
Capital Allocation	176,525	172,195	4,330
Employee Entitlements	132,759	128,577	4,182
Interest, taxes and administration	121,054	131,482	(10,428)
Allocation for the Year	**2,557,941**	**2,493,068**	**64,873**
Which was financed by			
Treasurer's Advance appropriated by Appropriation Act			30,000
Treasurer's Advance approved pursuant to Section 19 of *Financial Management Act*			34,873
			64,873

Analysis of the Treasurer's Annual Financial Statement cont…

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 2007 that liability was $2,087.4 million ($1,773.2 million at 30 June 2006). That liability is held entirely by the General Government Sector.

The various schemes, and the unfunded liability in respect of each, at 30 June 2007 were as follows:

Table 11
Unfunded Superannuation Liabilities
As At 30 June 2007

	2007	**2006**
Scheme	**$'million**	**$'million**
Northern Territory Government and Public Authorities Superannuation Scheme	593.4	585.6
Commonwealth Superannuation Scheme	1,208.5	960.2
Northern Territory Supplementary Superannuation Scheme	167.2	162.2
Northern Territory Police Supplementary Benefit Scheme	30.8	29.4
Legislative Assembly Members Superannuation Trust	7.0	-
Northern Territory Death and Invalidity Scheme[1]	37.4	-
Other Schemes[2]	43.1	35.8
	2,087.4	**1,773.2**

[1] The Northern Territory Death and Invalidity Scheme took effect from 1 July 2007 following amendments to the Superannuation Act passed by the Legislative Assembly in October 2007.

[2] Comprises the unfunded liability of benefits accrued pursuant to the *Administrators Pensions Act* and the *Supreme Court (Judges Pensions) Act*.

Analysis of the Treasurer's Annual Financial Statement cont…

Superannuation schemes can be characterised generally as being either defined benefit or defined contribution schemes. A defined benefit scheme is one where the accrued benefits payable to a member are a function of his or her final salary or length of service. A defined contribution scheme is one where the accrued benefits payable to a member are represented by the accumulated contributions to the scheme together with associated investment earnings.

Defined contribution schemes are, by definition, fully funded.

Each of the liabilities shown in the preceding table represents the value of the unfunded defined benefits that had accrued under the respective schemes as at 30 June 2007.

The value of the liabilities shown at Table 11 is a function of a number of factors including expected 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.

Most schemes listed in the table have been either closed to new members or have been amended so as to preclude the provision of defined benefits to new members.

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 around 2016-17, followed by a slow decline until mid-century. The cash outflows associated with the payment of superannuation benefits are expected to peak in 2022-23.

Department of the Chief Minister

Procurement of Advertising and Related Services

Audit Scope and Objectives

The objective of the audit was to assess the extent to which the processes adopted by the Department of the Chief Minister (the Department) in awarding and administering contracts for the provision of advertising and related services, with an emphasis on contracts awarded to Sprout Creative (NT) Pty Ltd (the Company), complied with the requirements of the NT Government Procurement Policy.

Audit Opinion

The processes that governed the procurement of consultancy services from firms on the panel contract D04-0867 and the associated payments by the Department were in place and generally consistent with NT Government procurement policy. However, there were instances where the analysis of firms' capabilities were documented after the decision to engage those firms for specific assignments.

The database maintained by the Department in accordance with the contract is required to record, inter alia, an internal assessment of the working relationship and product produced as a result of each assignment and is to be used by the Department from time to time to review panel members and the effectiveness of the panel contract. While the Department had established the required database, the information held on panel members' performance was considered to be of limited assistance in assessing firms for subsequent engagements.

Background

An initial analysis of payments made by NT Government agencies to Sprout Creative (NT) Pty Ltd from 1 July 2005 to 31 January 2007 identified that services have been procured from the Company by a number of agencies on a regular basis throughout the period in question. Total expenditure by all agencies amounted to almost $880,000 and of that amount, almost $436,000 was incurred by the Department of the Chief Minister. This represents approximately 50 per cent of the total expenditure on services provided by Sprout and is illustrated in the following table:

Department of the Chief Minister cont…

A summary of transactions with Sprout Creative (NT) Pty Ltd

	By Department of the Chief Minister	By All agencies	%
12 months to 30 June 2006	$146,202.71	$493,522.49	29.6
7 months to 31 January 2007	$289,946.69	$385,089.10	75.3
Transactions for the period September to November 2006 included in the above amounts	$260,681.57	$297,994.76	87.5

Source: Compiled by NTAGO from DCIS transaction listing

At the same time, the relative importance of the Department as a procurer of services from the Company increased markedly over the period in question. That increase was largely attributable to the decision by the Government to introduce Road Safety, and Creating Darwin's Future campaigns, both of which required the acquisition of graphic design services.

Key Findings

Authorisations under delegations

The approval processes for the authorisation of the procurement of consultancy services and eventual payment by the Department were in place and generally followed NT Government procurement policy.

The contract requires the Department, for assignments with specific requirements at rates, to issue an order against the established rates to the consultant offering the best value-for-money outcome, within the required timeframe. An analysis of the value of work allocated to panel members, which are recorded as having graphic design skills as part of their core capabilities, is shown in the following table:

Department of the Chief Minister cont…

A summary of expenditure under panel contract D04-0867
for 2005-06 and 2006-07 (as at 30-04-07)

	2005-06	2006-07	
	$	**$**	**% of Total**
Sprout Creative	65,665	322,003	85.5
Boyanton Advertising	44,201	30,558	8.1
First Class NT Pty Ltd	6,558	23,844	6.4
Total	**$116,424**	**$376,405**	**100.0**

Source: Compiled by NTAGO from DCM data

As can be seen from the table, above, the allocation of work to the Company, as a percentage of the total value of work allocated to the class of firms in question, exceeded by a material amount the value of work allocated to its nearest competitor. I am satisfied that the Company was the firm best qualified to provide graphic design services at the time. That view is based upon the initial assessment made of the various firms as part of the tendering process and which saw the Company ranked above other panel members offering similar services, together with information obtained about the capabilities of several firms, including the Company.

Notwithstanding the results of the initial assessment, I believe that a periodic, written reassessment of the firm's capabilities would be beneficial given that any firm's capability may alter over time. Ideally, that reassessment should be done prior to the issue of an order to the firm. Instances were noted during the audit where written assessments of firms were completed after the decision to allocate work to the firm in question had been made.

Department of the Chief Minister cont…

Performance assessment of panel members

The database that is required to be maintained by the Department for procurement transactions under the panel contract is required to record, amongst other details, an internal assessment of the working relationship and the product produced as a result of each assignment. The database is to be used by the Department from time to time to review panel members and the effectiveness of the panel contract. While a database was established consistent with requirements of the contract, I noted that comments about contractors' performance were often limited to comments such as "Project completed. Performance satisfactory". This approach to describing working relationships may not provide a sound basis for reviewing panel members' performance and the effectiveness of the panel contract. These assessments should not be underrated, in my opinion, as they may provide the Department with a defence if any subsequent suggestions should be made about the allocation of specific types of work among panel members.

The Department of the Chief Minister has commented:

Authorisations under delegations

The department is able to provide documentation to support the selection of panel members for assignments but notes that in some situations the documentation has been produced after the event. The department agrees that the rationale behind the allocation of an assignment to a particular contractor should be documented before the contractor is advised of the work request and has put processes in place to ensure that this occurs in the future.

Performance assessment of panel members

The department maintains a comprehensive database related specifically to work allocated under the Panel Contract. An internal assessment of the working relationship and product produced as a result of each assignment is recorded on the database and is used to rate the ongoing performance of panel members.

However, following discussions with your office, the department has refined this process so that a more detailed assessment is recorded.

Department of Corporate and Information Services

Review of IT Control Environment

Audit Objective and Scope

The objective this review was to assess the level of risk and to test the adequacy of internal control in the following areas:

- internet security, including:
  - incident and problem management practices, supporting policies and procedures and monitoring tools;
  - vulnerability management, including virus and patch management; and
  - operations management including information security policy and procedures, email and web content management, configuration management and compliance management.
- remote access management, including:
  - logical access controls; and
  - authentication methods infrastructure.

Opinion

While good practices in internet security and remote access management appeared to be largely in place, these practices had not been formally documented in a number of instances.

Strengths were noted in the areas of:

- the awareness and commitment of Data Centre Services (DCS) staff in relation to the implementation of support practices that mirror industry best practice;
- problem and incident management procedures; and
- systems monitoring tools.

Department of Corporate and Information Services cont…

Opportunities for improvements were noted in respect of:

- Aligning incident and change management policies to the documented DCS problem and change management processes;
- The need for a common approach between DCS and ICT Branch to the development of security standards; and
- The need to document systems operations management procedures with regards to internet security.

The Department of Corporate and Information Services has commented:

DCIS acknowledges the identified opportunities for improvement.

An action plan has been developed in response to the findings of the review. DCIS Data Centre Services and ICT Branch are working together to respond to the findings and address the policy and procedural issues identified by the Auditor-General.

Department of Health and Community Services

ASCRIBE IT Controls

Audit objectives and scope

The objective and scope of the audit was to assess IT controls in relation to the Ascribe pharmacy stock control system, with a particular focus on:

- IT application controls over the following processes within the Ascribe system:
  - Inventory tracking
  - Customer requisitioning
  - Dispensing
  - Customer invoicing
  - Goods ordering
  - Goods receiving
- Consideration of the adequacy of interface / validation controls between Ascribe and key external systems; and
- Consideration of Ascribe IT application level access controls, focussing on where they relate to key application controls identified above (e.g. segregation of duties).

The approach was based on:

- observation and enquiry of appropriate IT and business personnel at Royal Darwin Hospital;
- identification of potential risks;
- assessing appropriate documentation; and
- walkthrough testing of key controls.

It should be noted that application controls are reliant on staff exercising these controls and can be compromised by collusion, management override, faulty software and inappropriate security settings.

Department of Health and Community Services cont…

Audit Opinion

There was no indication that Ascribe IT application controls were not appropriate, apart from the findings outlined below, which include issues relating to application security management and segregation of duties.

Background and key findings

Ascribe is a pharmacy stock control system used by the Department of Health and Community Services (DHCS) to procure, track and dispense medication at Royal Darwin, Katherine, Alice Springs, Tennant Creek and Gove Hospitals. It has approximately 40 users and is housed in building 6 at the Royal Darwin Hospital (RDH), Tiwi.

Ascribe currently interfaces with two systems, CareSys (DHCS Patient Administration System) and the Government Accounting System (GAS) mainframe maintained by the Department of Corporate and Information Services (DCIS). Ascribe Accounts Receivable and General Ledger information is posted to GAS as part of nightly batch routines. Accounts payable information is manually entered into GAS by Department of Corporate and Information Services (DCIS) employees.

The system is an off-the-shelf product provided by ASC Computer Software Ltd. At the time of this audit, the system was in the process of being upgraded from version 8.5 to the web-based version 9. Other changes to be made during the upgrade include the shift from the Access 2.0 back-end to an SQL database. However, as core system-based application controls in the front-end will not significantly change and as the system had not gone live, work focused on Ascribe version 8.5.

Strengths were noted in the following areas:

- Sound understanding of system and business procedures.
- Controls regarding the accuracy and completeness of system interfaces.
- Change control procedures that include the need for testing and approval.

Department of Health and Community Services cont…

Improvement opportunities were noted regarding Ascribe application security management

A number of improvement opportunities were noted regarding Ascribe application security management.

- Requests to create or modify a user's account were sent via an email to the Business Analyst, who then created or modified an account as required. No record of these requests was retained. In addition, no formal register of who could approve Ascribe system access could be produced.
- No formal mechanism was in place to notify Ascribe system administrators when an employee had left the organisation or changed roles within the organisation. In addition, an inspection of Ascribe users found three of 37 active RDH accounts and one of nine active Gove accounts belonged to former employees.
- No formal access reviews had taken place for Ascribe to determine whether access was still appropriate for each user's job function.
- A review of management and operation of application servers performed by Stanton International in July 2007 found that interviewees were unaware of when the Cipher lock PIN code for the computer room had been last changed, or which employees had swipe-card access to the room.

Weak security processes and application controls increases the risk of inappropriate/ unauthorised access to key information assets. Specific risks include:

- Without a formal record of approval regarding the creation or modification of Ascribe users, there is a risk that users could be created without appropriate approval or given access rights beyond that required for their job role. If records are not retained, then it is impossible to determine whether accounts were appropriately approved prior to creation or modification.
- If accounts are not disabled when a user leaves the organisation, there is a risk that the account could be inappropriately used before it expires.
- Without periodic access reviews, there is a risk that users who have inappropriate access rights are not detected. In addition, this should also detect inappropriate use of a departed employee's account.

Department of Health and Community Services cont…

- A lack of robust physical controls increases the risk of inappropriate access to DHCS application servers (including Ascribe).

The following was recommended to the Agency:

- Implementation of a more formalised procedure for adding and modifying users in the Ascribe application. This procedure should include appropriate management authorisation, with documentation retained. This process could potentially leverage off existing processes such as E-Pass or forms used for CareSys. At a minimum, existing emails sent to the Business Analyst should be retained;
- Implementation of a mechanism where relevant system owners or delegates are notified when an employee leaves the organisation. Accounts should then be disabled as soon as possible;
- Periodic review of system accounts to determine whether access is restricted to appropriate individuals and in line with their current job function; and
- Continue to address physical access findings raised by Stanton International in July 2007.

