



Auditor-General for the Northern Territory
Auditing for Parliament

November 2009 Report to the Legislative Assembly



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Northern Territory Auditor-General's Office

Auditing for Parliament

November 2009 Report to the Legislative Assembly

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Northern Territory Auditor-General's Office

Auditing for Parliament

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

24 November 2009

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 30 June 2009 and I request that you table the report today in the Legislative Assembly.

This report deals with the results of compliance audits which were performed to assess the adequacy of controls over the administration of public monies, but also included are the results of financial statement audits in respect of those institutions that are required to report on a calendar year basis and the audit of the Treasurer's Annual Financial Statement.

Yours faithfully,

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

F McGuinness
Auditor-General for the Northern Territory

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Guide to using this report

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

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

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

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

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

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

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

- First half of the calendar year – contains commentary on Agencies and entities with a 30 June financial year-end being 30 June of the previous calendar year. Material is included depending on when each audit is completed.
- Second half of the calendar year – contains commentary on Agencies and entities with a 31 December year-end being 31 December of the previous year. Material is included depending on when each audit is completed.

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

Guide to using this report cont...

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

This report summarises the results of the following types of audits conducted during the period 1 January 2009 to 30 June 2009:

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

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

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

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

Information technology audits are undertaken as stand-alone audits of key government-wide, or Agency systems. Each of the systems selected for audit during the six months ended 30 June 2009 plays an important role in processing data and providing information for the purposes of financial management and, more particularly, for the purposes of financial reporting and the preparation of the Treasurer's Annual Financial Statement.

Guide to using this report cont...

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

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

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Entities referred to in this report

By Ministerial Portfolio (as at 30 June 2009):	Page
Chief Minister;	
Minister for Police, Fire and Emergency Services;	
Minister for Education and Training	
Batchelor Institute of Indigenous Tertiary Education	71
Charles Darwin University	79
Charles Darwin University Foundation	83
Department of Education and Training	53
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Minister for Justice and Attorney-General	
Minister for Planning and Lands	
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Entities referred to in this report cont...

By Ministerial Portfolio (as at 30 June 2009):	Page
Minister for Housing	
Minister for Local Government	
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Minister for Children and Families	
Department of Health and Families	53
Minister for Sport and Recreation	
Minister for Natural Resources, Environment and Heritage	
Minister for Parks and Wildlife	
Department of Natural Resources, Environment, the Arts and Sport	57

Auditor-General's overview

This Report outlines the results of audits conducted during the period 1 January 2009 to 30 June 2009. Those audits include statutory audits of the financial statements prepared by institutions that are required to report on a calendar year basis, compliance audits intended to test the adequacy of agencies' internal control systems and audits of the rights of private practice arrangements at the Royal Darwin Hospital, and the management of prisoners' trust monies at Darwin Correctional Centre.

Financial statement audits are undertaken to satisfy the requirements of various Acts of Parliament. The objective this type of audit is to determine whether financial statements required to be prepared have been prepared in accordance with Australian accounting standards.

If the statements in question comply with accounting standards an unqualified audit opinion is issued. However, if the statements do not comply with accounting standards, a qualified audit opinion is then issued.

Audit opinions are intended to provide a level of assurance to the users of financial statements that those statements are fairly presented and all the opinions issued between January and June 2009 were unqualified.

The audits of both the rights of private practice at the Royal Darwin Hospital, and the custody of prisoners' monies at the Darwin Correctional Centre highlighted systemic weaknesses. I am confident that the Agencies that have responsibility for these areas will rectify the deficiencies noted during the audit and both areas will be reviewed again at a future date to assess the effectiveness of the improvements.

The compliance audits conducted covered two broad areas:

- the level of general compliance with prescribed policies and procedures; and
- the extent to which the processes and controls were satisfactory in relation to major capital works.

Auditor-General's overview cont...

The results of the first set of audits suggested that issues identified in past compliance audits continue to exist. However, it is notable that over the past twelve months Chief Finance Officers, under the broad direction of the Northern Territory Treasury, have made good progress in developing a set of principles and guidelines that are intended to assist in establishing and maintaining sound internal controls in all Agencies. These principles and guidelines reinforce the need for a sound system of internal control while also setting out techniques to be applied. While the working group has made considerable progress the ultimate success of this project will rest with Accountable Officers who have ultimate responsibility for the overall integrity of the control framework in their Agencies.

The results of the second set of compliance audits focused on capital works. The sample of contracts selected for examination extended back as far as 2007 to allow sufficient time for post-acquisition reviews to be conducted. While the audit identified a number of procedural issues, none of the matters raised were such that the validity or appropriateness of contracting decisions were in doubt. It is pleasing to note that one of the agencies which was the subject of the audit has made significant improvements to its procurement processes and has recently completed its own internal testing of the effectiveness of its procurement processes.

The next six months of the audit program will be dominated by compliance and performance management system audits. Included among the proposed audits will be an audit of expenditure and outcomes under the Commonwealth's Building the Education Revolution program, a review of the Strategic Indigenous Housing and Infrastructure Program, a review of the use of non-government organisations in the delivery of public services and a review of the processes governing the allocation of water licences by the Northern Territory and the extent to which principles agreed to by the Territory as part of the Council of Australian Governments are adhered to.

The NTAGO and Auditing and Assurance Standards

Auditing and Assurance Standards govern auditing practice in Australia. They are issued by the Australian Auditing and Assurance Standards Board, a statutory body established pursuant to the *Australian Securities and Investments Commission Act*. The reconstitution of the Board as an independent statutory body, now means that auditing and assurance standards have the force of law in circumstances where audits are undertaken pursuant to the requirements of the *Commonwealth Corporations Act 2001*. While this will directly affect some audits undertaken by this Office it will also indirectly affect the approach that I take with respect to all audits.

Auditor-General's overview cont...

While it might be said that the decision by the Commonwealth to give auditing and assurance standards legal force has only a limited effect on the operations of my Office given the small number of corporations that are controlled by the Northern Territory Government, it might also be said that the changes reinforce the intention of the *Audit Act*. The *Audit Act* permits me to “audit the Public Account and such other accounts in such manner as he or she thinks fit having regard to recognised professional standards and practices”. I have interpreted this as meaning that I, too, am required to adhere to Australian Auditing and Assurance Standards unless there is a valid reason not to do so and to justify any decision on my part to depart from those standards.

Auditing and Assurance Standards are also binding upon my authorised auditors, both by virtue of their status as Registered Company Auditors under the *Corporations Act*, and by their membership of professional accounting bodies. A failure on the part of a Registered Company Auditor to adhere to auditing and assurance standards may leave him or her exposed to disciplinary action by either the Australian Securities and Investments Commission or the recently established Australian Professional and Ethical Standards Board.

The legislative backing given to the standards has been accompanied by a tightening of the standards themselves and this has seen some reduction in the level of discretion which an auditor may exercise and an accompanying increase in the emphasis given to the role of the auditor in ensuring that management have given appropriate attention to the risk of fraud. At the same time there are also more stringent requirements for the documentation of audits, with the official view expressed being one of “if something is not documented it will be considered not to have been done”.

While recent changes to the standards might be viewed as the codification of what was previously best practice, they carry with them the potential for changes in the way audits are conducted in the public sector.

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Reporting on audits conducted in the six months ended 30 June 2009

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 30 June 2009, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

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

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

Other reporting arising from audits

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

Structure of report to the Legislative Assembly

This Report presents findings in relation to the audit mandate provided by the *Audit Act* that is audits of the Public Account and other accounts (described in Appendix 4).

Entities responses

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

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Auditing the Public Account and other accounts

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Department of Business and Employment

Territory Business Centres

Audit Objectives

The objective of the audit was to examine the adequacy of controls surrounding the Receiver of Territory Monies function within Territory Business Centres.

Audit Opinion

The audit procedures performed revealed that, generally, there were satisfactory internal controls within the Territory Business Centres in respect of the receipting of Territory monies.

Background

Territory Business Centres are the initial contact and referral point for starting a business, business and industry licence information, business planning assistance and links to departmental assistance programs.

The Territory Business Centres enable members of the public to:

- register a business name and conduct a business name search;
- access all relevant licence and permit requirements for operating a business in the Northern Territory;
- download applications for a range of business and industry licences;
- lodge a selection of licence applications online; and
- access accurate information on a range of business assistance services and products.

Territory Business Centres are located in Darwin, Alice Springs, Katherine and Tennant Creek. The public can also access business information and licence applications online.

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Department of Health and Families

Rights of Private Practice at the Royal Darwin Hospital

Audit Objective and Scope

The objective of the audit was to review the rights of private practice at the Royal Darwin Hospital (RDH), under which Medical Specialists who are employed by RDH are permitted to use hospital facilities in treating private patients.

In particular, the audit examined:

- the background to the current arrangement;
- the rationale for the rights of private practice arrangements;
- the benefit to RDH;
- amounts paid to specialists by way of a facilitation fee over the past 5 years;
- the nature of the trust arrangement and the limits on the use of trust funds; and
- effects following the introduction of salary bonus in lieu of facility fee payment.

Opinion

The private practice arrangements were formally established on 4 July 1989 when a Trust Deed was signed between the Trustees, a Royal Darwin Hospital representative, and the then Minister for Labour, Administrative Services and Local Government on behalf of the Minister for Health and Community Services. That Deed provides an avenue for member Specialists to conduct private practice through the use of a private practice trust fund whilst being employed by the Department of Health and Families.

It is evident that, historically, there were concerns over the private practice trust fund arrangements (PPTF) and a consultant's report from as far back as 2003 identified issues in this area. A comprehensive review conducted by an external consultant in 2007 indicated specific issues in the private practice trust arrangements that needed to be addressed.

Department of Health and Families cont...

The audit highlighted a number of shortcomings with the overall administration of private practice arrangements at the Royal Darwin Hospital. I was unable to form an opinion as to whether all revenues due the Private Practice Trust Fund are received by the Fund and hence whether the various stakeholders under the private practice arrangements have received appropriate distributions from the Fund. I am also of the opinion that the lack of compliance by the Trustees of the Fund, member Specialists and the RDH Hospital Management Board with the Trust Deed, and the lack of compliance by member Specialists with the Specialist Deed suggest the absence of proper oversight of private practice arrangements by the Department of Health and Families and the Hospital Management Board.

I acknowledge that the Department of Health and Families, and the Private Practice Trust Fund Trustees, are currently reviewing the original 1989 Trust Deed and are in the process of updating the Deed to provide more clarity to the users and stakeholders of the Deed. However, evidence gathered as part of my review suggests that there has been a lack of focus on the private practice trust fund arrangements by all the relevant stakeholders. The Department of Health and Families will need to strengthen its controls over the management of the private practice arrangements as there were numerous issues of non-compliance - by the Trustees and member Specialists, and the Hospital Management Board - identified during my review.

Department of Health and Families cont...

Background

This background provides a brief introduction to the private practice arrangements at the Royal Darwin Hospital (RDH).

Organisational Structure

With effect from 1 July 2008, the Department of Health and Community Services was restructured to become the Department of Health and Families. The Department of Health and Families is structured around the following divisions:

- NT Families and Children
- Health Services
- Acute Care Services
- Health Protection
- Performance and Resources
- Office of the Chief Executive

Under this structure, the management of the private practice arrangements in RDH is undertaken by the RDH and the RDH Hospital Management Board, as part of the Acute Care Services division.

Private Practice Arrangements

The private practice arrangements at the RDH are established by the following agreements:

- Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010;
- Trust Deed dated 4 July 1989 and Deed of Variation dated 17 November 2008 between the Northern Territory of Australia care of the Department of Health and Families and the Trustees of the RDH Specialists' Private Practice Trust Fund; and
- Specialist's Deed between the Northern Territory of Australia and Chief Executive Officer (Department of Health and Families) and the individual specialist.

Department of Health and Families cont...

Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010

The current Medical Officers Workplace Agreement provides that: “A Specialist registered and currently credentialed to perform clinical duties for 75% of their employment with the Department (of Health and Families) will elect to receive” either the:

- Category A Private Practice Allowance: to “receive payment of ordinary annual salary...(plus any additional market or similar allowances) and additional remuneration generated through the relevant private practice trust fund in accordance with the rules of that fund”; or
- Category B Private Practice Allowance: to “receive payment of ordinary annual salary...plus the payment of the (private practice) allowance” from the Department of Health and Families.

Trust Deed dated 4 July 1989

The Trust Deed dated 4 July 1989 provides that:

- “certain medical practitioners employed by the Territory as Specialists at the Royal Darwin Hospital have been granted certain rights by the Territory to conduct limited private practice at that Hospital according to conditions set out in Private Practice Deeds executed by each such Specialist and the Territory;
- a trust fund has been established entitled the Royal Darwin Hospital Specialists’ Private Practice Trust Fund;
- the Territory and the Trustees are desirous of entering into an agreement in relation to the administration of the Trust Fund and the Trustees are empowered so to do”.

This Trust Deed stipulates that it will operate “from 1 July 1989 and continue in force for the period of three years or such longer period as the parties may agree”. There were a number of Deeds of Variation after 1989, which extended the period of operation. The most recent Deed of Variation dated 17 November 2008 states: “The Trust deed as amended by the Deeds of Variation is acknowledged by the Trustees and the Territory and is deemed to have been extended to 30 June 2009.”

Department of Health and Families cont...

Specialist's Deed

The Specialist's Deed or Agreement provides that:

- "The Specialist is engaged by the Territory as a Full Time Specialist at the Hospital.
- The Specialist has requested from the Chief Executive Officer of the Department of Community Services approval under section 61 of the *Public Sector Employment and Management Act* to engage in private practice.
- The aforesaid approval has been granted in accordance with and subject to the terms and conditions of this Agreement."

A Specialist's Deed, which is signed between the Specialist and the Chief Executive Officer of the Department of Health and Families, stipulates the terms of private practice work to be undertaken by the Specialist whilst he/she is being employed by the Department of Health and Families.

Stakeholders

The key stakeholders in the private practice arrangements are:

- Department of Health and Families;
- Specialists at RDH, including the Trustees of the Private Practice Trust Fund;
- RDH; and
- RDH Hospital Management Board.

Department of Health and Families (DHF)

The DHF is a party in the Trust Deed, the Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010, and the Specialist Deed.

Specialists at RDH

The Specialists are employed by the DHF, and are bound by the Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010 and the Specialist Deed.

RDH

In accordance with the Trust Deed dated 4 July 1989, the RDH receives facility fees from the Private Practice Trust Fund for the Specialists use of the RDH's facilities and consumables procured in the course of conducting private practice work.

Department of Health and Families cont...

