



Auditor-General for the Northern Territory
Auditing for Parliament

March 2012

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

29 March 2012

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 31 December 2011 and I request that you table the report today in the Legislative Assembly.

This report deals largely with the results of audits of financial statements that were conducted during the period 1 July 2011 to 31 December 2011. Those audits are required by various Acts of Parliament.

Also included are outlines of the results of four audits that had as their objectives the assessment of controls around selected information technology systems, the progress made with the Building the Education Revolution initiative and the outsourcing of the provision of information technology service to the public sector.

Yours faithfully,

F McGuinness
Auditor-General for the Northern Territory

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Auditor-General's Overview

Audits included in this report

This Report outlines the results of audits conducted during the period 1 July 2011 to 31 December 2011. The results of 28 separate audits are included here, with almost all audits reported being audits of financial statements undertaken in the period following the end of the 2010-11 financial year. Also included is discussion arising from an audit of the outsourcing process for public sector information technology services.

Agencies are required by Treasurer's Directions that are issued pursuant to the *Financial Management Act* to prepare financial statements that comply with Australian Accounting Standards. However, Agencies are not required to submit those statements to the Auditor General unless directed to do so by the Treasurer pursuant to section 11(3) of the *Financial Management Act*. As no such direction has been given, Agencies' financial statements are not audited separately, but are reviewed as part of the audit of the Public Account and of the Treasurer's Annual Financial Statement.

Statutory bodies, Government owned corporations and Government Business Divisions are required by various Acts of Parliament to prepare annual financial statements and to submit those statements to the Auditor-General. These statements are audited and audit opinions issued accordingly. Those opinions are included in the various entities' annual reports that are tabled in the Legislative Assembly. If matters of concern should be noted during the course of an audit, specific comment is included in my report to the Assembly.

In addition, the Northern Territory Government controls, either directly or indirectly, a small number of companies that have been incorporated pursuant to the *Commonwealth Corporations Act 2001*. In these instances the Auditor-General has been either directed by legislation (for example the *Charles Darwin University Act*) or requested by responsible Ministers to act as auditor of those companies. These audits are performed subject to the provisions of the Commonwealth legislation, with the Auditor-General being deemed by the *Corporations Act 2001* to be a Registered Company Auditor.

Auditor-General's Overview cont...

Audits by my Office are conducted in accordance with Australian Auditing Standards. Those standards are issued by the Australian Auditing and Assurance Standards Board, a Commonwealth statutory body established under the *Australian Securities and Investments Commission Act 2001*. Auditing standards issued by the Board have the force of law in respect of audits of corporations that fall within the ambit of the *Corporations Act 2001*, while the *Audit Act* also requires that I have regard to those standards.

An unqualified audit opinion indicates that the financial statements in question comply with Australian Accounting Standards. Only one qualified audit opinion was issued for 2010-11 and that was in respect of NT Build where I was unable to satisfy myself that all revenues due to the Board had been recognised in NT Build's financial statements. The nature of the building approval processes that currently apply in the Territory gives rise to some doubts as to whether NT Build has been advised of all construction work that might be said to fall within the scope of the *Construction Industry Long Service and Benefits Act*.

Auditor-General's Overview cont...

2011 was notable for the passing of Amendments to the *Audit Act*. Those amendments:

- broadened the scope of the Auditor-General's powers to enable audits of any entity to be conducted, irrespective of the legal form of the entity, where the entity in question is deemed to be controlled by the Northern Territory. This is intended to overcome a previous limitation where an entity may be controlled by the Northern Territory and where there is no legislative requirement that it be audited by the Auditor-General;
- introduced "follow-the-dollar" provisions to enable the Auditor-General to conduct performance management system audits of any recipient of public moneys if the payment of public moneys is for the purpose of delivering projects or undertaking significant service provision activities on behalf of an Agency. As a safeguard, the amendments require the Chief Minister's approval to be given before such an audit commences. This is intended to have the Auditor-General make a case for such an audit in order to overcome the risk of some capricious act on the part of an Auditor-General;
- introduced an explicit statement about the independence of the Auditor-General. Previously independence was implied; and
- varied the term of appointment of the Auditor-General from a fixed term of seven years to an initial period of five years with the option of a single reappointment not exceeding five years.