The system owner advised agreement with the findings and indicated that the following actions to address the recommendations will be taken:

- The current clinical system access request template will be modified so that it can also be used to include requests for Ascribe access. The expanded form will include roles, responsibilities and the requirement for manager approval before an account is created. Forms will then be retained.
- They will investigate the options available to implement a mechanism to notify system administrators when an employee leaves the organisation.
- Ascribe version 9 is capable of generating a report of users and their respective roles. Proactive reviews will be initiated by the Business Analyst and performed periodically (e.g. every two months).
- Action is currently being taken to address the issues raised by Stanton International. This includes removing the PIN access and installing new swipe card locks. Swipe card access will be granted through Information and Communications Technology (ICT) services.

Department of Health and Community Services cont…

Improvement in segregation of duties, including leveraging off the functionality of the newly implemented Ascribe system

The audit observed that there are areas for improvement in segregation of duties, including leveraging off the functionality of the newly implemented Ascribe system.

Inspection of the Ascribe System User Report found that:

- 60 of the 73 active accounts had the ability to both order and receive goods;
- 51 of the 73 active system accounts had "level 8" access to the stock module. This allows users to update the approved customer list used for requisitions, update drug file minimum stock levels and update supplier details; and
- 60 of 73 active accounts had a level of access that allowed them to authorise purchase orders.

It is acknowledged that the newer version of Ascribe (v9) provides greater system security and segregation of duties functionality.

A lack of segregation of duties increases the risk that individuals could process inappropriate or fraudulent transactions in Ascribe and result in a breach of regulatory requirements.

If an excessive number of users have the ability to update "master file" type details, there is a risk that details could be inappropriately altered in the system.

The audit recommended to the agency that incompatible and sensitive functions within the Pharmacy department be identified, documented and appropriately addressed (e.g. compiling a segregation of duties matrix). Ascribe system access settings should be utilised to enforce these segregation of duties where possible.

Where it is not practical to implement all segregation of duties controls at smaller sites, it is recommended that at least basic segregation of duties controls be implemented (including segregating ordering and receiving) and appropriate manual or IT compensating controls address the other main risks.

Department of Health and Community Services cont…

The system owner advised that once the new system has been fully implemented, a review will be done to identify what access is required by particular job roles and leverage off the new functionality available. These roles will then be used to control user access going forward.

In remote sites, where system access cannot be easily segregated, the implementation manual controls (such as co-signatories on purchase orders and goods receipts) will be investigated.

The Department of Health and Community Services has commented:

The department agrees with and is currently addressing the audit recommendations. Changes such as the creation of an access request template and the implementation of more restricted physical access through a swipe card system have already been implemented. A process for notifying system owners or delegates when an employee leaves the organisation is being implemented. A physically separate test environment for Ascribe v9 has been put in place. Version 9 of the software will address the other issues raised along with a review of how this works in small/remote sites.

Department of Health and Community Services

QANTEL IT Controls

Audit objectives and scope

The objective and scope of the audit was to assess IT controls in relation to the QANTEL stock system, with a particular focus on:

- IT application controls over key processes within the QANTEL system. The focus was on ordering, receipting and issuing stock in the catering, laboratory, prosthetics, laundry, dental, and laboratory areas;
- Consideration of the adequacy of interface / validation controls between QANTEL and GAS; and
- Consideration of QANTEL application level access controls, focussing on where they relate to key IT application controls identified above (e.g. segregation of duties).

Controls that are the responsibility of parties outside the Department of Health and Community Services (DHCS), other IT general controls (e.g. network access, physical access, communication controls, remote access controls) and/or systems other than QANTEL at DHCS were not focused on as part of this engagement. Fieldwork was conducted at Royal Darwin Hospital but not other locations. The focus was on IT controls and not manual controls.

The approach was based on:

- observation and enquiry of appropriate IT and business personnel;
- identification of potential risks;
- assessing appropriate documentation; and
- walkthrough testing of key controls.

Department of Health and Community Services cont…

Audit Opinion

DHCS inventory management controls are comprised of a variety of IT and manual controls.

The management of QANTEL is not performed by the DHCS Information Services group. For example, the QANTEL server does not reside within the Royal Darwin Hospital IS managed computer room.

QANTEL IT security control weaknesses were identified, such as passwords not being changed for a significant period of time and many terminated employee accounts not being disabled. Other issues noted relate to opportunities to improve segregation of duty controls and server physical access.

Background and key findings

QANTEL is an inventory system that has been in operation at DHCS for many years. It is used at DHCS hospitals for catering, engineering, prosthetics, laundry, dental and laboratory. There are over 100 QANTEL users.

The QANTEL system sits outside the scope of the Department's Information Services group and the Department's IS planning. Consequently reliance is placed on the system owner and users within the DHCS Procurement division to manage and operate the system with little to no internal agency support.

QANTEL Accounts Receivable and General Ledger information is posted to GAS as part of nightly batch routines. Accounts payable information is manually entered into GAS by Department of Corporate Information Services (DCIS) employees.

The QANTEL system is supported by software vendor Datagaard Pty Ltd (Datagaard), located in Adelaide, and supported locally by a contractor. There is a Software Support Service Agreement in place between DHCS and Datagaard which is valid for 12 months from 1st July 2007 until 30th June 2008. The agreement with Datagaard is renewed each year.

Department of Health and Community Services cont…

Security weaknesses were identified

A number of security weaknesses were identified where QANTEL did not provide a robust IT general control environment. In particular:

- Documentation of appropriate approval regarding the granting/modifying/removing of user accounts from the QANTEL system was limited;
- 29 instances were identified across the Territory where employees (e.g. terminated employees) who no longer require access to QANTEL had active user accounts;
- Inspection of active user accounts on the QANTEL system revealed a number of generic users for each of the stock areas which allows access into the system to perform purchase order and/or receiving functions. These generic accounts are often shared within a particular area (e.g. Stores, Engineering);
- Inspection of system settings found that while a password was required to enter QANTEL, the system did not enforce/have a minimum password length, password expiry, password history, password complexity or account lockout policy.
- There are no formal and periodic reviews of user access to the QANTEL system to detect inappropriate access or users with inappropriate levels of access; and
- The Darwin QANTEL production server is maintained in the fire hydrant room on Level 1 of Building 1 at Royal Darwin Hospital. This room is not locked due to fire regulations. In addition, the system owner has noted “access denied” on the server screen when visiting the room suggesting potential inappropriate access attempts.

Weak security controls and lack of processes around administration of user accesses increases the risk of inappropriate / unauthorised access to key information assets.

Department of Health and Community Services cont…

The audit recommended that DHCS:

- Establish a formalised process for granting/modifying/removing user access accounts (i.e. ID's) and the functions assigned to these user accounts. Passwords not changed recently should be changed as soon as possible. Evidence that account creation has been approved should be retained;
- Consider the use and appropriateness of generic user accounts and remove unnecessary generic user accounts;
- Configure the QANTEL system passwords such that, where possible:
  - passwords expire regularly (e.g. every three months);
  - a minimum length is enforced (e.g. six characters);
  - password history is remembered and passwords cannot be repeated (e.g. remember last 12 months);
  - passwords are required to be not easily guessable (e.g. alphanumeric); and
  - account lockout is enforced (e.g. three invalid attempts).
- Ensure that QANTEL servers are located in a secure environment that can only be accessed by the authorised personnel. This may include moving the Darwin server into the Darwin DHCS computer room; and
- Periodically review QANTEL user accounts to detect active user accounts that are no longer required and users with access levels that are no longer required.

The system owner, whilst generally agreeing with the findings and indicating a willingness to implement the above recommendations, advised that current resource limitations make them difficult to implement.

Department of Health and Community Services cont…

The agency identified the following mitigating controls / factors:

- QANTEL must be installed on the user's PC before users can access the application;
- Network passwords must be changed at regular intervals (and users must access the network prior to accessing QANTEL);
- Only Datagaard can create/modify/remove user accounts;
- Monthly analytical review/perusal of inventory records to identify and follow up potential anomalies; and
- Cost centre owner monthly management accounting activities.

No segregation of duties

The audit identified that there is no segregation of duties between the role of purchase order entry and the role of receiving stock in the dental stock control area in Darwin.

If purchase order entry and receiving roles are not segregated there is an increased risk that an individual could inappropriately acquire stock (e.g. facilitated via the creation of fictitious receiving reports).

It was recommended to Agency management that where possible, it should consider segregating the purchase order and receiving roles for dental stock control. Segregation of functions within QANTEL should be system enforced via appropriate access profiling (regarding dental stock control).

Where it is not practical to implement all segregation of duties controls (e.g. at smaller sites), it was recommended that at least basic segregation of duties controls be implemented (including segregating ordering and receiving) and appropriate compensating controls address the other main risks. Examples of compensating controls may include:

- Independent review of goods received in the system to physical inventory; and
- Management review of stock variances at the product or departmental level.

It should be noted that the main compensating controls rely on the knowledge of one key person (Procurement and Inventory Manager) and should this person become unavailable to perform these functions, further consideration will be required to address the issues raised by the audit.

Department of Health and Community Services cont…

The system owner advised agreement with the issue raised, but noted that a lack of staff resourcing requires one person to perform both functions. The system owner advised that he performs a monthly review of stock variances for all areas on QANTEL to assist with detecting inappropriate activity in addition to the compensating controls noted earlier.

Lack of documentation

The audit observed a lack of documentation to enable DHCS to understand QANTEL's ability to enforce segregation of duty controls.

Discussion with DHCS staff and the vendor gave conflicting information regarding QANTEL's ability to limit access to particular functions and what restrictions are in place.

Evidence to verify the following functions have been segregated and limited to appropriate personnel was limited:

- The ability to create purchase orders and receive stock in QANTEL;
- The ability to add, modify and remove vendors from the QANTEL vendor master listing; and
- The ability to add, modify and remove inventory master file details from the QANTEL inventory master file.

Weaknesses around general IT controls as noted earlier combined with the inability to verify IT application level controls increases the risk of inappropriate and unauthorised access to key information assets and/or acquire stock.

This may include via:

- Unauthorised purchase orders and receiving journals being created; and
- Details within the inventory master file (e.g. minimum inventory re-order levels) becoming inaccurate.

Department of Health and Community Services cont…

The audit recommended to the Agency that:

- The processes for purchase order and receiving functions within QANTEL be segregated via appropriate access profiling;
- The ability to add, modify and remove suppliers on QANTEL is restricted to appropriate personnel and that the users that have these rights are periodically reviewed; and
- The ability to add, modify and remove inventory master file details on QANTEL is restricted to appropriate personnel and that users that have these rights are periodically reviewed.

Where it is not practical to system enforce the above, it should be ensured that the level of manual compensating controls is adequate.

No formal change control procedures

It was further noted that whilst no major changes to QANTEL have occurred recently, changes to QANTEL are currently not subject to formal change control procedures.

A lack of formal change management procedures increases the risk that changes are not authorised, tested and approved by the Department of Health and Community Services prior to migration into the production environment.

It was recommended to the Agency that consideration should be given to formalising the QANTEL change control procedures. This may include leveraging off other formal DHCS IT procedures.

While agreeing with the finding the system owner noted that formalisation of changes may not be completely necessary as there have been minimal problems with Datagaard over the last 16 years. Datagaard are also responsible for testing changes in a test environment before they are approved by the system owner and placed into production.

Department of Health and Community Services cont…

The Department of Health and Community Services has commented:

The department agrees with the audit recommendations and will review the overall management of the Qantel system to address the issues raised. In addition, the Department proposes to review what changes may be required to Qantel to cater for broader procurement reforms being implemented as part of the requirements under the National E-Health Transition Authority.

Department of Primary Industry, Fisheries and Mines

McArthur River Mine Security Deposit

Audit objective and scope

The objective of the audit was to assess whether the Department's systems, processes and internal controls provided reasonable assurance that the security required to be lodged by McArthur River Mining Pty Ltd in relation to the McArthur River Mine expansion was adequate within the meaning of section 43 of the *Mining Management Act*.

Audit Opinion

The Department of Primary Industry, Fisheries and Mines' systems, processes and internal controls governing the determination of securities required to be lodged pursuant to section 37 of the *Mining Management Act* provide reasonable assurance that the value of the security required in relation to the McArthur River expansion is adequate within the meaning of section 43 of the Act.

Background

This audit was undertaken in the light of experience with the Mount Todd mine, where, following the insolvency of the operator, the Territory was required to meet the costs associated with the rehabilitation of the site.

My opinion was based on the processes followed by the Department when assessing the value of the security required to be lodged in connection with the McArthur River mine expansion.

Department of Primary Industry, Fisheries and Mines cont…

Key findings

The Department's processes for determining the amount of security deposit to be lodged by McArthur River Mining Pty Ltd were as follows:

- three valuations were obtained;
- McArthur River Mining Pty Ltd submitted its amended Mining Management Plan that included a costing of closure activities as required by section 40 of the *Mining Management Act*;
- the Mining Management Plan was then distributed to selected staff of the Department for comment. Departmental comments were summarised and provided to the Company for its comments and to allow for revisions to the Plan;
- an independent consultant was engaged by the Department to provide an assessment of the cost of rehabilitation at the McArthur River site;
- the Department performed its own assessment of the costs of closure, with the detail being shown on a "M&E Security Calculation Form";
- each of the estimates prepared by the Company, the Department and the consultant were considered by the Security Assessment Board. The Board then determined the amount of the security required;
- the Department then revised the "M&E Security Calculation Form" based on the amount of the security determined by the Security Assessment Board; and
- the Department arranged for the lodgement by the Company of the appropriate security.