RDH Hospital Management Board (HMB)

The RDH HMB was established by the *Hospital Management Boards Act 2001*. The functions of the RDH HMB as stipulated in section 22 of the *Hospital Management Boards Act 2001* include the following:

- to give directions and offer advice to the Manager of the hospital with respect to any matter relating to the operation of the hospital;
- to fix and supervise the standards of service provided by or through the hospital;
- to advise and make recommendations to the Minister on any matter relating to the operation of the hospital;
- to coordinate the use of resources in the hospital;
- to raise money, and spend and pay out any money raised, for such uses in the hospital as are approved by the Minister;
- to accept and receive money donated to the hospital, and spend and pay out any money donated, for uses in the hospital.

Under the Trust Deed dated 4 July 1989, the RDH HMB is also required to establish an Administration Committee. The role of this Committee is, in consultation with the RDH HMB, to ensure that the funds paid by the PPTF are spent appropriately and as stipulated in the Trust Deed.

Entering the PPTF Arrangements

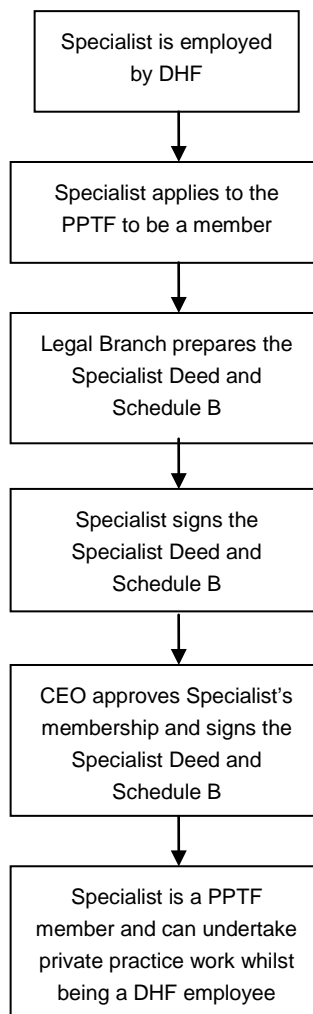
Where a Specialist, who is employed by the DHF, participates in private practice, he or she:

- was required to join the PPTF as a member before the Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010 came into effect;
- has an option to join the PPTF as a member (Category A) or receive a private practice allowance from the DHF (Category B) after the Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010 came into effect.

Department of Health and Families cont...

Application to join the PPTF

The process of a Specialist entering the PPTF arrangements is illustrated as follows:

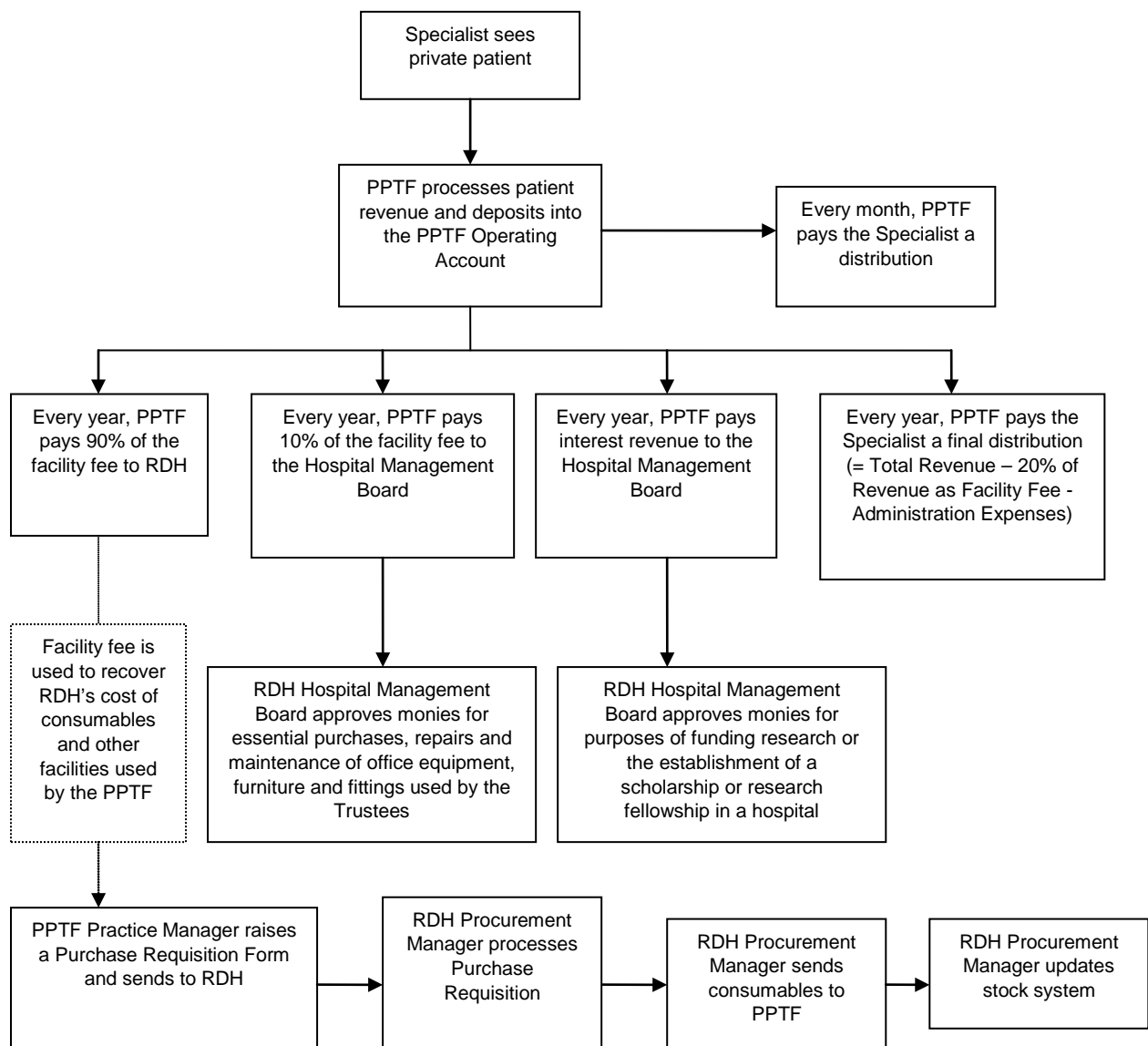


Department of Health and Families cont...

Private Practice Arrangements – Revenue and Payments

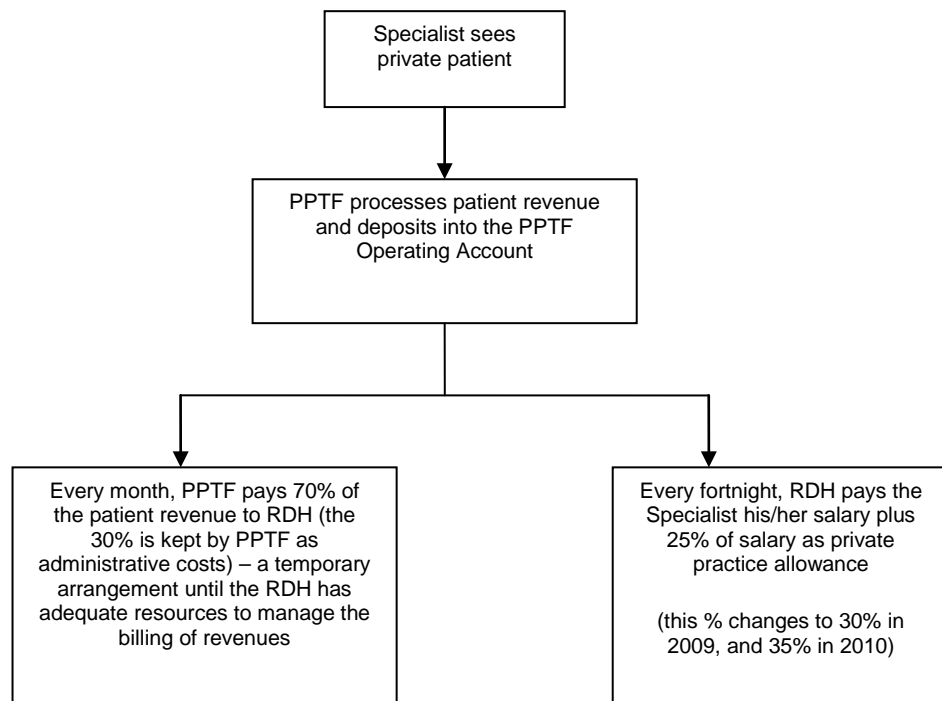
Previous Private Practice Arrangements before the Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010 came into effect

The previous private practice arrangements, which are the current Category A arrangements, can be illustrated as follows:



Department of Health and Families cont...

Current Private Practice Arrangements after the Medical Officers (Northern Territory Public Sector) Workplace Agreement 2008 – 2010 came into effect
The current Category B arrangements, which are not part of the Private Practice Trust Fund Arrangements, can be illustrated as follows:



Department of Health and Families cont...

Payments from the PPTF to the RDH and the RDH HMB

From the audited financial records of the PPTF, the total professional revenue earned and payments paid from the PPTF to the RDH, the RDH HMB, and the Specialists are as follows:

Financial Year	Total Professional Revenue	Facility Fee Paid	Administration and Other Expenses	Distribution to Specialists
2002/2003	\$1,715,121	\$402,302	\$289,838	\$1,022,981
2003/2004	\$1,809,462	\$418,995	\$310,944	\$1,079,523
2004/2005	\$1,745,883	\$398,330	\$336,067	\$1,011,486
2005/2006	\$1,830,081	\$409,302	\$351,676	\$1,069,103
2006/2007	\$1,606,632	\$355,226	\$381,304	\$870,102
2007/2008	\$1,725,150	\$364,329	\$388,195	\$972,626

It is clear that the trend of total professional revenue received by the PPTF and correspondingly, the payments made to the respective stakeholders have declined in real terms. No explanations for this trend were forthcoming during the audit and I am not able to state with confidence why this situation should have emerged. The pattern of payments to the PPTF might suggest that not all revenues earned by Specialists through private practice are being paid to the PPTF. Information received during the course of the audit alluded to the possibility that the PPTF may not have received all the revenues due under the Deeds. The various stakeholders should, perhaps, consider the implications of this trend, and the impact that it may have on them.

External Reviews Initiated by the DHF

In 2003, the then Department of Health and Community Services commissioned Banskott Health Consulting Pty Ltd to conduct a review of the Department. The review recommended that "The Government should review the present arrangements for private practice trust funds to ensure that both the specialists and the Government gain advantage, that a single agreement covers rights to private practice across the proposed hospitals network, and that the medical indemnity issue is properly taken into account."

Department of Health and Families cont...

In 2007, a comprehensive review was conducted by DLA Fox Philips over the private practice trust arrangements. This review highlighted issues in the existing Trust Deed dated 4 July 1989 and weaknesses in the private practice trust arrangements. Apart from reviewing and updating the existing Trust Deed, no further action was taken by the Department of Health and Community Services in relation to the issues raised about the private practice trust arrangements.

Key Findings

In conducting this review, I acknowledge that the Department of Health and Families is aware of the issues surrounding the private practice arrangements, and is in the process of updating the 1989 Trust Deed in collaboration with the Private Practice Trust Fund Trustees. However, my overall finding confirms the weaknesses in the Department's management of the private practice arrangements as evidenced by the instances of non-compliance with the Trust Deed dated 4 July 1989 by the Private Practice Trust Fund (PPTF) Trustees, the Royal Darwin Hospital, and the Royal Darwin Hospital's Hospital Management Board. The Department, in partnership with the Royal Darwin Hospital and the Royal Darwin Hospital's Hospital Management Board, will need to establish and implement an adequate controls process to ensure the private practice arrangements are effectively and efficiently managed.

The factors, which are critical to the success of the management of the private practice arrangements in the delivery of health services, are deemed to be as follows:

- the clear definition of corporate objectives in respect of the private practice arrangements for both the Department of Health and Families, the Royal Darwin Hospital and the PPTF Trustees and members;
- the formalisation and implementation of comprehensive policies and procedures in the effective management and adequate monitoring of the performance of the private practice arrangements;
- the identification of performance indicators written in comprehensive and measurable terms, and aligned to each business objective, and benchmarked against other similar clinical activities, as appropriate;
- the formulation of a sound methodology and system utilised to collate the required information for the measurable performance indicators;

Department of Health and Families cont...

- the recruitment and deployment of adequate manpower resources to manage the private practice arrangements at both the Department and the Royal Darwin Hospital;
- the regular and effective communication amongst the Private Practice Trust Fund (PPTF) representatives/Trustees, the RDH Hospital Management Board (HMB) and the relevant stakeholders at the Royal Darwin Hospital (RDH), and the Department of Health and Families (DHF). This includes the establishment of an operative reporting system between the PPTF and the HMB/DHF/RDH; and
- the maintenance of an accurate and timely reporting of results and pre-established performance measures.

My findings therefore revolve around the above critical success factors. These findings, as summarised below, are focused initially on the compliance with the legal requirements by both the PPTF Trustees and members, and by the RDH Hospital Management Board, then on the control issues over the management of the PPTF. Additional findings in relation to improvements required in the administration within the PPTF, including the issues over the PPTF financial statements are summarised thereafter.

The Department needs to acknowledge that one of its key roles is to support internal and external service providers. Therefore, the Private Practice Trust Fund, being an arm of Specialists as external service providers, but with the Specialists being at the same time, internal service providers, creates the need to review these activities with the assistance and collaboration with the Department of Health and Families, the Royal Darwin Hospital and the RDH Hospital Management Board so that the services provided are transparent, accountable, efficient, and equitable. To achieve this, all the stakeholders would need to work together to establish a workable, transparent and mutually acceptable policy framework and rules of engagement, and a dynamic system designed to create an efficient and effective rights of private practice process.

The following matters arising from the audit were raised with the Department:

- Instances of non-compliance with the 1989 Trust Deed by the Trustees and member Specialists were noted.
- Instances of non-compliance by the individual Specialists with the Specialist Deed (applicable in the previous private practice arrangements) were noted.

Department of Health and Families cont...

- Instances of non-compliance by the RDH Hospital Management Board with the 1989 Trust Deed and the *Hospital Management Boards Act 2001* were noted.
- The management and governance of the private practice trust fund arrangements should be strengthened.
- Improvements over the administration of the Private Practice Trust Fund should be implemented.
- Deficiencies in the audited financial statements of the Private Practice Trust Fund were noted.

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Department of Justice

Prisoners' Trust Monies

Audit Scope and Objectives

The objectives of the audit were to ascertain, document and assess the processes and internal control procedures in operation at the Darwin Correctional Centre for the control of monies held by the Department of Justice on behalf of prisoners.

In particular the audit attempted to test and assess the adequacy of controls in relation the source of monies such as:

- payment to prisoners of any allowances or additional amounts for work done, with particular attention to the rates applied; and
- donations by family or other persons from outside the prison with emphasis on receipting such monies and crediting the amounts to the prisoner's account.