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Reports on the Results of Audits

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Cobourg Peninsula Sanctuary and Marine Park Board

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

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

Audit Opinion

The audit of the financial statements of Cobourg Peninsula Sanctuary and Marine Park Board for the year ended 30 June 2011 resulted in an unqualified independent audit opinion that was issued on 21 November 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Open Land Claim

A land claim was lodged under the *Aboriginal Land Rights (NT) Act* in 1978 over the Cobourg Peninsula, and this resulted in the *Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park Act 1981*. The land claim has never been withdrawn and was re-activated recently.

The Board has reported that:

- Although the Territory Government and the traditional Aboriginal owners reached a positive outcome in 1981 with the establishment of the land trust and park board, the original Cobourg Peninsula Aboriginal Land Claim was not withdrawn. The implications of this have come to light only recently, and the government has received advice on the impact of the land claim on the existing Cobourg arrangements.
- The Australian and Territory governments are working with the Northern Land Council to resolve any potential issues as quickly as possible to ensure that arrangements for joint management continue.
- These discussions are expected to have minimal impact on visitors, residents and businesses in the Cobourg region.

Cobourg Peninsula Sanctuary and Marine Park Board cont...

Financial Performance for the year

| | 2011 | 2010 |
|--------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Income | | |
| Grants and subsidies | 20 | 50 |
| Park Income | 183 | 174 |
| Payments to traditional owners | (151) | (142) |
| Other revenue | 71 | 69 |
| Total Income | 123 | 151 |
| Expenditure | | |
| Operational costs | (130) | (221) |
| Total Expenditure | (130) | (221) |
| Net Surplus/(Deficit) | (7) | (70) |

Cobourg Peninsula Sanctuary and Marine Park Board cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|------------|------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 241 | 285 |
| Receivables and other current assets | 62 | 70 |
| Less Current Liabilities | (64) | (109) |
| Working capital | 239 | 246 |
| Add Non Current Assets | - | - |
| Less Non Current Liabilities | - | - |
| Net Assets | 239 | 246 |
| Represented by: | | |
| Retained surplus | 239 | 246 |
| Equity | 239 | 246 |

Construction Division

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

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

The host Agency is the Department of Construction and Infrastructure.

Audit Opinion

The audit of the Construction Division for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 17 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Construction Division's surplus before income tax for 2010-11 was \$1.424 million compared to a figure of \$4.570 million for the prior year. The decrease of \$3.146 million was a result of a decline of \$2.33 million in revenue as a result of a decline in the number of projects managed during the year. In 2010/11 as a result of a staff restructure from Construction Division to the Department of Construction and Infrastructure the increase of \$3.595 million in goods and services is offset by the decline of \$2.788 million in employee expenses for the provision of Executive and Corporate Services to the Division.

The financial performance for the year was reflected in a decline in the Division's cash by \$15.359 million and its net assets by \$4.175 million. The cash position was further affected by equity withdrawals and dividends paid.

Construction Division cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Income | | |
| Current grants | - | 10 |
| Sales of goods and/or services | 86,409 | 88,739 |
| Other | 1,055 | 1,015 |
| Total Income | 87,464 | 89,764 |
| Operational costs | (22,547) | (18,019) |
| Employee Expenses | (32,910) | (35,698) |
| Consultants fees | (30,544) | (31,467) |
| Depreciation and amortisation | (39) | (10) |
| Total Expenditure | (86,040) | (85,194) |
| Net surplus/(deficit) before income tax expense | 1,424 | 4,570 |
| Income tax expense | (427) | (1,371) |
| Surplus/(deficit) after income tax expense | 997 | 3,199 |
| Dividends | (499) | (1,600) |
| Net Surplus/(Deficit) | 498 | 1,599 |

Construction Division cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 6,600 | 21,959 |
| Receivables and other current assets | 12,446 | 8,374 |
| Less Current Liabilities | (14,929) | (21,712) |
| Working Capital | 4,117 | 8,621 |
| Add Non Current Assets | 316 | 107 |
| Less Non Current Liabilities | (1,512) | (1,632) |
| Net Assets | 2,921 | 7,096 |
| Represented by: | | |
| Accumulated surplus | 7,391 | 6,893 |
| Reserves | (4,470) | 203 |
| Equity | 2,921 | 7,096 |

Darwin Bus Service

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Darwin Bus Service (DBS) is a Government Business Division which, together with a private sector operator, provides bus services to the Northern Territory Government in the Darwin and surrounding rural areas. The DBS generated its revenue through charging the Department of Lands and Planning on a 'kilometres provided' basis. Bus fares were collected on behalf of the Department and formed part of the of the Department's revenues. DBS continued to receive revenues from the Department at the contracted rate in circumstances where it may have been directed by Government to provide free services to the public on special occasions.