Department of Primary Industry, Fisheries and Mines cont…

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

McArthur River Mining Pty Ltd is required to provide a mine management plan annually or when there are significant changes made to the mine. The Department of Primary Industry, Fisheries and Mines (DPIFM) continually reviews mine management plans to ensure their currency and that adequate securities are in place.

This process is conducted in accordance with the Mine Management Act and is also guided by the agency's Risk Management Audit Committee schedule.

Additionally, to ensure complete, open and transparent operations, DPIFM engages external consultants to review their processes and business practices, which have to date been found to be in order. Under the circumstance, DPIFM is satisfied that the overall processes provide a robust mechanism for determining an appropriate quantum and lodgement of security deposit by the company. The key findings of the Auditor-General's report are an accurate reflection of the current situation.

Batchelor Institute of Indigenous Tertiary Education

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

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) has issued "Financial Statement Guidelines for Australian Higher Education Providers for 2006 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 2006 resulted in an unqualified independent audit opinion, which was issued on 2 August 2007.

Key issues

The Institute's financial statement reporting requirements were not met as the financial report for the year ended 31 December 2006 was not signed by the Council until 26 July 2007. A complete first draft of the financial statements was not received until 7 June 2007 well outside the 31 March statutory deadline. This is the second consecutive year the Institute has failed to meet its reporting deadline.

The Institute's draft financial statements, presented for audit, required a significant number of amendments. However it should be noted that there was improvement from the prior year. Despite this, the final financial statements still contain a number of rounding differences.

Batchelor Institute of Indigenous Tertiary Education cont…

Financial analysis

Abridged Income Statement

	2006	2005
	$'000	$'000
Revenue from ordinary activities	**39,891**	**36,523**
Less expenses from ordinary activities		
Employee Expenses	(22,319)	(21,328)
Depreciation and amortisation	(884)	(912)
Repairs and maintenance	(1,460)	(1,143)
Bad and doubtful debts	6	(48)
Other expenses	(15,340)	(14,397)
Total expenses from ordinary activities	**(39,997)**	**(37,828)**
Operating result for the year	**(106)**	**(1,305)**

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

- Revenue increased by $3.01 million or 8% from the prior year, in particular:
  - increase in Commonwealth DEST Indigenous Education Strategic Initiatives Programme Away from Base funding of $2.0 million; and
  - increase in NT Government funding of $0.3 million.
- Expenses increased by $1.8 million or 5% from the prior year, in particular:
  - increase in employee costs of $1.0 million or 5% from the prior year;
  - increase in Insurance expense of $0.3 million;
  - increase in repairs and maintenance of $0.3 million, mainly in remote locations; and
  - increase in Consultants' fees of $0.2 million for running of projects/workshops.

Batchelor Institute of Indigenous Tertiary Education cont…

Abridged Balance Sheet

	2006	2005
	$'000	$'000
Current Assets		
Cash and cash equivalents	8,753	9,407
Receivables and other current assets	604	1,002
Less Current Liabilities	(4,481)	(4,597)
Working Capital	**4,876**	**5,812**
Add Non Current Assets	18,702	18,266
	23,578	24,078
Less Non Current Liabilities	(1,155)	(1,744)
Net assets	**22,423**	**22,334**
Represented by:		
Retained surplus	5,254	5,361
Reserves	17,169	16,973
Equity	**22,423**	**22,334**

During the year the Institute completed the construction of buildings at Borroloola and Gunbulunya at a cost of $1.2 million. Valuations of artwork and library items resulted in an increase in reserves of $196,000.

Cobourg Peninsula Sanctuary and Marine Park Board

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Cobourg Peninsula Sanctuary and Marine Park Board (the Board) was formed in 1981 under the *Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park 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.

Audit Opinion

The audit of the financial statements of Cobourg Peninsula Sanctuary and Marine Park Board for the year ended 30 June 2007 resulted in an unqualified independent audit opinion that was issued on 19 November 2007.

Key issues

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

Cobourg Peninsula Sanctuary and Marine Park Board cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities		
Park Income	427	290
Payments to traditional owners	(376)	(268)
Other revenue	56	102
Total revenue from ordinary activities	107	124
Less expenses from ordinary activities		
Operational costs	(62)	(101)
Depreciation and amortisation	(2)	(6)
Total expenses from ordinary activities	(64)	(107)
Operating result for the year	43	17

Park income increased by $136,716 or 47% in comparison to the same period last year. Interest and other income increased by $16,741 or 42%. There was also a 40% decrease in 'other' expenditure largely resulting from a 36% reduction in employment expenses charged to the Board as a result of a streamlining of processes. Also the reduced number of board meetings held during 2006/2007 compared to last year meant that board fees and associated travel and accommodation reduced by 50%.

Cobourg Peninsula Sanctuary and Marine Park Board cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	382	349
Less Current Liabilities	(81)	(93)
Working Capital	**301**	**256**
Add Non Current Assets	-	2
	301	258
Less Non Current Liabilities	-	-
Net assets	**301**	**258**
Represented by:		
Retained surplus	301	258
Equity	**301**	**258**

The positive result in the income statement is reflected in the cash flow statement where cash from operations increased by $37,000 from last year. Ultimately the cash and bank balances at the end of the year increased to $277,000.

Construction Division

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

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

The host Agency during 2006-07 was the Department of Planning and Infrastructure.

Audit Opinion

The audit of Construction Division for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 8 October 2007.

Key issues

I have noted that Division improved its system of internal controls during the past year. Management meetings continued to be held each month, the 'Revenue Working Group' met on a regular basis during the year, the eFOS billing system was reconciled to the general ledger on a monthly basis and a reconciliation of consultants' expenses as per the AIS to the general ledger was also done on a monthly basis.

Several new initiatives were undertaken during the year to enhance the commercial focus of Construction Division. This included the formation of an 'Audit Working Group' to review processes within the Division. Staff training on financial issues was also undertaken during the year.

The audit did disclose some instances of payments being made without appropriate authorisation.

Construction Division cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**43,226**	**38,465**
Less expenses from ordinary activities		
Operational costs	(11,263)	(10,175)
Employee Expenses	(18,790)	(18,664)
Consultants fees	(10,481)	(8,669)
Depreciation and amortisation	(43)	(49)
Borrowing costs	(157)	(450)
Total expenses from ordinary activities	**(40,734)**	**(38,007)**
Net surplus before income tax expense	**2,492**	**458**
Less income tax expense	(136)	-
Net surplus	**2,356**	**458**
Less dividends	(1,178)	-
Retained surplus	**1,178**	**458**

The Division's revenues increased by $4,761,000 due principally to the increase in project management fees that flowed from an increase in the number of capital projects being managed.

A further reason for the increased revenues was the transfer to the Division, from the Department of Planning and Infrastructure, of the management of recoverable works. This led to an increase in consultant expenses of $1,812,000.

As a result of the improved financial performance for the year, the Division is required pay an income tax equivalent of $136,000 in accordance with the NT Tax Equivalents Regime. It is also required to pay a dividend of $1,178,000.

Construction Division cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets		
Cash and cash equivalents	6,381	1
Receivables and other current assets	6,195	7,151
Less Current Liabilities	(8,205)	(3,928)
Working Capital	**4,371**	**3,224**
Add Non Current Assets	82	124
	4,453	3,348
Less Non Current Liabilities	(3,568)	(3,641)
Net assets	**885**	**(293)**
Represented by:		
Accumulated losses	702	(476)
Reserves	183	183
Equity	**885**	**(293)**

The Division's bank balance was $6,381,000 at 30 June compared to an overdraft of $380,000 at the same time last year. The main reason for the turn-around was the increased revenues for the year, together with an amount of $3,159,000 received as deposits for 'Recoverable Works'.

The Construction Division has commented:

Construction Division is continually working to tighten and ensure robust internal procedures, including the adherence to financial delegations. Construction Division have implemented an internal audit plan that covers various financial processes over the five regions.

Darwin Bus Service

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Darwin Bus Service (DBS), together with private sector operators, contracts for the provision of bus services 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 2006-07 was the Department of Planning and Infrastructure.

Audit Opinion

The audit of Darwin Bus Service or the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 8 October 2007.

Key issues

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

Darwin Bus Service cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**7,242**	**7,079**
Less expenses from ordinary activities		
Employee Expenses	(3,374)	(3,230)
Supplies and services	(2,608)	(2,728)
Depreciation and amortisation	(893)	(895)
Total expenses from ordinary activities	**(6,875)**	**(6,853)**
Net surplus before income tax expense	**367**	**226**
Less income tax expense	(110)	(68)
Net surplus	**257**	**158**
Less dividends	(128)	(78)
Retained surplus	**129**	**80**

Revenue increased by $163,000 mainly because of the increase in the guaranteed kilometre rate within the Service Level Agreement.

Interest income also increased by $36,000 as a result of a high cash level being maintained throughout the year.

There was also a gain of $52,000 arising from the disposal of a bus.

An increase in personnel cost of $144,000 was mitigated by an overall decrease in administrative expenses of $122,000. The increase in personnel costs was mainly as a result of the 3% Public Sector Enterprise Bargaining Agreement increase. Decrease in administrative expenses was mainly as a result of reduction in fuel costs. Cost savings was experienced in other areas as a result of managements' strict control over operating costs.

The consequence of the above was to increase the pre-tax profit to $367,000 from $226,000 in the previous year.

Darwin Bus Service cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	4,928	3,842
Less Current Liabilities	(655)	(600)
Working Capital	**4,273**	**3,242**
Add Non Current Assets	4,845	5,731
	9,118	8,973
Less Non Current Liabilities	(175)	(159)
Net assets	**8,943**	**8,814**
Represented by:		
Accumulated funds	8,596	8,467
Reserves	347	347
Equity	**8,943**	**8,814**

Darwin Port Corporation

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Darwin Port Corporation (the Corporation) is a Government Business Division and was established under the *Darwin Port Corporation Act 2005* (the Act) with an Advisory Board. Under the Act the Corporation is to take a general commercial approach however the Minister may direct the Corporation to act in a particular manner, including a non-commercial manner.

The Corporation operates the port and wharves on behalf of the NT Government. The Corporation operates the East Arm and City Wharves in the Port of Darwin and offers facilities and services to commercial shipping. The Corporation also operates facilities for non-trading vessels. This segment includes research, fishing and pearling vessels.

Through Community Service Obligations the Corporation is responsible for provision of marine industry support services, development and management of the Darwin Wharf Precinct for tourism and recreation, and provision of Port and reception facilities for cruise and naval vessel visitations.

It should be noted that the Corporation falls under the National Tax Equivalents Regime and records tax expense/benefit, Deferred Tax Assets and Deferred Tax Liabilities.

Audit Opinion

The audit of Darwin Port Corporation for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 25 October 2007.

Key issues

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

Darwin Port Corporation cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities		
Rendering services	12,116	11,247
Community Service Obligations	4,981	2,284
Value of services received free of charge	-	18
Interest earned	305	494
Total revenue from ordinary activities	**17,402**	**14,043**
Less expenses from ordinary activities		
Employee Expenses	(6,448)	(6,052)
Operational costs	(6,276)	(5,674)
Repairs and maintenance expenses	(2,067)	(1,640)
Depreciation and amortisation	(5,933)	(6,779)
Borrowing costs	(2,107)	(1,780)
Total expenses from ordinary activities	**(22,831)**	**(21,925)**
Net deficit before income tax expense	**(5,429)**	**(7,882)**
Less income tax benefit/(expense)	(9,694)	1,350
Net deficit	**(15,123)**	**(6,532)**

The Corporation realised a net loss for the year of $15.123 million. This loss is an $8.59 million increase over the net loss of $6.532 million for 2005-06. This was predominately due to the write off the Corporation's income tax asset of $9.694 million.

The Corporation's net asset position has decreased by $6.780 million. This is primarily due to the increase in debt sourced to finance major capital projects such as the bulk loading system and oil pipeline projects which were incomplete and included as work in progress at 30 June 2007.

Darwin Port Corporation cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets		
Cash and cash equivalents	3,320	4,508
Receivables and other current assets	2,213	3,009
Less Current Liabilities	(4,343)	(4,703)
Working Capital	**1,190**	**2,814**
Add Non Current Assets	200,890	198,613
	202,080	201,427
Less Non Current Liabilities	(37,410)	(29,977)
Net assets	**164,670**	**171,450**
Represented by:		
Accumulated funds	(15,051)	72
Reserves	20,176	13,176
Contributed Equity	159,545	158,202
Equity	**164,670**	**171,450**

The Corporation's short-term liquidity position has reduced slightly to a current ratio of 1.27 (2006: 1.59) Cash assets have reduced by $1.984 million predominately as a result of increased expenditure in staffing and operational costs due to the bulk loading system.

Darwin Waterfront Corporation

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Darwin Waterfront Corporation (the Corporation) was created by the *Darwin Waterfront Corporation Act* to develop, manage and service the Darwin Waterfront Precinct for the benefit of the community and to promote the Darwin Waterfront Precinct as a place of residence and business and a venue for public events and entertainment.

Audit Opinion

The audit of Darwin Waterfront Corporation for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 15 October 2007.

Key issues

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

Darwin Waterfront Corporation cont…

Financial analysis

Abridged Income Statement

	2007
	$'000
Revenue from ordinary activities	**-**
Less expenses from ordinary activities	
Operational costs	-
Employee Expenses	-
Consultants fees	-
Depreciation and amortisation	-
Borrowing costs	-
Total expenses from ordinary activities	**-**
Net surplus before income tax expense	**-**
Less income tax expense	-
Net surplus	**-**
Less dividends	-
Retained surplus	**-**

The Corporation utilised the resources and services of the Department of the Chief Minister (and other Government agencies) to conduct its operations from the commencement of the Corporation on 19 September 2007. These resources were provided to the Corporation free of charge and were not recorded in the accounts of the Corporation. The advisory services from the Northern Territory Government included Employee Expenses of $184,816 and Other Operating Expenses of $334,434. Auditing services, estimated at approximately $10,700, were also provided free of charge.