The audit attempted to test the controls in place to make sure that all monies due to prisoners are credited to the appropriate person's account.

In relation to the payments of monies from the prisoners trust account the audit attempted to ascertain whether:

- debits to trust accounts were made only in accordance with law and/or with the express approval of the prisoner; and
- controls were in place to ensure that there is no opportunity for third parties to exploit trust accounts to their own benefit.

The audit also examined the opportunities prisoners have to earn monies for work completed both within and outside the Correctional Centre. In particular the audit examined:

- the basis for the allocation of work programs;
- the process and criteria used to allocate work to individual prisoners; and
- the process and criteria used to identify and approve work projects to be conducted outside the Correctional Centre;
- the rates of pay or allowances paid to the prisoner for the work completed; and
- the method by which the Department calculates the amount due to the prisoner.

Department of Justice cont...

Audit Opinion

At the time of the audit the record retention procedures at the Darwin Correctional Centre did not allow the audit to completely document and assess the processes and internal control procedures in operation; as such I was unable to satisfy myself as to the robustness of the control environment of the Prisoners' Trust Monies system.

Background

The Prisoners' Money Management System (PMMS) is the electronic ledger utilised to record all transactions through each prisoner's trust account. The PMMS records the receipt of external funds deposited on behalf of prisoners, prisoner earnings within the correctional facility, the purchase of day-to-day necessities from the prison canteen and from selected external suppliers and transfers to an individual's 'Prisoner Telephone System' account.

The maintenance of the PMMS has been of ongoing interest of the Northern Territory Auditor-General's Office. Past audit reports to the Department have identified continuing difficulty by the Department to reconcile the PMMS with the Government Accounting System (GAS).

The reconciliation of PMMS with GAS has been a standing item on the Department's audit committee agenda.

During the 2007 year the Department engaged a local accounting firm to identify the underlying causes for the reconciliation variances between PMMS and GAS. This report concluded that the PMMS is an effective system for monitoring prisoners' trust monies if it is operated within its capabilities and functions.

Subsequent to this report certain system restrictions were implemented to prevent transactions being posted in future or past periods, as this was identified as being a significant reason for the PMMS and GAS not reconciling. On the implementation of these restrictions and the investment of significant time by administrative staff the Darwin PMMS was finally reconciled to GAS.

It should be noted that transactions through the PMMS while numerous are mostly of low value.

Department of Justice cont...

Key Findings

While assessing the internal control documentation process it became apparent that the ability of the audit to thoroughly test the flow of transactions through the system would be hindered significantly by the lack of documentation maintained by the Department to support transactions posted to individual PMMS accounts. On further enquiry it was established that the Department did not have a formal record retention policy for documentation held at the correctional centres. The Department's policy for record retention, where a specific policy did not exist, was to archive the documents pending the adoption of a formal policy. This was not being performed at the Darwin Correctional Centre.

The internal control system, as initially documented, contained some minor control weaknesses. As crucial supporting documentation was only held for a period of two weeks the audit was unable to thoroughly test the identified weaknesses and test for additional system control weaknesses.

From the limited documentation available for audit review, a number of discrepancies were identified between the source documentation reviewed and the transactions posted to a prisoner's PMMS trust ledger. Unexplained variances were identified for both prisoner private purchases and canteen purchases.

A review of a sample of prisoner files identified two instances where variances existed between the documentation completed on receiving the prisoner and the amount entered in the prisoner's PMMS account.

The audit review of the weekly payments made to prisoners was also limited to documentation contained in a current lever arch file as once the file was full all documentation contained in it was destroyed. The review performed identified instances where prisoners were not being paid in accordance with the classification of work being performed. In addition, it was established that the weekly pay rates for prisoners had not been revised since 28 July 2003.

On enquiry with the Australian Taxation Office it was established that allowances and remuneration received by prisoners is considered assessable income for taxation purposes. As such, an annual payment summary should be issued to each prisoner at the end of each financial year. This process was not being performed for inmates of the Darwin Correctional Centre. It was recommended to the Department that they should seek further advice on this matter.

Department of Justice cont...

On a positive note, the procedures in place for the initial and continued eligibility assessment of recipients of the 'Community Support Program' were considered thorough and consistently applied. The 'Community Support Program' is the Correctional Services program designed to supply work teams of low security prisoners to carry out a broad spectrum of community service projects.

The Department of Justice has commented:

Poor record retention

The Department of Justice (DoJ) follows NTG policy regarding records management. Relevant staff at Darwin Correctional Centre (DCC) have been provided with additional training and information on these requirements by the DoJ Records Manager. This has now been implemented. Records are being sent to archives.

Supporting documentation not being generated

Implementation of the Integrated Offender Management System (IOMS) has allowed a weekly reconciliation to be introduced minimising the risk of incorrect pay rates.

Key deposits –procedures in place regarding key deposits and registers are operating effectively and have been enhanced now that Accountable Officer's Trust Account (AOTA) reconciliations are up to date as key deposit movements are part of this reconciliation. The PMMS system now records key transactions.

Prisoner mail – The impact of IOMS has resulted in the requirement to change policies and practices in relation to the recording of prisoner's mail. These changes are currently being reviewed and documented. A manual register of prisoner mail is being maintained.

Department of Justice cont...

The Department of Justice comments cont...

Transaction discrepancies

Both Alice Springs Correctional Centre (ASCC) and DCC have new positions of Business Managers. One of the key roles of these positions is to review and improve administrative and financial systems operations, these improvements are now underway.

DCC is now training a new AO5 staff member in the AOTA reconciliation and ASCC has recruited a new Exec Officer. AOTA reconciliations are now regularly kept up to date. In addition the first 2 modules of the new PMMS have been implemented in both ASCC and DCC. A trial of Vending machines and smart cards is planned to begin shortly in ASCC. If successful this new technology will be introduced in DCC late 2010.

Prisoner Payment Summaries not issued

This item is of national significance and will be discussed by Correctional Services Administrators from Australia and New Zealand when they meet in December 2009.

Segregation of duties

Management focus has been to ensure the timely reconciliation of the PMMS system and any errors identified are used as training information and fed back to the relevant staff member. Both ASCC and DCC have new positions of Business Managers. One of the key roles of these positions is to review and improve administrative and financial systems operations, these improvements are now underway.

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Department of Planning and Infrastructure

Rosebery School

A review was conducted of aspects of the tender assessment process undertaken in connection with a contract awarded to Halikos Pty Ltd for the design and construction of the Rosebery School at Palmerston. The review was undertaken following allegations made about the assessment process that saw the contract for the design and construction awarded to the tender having the highest price.

The objective of the review was not to examine the full tender assessment process, but to establish whether the allegations could be supported.

Background

A Request for Tender (RFT), comprising almost 3,000 pages, was issued for the design and construction of a school facility at Rosebery, a suburb of Palmerston. Tenders closed on 18 February 2009.

The project required the successful tenderer to design, document, and construct a primary school and a middle school complete with all associated facilities including site services, roadways, car parking areas, sporting fields, landscaping, pathways and other associated works. The project also includes the requirement to provide a pre-school that is integrated into the primary school and which is capable of accommodating 50 students at any one time.

The primary school must be capable of accommodating 500 students from the years Transition through to Year 6, while the middle school must be capable of accommodating up to 900 students from the Years 7, 8 and 9.

The middle school will include a gymnasium building which will also function as a community cyclone shelter facility.

Department of Planning and Infrastructure cont...

What Was Expected of Tenderers?

Each tenderer was required to prepare and submit each of the following:

- tender form
- lump sum price breakdown
- contract particulars
- declaration of business status
- schedule of acceptance
- schedule of insurance
- schedule of proposed sub-contractors
- claims against standard assessment criteria
- claims against supply-specific assessment criteria
- project quality plan proposal
- environmental management plan proposal
- site management plan
- technical specification
- tenderer's drawings

Tenderers were also required to consider as part of their design concepts those designs, materials, equipment and energy systems that might deliver economies on a life cycle costing basis. They were also required to give particular attention to energy efficiency and energy conservation, and this included the consideration of building orientation, thermal stability, wind effect, landscaping, climate, natural lighting and natural ventilation. The final design was required to take maximum advantage of the site and incorporate all economies possible with regard to construction, whilst retaining the necessary functional requirements.

Department of Planning and Infrastructure cont...

As part of the tender response, tenderers were required to submit drawings that included:

- architectural plans and elevations where changes to the layout and elevations set out in the DPI plans were proposed;
- concept plans indicating civil works, including the extent and type of pavements, treatments under buildings, site drainage and landscaping;
- concept plans indicating the extent of the roof drainage and in-ground stormwater systems;
- concept plans indicating fire service and water supply mains including connection to existing mains, building connections and fire hydrant locations;
- concept plans indicating sewer lines from buildings including connection to existing mains;
- concept plans indicating gas supply details;
- concept plans indicating the external electrical layout including carpark and external lighting, and distribution board locations;
- concept plans indicating the mechanical schematic design including the proposed location of mechanical plant and details on chilled water lines reticulation; and
- plans indicating provisions made for a future child care centre
- any other drawings that tenderers considered appropriate to assist in the assessment of their proposals.

Department of Planning and Infrastructure cont...

The Tender Assessment Process

The over-riding principle that governs procurement in the public sector is value for money. Value for money is not an assessment criterion in its own right, but is the outcome of a comprehensive, planned and properly conducted procurement process which considers all key Government requirements.

Value for money is not directed towards the selection of the lowest tender, based on price alone, although price is taken into account in determining the rankings of competing tenders.

What are the objectives of the value for money process?

The objectives of the value for money process are:

- a planned procurement process with documentation that clearly specifies the required supplies and selection criteria against which tenders will be assessed;
- a rigorous tender assessment process;
- achievement of broader Government strategic outcomes, including but not limited to the enhancement of local business capability and competitiveness, through Government procurement activities;
- the selection of a tenderer based on predetermined selection criteria which would result in the best outcome for the Government.

Department of Planning and Infrastructure cont...

What Were The Criteria Against Which Tenders Were Assessed?

Tenders were assessed against each of the following criteria and each tenderer was expected to address each criterion explicitly:

- Past Performance (weighted at 25 per cent of the total)
 - Standard of work Product quality
 - Project delivery
 - Degree of necessary supervision of the Contractor
 - Performance history
 - Previous disputes and claims
 - References (including Contractor Accreditation Limited if applicable)
 - Safe and fair workplace record
- Local Development and Value Adding (weighted at 20 per cent)
 - Enhancement of industry and business capability in the Northern Territory
 - Improved capacity and quality in supply and service response
 - Proposed level of usage of apprentices, trainees and local Indigenous enterprise
 - Proposed number of jobs for Territorians.
 - Proposed number of jobs for local Indigenous Territorians
 - Accredited training programs supported by the Tenderer
 - Regional development opportunities
 - Northern Territory research and development proposals
- Drawings (weighted at 6 per cent)

Department of Planning and Infrastructure cont...

- Timeliness (weighted at 10 per cent)
 - Whether the Supplies are available immediately
 - Length of supply chain
 - Supply chain vulnerability
 - Completion time offered
- Capacity (weighted at 20 per cent)
 - Ability to perform services or supply product
 - Number and value of Contracts in progress
 - CAL accreditation
 - Legal action pending
 - Financial resources
 - Financial capacity
 - Current credit rating
- Whole of Life Cost (weighted at 5 per cent)
 - Operating costs
 - Expected life and potential for upgrade
 - Support services
 - Warranties
 - Compatibility with existing equipment
 - Reliability
 - Any other factors that would impact on costs to the Government

Department of Planning and Infrastructure cont...

- Innovation (weighted at 5 per cent)
 - New Technology
 - Alternative methods
- Specifications (weighted at 8 per cent)
 - Variations clause
 - Damages clause
 - Details proposed in tenderer's specification
- Sustainability (weighted at 1 per cent)

Tenders were assessed over three days and were assessed by a panel comprising:

- four officers of the Department of Planning and Infrastructure;
- two officers of the Department of Education and Training; and
- an architect in private practice who was familiar with the requirements of the project.

Also present was a probity auditor drawn from a private accounting firm, together with technical experts from the Department of Planning and Infrastructure.

Four tenders were assessed, with the tenders in question having being submitted by:

- Laing O'Rourke Australia Construction Pty Ltd
- Sitzler Pty Ltd
- Halikos Pty Ltd
- Norbuilt Pty Ltd

Department of Planning and Infrastructure cont...

A tender was submitted by a fifth firm, but was received after the specified closing time for the receipt of tenders and could not be accepted. The firm in question appealed to the Procurement Review Board against the exclusion of its tender, but that appeal was not upheld.

In keeping with the requirements of the Government's Procurement Directions, each tender was assessed on the specified non-price factors, on a value-for-money basis, against each of the criteria listed above. Those assessments resulted in each tenderer being assigned a total score which formed the numerator of an equation used to calculate each firm's composite score and hence overall ranking. The denominator of that equation was based on each firm's tendered price, with the lowest price having a value of 1, while the remaining denominator values were scaled upwards and having the same ratio as each tendered price has to the lowest price.

The result of this approach is that a tenderer who offers a higher price is at a disadvantage unless the price disadvantage is outweighed by commensurately higher scores against the assessment criteria.

As a result of the assessment of the tenders, the firms were ranked as follows:

- Halikos Pty Ltd
- Laing O'Rourke Australia Construction Pty Ltd
- Sitzler Pty Ltd
- Norbuilt Ltd

The panel's recommendations were submitted formally to the Procurement Review Board by the Chief Executive of the Department of Planning and Infrastructure for consideration and approval. Members of the assessment panel appeared before the Board to assist the Board in its deliberations, following which the Board approved the acceptance of the tender by Halikos Pty Ltd.

Department of Planning and Infrastructure cont...

As part of the review, each of the tender responses was re-scored using both the tender submissions held by the Department of Business and Employment's Contract and Procurement Services, and data prepared by each assessor during the original assessment. That re-scoring supported the ranking given to Halikos Pty Ltd as a result of the original assessment process.

Allegations Made In the Period Following the Award of the Contract to Halikos Pty Ltd

Several allegations were submitted to my Office in the period following the award of the contract to Halikos Pty Ltd. Broadly these allegations were as follows:

- *That, at a social function on Saturday 21 February 2009 "the owner of the winning tender told people that his company had won the tender".* This matter was raised directly with senior officers of each of the unsuccessful tenderers who were interviewed as part of this review. None of those interviewed was present at a social function where the alleged comments were made and none was able to nominate individuals who may have been present at such a function.

The probity auditor, who was present for the entire evaluation period, advised that it would not have been possible for any of the tenderers to have had any knowledge that might have formed the basis of the alleged comments as the final scores for each tenderer were not finalised until Monday, 23 February. In addition the outcome of the process could not be predicted with certainty until the completion of the Procurement Review Board's deliberations on 26 February. Accordingly I have determined that the allegation lacked foundation.