The host Agency was the Department of Lands and Planning.

Audit Opinion

The audit of Darwin Bus Service or the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 10 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The DBS surplus before income tax for the year increased by \$0.140 million to \$0.749 million. That increase was primarily the result of providing additional route services during the year.

The improvement in financial performance shown on the operating statement was not mirrored in DBS' cash flows for the year, with net cash from operating activities declining by \$0.63 million to \$0.675 million. That was due to lower operating receipts (although DBS did have a higher level of accounts receivable at 30 June that should be received during 2011-12), coupled with an increase in operating payments for the year. At the same time DBS incurred higher capital payments leading to an overall decline of \$0.983 million in cash and deposit balances.

Darwin Bus Service cont...

Notwithstanding, the financial position of DBS continued to be sound with net assets increasing by \$0.262 million, although working capital declined by \$0.42 million largely due the decline in cash and deposits noted above.

Financial Performance for the year

| | 2011 | 2010 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Sales of goods and/or services | 8,242 | 8,013 |
| Other | 802 | 486 |
| Total Income | 9,044 | 8,499 |
| Expenditure | | |
| Employee Expenses | (4,167) | (4,007) |
| Fleet operating expenses | (2,382) | (2,089) |
| Supplies and services | (869) | (932) |
| Depreciation and amortisation | (877) | (862) |
| Total Expenditure | (8,295) | (7,890) |
| Surplus/(Deficit) Before Income Tax Expense | 749 | 609 |
| Income tax expense | (225) | (183) |
| Surplus/(Deficit) After Income Tax Expense | 524 | 426 |
| Dividends | (262) | (214) |
| Net Surplus/(Deficit) | 262 | 212 |

Darwin Bus Service cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 2,999 | 3,982 |
| Receivables and other current assets | 1,506 | 919 |
| Less Current Liabilities | (1,056) | (1,032) |
| Working Capital | 3,449 | 3,869 |
| Add Non Current Assets | 6,687 | 6,033 |
| Less Non Current Liabilities | (195) | (223) |
| Net Assets | 9,941 | 9,679 |
| Represented by: | | |
| Accumulated funds | 9,594 | 9,332 |
| Reserves | 347 | 347 |
| Equity | 9,941 | 9,679 |

Darwin Port Corporation

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Darwin Port Corporation is a Government Business Division established under the *Darwin Port Corporation Act*. While the Act requires the Corporation to act in a commercial manner, the Minister may direct it to act in a particular manner, including a non-commercial manner.

The Corporation provides commercial and non-commercial services including berth facilities, cargo handling, marine industry support, development and management of the Darwin Wharf Precinct for tourism and recreation, and provision of Port and reception facilities for cruise and naval vessel visits.

The Corporation is subject to the provisions of the National Tax Equivalents Regime.

Audit Opinion

The audit of Darwin Port Corporation for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 4 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation realised a net surplus (before tax) for the year of \$0.758 million compared to \$0.331 million recorded in the prior year. The improvement in the net result was predominantly due to higher revenues from the provision of services, the receipt of funding for the Stokes Hill Wharf improvements, combined with a reduction in some classes of operating expenses.

No significant issues were identified during the audit.

Darwin Port Corporation cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Income | | |
| Current grants | - | 3,200 |
| Sales of goods and/or services | 33,235 | 32,726 |
| Community Service Obligations | 4,316 | 3,421 |
| Other | 328 | 208 |
| Total income | 37,879 | 39,555 |
| Expenditure | | |
| Employee Expenses | (12,190) | (10,796) |
| Operational costs | (10,836) | (11,758) |
| Repairs and maintenance expenses | (4,005) | (4,323) |
| Depreciation and amortisation | (7,203) | (7,341) |
| Roll On Roll Off Facility – impairment loss | - | (2,117) |
| Borrowing costs | (2,887) | (2,889) |
| Total expenditure | (37,121) | (39,224) |
| Surplus/(Deficit) Before Income Tax Expense | 758 | 331 |
| Income tax benefit # | 4,617 | - |
| Surplus/(Deficit) After Income Tax Expense | 5,375 | 331 |
| Dividends | - | - |
| Net Surplus/(Deficit) | 5,375 | 331 |

#The Income tax benefit is predominantly a result of the Corporation now recognizing prior year tax losses as their recovery is now considered probable.