Darwin Waterfront Corporation cont…

Abridged Balance Sheet

	2007
	$'000
Current Assets	
Cash and cash equivalents	-
Receivables and other current assets	-
Less Current Liabilities	-
Working Capital	**-**
Add Non Current Assets	-
	-
Less Non Current Liabilities	-
Net assets	**-**
Represented by:	
Accumulated losses	-
Reserves	-
Equity	**-**

No assets or liabilities were transferred to, or acquired by, the Corporation during this financial year.

Data Centre Services

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

Data Centre Services (DCS) manages the Data Centre providing Mainframe and Midrange support to government agencies.

The host Agency is the Department of Corporate and Information Services.

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 18 October 2007.

Key issues

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

Data Centre Services cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**18,266**	**17,052**
Less expenses from ordinary activities		
Operational costs	(9,753)	(8,508)
Employee Expenses	(4,738)	(4,138)
Depreciation and amortisation	(1,485)	(1,085)
Borrowing costs	(24)	(65)
Total expenses from ordinary activities	**(16,000)**	**(13,796)**
Net surplus before income tax expense	**2,266**	**3,256**
Less income tax expense	(680)	(977)
Net surplus	**1,586**	**2,279**
Less dividends	(793)	(1,139)
Retained surplus	**793**	**1,140**

The net surplus before tax and dividends of $2.27 million is a decrease of $0.99 million (30%) from prior year.

With the acquisition of the Z Series Virtual Mainframe in the last financial year, DCS has expanded its capacity and services provided especially in the mid-range services and the ePASSII project. The ePASSII project is a major system development and implementation project with substantial costs being incurred during the initial project implementation phase. This directly contributed to the increase in sales of goods and services by $1.19 million, a corresponding $1.32 million increase in purchases of goods and services, and $0.4 million increase in depreciation expenses. The increase in employee expenses is consistent with the increase in number of employees from 57 employees as at 30 June 2006 to 59 employees as at 30 June 2007.

Data Centre Services cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets		
Cash and cash equivalents	4,052	3,908
Receivables and other current assets	2,918	3,045
Less Current Liabilities	(2,933)	(3,908)
Working Capital	**4,037**	**3,045**
Add Non Current Assets	2,610	2,780
	6,647	5,825
Less Non Current Liabilities	(167)	(144)
Net assets	**6,480**	**5,681**
Represented by:		
Accumulated funds	6,149	5,356
Capital	331	325
Equity	**6,480**	**5,681**

DCS continues to demonstrate a strong net asset position as at 30 June 2007.

The $0.8 million (14%) improvement on the prior year is largely attributable to the net surplus after tax and dividends.

The Data Centre Services has commented:

DCIS acknowledges the Auditor-General's analysis.

It is noted that the increase in employee numbers is offset by savings in contractor expenses and does not result in a real increase in resources.

Department of Local Government, Housing and Sport: Territory Housing

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

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.

Its host Agency in 2006-07 is the Department of Local Government, Housing and Sport.

Audit Opinion

The audit of Territory Housing for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 17 October 2007.

Key issues

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

However particular system issues were noted again this year 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.

Department of Local Government, Housing and Sport: Territory Housing cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities		
Rendering of services	42,435	41,758
Interest revenue	15,083	13,842
Community Service Obligations (CSO)	30,082	35,752
Gain on sale of assets	5,773	2,741
Gain on revaluation of investments	4,546	3,978
Other revenues from ordinary activities	31,484	6,335
Total revenue from ordinary activities	**129,403**	**104,406**
Less expenses from ordinary activities		
Employee Expenses	(11,177)	(10,321)
Repairs and maintenance	(17,107)	(16,164)
Depreciation and amortisation	(19,129)	(19,405)
Borrowing costs	(25,933)	(26,145)
Rates	(16,402)	(17,072)
Other expenses on ordinary activities	(13,627)	(14,163)
Total expenses from ordinary activities	**(103,375)**	**(103,270)**
Retained surplus	**26,028**	**1,136**

Department of Local Government, Housing and Sport: Territory Housing cont…

Territory Housing reported a net surplus of $26.03 million which is a significant improvement from prior year's surplus of $1.14 million. The most significant factors contributing to current year's surplus are:

- $25.4 million of capital grant received (of which $24.6 million was received in June 2007 for the transfer of the Indigenous Housing Program from the Department of Local Government, Housing and Sport to Territory Housing);
- $1.5 million increase in interest on cash balances, which is consistent with the increase in cash balances from $20.7 million in 2006 to $73.7 million in 2007; and
- $3.03 million increase in gain on disposal of assets and $0.57 million gain on revaluation of investments arising from higher property prices in the last 12 months as compared to prior year.

The above increase in surplus is offset by $5.67 million decrease in Community Service Obligations mainly due to the one-off CSO received in the prior year in lieu of government employee 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.

Department of Local Government, Housing and Sport: Territory Housing cont…

Type of Subsidy	2007	2006
	$'000	$'000
Rental rebates	24,590	25,027
Rent foregone	995	1,069
Government Employee Housing Rents	-	5,000
Interest subsidy- low interest rates	884	926
Assist Interest Subsidy Scheme	132	290
Stamp Duty Differential	168	84
Indigenous Housing Advisory Services	297	297
Fringe Benefits Tax	57	48
Crisis Accommodation	412	404
Community Housing	664	652
Welfare	1,883	1,315
Industry Housing	-	640
Total	**30,082**	**35,752**

Department of Local Government, Housing and Sport: Territory Housing cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets		
Cash and cash equivalents	73,650	20,699
Receivables and other current assets	9,458	10,369
Less Current Liabilities	(13,216)	(12,577)
Working Capital	**69,892**	**18,491**
Add Non Current Assets	1,491,523	1,456,589
	1,561,415	1,475,080
Less Non Current Liabilities	(328,326)	(355,161)
Net assets	**1,233,089**	**1,119,919**
Represented by:		
Accumulated losses	(21,010)	(47,038)
Reserves	1,207,229	1,119,926
Contributed equity	46,870	47,031
Equity	**1,233,089**	**1,119,919**

Territory Housing recorded a strong net assets position as at 30 June 2007 from $1,119 million in prior year to $1,233 million this year. The increase in net assets is predominantly represented by the $87.3 million net revaluation increment for land and buildings, and an increase in net surplus.

Desert Knowledge Australia

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

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.

Audit Opinion

The audit of the Desert Knowledge Australia for the year ended 30 June 2007 resulted in the issue of an unqualified independent audit opinion on 5 November 2007.

Key issues

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

- to improve internal control through the use of purchase orders;
- for a rental agreement between DKA and Territory Housing in respect of student accommodation;
- for an agreement between DKA and the Department of Business Economic and Regional Development for secondment of NT Government employees to DKA; and
- for regular reconciliations of petty cash.

Desert Knowledge Australia cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**1,324**	**1,664**
Less expenses from ordinary activities		
Wages and IT	(528)	(453)
Business and Innovation Centre	-	(125)
Salaries/Consultants	(59)	(105)
Media/marketing/advertising	(71)	(90)
Travel	(29)	(63)
Other	(208)	(116)
Total expenses from ordinary activities	**(895)**	**(952)**
Retained surplus	**429**	**712**

The decrease in revenue for the year was largely as a result of a decrease in the value of the grant for the DKA Business Centre Project. The value of the grant for 2005/06 was $775,000 compared to an amount of $350,000 for 2006/07.

The decline in total expenditure reflected the absence of expenditure in relation to the Business Innovation Centre during 2006/07.

These year end surpluses were affected by the value of tied grants that were received by DKA, but not expended. The grants were recognised as revenues in the years in which they were received, but as they were not expended during the years in question, the unexpended amounts are included as part of the cash held by DKA at the end of each financial year. The amounts were $1,100,751 at 30 June 2007 and $737,397 at June 2006 and relate to the following projects:

Desert Knowledge Australia cont…

Projects	2007	2006
	$	$
Indigenous Employment and Education Taskforce	30,000	-
Australian Tourism Development	-	146
Business & Innovation Centre	1,000,000	650,000
Nevada Institute Seed Fund	70,751	70,751
DK Precinct Solar Demo Facility	-	16,500
Total	**1,100,751**	**737,397**

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	1,852	1,263
Less Current Liabilities	(343)	(183)
Net Assets	**1,509**	**1,080**
Represented by:		
Accumulated surplus	1,509	1,080
Equity	**1,509**	**1,080**

Government Printing Office

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

All Government Agencies are expected to use the Government Printing Office (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.

Audit Opinion

The audit of the Government Printing Office for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 18 October 2007.

Key issues

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

Government Printing Office cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**6,203**	**6,478**
Less expenses from ordinary activities		
Operational costs	(3,350)	(3,580)
Employee Expenses	(2,416)	(2,322)
Depreciation and amortisation	(287)	(240)
Total expenses from ordinary activities	**(6,053)**	**(6,142)**
Net surplus before income tax expense	**150**	**336**
Less income tax expense	(45)	(102)
Net surplus	**105**	**234**
Less dividends	(53)	(119)
Retained surplus	**52**	**115**

Government Printing Office cont…

The $186,000 (55%) decrease in the net surplus before income tax and dividends from the prior year is attributable to the larger decrease in revenue of $275,000 (4.2%) as compared to the relative decrease in expenses of $89,000 (1.4%). The most significant factors that contributed to the decrease in revenue and expenses were:

- $270,000 (4.3%) drop in sales of goods and services due to fewer printing jobs undertaken at GPO during the year as printing demand from the NT Government fell;
- $94,000 (4%) increase in employee expenses which is consistent with the 3% average wage rate increase and increase in number of employees from 37 employees as at 30 June 2006 to 38 employees as at 30 June 2007;
- $299,000 (8.5%) decrease in the purchase of goods and services. The 8.5% decrease is in line with the drop in revenue during the financial year;
- $69,000 (121%) increase in repairs and maintenance expenses which is attributable to the additional downtime in production machines this financial year; and
- $47,000 (20%) increase in depreciation and amortisation. The 20% increase in line with installation of $753,000 in new plant and equipment during the financial year.

Government Printing Office cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	2,837	3,915
Less Current Liabilities	(743)	(1,411)
Working Capital	**2,094**	**2,504**
Add Non Current Assets	1,035	569
	3,129	3,073
Less Non Current Liabilities	(160)	(156)
Net assets	**2,969**	**2,917**
Represented by:		
Accumulated funds	2,596	2,544
Capital	373	373
Equity	**2,969**	**2,917**

GPO continues to display a strong net asset position as at 30 June 2007.

The small improvement on the prior year is due to the net surplus after tax and dividends.

The Government Printing Office has commented:

DCIS acknowledges the Auditor-General's analysis.

It is noted that the reported increase in employee numbers was due to a position being vacant during the previous audit for the year ended 30 June 2006.

Jabiru Town Development Authority

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Jabiru Town Development Authority (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 of 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 2007.

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 (ERA), the NT Government, the Commonwealth Government and the Authority.

Audit Opinion

The audit of the Jabiru Town Development Authority for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 9 January 2008.

Key issues

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

"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."

Jabiru Town Development Authority cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**231**	**406**
Less expenses from ordinary activities		
Administration expenses	(209)	(739)
Amortisation of town infrastructure	(62)	(63)
Impairment Loss	-	(621)
Total expenses from ordinary activities	**(271)**	**(1,423)**
Net loss	**(40)**	**(1,017)**

Significant movements in revenue and expenses are as follows:

- Revenue has decreased by $175,000 or 43% from the prior year, in particular:
  - decrease in contribution from ERA of $70,000;
  - decrease in contribution from the Director of National Parks of $60,000; and
  - decrease in contribution by the NT Department of Local Government, Housing and Sport of $10,000.
- Expenses have decreased by $1.15 million or 81% from the prior year, in particular:
  - recognition of impairment of asset loss of $621,200 in prior year (Nil in current year);
  - nil contribution to Jabiru Town Council in current year ($299, 251 in prior year); and
  - decrease in general expenses (decrease of $222,000) mainly in Community Development Fee ($146,727 in prior year) and Small Grants program ($70,000 in prior year).

Jabiru Town Development Authority cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	3,677	3,656
Less Current Liabilities	(15)	(16)
Working Capital	**3,662**	**3,640**
Add Non Current Assets	895	957
	4,557	4,597
Less Non Current Liabilities	(8,805)	(8,805)
Net assets	**(4,248)**	**(4,208)**
Represented by:		
Accumulated deficit	(4,248)	(4,208)
Equity	**(4,248)**	**(4,208)**

Legislative Assembly Members' Superannuation Trust

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The provision of superannuation benefits to Members of the Legislative Assembly was affected by two Acts passed by the Legislative Assembly during 2005-06. 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 carried out as at 30 June 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 2007 were $49.513 million.

Audit Opinion

The audit of the Legislative Assembly Members' Superannuation Trust for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 8 October 2007.

Key issues

The audit did not identify any matters of consequence.