- *That there may have been Ministerial direction or communication regarding the tender results.* This allegation reflects a lack of understanding of the tendering and assessment process, something that became clear during the interview of one of the complainants. I am satisfied that the process followed by the Department of Planning and Infrastructure was sound and that this allegation was without foundation.

Department of Planning and Infrastructure cont...

- *That it was not possible for a tender assessment panel to assess four tenders between 18 and 23 February 2009.* The Department of Planning and Infrastructure advised that the assessment process undertaken on Friday 20 February, Saturday 21 February and Monday 23 February was concentrated and the total number of hours involved in assessment was no less than might have been incurred in other assessments undertaken under less concentrated conditions. The reason for adopting this approach was to ensure that all technical experts who were to provide advice to the panel were available at all stages of the assessment process.

The review attempted to determine separately if it were possible to assess the tenders within the elapsed period of time claimed by the Department, based on establishing the extent to which the specified assessment criteria had been addressed by each tenderer. I am satisfied that it was possible to assess the tenders adequately during the period that was allotted and accordingly I am satisfied that the allegation lacked foundation.

- *That the winning tenderer was provided with survey information by the Department of Planning and Infrastructure and that that information was not made available to the other tenderers.* In particular, allegations were made about the availability of three dimensional site plans used by the winning tenderer whereas other tenderers had to satisfy themselves with two dimensional plans provided by the Department.

Information provided by the Department to all potential bidders on 3 February 2009 was quite clear; the Department did not possess three dimensional site plans.

Information provided to me by a person not connected with the winning tender suggested that Halikos Pty Ltd did indeed have three dimensional site plans and that Halikos had engaged a separate firm to prepare those plans during the tender preparation period. That was confirmed subsequently with Halikos Pty Ltd. Accordingly, I have determined that the allegation lacks foundation.

Department of Planning and Infrastructure cont...

- *That the winning tenderer's bid was "non-conforming" in that the drawing submitted deviated from those issued by the Department as part of the RFT documentation.* This allegation appeared to be based on a lack of understanding of the RFT documentation. While the RFT documentation did include a significant number of site plans, that documentation required each tenderer to submit drawings that included architectural plans and concept plans. What distinguished the winning tender, from my perspective, was the comprehensiveness and quality of the plans submitted and which comprised a separate volume forming part of the overall tender documentation. In contrast, the review noted instances where other tenderers had submitted hand drawn sketches or had simply included the Department's own site plans with hand written annotations. Accordingly, I have determined that this allegation lacked foundation.
- *That price was not a consideration in assessing tenders.* As discussed above, price is taken into account and higher prices reduce the composite scores awarded to tenderers. In this case, the winning tender was overwhelmingly superior for each of the assessment criteria and the score awarded to the winning tenderer on the non-price criteria was sufficient to outweigh the penalty that accompanied the higher tendered price.

Review Observations

It became very clear during the review that the quality of the tender response submitted by Halikos was quite superior to those of the other firms and this appears to be a reflection of the resources that the winning tenderer applied to the task.

Review Conclusions

As a result of the review I have formed the opinion that the allegations that were levelled against the Department of Planning and Infrastructure and against the successful tenderer could not be supported.

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Selected Agencies

Agency Compliance Audits

Audit Scope and Objectives

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

Background

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

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

Selected Agencies cont...

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

- Department of Local Government and Housing;
- Department of Education and Training;
- Department of Health and Families;
- Department of Justice;
- Department of Planning and Infrastructure;
- Land Development Corporation;
- Office of the Commissioner for Public Employment;
- Northern Territory Electoral Commission; and
- Northern Territory Police, Fire and Emergency Services.

Key Findings

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

- non-compliance with Procurement Directions, Treasurer's Directions, and procurement policies;
- weaknesses in the reconciliation of bank and control accounts;
- weaknesses in the review and clearing of outstanding Travel Acquittals;
- documented procedures relating to hospitality and travel were not adhered to;
- internal audit procedures at some Departments need enhancement; and
- incomplete Agency Accounting and Property Manuals that did not comply fully with Treasurer's Directions.

Selected Agencies cont...

The Department of Justice has commented:

Accountable Officer's Trust Account reconciliations

Both ASCC and DCC have new positions of Business Managers. One of the key roles of these positions is to review and improve administrative and financial systems operations, these improvements are now underway.

DCC is now training a new AO5 staff member in the AOTA reconciliation and ASCC has recruited a new Executive Officer. AOTA reconciliations are now regularly kept up to date. In addition the first 2 modules of the new PMMS have been implemented in both ASCC and DCC. A trial of Vending machines and smart cards is planned to begin shortly in ASCC. If successful this new technology will be introduced in DCC late 2010.

Hospitality documented procedures were not adhered to

Department of Business and Employment (DBE) were unable to provide supporting documentation – all paperwork should be archived within their systems. DoJ personnel are reporting all appropriate paperwork was provided to DBE. It is not DoJ's policy to keep records on hand.

Staff are aware of requirement to obtain prior approval from their Divisional Executive Director.

Travel documented procedures were not adhered to

Department of Business and Employment were unable to provide supporting documentation – all paperwork should have been archived within their systems. DoJ personnel are reporting all appropriate paperwork was provided to DBE. It is not DoJ's policy to keep records on hand.

All staff are using Travel Request Information Processing System (TRIPS) to record official travel; therefore all movement requisition would have been approved in the appropriate manner as part of that process. Payment by credit card should not proceed without the movement requisition attached.

Selected Agencies cont...

The Department of Local Government and Housing has commented:

I would like to advise that the matters raised as Key Findings in your report, also identified in my Department's compliance audit, are currently being reviewed to ensure they are addressed in a practical and timely manner.

As part of my Department's restructure, a Governance Branch has been established which is dedicated to managing and reviewing the internal controls of the Department. It is envisaged that this Branch will drive any consequential changes to internal processes and/or procedures to ensure the Department has a robust and sound internal control framework.

Selected Agencies

Review of Selected Agencies Major Capital Works and Other Projects

Audit Scope and Objectives

The objective of this audit was to conduct sufficient audit work to form an opinion on whether the selected agencies' processes and internal controls, in relation to major capital works and other projects, are adequate and capable of ensuring compliance with the *Procurement Act*, Procurement Regulations, Procurement Directions, and the Northern Territory Procurement Code. The documents relied on for the purposes of this audit were those in force at the time at which tenders were called for the various contracts that were examined as part of the audit sample.

In addition to assessing the overall compliance with the *Procurement Act*, Procurement Regulations, Procurement Directions and the Northern Territory Procurement Code, the audit also considered whether:

- the acquisition was appropriately justified at the commencement of the process;
- justification for the acquisition included the completion of a cost benefit analysis;
- during both the cost benefit analysis referred to above, and the tender assessment process, the whole-of-life costs were identified;
- cost identified were comprehensive;
- the original estimate submitted to Contract and Procurement Services (CAPS) was accurate in comparison to the actual acquisition cost;
- the tendered value was accurate in comparison to the actual acquisition cost;
- the Agency has systems in place that permit it to assess whether the asset acquired has achieved the original objectives of the acquisition and whether an assessment of the effectiveness of the acquisition has been performed; and
- any currency fluctuations impacting on the final cost were hedged.

Selected Agencies cont...

Background

The Agencies selected for this audit were the:

- Department of Planning and Infrastructure (DPI);
- Department of Natural Resources, Environment, The Arts and Sports (NRETAS);
and
- Northern Territory Police, Fire and Emergency Services (NTPFES).

Capital works forms a significant proportion of the cash outlays of the Northern Territory Government each year. These outlays are often associated with complex contracts for projects that are completed over a significant period of time.

Of the 21 projects selected for this audit 13 related to DPI, 4 related to NRETAS, and 4 related to NTPFES.

It should be noted that the audit sample of projects that was selected for audit extended back to 2007. Accordingly, the Procurement Directions used as the basis for determining whether there was compliance with the delegated legislation were those in force at the time the relevant tenders were issued and assessed.

Selected Agencies cont...

Key Findings

Department of Planning and Infrastructure

- Details of a contract awarded were not published in the Government Gazette.

Procurement Directions required that “Contracts awarded in relation to Tier Three, Tier Four and Tier Five Supplies will be published in the Gazette unless approved otherwise by the Minister responsible for Procurement.”

In relation to the Project (T07-1597) “Darwin – Wadeye (Port Keats) Police Station supply and install new secure boat shed”, it was noted that details of the awarded contract and the successful contractor were not published in the Gazette because of the “Authority to Invite Quotation” within the Agencies Procurement Requisition Online System (APRO) was not completed and closed by DPI. Only finalised APRO Requisition requests are automatically forwarded by the Department of Business and Employment (DBE) to the Gazette for publication.

- Declaration of Conflict of Interest was not maintained on file.

Procurement Directions required that “Prior to conducting a Tender assessment, all officers undertaking the assessment will complete a Declaration of Interests and Confidentiality which is to be retained by the Chairperson of the Tender assessment panel.”

For 8 projects the audit was unable to verify that the Declaration of Interest and Confidentiality was obtained from the panel assessment members as the documentation was unable to be located. It is noted that this issue may have arisen because of a belief by the Department at the time that general disclosures of interests that were recorded in the Department’s register of interests satisfied the intent of the relevant Procurement Direction. I was informed that the matter has since been rectified and conflict declarations are given at the commencement of the assessment process and included on the relevant project file.

Selected Agencies cont...

Department of Planning and Infrastructure cont...

- Performance Reports were not prepared and lodged with Contractor Accreditation Limited (CAL).

Procurement Directions required that “Agencies will provide CAL with Performance Reports in relation to Suppliers at the completion of each Contract or every 12 months, whichever occurs earlier.”

Performance Reports were not prepared and lodged with CAL for five of the 13 projects selected for review as required per PO12. However, it was noted that the defects period had not expired for each of the projects in question. It was also noted that the Tender Document Management System does not permit automatic generation of completion reports at the expiry of twelve months.

- Contract variation not reported to the Procurement Review Board (PRB) in the defined time frame as per PO12.14.

Procurement Directions required that “Where cumulative Contract variations result in total Contract price variations exceeding 15 percent or \$50 000 whichever is the greater, the variations will be reported to the PRB within two weeks of the Accountable Officer’s approval.”

For one project it was identified that a variation was not reported to the PRB within two weeks of the variation being issued.

- The Value for Money calculation was incorrect.

Of the thirteen projects selected for review, it was noted that in one instance Value for Money was calculated incorrectly due to the fourth panel member’s scores not being included in the summary calculation. It was noted that the omission of the fourth panel member’s scores did not affect the overall outcome of the assessment. However, it is not known whether a similar error occurred in the assessment of other tenders with the accompanying risk that recommendations submitted to the Procurement Review Board were not supported by the underlying assessments.

Selected Agencies cont...

Northern Territory Police, Fire and Emergency Services

- There was a lack of evidence on procurement files to support the existence of contract management.

Procurement Directions stated that “Agencies are responsible for Contract management.”

Procurement Directions required that “Agencies will manage Contracts by ensuring:

- (a) the Supplies are delivered or completed in a timely fashion and
- (b) that the Contractor completes the work or provides the Supplies to a satisfactory standard.”

Direction PO12.3 required that “Agencies will ensure they have systems and processes in place to adequately manage Contracts after they have been awarded.”

During the review no documentation in relation to contract management could be provided.

- A Contract was signed prior to exemption approval was provided by the PRB.

Direction PO2.4 required that “Prior to engaging in a Select Tender for Tier Four and Tier Five Supplies, Agencies will ensure that a Certificate of Exemption from Public Tendering has been obtained.”

In relation to one contract, the audit identified that NTPFES sought exemption from the PRB from public tendering as the particular supplier was the only supplier of a particular product. The exemption from public tendering was not granted by the PRB as the Contract had already been signed for 20 years by both NTPFES and the supplier prior to the exemption being sought. To rectify the situation the Contract was rescinded and a new Contract issued once the correct procurement processes were followed and PRB approval had been obtained

Selected Agencies cont...

Northern Territory Police, Fire and Emergency Services cont...

- Documentation defining the scope of supplies and estimation of value could not be located.

Procurement Direction PO4 provided guidance about the minimum requirements to be complied with when defining supplies and estimating their values prior to commencing procurement action. The audit identified the following issues in relation to defining supplies and estimating values for one contract.

- Documentation to support the calculation of the estimate could not be located by Agency representatives for audit review.
 - The estimated value was approximately 27% lower than the awarded contract value. The explanation provided for the difference was that the estimate was based on a contract life of 36 months instead of 72 month contract life for the awarded contract.
- Cost benefit analysis and whole of life costs were not determined prior to the commencement of the procurement process.

For all projects selected for review, the following specific requirements were examined in relation to pre acquisition activities:

- the acquisition was appropriately justified at the commencement of the process;
 - justification for the acquisition included the completion of a cost benefit analysis; and
 - during both the cost benefit analysis referred to above and the tender assessment process the whole-of-life costs were identified.
- Based on the review, my authorised auditors identified the following issues:
 - cost benefit analysis was not performed as part of the cost estimation process for any contracts selected for review;
 - whole of life costs were not determined and included in the cost estimation process for any contracts selected for review.

Selected Agencies cont...

Northern Territory Police, Fire and Emergency Services cont...

- Lack of post acquisition review performed for contracts selected for review.

For all projects selected for review, the following specific requirements were examined in relation to post acquisition activities;

- costs identified were comprehensive;
- the original estimate submitted to CAPS was accurate in comparison to the actual acquisition cost;
- the tendered value was accurate in comparison to the actual acquisition cost; and
- there are systems in place that permit the Agency to assess whether the asset acquired has achieved the original objective of the acquisition and whether an assessment of the effectiveness of the acquisition has been performed.
- the audit identified that post acquisition reviews had not been performed for any projects selected for review.

Department of Natural Resources, Environment, The Arts and Sports

- Evidence of written advice for changes to the Standard Contract Terms and Conditions was not retained on procurement files

Direction PO5.7 stated that "Where an Agency determines that the standard conditions of contract are inappropriate or insufficient for a specific Procurement activity, the Agency will seek advice from the Department of Justice in relation to the use of alternative or additional clauses."

During the review, it was noted that in relation to one contract, the Northern Territory's Standard Contract Terms and Conditions were not used. Evidence of written advice from the Department of Justice could not be located to support the use of alternative or additional clauses prior to publishing the Request for Tender

Selected Agencies cont...

Department of Natural Resources, Environment, The Arts and Sports cont...

- A Contract was signed prior to approval being received from the PRB.

Direction PO9.2 stated that “For Tier Four and Tier Five Supplies, Procurement Review Board approval is required prior to the Accountable Officer accepting a Tender and entering into a Contract.”

Direction PO9.4 further stated that “Where there is a difference of view between the Procurement Review Board and the Accountable Officer, the Minister responsible for Procurement, can be asked to make the final determination on the matter.”