Legislative Assembly Members' Superannuation Trust cont…

Financial analysis

Abridged Statement of Changes in Net Assets

	2007	2006
	$'000	$'000
Net investment revenue		
Sundry income	124	95
Interest distributions	4,126	104
Changes in net market value of investments	4,077	5,882
Member contributions	311	310
Member surcharge contributions	110	489
Territory contributions	1,982	1,875
Benefits paid	(1,991)	(2,555)
Superannuation contribution surcharge	(120)	(258)
Other expenses	(3)	(41)
Revenue less expenses before income tax	**8,616**	**5,901**
Less income tax expense	(457)	(125)
Change in net assets	**8,159**	**5,776**

Legislative Assembly Members' Superannuation Trust cont…

Abridged Statement of Net Assets

	2007	2006
	$'000	$'000
Current Assets		
Cash at bank and other assets	204	1,131
Investments	56,880	47,775
Total Assets	**57,084**	**48,906**
Less Liabilities	(1,098)	(1,078)
Net assets	**55,986**	**47,828**
Vested benefits	**49,513**	**46,077**

Vested benefits are the value of benefits payable on voluntary withdrawal from the scheme at that date.

Net assets now represent 113.1% of vested benefits (2006: 103.8%), a strengthening in the position of the Trust.

Nitmiluk (Katherine Gorge) National Park Board

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The of Nitmiluk (Katherine Gorge) National Park Board (the Board) was formed in 1989 under the *Nitmiluk (Katherine Gorge) National Park 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.

Audit Opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 16 November 2007.

Key issues

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

Nitmiluk (Katherine Gorge) National Park Board cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities		
Park income	846	847
NT Government funding sundry income	37	43
Total revenue from ordinary activities	**883**	**890**
Less expenses from ordinary activities		
Operational costs	(882)	(889)
Total expenses from ordinary activities	**(882)**	**(889)**
Retained surplus	**1**	**1**

Park income earned for 2006-07 was $846,000, essentially unchanged from the previous year, and this was reflected in payments to both the Traditional Owners and the Parks and Wildlife Commission. Other income, which mainly consists of the value of services received free of charge, declined by $6,000 or 14% from last year.

Nitmiluk (Katherine Gorge) National Park Board cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	316	311
Less Current Liabilities	(296)	(292)
Working Capital	**20**	**19**
Add Non Current Assets	-	-
	20	19
Less Non Current Liabilities	-	-
Net assets	**20**	**19**
Represented by:		
Accumulated surplus	**20**	**19**

Northern Territory Government and Public Authorities Employees' Superannuation Fund

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS) was established by the *Superannuation Act* (the 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 as at 30 June 2007.

The unfunded liability of the scheme at 30 June 2007, after taking into account the value of assets held by the scheme at that date, was $677.8 million, compared with an unfunded liability of $650.1 million at 30 June 2006.

The Northern Territory Government and Public Authorities Employees' Superannuation Fund is established for NTGPASS by Division 2 of Part 161 of the Act. Section 43 of the Act specifies that the Auditor-General audit the financial statements of the Fund.

Audit Opinion

The audit of Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 9 October 2007.

Key issues

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

Northern Territory Government and Public Authorities Employees' Superannuation Fund cont…

Financial analysis

Abridged Statement of Changes in Net Assets

	2007	2006
	$'000	$'000
Net investment revenue	89,893	68,018
Member contributions	39,683	32,474
Member surcharge payments received	280	349
Territory contributions	47,360	46,511
Transfers and rollovers	51,054	45,263
Benefits expense	(104,322)	(94,369)
Other expenses	(430)	(1,179)
Revenue less expenses before income tax	**123,518**	**97,067**
Less income tax expense	(6,100)	(5,458)
Change in net assets	**117,418**	**91,609**

Northern Territory Government and Public Authorities Employees' Superannuation Fund cont…

Abridged Statement of Net Assets

	2007	2006
	$'000	$'000
Cash at bank and other assets	15,314	15,158
Investments	682,131	559,981
Total assets	**697,445**	**575,139**
Less Liabilities	(34,943)	(30,055)
Net assets	**662,502**	**545,084**
Vested benefits	**1,340,300**	**1,195,100**

Vested benefits are the value of benefits payable on voluntary withdrawal from the scheme at that date.

Northern Territory Legal Aid Commission

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

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

Audit Opinion

The audit of Northern Territory Legal Aid Commission for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 21 November 2007.

Key issues

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

Northern Territory Legal Aid Commission cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**7,776**	**7,665**
Less expenses from ordinary activities		
Administration	(1,159)	(940)
Employee Expenses	(3,605)	(3,223)
Legal	(2,328)	(2,445)
Depreciation and amortisation	(224)	(96)
Other	(587)	(565)
Total expenses from ordinary activities	**(7,903)**	**(7,269)**
Net (deficit)/surplus	**(127)**	**396**

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 $0.1 million.

The increase in expenditure was predominantly due to the increase in salaries and employee benefits and administration expenses.

Northern Territory Legal Aid Commission cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	3,982	3,759
Less Current Liabilities	(1,087)	(845)
Net Current Assets	**2,895**	**2,914**
Add Non Current Assets	1,175	1,298
	4,070	4,212
Less Non Current Liabilities	(122)	(137)
Net assets	**3,948**	**4,075**
Represented by:		
Reserves	2,740	2,884
Retained earnings	1,208	1,191
Equity	**3,948**	**4,075**

Northern Territory Major Events Company Pty Ltd

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Northern Territory Government established the Northern Territory Major Events Company Pty Ltd (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 2007 event was held over the weekend commencing 22 June 2007. As the 2006 event was held over the weekend commencing 30 June 2006 a proportion of revenue and expenses for the 2006 were recognised in the 2006-07 financial year.

Audit Opinion

The audit of Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 26 November 2007.

Key issues

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

Northern Territory Major Events Company Pty Ltd cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue before government grants	**5,120**	**2,607**
Less expenses from ordinary activities		
Employee Expenses	(559)	(508)
Depreciation	(6)	(7)
Other	(7,476)	(3,885)
Total expenses from ordinary activities	**(8,041)**	**(4,400)**
Net (loss) before income government grants	**(2,921)**	**(1,793)**
Government grants	2,490	2,144
Net (loss)/profit	**(431)**	**351**

The net loss for the year directly reflects the Company's exposure to significant revenue and expenditure recognition issues surrounding the timing of the V8 Supercar championships. The 2006 event was held over the period 30 June to 2 July 2006. The effect of this timing difference resulted in an $863,001 reduction in the current year profits with 61% of the revenue and 90% of the expenditure, relating to the 2006 event, recognised in the year ended 30 June 2007.

Although the Company realised a loss, revenue from Government grants increased marginally with the Company receiving additional funding for general operations and the V8 Supercar championships and one off projects such as Australian Idol and the Australian veteran golf.

Northern Territory Major Events Company Pty Ltd cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	2,680	2,836
Less Current Liabilities	(2,136)	(1,848)
Net current assets	**544**	**988**
Add Non Current Assets	37	24
Net assets	**581**	**1,012**
Represented by:		
Retained profits	581	1,012
Contributed equity ($2)	-	-
Equity	**581**	**1,012**

Northern Territory Police Supplementary Benefit Scheme

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Northern Territory Police Supplementary Benefit Scheme (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.

Eligibility for membership of the CSS ceased from 1 January 1988 and all members of the 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 2007 there were 121 (135 in 2006) members and 133 (123 in 2006) 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.

Northern Territory Police Supplementary Benefit Scheme cont…

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.

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 8 October 2007.

Key issues

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

Northern Territory Police Supplementary Benefit Scheme cont…

Financial analysis

Abridged Statement of Changes in Net Assets

	2007	2006
	$'000	$'000
Net investment revenue	463	460
Contribution revenue	118	115
Benefits		
Refunds of accumulated contributions	(151)	(2)
Payment of accumulated contributions to the Territory	(445)	(392)
Superannuation contribution surcharge	(4)	(10)
Other expenses	(2)	(2)
Revenue less expenses before income tax	**(21)**	**169**
Less income tax expense	(1)	(2)
Change in net assets	**(22)**	**167**

Northern Territory Police Supplementary Benefit Scheme cont…

Abridged Statement of Net Assets

	2007	2006
	$'000	$'000
Cash at bank and other assets	166	142
Investments	3,532	3,430
Total assets	**3,698**	**3,572**
Less Liabilities	(353)	(205)
Net assets	**3,345**	**3,367**
Vested benefits	**31,450**	**31,945**

Vested benefits are the value of benefits payable on voluntary withdrawal from the scheme at that date.

Northern Territory Treasury Corporation

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Northern Territory Treasury Corporation (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.

Audit Opinion

The audit of Northern Territory Treasury Corporation for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 27 September 2007.

Key issues

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

Northern Territory Treasury Corporation cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**162,296**	**166,339**
Less expenses from ordinary activities		
Interest	(136,660)	(138,189)
Administration	(1,988)	(2,038)
Total expenses from ordinary activities	**(138,648)**	**(140,227)**
Net surplus before income tax expense	**23,648**	**26,112**
Less income tax expense	(7,094)	(7,834)
Net surplus	**16,554**	**18,278**
Less dividends	(16,554)	(18,278)
Retained surplus	**-**	**-**

The profit from ordinary activities before tax of $23.6 million is marginally less than the prior year result of $26.1 million. This result was generally attributable to the weighted average movement in interest-bearing assets and liabilities between the two years.

Northern Territory Treasury Corporation cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Total Assets	2,357,167	2,368,274
Less Total Liabilities	(2,334,733)	(2,348,079)
Net assets	**22,434**	**20,195**
Represented by:		
Contributed capital	18,714	18,714
Reserves	3,720	1,481
Equity	**22,434**	**20,195**

NT Build

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

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.

Audit Opinion

The audit of NT Build for the year ended 30 June 2007 resulted in a qualified independent audit opinion, which was issued on 20 November 2007.

Key issues

Removal of emphasis of matter

Last year's audit report included an emphasis of matter regarding the non recognition of the long service leave liability. This year I was able to remove the emphasis of matter paragraph.

The actuarial review of the long service benefit liability, performed by NT Build's actuary, Cumpston Sarjeant Pty Limited, estimated that the accrued liability was approximately $5.46 million. In the prior year the actuary's report went on to suggest that the accuracy of this estimation was considered to be quite uncertain and due to this uncertainty the liability was not recognised as a liability in the financial statements. This year, the actuary has advised that there is greater certainty over the outstanding liability and has recommended the recognition of this balance in the financial statements.

NT Build cont…

Qualification

I issued a qualified audit opinion on the financial statements of NT Build for the year ended 30 June 2007. The qualification reported within the audit opinion follows:

"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 those liable to pay the levy, including monitoring projects where building permits under the *Building Ac*t are issued. It is noted that not all types of construction work carried out in the Territory requires a building permit.

Due to the nature of the approval process within the Northern Territory construction industry, there exists some uncertainty regarding the ability of NT Build to identify all construction and maintenance projects that fall within the scope of the *Construction Industry Long Service Leave and Benefits Act*. As such, I am unable to satisfy myself as to the completeness of the $5,253,545 disclosed as 'Contributions from levy payers' in the income statement."

NT Build cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**5,524**	**3,329**
Less expenses from ordinary activities		
Employee Expenses	(506)	(326)
Occupancy costs	(77)	(78)
Depreciation and amortisation	(73)	(132)
Fees and allowances	(32)	(48)
Long service leave benefit payments	(152)	(25)
Long service scheme expense – current year	(2,860)	-
Long service scheme expense – prior year	(2,600)	-
Other	(415)	(360)
Total expenses from ordinary activities	**(6,715)**	**(969)**
Net (deficit)/surplus before income tax expense	**(1,191)**	**2,360**

The recognition of the accruing long service leave liability for the first time this year has resulted in a net deficit for the year. The result excluding the prior year expense was a surplus of $1.4 million.

NT Build cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	6,801	2,770
Less Current Liabilities	(557)	(411)
Working Capital	**6,244**	**2,359**
Add Non Current Assets	232	298
	6,476	2,657
Less Non Current Liabilities	(5,010)	-
Net assets	**1,466**	**2,657**
Represented by:		
Implementation funding	297	297
Accumulated surplus	1,169	2,360
Equity	**1,466**	**2,657**

With this being the second year of NT Build's existence its current assets consisting mostly of investments and levy income due or accrued have continued to increase. This year the liability for accrued long service leave benefits, as determined by NT Build's actuary, has been recognised at the net present value of future payments which arise from the service of eligible workers up to 30 June 2007. After recognising this liability NT Build has a retained surplus of $1.2 million which is also available to meet any accrued benefits over an above that already recognised in the financial statements.

NT Build cont…

NT Build has commented:

The NT Build Board notes the audit findings and accepts the qualification of the audit opinion.

NT Build continues to work closely with the Department of Planning and Infrastructure to pursue suitable amendments to both the Building Act and the Planning Act in order to strengthen NT Build's ability to maximise levy compliance.

However, as the current building and planning approval regime does not apply to all categories of construction, as defined by the Construction Industry Long Service Leave and Benefits Act, the NT Build Board accepts that legislative action alone will not remove the uncertainty noted by the Auditor-General. As a consequence, NT Build has instituted a range of mechanisms to identify construction projects throughout the Northern Territory.

NT Fleet

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

NT Fleet manages the light and heavy vehicles of all NT Government Agencies with the exception of Northern Territory Police, Fire and Emergency.

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.

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 18 October 2007.

Key issues

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

NT Fleet cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities		
Revenue from vehicle lease rentals	33,625	30,953
Gain on disposal of assets	1,518	939
Other revenues	198	179
Total revenue from ordinary activities	**35,341**	**32,071**
Less expenses from ordinary activities		
Operational costs	(9,942)	(9,745)
Employee Expenses	(2,060)	(1,983)
Depreciation and amortisation	(14,447)	(12,743)
Borrowing costs	(56)	(13)
Total expenses from ordinary activities	**(26,505)**	**(24,484)**
Net surplus before income tax expense	**8,836**	**7,587**
Less income tax expense	(2,651)	(2,276)
Net surplus	**6,185**	**5,311**
Less dividends	(3,093)	(2,656)
Retained surplus	**3,092**	**2,655**

NT Fleet cont…

The net surplus before tax and dividends of $8.84 million is an increase of $1.25 million over the previous year. The most significant factors that contributed to this increase were:

- The gain on disposal of assets increased by $0.58 million and is consistent with the increase in disposals from 1,006 disposed vehicles in 2005/6 to 1,176 disposed vehicles in 2006/7 and higher than expected prices at the auctions; and
- $2.7 million (9%) increase in revenues for vehicle lease rentals which is in line with the acquisition of additional vehicle fleet from 2,413 vehicles in 2005/6 to 2,462 vehicles in 2006/7 as well as an increase in the lease rate.

offset by

- $0.36 million (4.6%) rise in repairs and maintenance expenses and $1.7 million (13%) rise in depreciation expenses, both of which are consistent with the increase in fleet size and the rising age of the heavy vehicles.

NT Fleet cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets		
Cash and cash equivalents	4,353	632
Receivables and other current assets	631	490
Less Current Liabilities	(8,403)	(7,305)
Working Capital	**(3,419)**	**(6,183)**
Add Non Current Assets	80,995	76,668
	77,576	70,485
Less Non Current Liabilities	(4,173)	(174)
Net assets	**73,403**	**70,311**
Represented by:		
Accumulated funds	72,875	69,783
Capital	528	528
Equity	**73,403**	**70,311**

NT Fleet continues to display a strong net asset position as at 30 June 2007.

This is a $3.1 million (4%) improvement on the prior year and is due to the net surplus after tax and dividends.

The value of the vehicle fleet at year end has increased by $4.3 million from the prior year mainly due to the modernisation of the fleet, a small increase in vehicle numbers (2%) and the introduction of a rolling capital replacement program for heavy vehicles.

The implementation of the heavy vehicle replacement program has been funded by a $4 million loan from the Northern Territory Treasury Corporation.

The Department of Corporate and Information Services has commented:

DCIS acknowledges the Auditor-General's analysis.

Power and Water Corporation

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Power and Water Corporation (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 Corporation has three fully owned companies: Darnor Pty Ltd; Gasgo Pty Ltd; and Indigenous Essential Services Pty Ltd.

Audit Opinion

The audit of Power and Water Corporation for the year ended 30 June 2007 resulted in a qualified independent audit opinion, which was issued on 27 September 2007.

Key issues

Qualification

I issued a qualified audit opinion on the comparative balances within the financial statements of the Corporation and the consolidated entity for the year ended 30 June 2007 in relation to my inability to quantify the effect of the misstatement on the Corporation's water system assets and the reported profit as at, and for the year ended, 30 June 2006.

In addition, as I believe the value of the water system assets to be overstated as at 30 June 2006, I was unable to determine what proportion of the impairment loss of $88.567 million applied during the year ended 30 June 2007 was applicable to the years ended on or before 30 June 2006.

Power and Water Corporation cont…

Qualification cont…

The qualification reported within the audit opinion follows:

“Application of AASB 136 Impairment of Assets as at 30 June 2006 and for the year then ended.

Note 11 to the financial statements reports the value of the Corporation’s and consolidated entity’s water system assets at 30 June 2006 as $339.720 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. In my opinion, the discount rate applied by the Corporation as at 30 June 2006 was not in accordance with AASB 136 Impairment of Assets. Had the appropriate discount rate been applied in determining the recoverable amount, the value of the Corporation’s and consolidated entity’s water system assets would have been $295.997 million as at 30 June 2006. Had the impairment loss of $43.723 million been applied, the net loss reported for the Corporation and the consolidated entity would have been $23.226 million and $23.204 million respectively. As a result of my inability to form an opinion on the value of the property, plant and equipment assets as at 30 June 2005, the effect on the Income Statement for the financial year ended 30 June 2006 cannot be quantified.

As a result of the paragraph above, my opinion in relation to the comparative year ended 30 June 2006 is qualified as:

- I am of the opinion that the value of the Corporation’s water system assets were overstated by $43.723 million as at 30 June 2006; and
- the effect on the profit reported in the Income Statement and the Statement of Changes in Equity for the Corporation and the consolidated entity for the year ended 30 June 2006 cannot be quantified.

Power and Water Corporation cont…

Qualification cont…

Application of AASB 136 Impairment of Assets to the results reported for the year ended 30 June 2007.

In accordance with AASB 136 Impairment of Assets, the Corporation performed an impairment test and determined that the recoverable amount of the Corporation's and consolidated entity's water system assets was $251.802 million as at 30 June 2007. A write down of $88.567 million was applied to the water system assets for the year ended 30 June 2007. Had the write down of $43.723 million been applied in the previous year, the impact on the income statement for the year ended 30 June 2007 would have been an impairment loss of $44.844 million. The net loss for the period reported for the Corporation and the consolidated entity would have been $25.589 million and $25.481 million respectively.

As a result of the paragraph above, my opinion in relation to the year ended 30 June 2007 is qualified as I am of the opinion the loss reported in the Income Statement and the Statement of Changes in Equity for the Corporation and the consolidated entity is overstated by $44.844 million for the year ended 30 June 2007. "

It should be noted that the 2005/06 audit determined the recoverable amount of water system assets controlled by the Corporation to be $295.997 million as at 30 June 2006. Consequently the prior year audit opinion found the water system assets as at 30 June 2006 to be overstated by $38.045 million. During the year ended 30 June 2007, efforts by management to accurately report the Corporation's asset categories has resulted in reallocation of gross asset values and accumulated depreciation between asset types. As a result, the net value of the water system assets of the Corporation reported in the prior year's financial statements of $334.042 million has been restated in the current year comparative financial statements for the year ended 30 June 2006 as $339.720 million. Specifically, the qualification contained within the audit opinion I issued last year on 10 October 2006 reported that it was my view that water system assets would need to be written down by $38.045 million to $295.997 million as at 30 June 2006. The qualification contained within my audit opinion for the year ended 30 June 2007, in reference to the same misstatement, refers to a write down of $43.723 million.

Power and Water Corporation cont…

Qualification cont…

The Corporation's Income Statement for the year ended 30 June 2007 recorded an impairment loss of $146.4 million. In essence that loss signified that the "recoverable amount" (the value of the cash flows that the assets were expected to generate over their remaining useful lives) of some classes of the Corporation's fixed assets had declined below their carrying amounts by the amount in question.

The decline in the values of the Corporation can be traced to an earlier Government decision to freeze the Corporation's tariffs with the result that growth in revenues was limited to growth in the customer base, while the Corporation was required to absorb the full effect of increases in input costs over the same period. This led to a constriction upon operating cash flows and constraints upon the Corporation's investment program.

In 2007 the Government approved tariff increases for the Corporation. The increased revenues are expected to stabilise cash flows and prevent further declines in the value of the Corporation.

Validity of property, plant and equipment

A comprehensive asset stocktake had not been performed by the Corporation for several years. A stocktake and useful life assessment of assets is being currently being performed and I intend to audit any changes identified.

Power and Water Corporation cont…

Financial analysis

Abridged Income Statement of the Consolidated Entity

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**527,028**	**497,513**
Less expenses from ordinary activities		
Raw materials and consumables used	(243,074)	(243,840)
Finance costs	(24,808)	(24,465)
Repairs and maintenance expenses	(28,087)	(24,867)
Employee expenses	(63,434)	(62,623)
Property costs	(4,945)	(4,582)
Information technology and communication	(7,689)	(8,247)
Insurance costs	(3,630)	(3,416)
Depreciation and amortisation	(61,156)	(59,334)
Impairment of non current assets	(146,431)	(10)
Other expenses	(42,554)	(37,069)
Total expenses from ordinary activities	**(625,808)**	**(468,453)**
Net (loss)/profit before income tax expense	**(98,780)**	**29,060**
Less income tax benefit/(expense)	29,576	(8,541)
Net profit	**(69,204)**	**20,519**
Less dividends	-	(10,045)
Retained profit	**(69,204)**	**10,474**

The reported decrease in profit largely resulted from the recording of an impairment write down in the value of water and sewerage assets of $146.4 million. The impairment write down resulted from the application of Australian Accounting Standard AASB136 *Impairment of Assets*.

Profit before the impairment write down was $47.65 million compared to the prior year's profit of $29.07 million.

Power and Water Corporation cont…

Abridged Balance Sheet of the Consolidated Entity

	2007	2006
	$'000	$'000
Current Assets	122,413	135,310
Less Current Liabilities	(132,123)	(142,238)
Working Capital	**(9,710)**	**(6,928)**
Add Non Current Assets	1,057,900	1,104,136
	1,048,190	1,097,208
Less Non Current Liabilities	(496,710)	(473,720)
Net assets	**551,480**	**623,488**
Represented by:		
Retained profits	554,284	623,488
Reserves	(2,804)	-
Equity	**551,480**	**623,488**

The decline in the value of net assets is directly relatable to the impairment write down in the value of water and sewerage assets of $146.4 million.

The net cash provided by operations of $92.3 million supplemented by the net proceeds of borrowings of $18.9 million were used to pay for investment in property plant and equipment of $113 million and the dividend payment of $10.2 million for 2005/06. This has resulted in an $11.7 million reduction in cash reserves as compared to the prior year.

Power and Water Corporation cont…

The Power and Water Corporation has commented:

Audit Qualification

The Corporation recorded a net loss after tax of $69.2 million for 2006/07, after an impairment write-down in the value of water and sewerage assets of $102.5 million post-tax ($146.4 million pre-tax) resulting from the application of Australian Accounting Standard 136: Impairment of Assets.

After eliminating the effects of the asset write-down, a consolidated net profit after tax of $33.3 million results.

It is our understanding that the qualified audit opinion issued on the 30 June 2007 financial statements contains two elements:

- *the qualified audit opinion issued in relation to the 30 June 2006 financial statements has carried over for the comparative information included in the 2006/07 year reports; and*
- *the impairment write-down of $146.4 million (pre-tax) reported in the financial statements at 30 June 2007 straddles the 2005/06 and 2006/07 financial years, thus resulting in the loss reported in the 2006/07 income statement to be overstated.*

In 2006/07, the Corporation re-engineered the financial model (using expected cash flow approach) for testing the carrying value of assets under AASB 136, in addition to obtaining independent advice on a discount rate appropriate for the Corporation. Further, substantial work was undertaken to improve the reliability of the financial projections included in the annual

Statement of Corporate Intent (SCI) which formed the basis of the data inputs for the asset impairment test.

The 2007/08 SCI highlighted a significant increase in investment in capital works and repairs and maintenance expenditure, thus the CPI-based tariff rises announced in 2007 were both necessary and timely. Without the tariff increases, it is likely that a more significant asset write-down would have occurred at 30 June 2007.

Power and Water Corporation cont…

The Power and Water Corporation has commented (cont…):

The revised asset impairment review process was used in preparing the 2006/07 financial statements and met audit scrutiny. Thus it is our understanding that the qualified audit opinion issued on the 30 June 2007 financial statements relates to the carry-over impact of the 2005/06 qualification on the 2006/07 income statement of the Corporation, rather than concerns about the carrying value of assets reported in the Corporation's balance sheet at 30 June 2007.

We note that the qualified audit opinion issued on the 30 June 2007 Financial Statements will have a carry over impact in 2007/08, as the 30 June 2007 financial statements are included as comparative information in the 30 June 2008 year's report.

Validity of Property, Plant and Equipment

As noted in your report, a comprehensive stocktake of the Corporation's assets and reconciliation with the fixed asset register is currently underway. This has been a substantial exercise to date and there is much work still to be completed, however the Corporation is on track for the results to be included in the 2007/08 financial statements.

Management Letter Issues

The Corporation is pleased that its commitment to address audit issues outlined in the annual management letter as they arise has resulted no audit issues being raised in the 2006/07 Management Letter, compared to eighteen issues raised at 30 June 2006.

Territory Discoveries

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

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.

Audit Opinion

The audit of Territory Discoveries for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 16 October 2007.

Key issues

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

Territory Discoveries cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities	**8,154**	**7,060**
Less expenses from ordinary activities		
Operational costs	(4,892)	(3,966)
Employee Expenses	(2,881)	(2,474)
Depreciation and amortisation	(13)	(16)
Total expenses from ordinary activities	**(7,786)**	**(6,456)**
Net surplus before income tax expense	**368**	**604**
Less income tax expense	-	-
Net surplus	**368**	**604**
Less dividends	-	-
Retained surplus	**368**	**604**

Territory Discoveries cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets		
Cash and cash equivalents	10,563	8,440
Receivables and other current assets	193	132
Less Current Liabilities	(7,584)	(5,774)
Working Capital	**3,172**	**2,798**
Add Non Current Assets	5	18
	3,177	2,816
Less Non Current Liabilities	(18)	(25)
Net assets	**3,159**	**2,791**
Represented by:		
Accumulated losses	(2,518)	(2,886)
Contributed equity	5,677	5,677
Equity	**3,159**	**2,791**

Territory Insurance Office

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Territory Insurance Office (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*. 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.

Recent amendments to the *Territory Insurance Act* have established the Motor Accidents Compensation Fund (MAC Fund) and other requirements around the operation of the fund. On establishment of the MAC Fund on 1 July 2006 all assets allocated for the MAC business became part of the MAC Fund. The establishment of the MAC Fund did not create a trust and TIO, and the Members are not trustees in relation of the MAC Fund.