It was noted that for one contract, approval was not sought from the PRB until after the contract had been signed by both the Agency and the Tenderer. NRETAS applied for retrospective approval from the PRB however this was denied due to the Procurement Directions not being followed.

- Cost Estimates may not be accurate.

Direction PO4 provided the guidance and the minimum requirements that must be complied with when defining supplies and estimating their values prior to commencing procurement action. The audit identified the following issues in relation to defining supplies and estimating their values:

- the estimated cost for 3 contracts did not clearly indicate whether the estimated value included GST as required under Directions PO 4.7 which states “The estimated value of the Supplies is to be the GST inclusive estimated value”.
- the estimated value of Supplies for 3 contracts did not include the estimation of ongoing indirect values and/or ongoing maintenance costs as required under Direction PO 4.6(iii).
- documentary evidence that market testing had been conducted for 3 contracts could not be located as required under Direction PO4.2 (i) (a) when defining Supplies.

Selected Agencies cont...

Department of Natural Resources, Environment, The Arts and Sports cont...

- The audit also found that the awarded contract value was significantly different to the estimated value of Supplies for three of the four projects selected for review.
 - For one contract the estimated value of the contract was \$180,000. The awarded contract totalled approximately \$324,000, an 80% increase over the original estimated value of supplies. I was advised that the significant difference between the estimated value and the awarded contract value was primarily due to the estimated value being based on a one year contract whereas the awarded contract value was based on a three year contract. Fewer units were also required than initially anticipated when developing the estimated value.
 - For one contract the estimated value of the contract was \$100,000. The awarded contract totalled approximately \$89,000 resulting in a decrease of 11% from the original estimated value of supplies.

- Tender Assessment weightings were not determined prior to the Tender close date

Direction PO5.5 stated that "Detailed weightings attributable to each tender assessment criteria will be determined prior to the Tender close date and are to be maintained confidential."

I was unable to verify if the weightings of the assessment criteria were determined prior to the tender close date, due to a lack of documentation retained on the procurement files for 3 contracts.

- Declaration of Interest and Confidentiality could not be located for two contracts

Direction PO7.3 stated that "Prior to conducting a Tender assessment, all officers undertaking the assessment will complete a Declaration of Interests and Confidentiality which is to be retained by the Chairperson of the Tender assessment panel."

In relation to two contracts, I was unable to verify that The Declaration of Interest and Confidentiality was obtained from the panel assessment members, as the documentation could not be located on the procurement files.

Selected Agencies cont...

Department of Natural Resources, Environment, The Arts and Sports cont...

- Not all individuals on a tender assessment panel were appropriately qualified.

Direction PO 8.3 stated that “Tender assessments will be undertaken by individuals with relevant skills and knowledge appropriate to the value and importance of the Procurement activity and who are free of any conflict of interest that could undermine the objectivity of the assessment.”

Further, Direction PO 8.3(iv) required that the “Tender Assessment process be conducted by a team of appropriately qualified individuals. The team should comprise, at a minimum, of technical officers with expertise in the field of the Supplies sought, and a representative of the service area making the Procurement.”

In relation to one of the contracts selected for examination, it was identified that the designated staffing levels compromising the Tender Assessment panel were as follows:

Title	Designation
Senior Procurement Officer	AO6
Equipment Officer	T3
Procurement Officer	AO2

The contract was valued at approximately \$324,000. An AO2 officer may not possess the requisite technical skill and expertise in relation to the supplies being procured

Selected Agencies cont...

Department of Natural Resources, Environment, The Arts and Sports cont...

- Lack of evidence on procurement files to support the existence of contract management.

Direction PO12.1 stated that “Agencies are responsible for Contract management.”

Direction PO12.2 stated that “Agencies will manage Contracts by ensuring:

- (a) the Supplies are delivered or completed in a timely fashion and
- (b) that the Contractor completes the work or provides the Supplies to a satisfactory standard.”

Direction PO12.3 stated that “Agencies will ensure they have systems and processes in place to adequately manage Contracts after they have been awarded.”

During the review I was unable to sight any documentation in relation to contract management.

- Cost benefit analysis and whole of life costs were not determined prior to the commencement of the procurement process.

For all projects selected for review, the following specific requirements were examined in relation to pre acquisition activities;

- the acquisition was appropriately justified at the commencement of the process;
- justification for the acquisition included the completion of a cost benefit analysis; and
- during both the cost benefit analysis referred to above and the tender assessment process the whole-of-life costs were identified.

The following issues were identified in relation to pre acquisition activities:

- cost benefit analysis was not performed as part of the cost estimation process for all Contracts selected for review; and
- whole-of-life costs were not determined and included in the cost estimation process for all Contracts selected for review.

Selected Agencies cont...

Department of Natural Resources, Environment, The Arts and Sports cont...

Lack of post acquisition review performed.

For all projects selected for review, the following specific requirements were examined in relation to post acquisition activities;

- costs identified were comprehensive;
- the original estimate submitted to CAPS was accurate in comparison to the actual acquisition cost;
- the tendered value was accurate in comparison to the actual acquisition cost; and
- there are systems in place that permit the Agency to assess whether the asset acquired has achieved the original objective of the acquisition and whether an assessment of the effectiveness of the acquisition has been performed.

The audit found that post acquisition reviews had not been performed for all projects selected for review.

The Department of Planning and Infrastructure has commented:

Whilst the audit was conducted in April/May 2009, the scope of the audit was limited to projects that were awarded between July 2007 and April 2008. During 2008 and 2009, and prior to the audit being undertaken the Construction Division, the Government Business Division responsible for the project management and delivery of the majority of general government capital works, made structural and business process improvements to enable the delivery of an increased capital works program.

DPI and Construction Division have progressively implemented further improvements to procedures and processes to address the findings of this report. This has enabled the delivery of record levels of capital works and repairs and maintenance throughout the Territory in 2008-09 and 2009-10 to date.

Selected Agencies cont...

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

The need for compliance with Procurement Directions is acknowledged. Since April 2008 the Agency has put considerable effort into reviewing and implementing effective internal control structures surrounding procurement practises including the employment of a senior procurement officer. These efforts are not reflected in the audit findings as the audit sample relates to 2007 and early 2008 prior to the engagement of a dedicated procurement specialist.

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Batchelor Institute of Indigenous Tertiary Education

Audit findings and analysis of the financial statements for the year ended 31 December 2008

Background

The Batchelor Institute of Indigenous Tertiary Education (the Institute) is a tertiary institution established under the *Batchelor Institute of Indigenous Tertiary Education Act* to provide education that is relevant to the needs of Aborigines and Torres Strait Islanders. In pursuit of that objective the Institute offers a range of courses at the vocational education and training, and higher education levels.

The Institute's higher education component is funded by the Commonwealth Government, while the vocational education and training component is funded by the Northern Territory. Limited amounts of income are raised by the Institute through course fees and the levying of fees for ancillary services.

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, Employment and Workplace Relations (DEEWR) issued *Financial Statement Guidelines for Australian Higher Education Providers for 2008 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.

The audit of the Institute's accounts for 2008 was undertaken in the knowledge that the Institute was experiencing financial difficulties. In March 2009 the Institute advised that it was in a difficult financial position and that its continued existence was likely to be dependant upon ongoing financial support from the Commonwealth and Northern Territory governments.

The issues that confronted the Institute also saw the resignation of two members of the Institute's Council in March 2009 (one of whom was also a member of both the Finance Committee, and the Audit and Risk Committee). Those resignations were accompanied by the resignation of a further two members of the Audit and Risk Committee.

Batchelor Institute of Indigenous Tertiary Education cont...

The situation facing the Institute in early 2009 represented the crystallisation of issues that have persisted for several years in respect of the relative financial performance of the higher education and vocational education and training segments of the Institute. While the growth in revenues of the higher education segment has been sufficient to cover the costs of course delivery, that has not been the case for the vocational education and training segment where the Institute has had difficulty in achieving revenue targets. As a result the higher education segment has been required to subsidise the operations of vocational education and training segment for several years.

For the 2008 year, the higher education segment recorded an operating surplus of almost \$1.2 million, while the vocational education and training segment recorded an operating deficit of \$1.4 million, with the overall financial result for the Institute being a deficit of \$0.288 million. The relative financial performance of the two segments of the Institute is also reflected in the balance sheet. Thus while the Institute held cash and cash equivalents totalling \$4.6 million at 31 December 2008, the cash that was attributed to the higher education segment was \$13.8 million while that attributed to vocational education and training was a negative balance of \$9.2 million, suggesting that the sustainability of the vocational education and training segment was in doubt. Segment information is shown in some detail in Note 2 to the Institute's financial statements for 2008.

While policies that rely on cross-subsidisation of one service by another are rarely efficient, they have had perverse outcomes for the Institute as the revenues received by the higher education segment included Commonwealth funding provided for specific purposes. The cross-subsidisation arrangements led to a situation where the Institute's ability to discharge its obligations under Commonwealth funding agreements or return those funds to the Commonwealth was jeopardised.

The Institute advised the respective Commonwealth and Territory Ministers of the difficulties it faced in March 2009. An Acting Director drawn from an external firm has since been appointed by DEEWR.

Batchelor Institute of Indigenous Tertiary Education cont ...

Issues affecting the Institute at the time of the preparation of its financial statements for 2008 included:

- under expenditure by \$1.1 million of Away From Base funding received from the Commonwealth in 2008, with a requirement to return to the Commonwealth the amount not spent;
- under-expenditure of Indigenous Tutorial Assistance Scheme funds of \$0.3 million, again with requirement to return to the Commonwealth the amount unspent;
- under-achievement of EFTSL targets that may result in a reduction of \$0.35 million in revenue from the Commonwealth;
- failure to achieve the target AHC with the risk of a reduction in revenue of \$1.1 million; and
- the outcome of enterprise bargaining agreement negotiations that were expected to lead to an increase in the Institute's cost base by \$1.1 million.

In essence, the ability of the Institute to meet its obligations and achieve financial stability require either, or both, an increase in enrolments or a marked reduction in the level of its operating expenses, or supplementary funding by the Commonwealth and Northern Territory.

DEEWR has since provided \$3.2 million in supplementary funding to the Institute and at the time of finalising this report the provision of additional financial assistance by the Northern Territory was under consideration.

It was within this context that the statutory audit of the Institute's financial statements was performed in accordance with the provisions of the enabling legislation. The objective of that audit was not to examine the financial sustainability of the Institute, but to determine whether the financial statements were reliable and prepared in accordance with Australian accounting standards and DEEWR requirements.

Batchelor Institute of Indigenous Tertiary Education cont ...

Audit Opinion

The audit of the Batchelor Institute of Indigenous Tertiary Education for the year ended 31 December 2008 resulted in an unqualified independent audit opinion, which was issued on 15 June 2009. Notwithstanding the absence of an audit qualification, a number of matters were raised with the Institute as consequence of the audit and these are outlined below.

Key issues

Controls over Inventory

The Institute had not performed any stock take procedures during the 2008 reporting year. Thus while I believe that the value of inventory was misstated in the financial statements, I did not qualify my audit report on the grounds that the amount involved was not material. I recommended to the Institute that it strengthen its controls over the recording and monitoring of inventory.

Bank Reconciliations

It was noted that one supplementary bank account had not being reconciled, while in the case of another account, the reconciliation contained a significant number of "reconciling items", including some that had been outstanding for more than twelve months.

Property, Plant & Equipment

The Institute had not conducted any valuations of its Land, Buildings, Infrastructure and Cultural and Heritage assets in 2008. As such the Institute had not complied with its own accounting policies. I recommended to the Institute that it carry out valuations of its Land, Buildings, Infrastructure and Cultural and Heritage assets in 2009.

The Institute had not capitalised or depreciated work-in-progress items which appeared to have been completed in July and August of 2008. As a consequence there is the potential for misstatement of the values of assets shown in the Institute's balance sheet.

Batchelor Institute of Indigenous Tertiary Education cont...

Corporate Governance

Over the years since 2005 I have emphasised to successive Directors of the Institute the importance of internal audit and noted the absence of internal audit capacity at the Institute.

I did not observe any evidence during the audit of the 2008 financial statements that the Institute's internal audit capacity had been enhanced although the Institute did advise that an internal audit charter had been approved by the Council in late 2008. However, the resignation of three external members of the Audit and Risk Committee during the first half of 2009 is unlikely to assist the development of a sound internal audit role within the Institute.

I advised the Institute that good governance practices would require that the Committee have a majority of independent members and that the employees of the Institute should not be appointed to the Committee. Relevant employees should attend only when invited to do so by the Committee. I encouraged the Institute to seek and appoint to the Committee independent members who have the required expertise.

Batchelor Institute of Indigenous Tertiary Education cont...

Financial analysis

Abridged Income Statement

	2008	2007
	\$'000	\$'000
Revenue from ordinary activities	45,250	44,700
Less expenses from ordinary activities		
Employee Expenses	24,201	24,512
Depreciation and amortisation	857	898
Repairs and maintenance	1,454	1,612
Bad and doubtful debts	39	73
Other expenses	18,987	17,859
Total expenses from ordinary activities	45,538	44,954
Operating result for the year	(288)	(254)

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

- Total Revenue increased by \$0.55 million or 1.2% from the prior year. As part of this aggregate increase, revenues received from the Commonwealth increased by \$309,000, or slightly less than 1 per cent, while revenues from the Northern Territory increased by \$463,000, or 4 per cent.
- The decline in Commonwealth funding was due a largely to a cessation of funding in respect of the Institute's E-Learning building (\$2.122 million for 2008) and a reduction of \$1.9 million in relation to the Workplace Productivity Program.
- The declines mentioned above were offset by an increase of \$1.9 million in revenues from Commonwealth for the Away From Base program and new funding of \$0.82 million in respect of Better Universities Renewal Funding initiative and Childcare Services Support program.

Batchelor Institute of Indigenous Tertiary Education cont...

- Revenues from the Territory increased by \$0.463 million with this amount consisting of a decline in operating funding by \$0.563 million, offset by an increase in specific purpose funding of \$1.026 million. Notable specific funding increases included the Quality Teacher Program (\$0.78 million), the Skills in Regions Program (\$0.401 million) and Tennant Creek Nursing (\$0.114 million).
- Interest income declined by \$0.1 million, as a result of a lower average level of funds being held throughout the year, coupled with lower interest rates.
- Total expenses for the year increased by \$0.58 million or 1.3% from the prior year.
- Expenses associated with employment declined by \$0.311 million. This amount included an increase in salary costs of \$0.314 million, offset by declines in employee on-costs such as annual and long service leave expenses, and payroll tax.
- Other Expenses increased by \$1.15 million or 6.5%. This reflected:
 - increases in communications and utilities expenses of (\$0.594 million) due to network and internet charges; and
 - increases in expenses associated with contracted services (\$0.679 million);which were offset by modest increases or declines in other expense categories.

Batchelor Institute of Indigenous Tertiary Education cont...

Abridged Balance Sheet

	2008	2007
	\$'000	\$'000
Current Assets		
Cash and cash equivalents	4,587	6,833
Receivables and other current assets	2,477	1,808
Less Current Liabilities	(5,117)	(4,694)
Working Capital	1,947	3,947
Add Non Current Assets	20,951	19,214
	22,898	23,161
Less Non Current Liabilities	(696)	(671)
Net assets	22,202	22,490
Represented by:		
Retained surplus	4,712	5,000
Reserves	17,490	17,490
Equity	22,202	22,490

The abridged balance sheet, above, highlights the decline of \$2.25 million in cash balances during the year and the accompanying decline in working capital by \$2.0 million to \$1.947 million. While this suggests that the Institute was in a position to meet its short-term obligations as they arose at 31 December 2008 it did not take into account the commitments that existed in respect of funding received for specific projects.

Note 34 to the Financial Statements indicates that the Institute had commitments of \$6.981 million arising from funding provided for specific projects with that amount being required to be spent in accordance with the respective funding agreements. The Institute stated in Note 32 to the financial statements that there was a cash deficiency of \$2.5 million in relation to the unspent grant funds.

Charles Darwin University

Audit findings and analysis of the financial statements for the year ended 31 December 2008

Background

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

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

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

Audit Opinion

The audit of the financial statements of the Charles Darwin University for the year ended 31 December 2008 resulted in an unqualified independent audit opinion, which was issued on 26 June 2009.

Key issues

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

Charles Darwin University cont...

Financial analysis

Abridged Income Statement – CDU only – excluding controlled entities

	2008	2007
	\$'000	\$'000
Revenue from ordinary activities		
Financial assistance from the Commonwealth	59,319	52,495
Financial assistance from the NT Government	50,293	52,315
Other revenue (HECS, fees, interest, etc)	73,369	59,775
Total revenue from ordinary activities	182,981	164,585
Less expenses from ordinary activities		
Employee related costs	(92,423)	(85,472)
Administration, operational and other expenses	(77,773)	(68,110)
Total expenses from ordinary activities	(170,196)	(153,582)
Operating result for the year	12,785	11,003

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

- An increase of 3.0 million for Better Universities Renewal Funding and \$2.9 million increase in Commonwealth Grants Scheme funding;
- A \$2.5 million increase as a result of an increase in international student numbers by approximately 30% and an increase in the hourly rate for VET fees of 12%.
- Investment income also increased by \$2.9 million;
- An \$4.2 million increase in revenue as a result of increased acceptance of research and consultancy submissions; and
- A donation of software licences to the value of \$2.3 million dollars.

Expenses increased predominantly due to an increase in employee benefits and on-costs due to an increase in full time and fixed period contract employees coupled with a general increase in average salaries.

Charles Darwin University cont...

Abridged Balance Sheet – CDU only – excluding controlled entities

	2008	2007
	\$'000	\$'000
Current Assets	85,397	73,480
Less Current Liabilities	(25,652)	(24,119)
Working Capital	59,745	49,361
Add Non Current Assets	306,714	304,424
	366,459	353,785
Less Non Current Liabilities	(1,709)	(2,072)
Net assets	364,750	351,713
Represented by:		
Reserves, restricted and accumulated funds	364,750	351,713
Equity	364,750	351,713

Included in the University's revenue of \$182.9 million are grants from the Australian and Territory Governments.

Of these grants \$6.9 million of capital funding and \$3.5 million of other grants were committed to fund capital and other projects during 2009 and future years.

In addition to this the University also received capital and other grants to fund future project costs of \$9.4 million. The costs related to this income will be borne in future years.

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Charles Darwin University Foundation

Audit findings and analysis of the financial statements for the year ended 31 December 2008

Background

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

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

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

Audit Opinion

The audit of the financial statements of the Charles Darwin University Foundation (the Foundation) and the Charles Darwin University Foundation Trust (the Trust) for the year ended 31 December 2008 resulted in unqualified independent audit opinions.

Key issues

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

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

Charles Darwin University Foundation cont...

Financial analysis

Abridged Income Statement – Trust Only

	2008	2007
	\$'000	\$'000
Revenue from ordinary activities	3,664	1,251
Less expenses from ordinary activities		
Trust donations disbursed	(571)	(490)
Donations in kind - operational	(2,384)	(154)
Unrealised revaluation loss on investment	(67)	-
Other expenses	(3)	(2)
Total expenses from ordinary activities	(3,025)	(646)
Net operating result for the year	639	605

The significant increase in revenue received related to software licences valued at \$2.3 million dollars by way of an in-kind donation.

Charles Darwin University Foundation cont...

Abridged Balance Sheet – Trust Only

	2008	2007
	\$'000	\$'000
Current Assets	3,585	2,890
Less Current Liabilities	(1)	(2)
Working Capital	3,584	2,888
Add Non Current Assets	335	423
Net assets	3,919	3,311
Represented by:		
Investment Revaluation Reserve	-	31
Retained Earnings	3,919	3,280
Equity	3,919	3,311

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Menzies School of Health Research

Audit findings and analysis of the financial statements for the year ended 31 December 2008

Background

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

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

Audit Opinion

The audit of the Menzies School of Health Research for the year ended 31 December 2008 resulted in an unqualified independent audit opinion, which was issued on 5 May 2009.

Key issues

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

Menzies School of Health Research cont...

Financial analysis

Abridged Income Statement

	2008	2007
	\$'000	\$'000
Revenue from continuing operations	40,152	21,599
Less expenses from continuing operations		
Employee Expenses	(14,038)	(11,293)
Administration, operational and other expenses	(9,853)	(7,483)
Total expenses from continuing operations	(23,891)	(18,776)
Net operating result for the year	16,261	2,823

The increased operating result was predominantly due to an increase in Australian and NT Government financial assistance by \$16.4 million. \$10.8 million of this related to capital funding for building extensions, \$1.1 million related to income received in 2008 for projects scheduled to commence in 2009, while the balance related to an increase in research and operating grant income.

This increase in revenue was offset by an increase in expenses of \$5.1 million or 27% from the prior year, in particular:

- an increase in employee expenses (including salaries and wages) of \$2.7 million due to an increase in staff numbers as a result of the continued growth of the School and more projects being undertaken; and
- an increase of 1.3 million in Research Project Costs as a result of more projects being undertaken. In line with this, staff travel costs also increased (an increase of \$400,000) due to the requirement for staff to travel to the outlying communities.

Menzies School of Health Research cont...

Abridged Balance Sheet

	2008	2007
	\$'000	\$'000
Current Assets	34,774	25,281
Less Current Liabilities	(5,197)	(12,153)
Working Capital	29,577	13,128
Add Non Current Assets	970	1,159
	30,547	14,287
Less Non Current Liabilities	(229)	(93)
Net assets	30,318	14,194
Represented by:		
Retained earnings	27,843	12,140
Reserves	2,475	2,054
Equity	30,318	14,194

The operating result for the year includes revenue received for research projects that have a life beyond the end of the financial year and capital expenditure. In accordance with accounting standards this is treated as revenue in the year it is received. Future commitments for these projects will extend beyond this income year.

During 2008 revenue of \$10.8 million related to capital funding for building extensions and \$1.1 million related to income received in 2008 for projects scheduled to commence in 2009.

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Treasurer's Annual Financial Statement

Audit findings and analysis of the financial statements for the year ended 30 June 2009

Key Issues

My audit opinion on the Treasurer's Annual Financial Statement (TAFS) for 2008-09 was unqualified.

Introduction

The TAFS, which was tabled in the Legislative Assembly on 20 October 2009, 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. That 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 Government Finance Statistics Australia, Concepts, Sources and Methods (GFS) and Australian accounting standards. The TAFS also complies with the requirements of the Uniform Presentation Framework (UPF). The UPF sets out the standard presentation for financial reporting by all Australian jurisdictions and has its origins in the May 1991 Premiers' Conference. In the intervening years the UPF has been amended in line with developments in Accounting Standards that have occurred since the UPF was first introduced.

The Uniform Presentation Framework and the Structure of the Public Sector

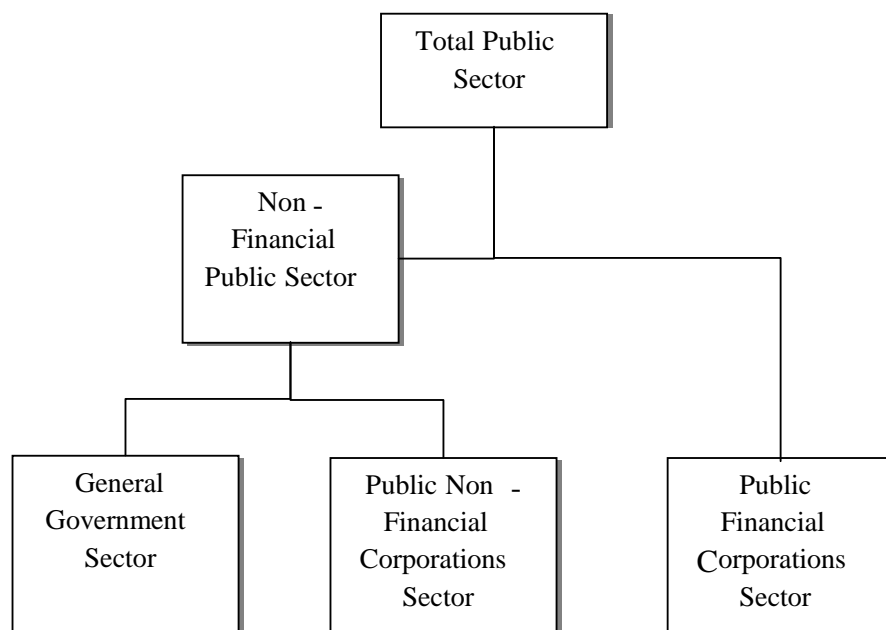
A key aspect of public sector reporting is the classification of the public sector into three primary sub-sectors;

- General Government Sector;
- Public Non Financial Corporations Sector; and
- Public Financial Corporations Sector.

Treasurer's Annual Financial Statement cont...

The General Government and the Public Non-Financial Corporations Sector are then 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



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 "outside world".

Treasurer's Annual Financial Statement cont...

The Principles of Consolidation

The financial statements for each of the entities that lie within a particular sector are consolidated to provide information about that sector, and are then consolidated further to provide information about the total public sector. Consolidation, for the purposes of the TAFS, involves initially the elimination of all intra-sector transactions and balances in order to provide a picture of the relationship between each sector and the rest of government, and other sectors of the economy. Inter-sector transactions and balances are then eliminated to provide a picture the relationship between the total public sector and the "outside world".

The starting point for the consolidation of the TAFS is the identification of those entities that are deemed to be "controlled" by the Northern Territory Government. These are listed, by sector, at Note 41 to 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.

Treasurer's Annual Financial Statement cont...

Entities Excluded From the TAFS

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
- 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.

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 public sector'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.

The role of accounting standards in public sector financial reporting

The role of accounting standards is to achieve uniformity in accounting so that two different entities reporting the same events will report upon them in the same way. In Australia, the role of developing and issuing accounting standards rests with the Australian Accounting Standards Board, a Commonwealth statutory body established pursuant to the *Australian Securities and Investments Commission Act*.

Accounting standards issued by the AASB have the force of law in the case of corporations that operate under the *Commonwealth Corporations Act* and are also given force in the public sector in all jurisdictions by either Acts of Parliament or by delegated legislation such as Treasurer's Directions in the Northern Territory.

The effect of Treasurer's Directions is to require all Agencies to adhere to accounting standards when preparing financial statements. In the case of the Treasurer's Annual Financial Statements, the *Fiscal Integrity and Transparency Act* requires the Treasurer to prepare reports that comply with external reporting standards, which are defined as being Government Finance Statistics Australia: Concepts Sources and Methods, and Australian Accounting Standards.

The issue by the AASB of the accounting standard AASB 1049 Whole of Government and General Government Sector Financial Reporting in October 2007 draws together the principles set out in GFS and those in accounting standards with the result that compliance by the Treasurer with AASB 1049 will ensure compliance with the *Fiscal Integrity and Transparency Act*.

Treasurer's Annual Financial Statement cont...

Key Fiscal Measures in the Treasurer's Annual Financial Statements

At various points in this report, reference will be made to several key financial measures in the TAFS, drawn from the Operating Statement, the Balance Sheet and the Cash Flow Statement. The Operating Statement Measures are:

Net Operating Balance – the excess of revenue from transactions over expenses from transactions, excluding transactions involving the acquisition of capital assets. The net operating balance encompasses the full cost of providing government services and provides a good measure of the sustainability of a government's fiscal position over time, while also providing an indication of the sustainability of the existing level of government services.

Operating Result – is analogous to the concept of net income that is reported in a set of commercial financial statements. It consists of the net operating balance together with gains and losses (which can be viewed as changes in the values of certain assets and liabilities) and is a measure of the extent to which a government has been able to maintain the value of its "capital" as a result of its operations during the year.