Audit Opinion

The audit of the Territory Insurance Office for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 27 September 2007.

Territory Insurance Office cont…

Key issues

Chaffey v Santos Limited
The Supreme Court case *Chaffey v Santos Limited* involved consideration of the validity of amendments to the *Work Health Act.* The amendments to the Act altered the definition of “normal weekly earnings” by excluding employer superannuation contributions from the calculation of normal weekly earnings. In 2005/06, the Board had made an additional provision of $2 million, recognising the risk associated with the potential for workers compensation claimants to pursue retrospective superannuation benefits if the amendments to the Act were held to be invalid.

On 2 August 2007, the High Court of Australia delivered an appeal judgment in the matter of Attorney-General for the Northern Territory and Chaffey: Santos Limited v Chaffey [2007] HCA 24. The judgment was in favour of TIO’s workers’ compensation business and thus in accordance with AASB 110, *Events after the Balance Sheet date,* TIO reversed the provision of $2.0 million previously made by the Board in 2005/06.

Securitisation of TIO Home Loans
During the year TIO entered into a sub-origination and management agreement with Integris Securitisation Services Pty Ltd (Master Servicer) and Cuscal Management Pty Limited (Manager) which are wholly owned subsidiaries of Cuscal Limited, to assign securitised TIO home loans to Integrity Trust, which is managed by Perpetual Trustee Company Limited (Trustee of the Trust).

The assignment of a portfolio of home loans was undertaken as part of a process of altering TIO’s capital structure. This involved the assignment of a portfolio of home loans by TIO to the Trust in return for cash consideration. The value of the home loans assigned at 30 June 2007 was $224 million and the cash received from the Trust was $223 million.

The securitised loans continue to be recognised as assets on TIO’s balance sheet because the contractual arrangements of the securitisation program conditions were not considered to have satisfied the conditions necessary for de-recognition of assets specified by the accounting standard AASB 139, *Financial Instruments: Recognition and Measurement.* As the assets assigned to the Trust continue to be recognised as assets by TIO, the consideration received was recognised as a liability.

Territory Insurance Office cont…

Key issues cont…

Expense allocation percentages

Claims handling expense rates applied by TIO for 2006-07 have remained unchanged for several years and no detailed analysis was performed or provided to the actuary at the time of the valuation of liabilities. A subsequent high level analysis by management suggested that significant discrepancies may exist between the adopted rates on workers compensation and the rates supported by the analysis.

I recommended to TIO that a comprehensive expense analysis to support the allocation of claims handling expenses be completed and that the process should document fully the basis for the allocation of expenses and the assumptions made. TIO advised that it would undertake more work on the updating of claims handling cost percentages for use by the actuary for the December 2007 actuarial report.

Territory Insurance Office cont…

Financial analysis

Abridged Income Statement

	TIO Insurance & Banking		MAC Fund		TIO	
	2007	2006	2007	2006	2007	2006
	$'m	$'m	$'m	$'m	$'m	$'m
Underwriting result						
Net premium revenue	49	48	40	40	89	88
Net claims expense	(24)	(31)	(33)	(29)	(57)	(60)
Acquisition costs	(6)	(5)	-	(1)	(6)	(6)
Underwriting result	**19**	**12**	**7**	**10**	**26**	**22**
Other revenues and expenses						
Interest receivable	44		3		47	40
Change in value of investments	(3)		(1)		(4)	6
Other investment income	12		45		57	31
Total investment revenue	53	46	47	31	100	77
Other revenue	7	7	-	-	7	7
Borrowing costs	(33)	(26)	-	-	(33)	(26)
Other costs and depreciation	(18)	(20)	(11)	(9)	(29)	(29)
Net other revenues and expenses	**9**	**7**	**36**	**22**	**45**	**29**
Net profit before tax	**28**	**19**	**43**	**32**	**71**	**51**

Territory Insurance Office cont…

The continued improvements to the results were mainly due to an increase in investment income, improved claims management and the impact of increased interest rates on the outstanding claims valuation. Investment revenue, excluding interest revenue, rose from $37.3 to $53.1 million, an increase of $15.8 million in comparison to the prior year. This increase largely related to income from and movements in the value of the managed funds that TIO invests in and increases in the fair value of investment properties.

The general insurance result includes the reversal of the additional board approved provision of $2.0 million which was an allowance for the risk associated with the potential for workers compensation claimants to pursue retrospective superannuation benefits contingent upon the outcome of the Chaffey case (refer previously).

Territory Insurance Office cont…

Abridged Balance Sheet

	TIO Insurance & Banking		MAC Fund		TIO	
	2007	2006	2007	2006	2007	2006
	$'m	$'m	$'m	$'m	$'m	$'m
Assets						
Cash and cash equivalents	24	17	6	7	30	24
Trade and other receivables	39	38	1	1	40	37
Other financial assets	227	164	304	258	531	422
Intangible assets	1	1	-	-	1	1
Investment property	-	-	41	39	41	39
Loans	519	476	-	-	519	476
Reinsurance and other recoveries	18	25	26	24	44	49
Property, plant and equipment	38	34	-	-	38	34
Deferred reinsurance expense	18	16	-	-	18	16
Deferred acquisition costs	3	3	-	-	3	3
Deferred tax assets	3	3	-	-	3	3
Total Assets	**890**	**777**	**378**	**329**	**1,268**	**1,104**
Liabilities						
Outstanding claims liability	(105)	(115)	(234)	(228)	(339)	(343)
Trade and other payables	(26)	(27)	(6)	(7)	(32)	(32)
Deposits	(376)	(508)	-	-	(376)	(508)
Other financial liabilities	(1)	-	-	-	(1)	-
Tax liabilities	(13)	(8)	-	-	(13)	(8)
Provisions	(4)	(5)	-	-	(4)	(5)
Unearned premium liability	(45)	(42)	(20)	(19)	(65)	(61)
Securitisation liabilities	(223)	-	-	-	(223)	-
Subordinated loans	(20)	(18)	-	-	(20)	(18)
Total Liabilities	**(813)**	**(723)**	**(260)**	**(254)**	**(1,073)**	**(975)**
Net Assets	**77**	**54**	**118**	**75**	**195**	**129**

Territory Motor Sports Board Ltd

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

The Territory Motor Sports Board Ltd (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 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.

Audit Opinion

The audit of Territory Motor Sports Board Ltd for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 27 November 2007.

Key issues

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

Territory Motor Sports Board Ltd cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue before goods and services received free of charge	**49**	**376**
Less expenses from ordinary activities		
Operational costs		
Employee Expenses	(27)	(125)
Depreciation and amortisation	(466)	(1,784)
Gifted assets	(17,355)	-
Other	(51)	(317)
Total expenses from ordinary activities	**(17,899)**	**(2,226)**
Net surplus before income tax expense	**(17,850)**	**(1,850)**
Add goods and services received free of charge	22	2,089
Net (deficit)/surplus	**(17,828)**	**239**

Territory Motor Sports Board Ltd cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	-	75
Less Current Liabilities	-	(68)
Working Capital	**-**	**7**
Add Non Current Assets	-	12,417
Net assets	**-**	**12,424**
Represented by:		
Contributed equity	-	-
Accumulated funds	-	12,424
Equity	**-**	**12,424**

With the agreement of the sole shareholder, the Minister for Sport and Recreation, the directors resolved to cease the principal activities of the company. In accordance with this decision and with the intention to deregister the company the assets of the company were gifted to the Department of Local Government, Housing and Sport prior to year end.

Territory Wildlife Parks

Audit findings and Analysis of the financial statements for the year ended 30 June 2007

Background

This Government Business Division 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.

Audit Opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2007 resulted in an unqualified independent audit opinion, which was issued on 7 November 2007.

Key issues

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

Territory Wildlife Parks cont…

Financial analysis

Abridged Income Statement

	2007	2006
	$'000	$'000
Revenue from ordinary activities (excl CSO)	**2,588**	**1,948**
Less expenses from ordinary activities		
Employee Expenses	(5,761)	(5,359)
Depreciation and amortisation	(1,461)	(1,465)
Other expenses	(4,896)	(5,021)
Total expenses from ordinary activities	**(12,118)**	**(11,845)**
Net deficit before CSO	**(9,530)**	**(9,897)**
Community Service Obligation funding	7,830	7,817
Net deficit	**(1,700)**	**(2,080)**

The increase in revenue from ordinary activity is attributed mainly to an increased number of visitors to both parks. The number of visitors to the Alice Springs Desert Park increased by 11,113 or 15.5%, while the Berry Springs Park experienced an increase of 3,773 visitors or 5.7% when compared to the previous year.

Total expenses, other than depreciation and payroll related expenses, decreased by 2.5% or $125,000 for the year. The principal factors affecting expenses were:

- marketing and promotion, which decreased by 15.4% or $42,000 from previous year;
- workers compensation insurance, which decreased by 40.0% or $62,148 from previous year; and
- equipment expenses, which decreased by 55.7% or $86,696.

Salaries and other employee benefit expenses, as the major expense class for the Parks, increased by 7.5%. Depreciation expense remained constant when compared to the previous year.

Territory Wildlife Parks cont…

Abridged Balance Sheet

	2007	2006
	$'000	$'000
Current Assets	1,108	1,594
Less Current Liabilities	(982)	(1,078)
Working Capital	**126**	**516**
Add Non Current Assets	37,516	31,136
	37,642	31,652
Less Non Current Liabilities	(183)	(166)
Net assets	**37,459**	**31,486**
Represented by:		
Accumulated losses	(1,828)	(128)
Contributed equity	14,922	14,511
Asset revaluation reserve	24,365	17,103
Equity	**37,459**	**31,486**

The overall improvement in financial performance for the year was not reflected in the Park's cash flows. Thus while there was an increase in operating cash receipts, some of that cash was used to reduce liabilities. The result was an increase in net cash outflows from operating activities from $215,000 in 2005-06 to $320,000 for 2006-07, with an accompanying decline in the value of cash held at year end by $465,000 to $781,000.

Performance Management System Audits

Department of Health and Community Services

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

Audit objectives and scope

The objective of the audit was to assess how well IT fits the Department of Health and Community Services (DHCS) business needs. The focus of this engagement was on the following:

- processes used to develop the agency's IT Strategy.
- processes used by the agency to meet the objectives of the IT Strategy.
- alignment of the IT strategy with existing business strategies.
- the organisational IT governance structure.

The audit scope did not include validating the appropriateness of current business and/or IT strategies of the agency. This also did not include focusing on IT function performance effectiveness or other specific functional components e.g. business continuity, systems development, project management.

The approach was based on observation and enquiry with appropriate IT and business personnel, and assessing appropriate documentation.

Audit findings

The IT business plan documents linkages to the key business objectives outlined in the business strategy.

Areas for improvement include increasing the level of strategic focus in the Strategic Information Management Steering Committee.

Key issues

"Building Healthier Communities" was launched in 2004 by the Ministers for Health and Family and Community Services. This strategy was in support of the Government's vision and direction for health and community services. The program spans over 5 years.

The IT Division has an overarching "Information Systems and Technology Strategy 2004-2007" and an "Information Division Business Plan 2007-2008" which was finalised in July 2007.

Department of Health and Community Services cont…

A Strategic Information Management Steering Committee (the Steering Committee) exists, which consists of a number of Information Management Groups (IMG). The IMG's co-ordinate major projects in their division. The Steering Committee's main role is documented as the "overarching information committee for determining strategic information direction, policy and priorities".

Strengths were noted in the following areas:

- The IT business plan document has linkages to the business strategy "Building Healthier Communities" priority actions;
- Detailed IT project implementation plans; and
- The IT function is viewed as an enabler by business.

However the audit found that the Steering Committee is focused too heavily on operational issues rather than strategic information management.

The role of the Steering Committee was to provide a forum which focuses on "determining strategic information direction, policy and priorities". During the course of the audit it was revealed that currently the committee focused heavily on operational issues (e.g. email policy, fire suppression and fire proofing ICT infrastructure) instead of primarily on strategic plans or changes in strategic priorities for the agency.

The Steering Committee is not being effectively utilised to communicate IT progression towards its key strategic priorities. For example, IT's progress in achieving the goals relating to the efficient use of information and knowledge through the data warehouse (Business priority of "Reshaping and equipping our workforce") has not been well communicated. Perceived challenges include:

- Timeliness of the data warehouse team to meet business reporting demands;
- Data inaccuracy and the inability to validate data efficiently;
- Business units are unable to determine the data they require as in some cases IT have not provided the detailed information on how the data warehouse is designed; and
- Gap in business versus IT priority over the importance of addressing the challenges of the data warehouse. Some business representatives felt major projects were a bigger priority for IT (e.g. eHealth).

Department of Health and Community Services cont…

The main reason for these perceptions appears to be due to a lack of visibility over the reasons for IT's challenges. The IT division, on the other hand, attribute these perceptions to limited understanding by the business units on the data they require and the purpose of the data warehouse (e.g. Business Intelligence tool) instead of ad hoc reporting.

In some instances the business units have started to develop their own database reporting tools using excel and access databases. These in-house developments appear to be highly manual and may increase the inefficiency/inaccuracy of management reporting. In addition, in-house developments decrease the advantages of a single data source and standardised use of Business Objects for management reporting.