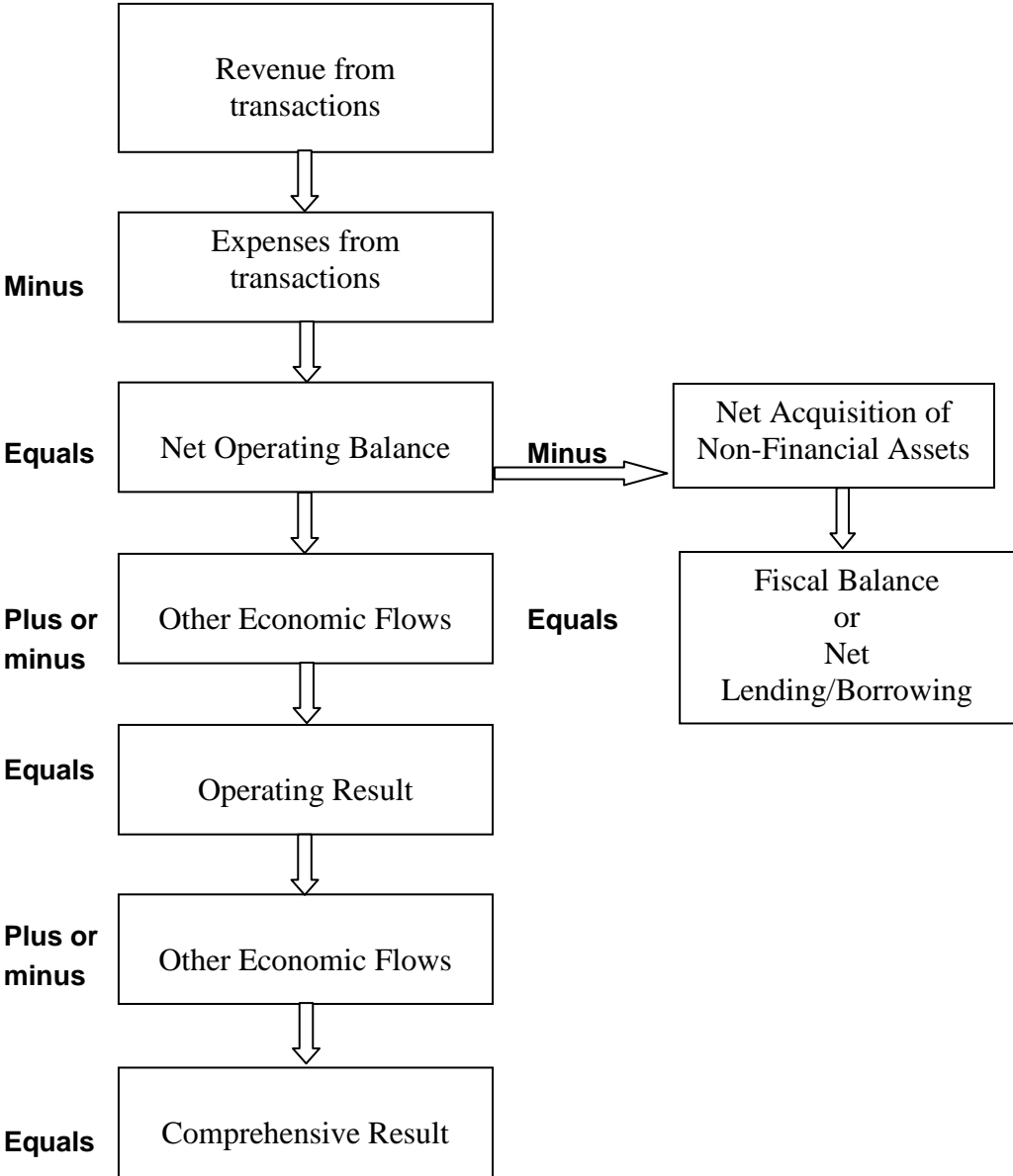
Comprehensive Result – represents the change in the net worth (i.e. the difference between total assets and total liabilities) of either a particular sector or the Total Public Sector as a result of operations, coupled with the effects of all economic events that have resulted in changes to the values of assets and liabilities.

Net Lending or Borrowing, or Fiscal Balance – is a measure of a government's investment-saving balance. A fiscal surplus indicates that a government is saving more than is required to finance all of its investment spending and has therefore not been required to draw upon the savings of other sectors to finance its consumption and capital spending.

Treasurer’s Annual Financial Statement cont...

The relationship between these measures of performance is summarised below:

Figure 2



Treasurer's Annual Financial Statement cont...

In addition to the four performance measures outlined above, the financial statements also include three measures of financial position. These are:

- **Net debt:** the stock of financial liabilities, comprising borrowings, advances received and deposits held, less the stock of financial assets comprising cash and deposits, advances paid, investments, loans and placements. The stock of net debt is used to assess the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and can therefore limit a government's flexibility to adjust expenditure.
- **Net financial worth:** the value of the net holding of financial assets. It is a broader measure than net debt, in that it incorporates provisions made (such as provisions for superannuation, or employee benefits) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt.
- **Net worth:** the value of total assets (both financial and non-financial) less total liabilities and is intended to provide a more comprehensive picture of a government's financial position than either net debt or net financial worth. However net worth can, at the same time, be seen as an inferior measure to net debt or net financial worth because it incorporates non-financial assets that for which there is often no market and for which reliable current values may not be available.

Treasurer's Annual Financial Statement cont...

Fiscal Strategy and Associated Performance Measures

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

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

- formulate and apply spending and taxing policies having regard to the effect of those policies on employment, economic prosperity and development of the Territory economy;
- formulate and apply spending and taxing policies so as to give rise to a reasonable degree of stability and predictability;
- ensure that funding for current services is provided by the current generation; and
- manage financial risks faced by the Territory (having regard to economic circumstances), including the maintenance of Territory debt at prudent levels.

Budget Paper No 2 for 2008-09, Fiscal and Economic Outlook set out the Government's medium-term fiscal objectives and targets as follows:

- **Sustainable service provision.** The target is a general government positive net operating balance by 2012-13, with the achievement of the target being assessed by the ability to achieve operating surpluses in the intervening years.
- **Infrastructure for economic and community development.** The target is to maintain total public sector infrastructure investment at appropriate levels and achieve a general government fiscal balance by 2012-13. This target is to be assessed on the basis of infrastructure spending for 2008-09 and subsequent years, in conjunction with the extent to which sustainable fiscal balances are achieved.
- **Competitive tax environment.** The target is to ensure territory taxes and charges are competitive with the average of jurisdictions. This target is to be on the basis of inter jurisdictional comparisons.

Treasurer's Annual Financial Statement cont...

- **Prudent management of liabilities.** The goal is to achieve a reduction in the ratio of net debt plus employee liabilities to revenue over the medium term.

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 In 2008-09
Sustainable government services	The ability of the government to maintain positive net operating balances will require fiscal discipline to ensure that costs of service delivery are controlled while also ensuring that associated economic flows are also minimised. It is anticipated that other economic flows should not pose a significant obstacle to achieving the fiscal objective provided existing fiscal policies are maintained.	The achievement of a positive net operating balance for 2008-09 indicates that the General Government Sector operated at a sustainable level for the year. The continued ability to maintain positive net operating balances over the medium term will depend, in part, on the state of the economy; internationally, nationally and locally, and the effect that may have upon GST revenues and spending priorities of the Government.
Competitive tax environment	The rates of increase of Territory taxes will need to be confined to average increases across all jurisdictions. This is considered achievable.	Based on such data that were available at the time of preparing this report, the level of per capita taxation remains below the average for the States.
Prudent management of liabilities	The achievement of this objective is linked to that of sustainable service provision. Continued operating surpluses will lead to a decline in liabilities.	The value of net debt plus employee liabilities as a percentage of total revenue declined for 2008-09. This is consistent with the Government's fiscal strategy, but the ability to maintain past trends may be tested by economic conditions expected to prevail over the next few years.

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 General Government Sector Revenue

The principal source of revenue for the General Government Sector is the Commonwealth. For 2008-09, amounts received from the Commonwealth totalled \$3,244.0 million and represented 77.5 per cent of the total revenue received by the Sector.

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".

Treasurer's Annual Financial Statement cont...

Reforms to the structure of federal financial relations that were initiated by the Council of Australian Governments have resulted in changes to the types of payments made by the Commonwealth to the states and territories. As a result the revenues from the Commonwealth now include amounts received under two new headings of Specific Purpose Payments and National Partnerships*.

2008-09 was marked by some instability in international financial markets with an accompanying decline in the level of economic activity in Australia. That, in turn, was reflected in a decline in the rate of growth of GST revenue received by the Territory. However, the effect upon the Territory of lower GST revenue was offset by increases in revenues received from the Commonwealth, while there were also increases in Territory revenues, particularly royalties.

Revenues received in the form of grants from the Commonwealth increased by almost \$239.5 million, or 11.0 per cent when compared with 2007-08. The most significant components of that increase were:

	\$ million
National partnerships*	188.3
Goods and Services Tax	40.3

*National partnership payments were introduced during 2008-09 following the execution of an agreement between the Commonwealth and the States and Territories.

In addition to revenues from the Commonwealth, the Territory also received revenues by way of taxes and charges, royalties and through the sale of goods and services. For 2008-09, these classes of "own source" revenues totalled \$838.8 million, compared with \$700.1 million for 2007-08, an increase of 19.8 per cent. The most notable increases were:

- payroll tax (including payroll tax received from public sector entities lying outside the General Government Sector), which increased by 7.5 per cent to \$151.4 million due to wage and employment growth; and
- royalties, which increased by 135.5 per cent to \$224.2 million due to increases in both the price and volume of commodities;
- with these being offset by a decline in revenue from stamp duties on capital and financial transactions, which declined by 2.8 per cent to \$110.2 million due to the lower levels of conveyancing transactions and increased stamp duty thresholds.

Treasurer's Annual Financial Statement cont...

General Government Sector Expenses

In my report dated 25 November 2008 to the Legislative Assembly, I drew attention to the timing of grants from the Commonwealth and the effect that can have upon reported financial performance of the General Government Sector in any year. Commonwealth grants received at the end of the 2007-08 year tended to distort the General Government Sector's true financial performance in that revenues were recognised in 2007-08, with the expenses incurred in applying the grants for their intended purposes recognised in 2008-09

The General Government Sector's expenses for 2008-09 totalled \$3,999.8 million, an increase of 13.3 per cent over the prior year. This increase should be interpreted bearing in mind the increase in the level and timing of Commonwealth grants.

Employee expenses continued to be the largest component of total expenses and increased by 13.3 per cent for the year, with this increase being a result of:

- Increased salary and wage costs stemming from enterprise bargaining outcomes.
- Higher General Government Sector employee numbers.
- Superannuation expenses recognised in the Operating Statement for the Sector increased by 7.5 per cent for the year to \$283.4 million. This amount includes an interest expense of \$133.7 million on the unfunded superannuation liability.

The performance measures of Operating Result and Comprehensive Result are affected by the value of what are described as Other Economic Flows. These items represent changes in the values of assets and liabilities that are not a result of required transactions by the Sector. For 2008-09, other economic flows resulted in a net gain of \$1,355.7 million for the year. This was due largely to:

- the revaluation of property, plant and equipment, which was revalued upwards by a net amount of \$913.5 million, with the largest component of that revaluation increment representing roads and bridges which were revalued at their written down current costs to align those values with the requirements of Government Finance Statistics;
- an increase in the value of the Sector's "investment" in the Public Non Financial Corporations and the Public Financial Corporations Sectors by \$144.3 million;

Treasurer's Annual Financial Statement cont...

- a net actuarial loss of \$230.2 million as a result of the effect of lower interest rates on the values of liabilities (principally superannuation) that are measured using actuarial techniques; and
- declines of \$90.6 million in the values of assets as a consequence of financial market instability that characterised the 2008-09 year. A substantial part of these losses had been reversed at the time of finalising this report, reflecting the improvement in financial market conditions.

The final element of financial performance is the net acquisition of non-financial assets. For 2008-09, the net value of acquisitions of non-financial assets was \$209.0 million, compared with \$197.5 million for the prior year, resulting in a negative Fiscal Balance of \$21.8 million, compared with a positive result of \$197.5 million for the prior year.

The financial performance of the General Government Sector is summarised in Table 1, below:

Table 1
Financial Performance of the General Government Sector

	2008-09	2007-08
	\$'million	\$'million
Revenue from transactions	4,187.0	3,869.5
Expenses from transactions	(3,999.8)	(3,529.0)
Net Operating Balance	187.2	340.5
Other economic flows	(319.7)	(18.9)
Operating Result	(132.5)	321.6
Other economic flows	1,675.4	179.3
Comprehensive Result	1,542.9	500.9
Add back total of other economic flows	(1,355.7)	(160.4)
Net acquisition of non-financial assets	(209.0)	(143.0)
Fiscal Balance	(21.8)	197.5

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

Financial performance, as measured by Net Operating Balance and Fiscal Balance, is also reflected in the cash flows of the Sector. For 2008-09, the General Government Sector's operating activities resulted in net cash inflows of \$566.5 million, to which must be added the net cash inflows of \$16.1 million arising from a decline in the stock of financial assets held for both policy and liquidity purposes, and \$41.5 million from the sale of non-financial assets. The resultant amount of \$624.1 million was applied to:

- acquisition of non-financial assets of \$448.5 million;
- reduction of indebtedness \$145.7 million;
- increase in cash and deposits of \$29.9 million.

General Government Sector Financial Position

Of the measures of financial position that were described previously, Net Debt and Net Worth showed an improvement when compared with the position at 30 June 2009, while Net Financial Worth declined for the year.

Net Debt declined by \$50.0 million to \$836.5 million and the movements for the year in the stocks of financial assets and liabilities that underpin the measure of Net Debt were as follows:

	\$'million
Net Debt at 30 June 2008	886.5
Add:	
Increase in advances received	11.8
Decreases in advances paid	25.7
Decrease in investments, loans and placements	99.9
Less:	
Decrease in borrowings	(143.0)
Decrease in deposits held	(14.5)
Increase in cash and deposits	(29.9)
Net Debt at 30 June 2009	836.5

Treasurer's Annual Financial Statement cont...

Net Financial Worth declined by \$196.1 million to a negative value of \$2,403.1 million at 30 June 2009. The principal contributor to that decline was the increase of \$309.6 million in the liability for superannuation.

Net Worth improved by \$1,543.0 million. This was principally attributable to the revaluation of the Territory's stock of property, plant and equipment assets by an amount of \$1,220.9 million to bring those values into line with the requirements of Government Finance Statistics, and to additions of \$443.4 million to the Sector's stock plant and equipment as a result of the capital program.

The Financial Performance and Position of the Total Public Sector

The financial performance of the Northern Territory total public sector mirrors that of the General Government Sector. Revenues increased by \$378.5 million, or 8.5 per cent for the year. As was the case with the General Government Sector, most of that increase was represented by the increase in grants received from the Commonwealth.

Total expenses increased by \$617.0 million, or 15.6 per cent, with that increase being dominated by higher expenses associated with employment (\$170. million), current grants (\$134.1 million) and the purchase of goods and services (\$150.2 million). The larger part of the increase in expenses associated with the purchase of goods and services was related to activities in the Public Non Financial Corporation Sector.

The result was a net operating balance of \$241.5 million, a decrease of \$238.5 million or 80.1 per cent when compared with the prior year.

Treasurer's Annual Financial Statement cont...

The Total Public Sector financial performance is summarised in Table 2, below:

Table 2
Financial Performance of the Total Public Sector

	2008-09	2007-08
	\$'million	\$'million
Revenue from transactions	4,820.6	4,442.0
Expenses from transactions	(4,579.0)	(3,962.0)
Net Operating Balance	241.5	480.0
Other economic flows	(232.6)	(63.1)
Operating Result	8.9	417.0
Other economic flows	1,534.0	83.9
Comprehensive Result	1,542.9	500.9
Add back total of other economic flows	(1,301.4)	(20.8)
Net acquisition of non-financial assets	(334.8)	(263.2)
Fiscal Balance	(93.3)	216.9

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

The financial performance of the Total Public Sector as shown in Table 2 was reflected in the cash flows for the year. The Public Sector was financed by cash inflows from:

	\$'million
Operating activities	699.1
Sale of non-financial assets	82.5
Financing activities	24.3
Liquidation of financial assets held for policy purposes	8.1
Decline in cash and deposit balances	10.3
	824.3
<hr/>	
With that amount being applied to:	
Purchase of non-financial assets	685.7
Investment in financial assets for liquidity purposes	138.6

Total Public Sector Financial Position

The financial position of the Total Public Sector, measured using both Net Debt and Net Financial Worth, declined at 30 June 2009 when compared with 30 June 2008. Net Debt increased by an amount of \$54.1 million due largely to an increase in liabilities in the form deposits held, coupled with decreases in the stock of financial assets such as cash, advances paid and investments.