The issues noted above have the following potential effects:

- Without a forum to discuss strategic objectives and changes in priorities there is an increased risk of:
  - inability by the business units to challenge the IT strategy or influence changes to the strategic direction of IT; and/or
  - key strategic IT projects that add value to the business not being identified or undertaken.
- Ineffective communication channels increases the lack of awareness as to the progress being made by IT. This can lead to misconceptions and foster a non-productive working relationship between business units and IT.
- Inappropriate end user computing increases the risk of:
  - data inaccuracy, including due to the lack of security controls, inconsistent data definitions and counting rules, and design documentation associated with these developments; and
  - loss of knowledge in the event the developer leaves the agency.

Department of Health and Community Services cont…

It was recommended to the Agency that it should:

- Finalise and implement the new Steering Committee terms of reference to enable the Steering Committee meeting to focus on strategic matters (i.e. not operational issues), including the discussion of milestones achieved, strategic challenges and future outlook. It is also recommended that the agency establish a Corporate Information Management Group to take responsibility for corporate information management, knowledge management, ICT technology and the corporate operational support functions.
- Communicate the IT progression towards key strategic priorities with business stakeholders, preferably including via Steering Committee meetings and regular progress reports (e.g. via the Intranet).
- Communicate and gain acceptance of the proposed major service redesign (service operating model and core functions) of the data warehouse. IT should also educate the business on the use of the data warehouse as a business intelligence tool.
- Develop an End User Computing policy which promotes efficient and effective development/usage of standardised end user reporting tools. Where there are exceptions, the policy should outline that appropriate compensating controls be implemented and documented (e.g. security controls). This should also assist in ensuring the appropriate use of the data warehouse, rather than inappropriate usage of Excel/Access.
- Reaffirm the Chief Operations Officer as the Steering Committee Chair.

The Department of Health and Community Services has commented:

The new Chief Operations Officer of the department now chairs Strategic Information Management Steering Committee meetings. The terms of reference of this committee have now been revised to apply a more strategic focus.

Department of Planning and Infrastructure

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

Audit objectives and scope

The objective of the audit was to assess how well IT meets the Department of Planning and Infrastructure's (DPI's) business needs. In particular the audit considered:

- IT strategic alignment and monitoring;
- IT staffing;
- IT spending;
- IT project and program delivery effectiveness, strategic alignment of projects and value delivered from projects; and
- The capacity, scalability, functionality and viability of applications and infrastructure supporting business processes.

Audit Opinion

Based on the audit performed, strategic alignment between IT and business could not be clearly demonstrated. IT is operating as a utility (general support of process) and not as a strategic enabler (delivering value, cost rationalisation and risk mitigation) within DPI.

Key issues

Key issues include:

- IT strategic planning is not formally performed or monitored;
- IT operates in a decentralised manner across the Agency, which has resulted in data and process replication and a proliferation of platforms, applications, databases and proprietary software to deliver business process;
- IT budgeting was considered inadequate; and
- Project delivery is ineffective across a significant proportion of IT projects reviewed (delivered over time and over budget).

DPI has been operating without a formal IT strategic plan, definition of IT expectations, oversight or IT governance against established DPI corporate directions.

Department of Planning and Infrastructure cont…

A mechanism for monitoring IT strategic alignment and achievement of IT strategic objectives does not appear to be operating effectively. An Information Management Committee (IMC) exists to ensure that business systems are developed in line with DPI IT strategy (not developed) and policy such that technologies used can work with other major whole of government systems as they are developed. The IMC has not met since August 2006 (15 months) and the position of Director of Information & Business Systems has been vacated for 4 months.

IT groups are decentralised by technology function and report to various business unit managers rather than a common functional manager in IT. Through a review of the DPI Agency structure and through discussions with key IT application owners it was identified that not all IT staff report to a central IT group. This increases the risk of inconsistent direction and management of IT resources and controls. It was further evidenced that key organisational IT positions have been vacated for extended periods and that the existing IT organisation chart does not reflect the actual reporting structure.

It was noted that the information architecture has not been documented at DPI. There is a large variety of platforms, applications, databases, and proprietary software installed across the Agency largely driven by legacy systems from amalgamated departments. In environments where IT is decentralised across the Agency there is an increased risk and likelihood that both data and processes are being replicated. If the information architecture is not appropriately documented and maintained, there is greater risk of replicated data and processes and greater likelihood of a variety of applications. Furthermore, the ability to implement consistent policy and procedures across the environment and the ability to assure an effective control environment is reduced.

Through a detailed review of DPI financial reports, budgets and discussion with IT stakeholders (including the Chief Financial Officer) it appears that DPI have been operating without an effective IT budgeting strategy. An effective IT budget underpins the achievement of IT strategic objectives and assists organisations in achieving higher returns from targeted investment in the fulfilment of strategic objectives.

Department of Planning and Infrastructure cont…

Through a review of Agency structures, discussion with key IT project stakeholders and review of project documentation it was noted that DPI do not have an effective Project Management Office or a Project Management methodology. It was identified in a number of discussions with key stakeholders, deficiencies in this area is impacting on the delivery of IT projects on time and on budget. Post Implementation Reviews are not being completed for unsuccessful projects and lessons learned are not being used to enhance project delivery.

The Department of Planning and Infrastructure has commented:

The Department acknowledges the issues identified through the IT Effectiveness Audit.

In addressing the key findings identified through the audit the Agency response identified that the new Director Information and Business Systems would be commencing on 19 November 2007 and as a priority would:

- *re-establish the Information Management Committee (IMC) with a revised Terms of Reference;*
- *as part of establishing the IT governance, IT strategy and IT performance monitoring, KPI's and defined metrics for achievement of the defined objectives will be documented, reviewed and monitored on an ongoing basis;*

The IMC met on 13 December 2007 and noted the findings from the IT Effectiveness Audit and endorsed a revised Terms of Reference of the IMC. Furthermore, the IMC agreed to meet monthly until June 2008 and as a high priority progress the development of an IT strategic plan with a draft expected in June 2008.

The majority of the audit findings can be related back to the lack of an IT strategy, governance framework and vacancies in the support and management of IT. The development of an effective IT strategic plan, recruitment to key vacant positions and the re-establishment of the IMC will address the major issues identified.

Appendix 1: Audit Opinion Reports Issued Since 30 June 2007

	Date 2006-07 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2007	Date of Audit Report Year ended 30 June 2006
Sec 9 *Financial Management Act*			
Treasurer's Annual Financial Statement	18 October 07	11 October 07	13 October 06
Government Business Divisions; Sec 10 *Financial Management Act*			
Construction Division	27 November 07	8 October 07	10 October 06
Darwin Bus Service	27 November 07	8 October 07	6 October 06
Darwin Port Corporation	29 November 07	25 October 07	2 November 06
Data Centre Services	27 November 07	18 October 07	24 October 06
Government Printing Office	27 November 07	18 October 07	23 October 06
Northern Territory Treasury Corporation	18 October 07	27 September 07	2 October 06
NT Fleet	27 November 07	18 October 07	23 October 06
Territory Discoveries	29 November 07	16 October 07	9 November 06
Territory Housing	27 November 07	17 October 07	9 November 06
Territory Wildlife Parks	29 November 07	7 November 07	3 November 06
Government Owned Corporation; Sec 42 *Government Owned Corporations Act*			
Power and Water Corporation	29 November 07	27 September 07	10 October 06

Appendix 1: Audit Opinion Reports Issued Since 30 June 2007 cont…

	Date 2006-07 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2007	Date of Audit Report Year ended 30 June 2006
Entities to which Sec 10 *Financial Management Act* applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	19 November 07	16 November 06
Jabiru Town Development Authority	Not yet tabled	9 January 08	16 November 06
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	16 November 07	16 November 06
NT Grants Commission	27 November 07	25 October 07	29 September 06
Surveyors Board of the NT	Not yet tabled	4 December 07	14 November 06
Territory Insurance Office	29 November 07	27 September 07	29 September 06

Appendix 1: Audit Opinion Reports Issued Since 30 June 2007 cont…

	Date 2006-07 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2007	Date of Audit Report Year ended 30 June 2006
Other Entities/Separate Acts/Trust Deeds			
Common Funds of the Public Trustee	Not yet tabled	Not yet completed	20 December 06
Darnor Pty Ltd	N/A	14 September 07	6 October 06
Darwin Waterfront Corporation	18 October 07	15 October 07	N/A
Desert Knowledge Australia	29 November 07	5 November 07	25 October 06
Gasgo Pty Limited	N/A	14 September 07	6 October 06
Indigenous Essential Services Pty Ltd	N/A	14 September 07	6 October 06
Legislative Assembly Members' Superannuation Trust	11 October 07	8 October 07	4 October 06
Northern Territory Government and Public Authorities Employees Superannuation Fund	18 October 07	9 October 07	4 October 06
Northern Territory Major Events Company Pty Ltd	N/A	26 November 07	5 December 06
Northern Territory Police Supplementary Benefits Scheme	N/A	8 October 07	12 October 06
NT Legal Aid Commission	Not yet tabled	21 November 07	1 December 06
NT Build	29 November 07	20 November 07	3 November 06
Territory Motor Sports Board Ltd	N/A	27 November 07	1 November 06

Appendix 1: Audit Opinion Reports Issued Since 30 June 2007 cont…

	Date 2006 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2006	Date of Audit Report Year ended 31 December 2005
Other Entities/Separate Acts/Trust Deeds			
Batchelor Institute of Indigenous Tertiary Education	21 August 07	2 August 07	24 July 06

Appendix 1: Audit Opinion Reports Issued Since 30 June 2007 cont…

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2007	Date of Audit Report Year ended 30 June 2006
Inter-Government Statements By Legislation			
Local Government Financial Assistance	ASAP	12 November 07	24 October 06
AusLink (National Land Transport) Act 2005 – National Highways and Roads of National Importance	31 December 07	21 December 07	1 June 07
AusLink (National Land Transport) Act 2005 – Road Safety (Black Spot)	31 December 07	21 December 07	1 June 07
AusLink (National Land Transport) Act 2005 – Port Keats Road Upgrade	31 December 07	21 December 07	N/A
AusLink (National Land Transport) Act 2005 – Outback Highway – Plenty Highway	31 December 07	21 December 07	N/A
AusLink (National Land Transport) Act 2005 – Roads to Recovery	31 October 07	29 October 07	1 June 07
AusLink (National Land Transport) Act 2005 – Supplementary AusLink Roads to Recovery	31 October 07	29 October 07	1 June 07
AusLink Funding for Land Transport Research Entities	31 December 07	29 November 07	21 December 06
Interstate Road Transport Act 1985	31 December 07	21 December 07	1 June 07
States Grants (Petroleum Products) Act Acquittal	31 August 07	5 September 07	N/A

Appendix 1: Audit Opinion Reports Issued Since 30 June 2007 cont…

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2007	Date of Audit Report Year ended 30 June 2006
Inter-Government Statements By Agreement			
Commonwealth-State Housing Agreement	31 December 07	19 December 07	18 December 06
National Disaster Relief Arrangements	31 December 07	11 December 07	21 December 06

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 31 December 2006	Date of Audit Report Year ended 31 December 2005
By Agreement			
2005-08 Commonwealth-State Agreement for Skilling Australia's Workforce - State-Sourced Recurrent Expenditure	30 June 07	3 September 07	22 August 06
By Legislation			
Vocational Education and Training Financial Data	14 July 07	13 July 07	8 August 06

N/A – Not applicable

Not yet completed – as at 31 December 2007

Not yet tabled – as at 31 December 2007

Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 31 December 2007

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 2007 as being scheduled for the period.

Department of the Chief Minister

Procurement processes for acquisition of publicity, advertising, design and similar services.	Refer page 52

Department of Health and Community Services

How well does IT fit the Agency's business needs?	Refer page 166
Review of Ascribe IT System.	Refer page 58
Review of Qantel IT System.	Refer page 64

Department of Planning and Infrastructure

How well does IT fit the Agency's business needs?	Refer page 170

Department of Primary Industry, Fisheries and Mines

Process for determining the adequacy of the financial security lodged in connection with McArthur River mine expansion.	Refer page 72

Cross-Agency

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

Appendix 3: Proposed Audit Activity in the Six Months Ending 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 have been scheduled for the period.

Department of Corporate and Information Services

Advanced Communications Contract

Department of Health and Community Services

Application of, and accountability for, Special Purpose Payments

Selected Agencies

Corporate Credit Card Review

Review of Selected Agency's Internal Audit Function

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: 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;

Appendix 5: Overview of the approach to auditing performance management systems cont…

- 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 Standard
AIS	Asset Information System
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
DHCS	Department of Health and Community Services
DKA	Desert Knowledge Australia
DPI	Department of Planning and Infrastructure
DPIFM	Department of Primary Industry, Fisheries and Mines
ERA	Energy Resources Australia Limited
FITA	*Fiscal Integrity and Transparency Act*
GAS	Government Accounting System
GBD	Government Business Division
GFS	Government Finance Statistics
GL	General Ledger
GPO	Government Printing Office
GST	Goods and Services Tax
ICT	Information and Communications Technology
IMC	Information Management Committee
IT	Information Technology
MAC Fund	Motor Accidents Compensation Fund
NTAGO	Northern Territory Auditor-General's Office
NTGPASS	Northern Territory Government and Public Authorities Superannuation Scheme
NTPSBS	Northern Territory Police Supplementary Benefit Scheme

Appendix 6: Abbreviations cont…

PFC	Public Financial Corporations
PIN	Personal Identification Number
PNFC	Public Non-Financial Corporations
RDH	Royal Darwin Hospital
SCI	Statement of Corporate Intent
TAFS	Treasurer's Annual Financial Statement
TIO	Territory Insurance Office
TMS	Tenancy Management System
UPF	Uniform Presentation Framework

Index of Matters Reported

Index of Matters Reported cont…

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 2008 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 2008 sittings.

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