The decline in the total public sector's Net Financial Worth by an amount of \$487.9 million was attributable to increases in liabilities, with the most significant being the liability for superannuation

The total public sector's Net Worth increased by \$1,542.9 million to \$4,750.5 million. As was the case with the General Government Sector, the principal reason for the increase was the revaluation of the stock of property, plant and equipment, and the roads and bridges network.

Treasurer's Annual Financial Statement cont...

The components of the Total Public Sector's financial position at 30 June 2009, and the movements for the year, are shown in the following table:

Table 3
Total Public Sector
Financial Position as at 30 June 2009

	Balance at 30 June 2009	Movement for 2008-09	Balance at 30 June 2008
	\$' million	\$' million	\$' million
Cash and deposits	317.3	(10.4)	327.7
Advances paid	125.3	(10.7)	136.0
Investments, loans and placements	1,840.1	(11.4)	1,851.5
Deposits held	(498.5)	(67.8)	(430.7)
Advances received	(270.1)	5.4	(275.5)
Borrowings	(2,292.0)	40.7	(2,332.7)
Net Debt	(777.9)	(54.1)	(723.8)
Non-equity assets	295.2	(9.2)	304.4
Equity assets	0.1	0.1	-
Superannuation liabilities	(2,408.4)	(309.6)	(2,098.8)
Other employee entitlements and provisions	(498.9)	(53.3)	(445.6)
Other non-equity liabilities	(751.9)	(61.8)	(690.1)
Net Financial Worth	(4,141.8)	(487.9)	(3,653.9)
Carrying amount of non-financial assets	8,892.3	2,030.8	6,861.5
Net Worth	4,750.5	1,542.9	3,207.6

Note: Totals may not add due to rounding.

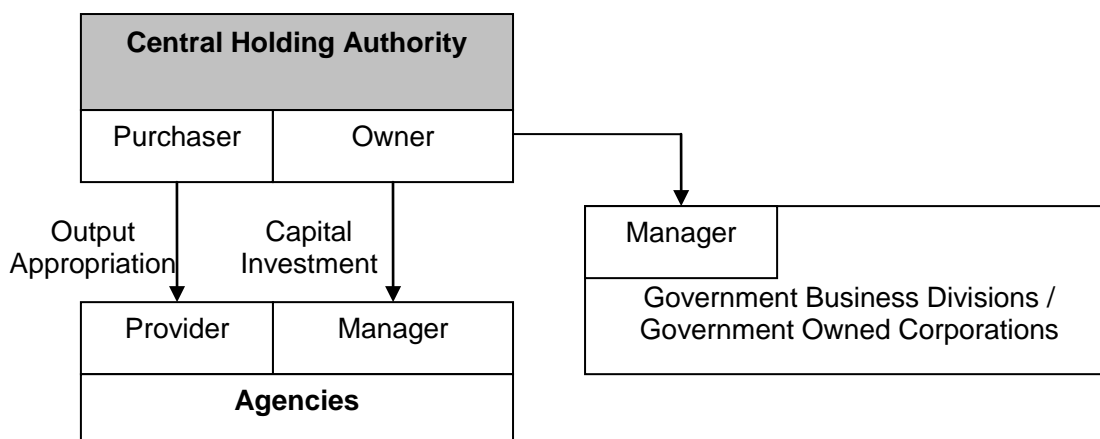
Treasurer's Annual Financial Statement cont...

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 3.

**Figure 3
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.

Treasurer's Annual Financial Statement cont...

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;
- 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 2008-09, compared with that of 2007-08 is illustrated in Table 4, below:

In past years, most tied Commonwealth funding to the Territory was paid by Commonwealth line agencies directly to Territory line Agencies, by-passing the CHA in the process. New arrangements introduced for the 2008-09 year will see Commonwealth funding received under Specific Purpose and National Partnership agreements being credited to the CHA. The changed arrangements were accompanied by amendments to the *Financial Management Act* passed by the Legislative Assembly during the year.

Treasurer's Annual Financial Statement cont...

Table 4
Central Holding Authority
Financial Performance

	2008-09	2007-08
	\$'000	\$'000
Taxation	489,148	503,861
Grants and subsidies	2,546,479	2,271,471
Royalties, rents and dividends	252,333	126,017
Interest revenue	67,312	84,925
Employer superannuation contributions	42,304	43,272
Other	28,011	25,890
Total Revenues	3,425,587	3,055,436
Output expense	(2,865,107)	(2,347,214)
Interest expense	(113,024)	(121,659)
Superannuation expense	(429,775)	(142,762)
Unrealised gain/(loss) on securities	(86,092)	(82,651)
Other	(45,886)	(86,454)
Total Expenses	(3,539,884)	(2,780,740)
Net Operating Surplus	(114,297)	274,696

As can be seen from the preceding table, income of the CHA grew strongly, increasing by \$366.7 million when compared with the prior year. The significant variances in for 2008-09 included:

- an increase in Commonwealth grants of \$275.0 million; and
- royalties, rents and dividends which increased by \$126.3 million.

Which were offset by declines in:

- interest revenue of \$17.6 million; and
- taxation revenue of \$14.7 million.

Treasurer's Annual Financial Statement cont...

Output expense (the amount allocated to Agencies in accordance with the provisions of the *Appropriation Act* and *Public Finance Act*) increased by \$517.9 million when compared with the prior year, while superannuation expenses increased by \$287.0 million largely as a result of an actuarial loss of \$222.1 million. That loss was attributable largely to the use of a lower discount rate for the measurement of liabilities at 30 June 2009, with the lower rate used being consistent with the decline in long-term interest rates during 2008-09.

The financial performance of the CHA as outlined above was reflected in its cash flows for the year. The CHA recorded a cash surplus of \$359.8 million (compared with \$352.8 million for the prior year) as a result of operations. To this amount can be added \$89.0 million, being the proceeds of deposits received, together with a further \$8.0 million, being the net proceeds of from a reduction in investments.

The resulting amount of \$456.8 million was applied as follows:

- capital appropriations to Agencies; \$328.9 million;
- repayment of borrowings; \$101.2 million;
- net provision of equity to public sector entities of \$11.6 million; and
- increase in cash and deposits of \$15.1 million.

Treasurer's Annual Financial Statement cont...

The CHA's cash flows for the year are summarised in Table 5:

Table 5
Central Holding Authority
Abridged Statement of Cash Flows

	2008-09	2007-08
	\$'000	\$'000
Net cash inflows from operating activities	359,785	352,784
Cash outflows from investing activities	(332,501)	(464,513)
Cash outflows from financing activities	(12,163)	166,350
Net increase in cash held	15,121	54,621
Opening Balance of Cash and Deposits	116,008	61,387
Cash at end of financial year	131,129	116,008

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 2008* authorised an amount of \$3,081,832,000 (compared with \$2,755,081,000 for 2007-08) to be applied from the CHA. The actual amount applied from the CHA for 2008-09 was \$3,449,163,000 (compared with \$2,888,663,000 for the prior year). There was a strong nexus between the increase in amounts applied from the CHA for 2008-09 for operating and capital purposes and the increases in cash receipts from the Commonwealth.

The increase in appropriations above those authorised by the Legislative Assembly in the *Appropriation Act* were facilitated by either Treasurer's Advances made pursuant to Sections 18, 19 and 19A of the *Financial Management Act* or by the transfer, pursuant to Section 20 of the Act, of excess allocations made originally for other purposes.

Treasurer's Annual Financial Statement cont...

Table 6
Application of Funds from Central Holding Authority

	Actual \$,000	Appropriated by Legislative Assembly \$,000	Variance \$,000
Purpose			
Output Appropriation	2,639,801	2,460,262	179,539
Capital Appropriation	303,248	258,375	44,873
Commonwealth	250,990	179,965	71,025
Employee Entitlements	136,764	184,066	(47,302)
Interest, taxes and administration	118,360	139,129	(20,769)
Total	3,449,163	3,221,797	227,366
The increase was financed by:			
Treasurer's Advance appropriated by the <i>Appropriation Act</i>			40,000
Increase in Treasurer's Advance approved pursuant to Section 19 of <i>Financial Management Act</i>			154,000
Increase in appropriation of Commonwealth funds pursuant to Section 19(A) of <i>Financial Management Act</i>			77,203
Total Variations Approved For 2008-09			271,203
Less Unexpended Balance at 30 June 2009			(43,837)*
Treasurer's Advance and Section 19A Appropriation Applied for 2008-09			227,366
*This amount comprises:			
Treasurer's Advance			4,143
Employee Entitlements			21,370
Interest, taxes and Administration			12,146
Commonwealth appropriation			6,178
			43,837

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 2009 that liability was \$2,408.4 million (\$2,098.8 million at 30 June 2008). That liability is held entirely by the General Government Sector.

The various schemes, and the unfunded liability in respect of each, at 30 June 2009 were as follows:

Table 7
Unfunded Superannuation Liabilities
As At 30 June

	2009 \$'million	2008 \$'million
Scheme		
Northern Territory Government and Public Authorities Superannuation Scheme	683.9	601.7
Commonwealth Superannuation Scheme	1,366.9	1,203.3
Northern Territory Supplementary Superannuation Scheme	186.6	164.2
Northern Territory Police Supplementary Benefit Scheme	37.2	32.0
Legislative Assembly Members Superannuation Trust	29.0	11.7
Northern Territory Death and Invalidation Scheme ¹	52.8	41.2
Other Schemes ²	52.0	44.7
	2,408.4	2,098.8

¹ The Northern Territory Death and Invalidation 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 vested benefits pursuant to the *Administrators Pensions Act* and the *Supreme Court (Judges Pensions) Act*.

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 and/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. Some schemes (for example NTGPASS possess both defined benefit and defined contribution characteristics).

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 2009.

The value of the liabilities shown at Table 7 is a function of a number of factors including expected real wage growth, expected earning rates on schemes' assets and the timing of benefit payments. In the case of defined benefit pension schemes, factors affecting the measurement of the liability include the extent to which members might be expected to commute benefits upon retirement, and the longevity of those who may elect to take benefits in the form a pension. Adverse movements of any of these factors will have the effect of increasing the overall unfunded liabilities, 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 closed to new members. It is likely that the value of the accrued liability will continue to grow over the medium term, to be followed by a steady decline to the second half of the century.

Some years ago a Conditions of Service Reserve was established to hold assets intended to meet the emerging costs of employee obligations, including superannuation. In the 2008-09 the Treasurer transferred \$23.9 million to the Reserve and the balance of the Reserve at 30 June 2009 was \$345.2 million (\$403.8 million at 30 June 2008).

The funds held to the credit of the Reserve are invested in a range of financial assets possessing cash flow characteristics that match those of the expected liabilities to be met from the Fund.

Appendix 1: Audit opinion reports issued since 31 December 2008

	Date 2008 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2008	Date of Audit Report Year ended 31 December 2007
Entities with Specific Legislation or Trust Deeds			
Batchelor Institute of Indigenous Tertiary Education	13 October 09	15 June 09	17 June 08
Charles Darwin University	20 October 09	26 June 09	26 June 08
Charles Darwin University Foundation (a company limited by guarantee)	N/A	12 March 09	11 April 08
Charles Darwin University Foundation Trust	N/A	12 March 09	11 April 08
Menzies School of Health Research	N/A	5 May 09	9 May 08
	Deadline for submission of Audited Financial Statement	Date of Audit Report Year ended 31 December 2008	Date of Audit Report Year ended 31 December 2007
Inter-Government Statements by Agreement			
Charles Darwin University Higher Education Research Data Collection	31 August 09	20 May 09	23 May 08
2006-08 Commonwealth-State Agreement for Skilling Australia's Workforce – State-Sourced Recurrent Expenditure	30 June 09	Not yet completed	30 June 08

N/A – Not applicable

Not yet completed – as at 30 June 2009

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Appendix 2: Status of audits which were identified to be conducted in the six months to 30 June 2009

In addition to the routine audits, primarily compliance audits of selected Agencies, interim audits of entities requiring financial statement opinions and follow up of outstanding issues in previous audits, the following audits, were identified in Appendix 3 of the February 2009 as being scheduled for the period.

Department of Business and Employment

Territory Business Centres Refer page 19

Department of Health and Families

Rights of private practice at Royal Darwin Hospital Refer page 21

Selected Agencies

Acquisition of capital equipment Refer page 57

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Appendix 3: Proposed audit activity in the six months ending 31 December 2009

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

Northern Territory Major Events Company Pty Ltd

Honda Masters Games and Arafura Games

Department of Business and Employment

Records Management System Audit – TRIM

Accounts Payable Data Analytics

IT Outsourcing Project

myHR Web Application Security

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

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

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

What is the Public Account?

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

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

Audit of the Public Account

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

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

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

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

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

Other accounts

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

Audit of the Treasurer's Annual Financial Statement

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

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

Appendix 5: Agencies not audited in the year ended 30 June 2009

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

For activities relating to the financial year ended 30 June 2009, no audits were conducted at the following Agencies:

- Aboriginal Areas Protection Authority;
- Department of Natural Resources, Environment, the Arts and Sport;
- Department of Regional Development, Primary Industry, Fisheries and Resources;
- Department of the Legislative Assembly;
- Ombudsman's Office; and
- Tourism NT.

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

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

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Appendix 6: Abbreviations

AASB	Australian Accounting Standards Board
APRO	Agencies Procurement Requisition Online System
CAL	Contractor Accreditation Limited
CAPS	Contract and Procurement Services
CHA	Central Holding Authority
DBE	Department of Business and Employment
DCIS	Department of Corporate and Information Services
DEEWR	Department of Education, Employment and Workplace Relations
DHF	Department of Health and Families
DPI	Department of Planning and Infrastructure
FITA	Fiscal Integrity and Transparency Act
GAS	Government Accounting System
GBD	Government Business Division
GFS	Government Finance Statistics Australia, Concepts, Sources and Methods
GST	Goods and Services Tax
HECS	Higher Education Contributions Scheme
HMB	Hospital Management Board
NRETAS	Department of Natural Resources, Environment, The Arts and Sport
NTPFES	Northern Territory Police, Fire and Emergency Services
PMMS	Prisoners' Money Management System
PPTF	Private Practice Trust Fund
PRB	Procurement Review Board
RDH	Royal Darwin Hospital
RFT	Request for Tender
TAFS	Treasurer's Financial Statement
UPF	Uniform Presentation Framework
VET	Vocational Education and Training

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