Darwin Port Corporation cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 10,230 | 7,192 |
| Receivables and other current assets | 5,077 | 4,168 |
| Less Current Liabilities | (8,343) | (9,372) |
| Working Capital | 6,964 | 1,988 |
| Add Non Current Assets | 220,398 | 217,341 |
| Less Non Current Liabilities | (44,938) | (42,984) |
| Net Assets | 182,424 | 176,345 |
| Represented by: | | |
| Accumulated funds | (14,928) | (20,303) |
| Reserves | 30,950 | 30,302 |
| Contributed Equity | 166,402 | 166,346 |
| Equity | 182,424 | 176,345 |

Darwin Waterfront Corporation

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

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

Audit Opinion

The audit of Darwin Waterfront Corporation for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 4 November 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported income of \$18.2 million and expenses of \$21.5 million resulting in a deficit of \$3.3 million for the year ended 30 June 2011 compared with a deficit of \$3.4 million for the prior year.

Expenses were dominated by those incurred under Deeds relating to the Darwin Convention Centre (\$6.2 million), finance costs (\$5.8 million), and depreciation and amortisation of the assets controlled by the Corporation (\$4.3 million).

Darwin Waterfront Corporation cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Income | | |
| User Charges | 1,316 | 662 |
| Operating Grants and Other contributions | 16,819 | 17,480 |
| Other | 107 | 13 |
| Total Income | 18,242 | 18,155 |
| Expenditure | | |
| Territory Availability Payments | (2,757) | (2,494) |
| Territory Efficiency Payments | (189) | (261) |
| Territory Incentive Payments | (723) | (700) |
| Territory Operating Payments | (2,562) | (2,869) |
| Other Grants and Subsidies | - | (9) |
| Agent Service Arrangements | (841) | (913) |
| Depreciation and Amortisation | (4,311) | (4,221) |
| Employee expenses | (948) | (870) |
| Finance Costs | (5,835) | (5,896) |
| Property maintenance | (1,489) | (1,514) |
| Other | (1,913) | (1,813) |
| Total Expenditure | (21,568) | (21,560) |
| Net Surplus/(Deficit) | (3,326) | (3,405) |

Darwin Waterfront Corporation cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 870 | 882 |
| Receivables and other current assets | 521 | 668 |
| Less Current Liabilities | (4,755) | (4,592) |
| Working Capital | (3,364) | (3,042) |
| Add Non Current Assets | 236,357 | 239,205 |
| Less Non Current Liabilities | (85,924) | (87,034) |
| Net Assets | 147,069 | 149,129 |
| Represented by: | | |
| Accumulated deficit | (11,169) | (7,843) |
| Contributed equity | 158,238 | 156,972 |
| Equity | 147,069 | 149,129 |

Data Centre Services

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

Data Centre Services (DCS) is a Government Business Division established to manage the NT Government's Data Centre, and provide mainframe and midrange support to government Agencies.

The host Agency was the Department of Business and Employment.

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 30 September 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

DCS reported a surplus before tax of \$5.176 million, an increase of \$1.792 million when compared with the prior year. The most significant contributor to the improved financial result was an increase of \$1.774 million in goods and services revenue due to growth in demand for mid-range services for application hosting and data storage services.

DCS continued to demonstrate a strong net asset position of \$12.481 million as at 30 June 2011 compared with the \$10.567 million as at 30 June 2010. The increase of \$1.914 million reflects the operating result for the year, after providing for a dividend. Cash and cash equivalents controlled by DCS increased by \$3.559 million compared to the prior year, while total liabilities increased by \$1.585 million.

Data Centre Services cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Income | | |
| Sales of goods and/or services | 23,464 | 21,690 |
| Other | 311 | 196 |
| Total Income | 23,775 | 21,886 |
| Expenditure | | |
| Operational costs | (11,152) | (10,797) |
| Employee Expenses | (5,907) | (5,892) |
| Depreciation and amortisation | (1,540) | (1,813) |
| Total Expenditure | (18,599) | (18,502) |
| Surplus/(Deficit) Before Income Tax Expense | 5,176 | 3,384 |
| Income tax expense | (1,553) | (1,015) |
| Surplus/(Deficit) After Income Tax Expense | 3,623 | 2,369 |
| Dividends | (1,811) | (1,185) |
| Net Surplus/(Deficit) | 1,812 | 1,184 |

Data Centre Services cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 9,101 | 5,542 |
| Receivables and other current assets | 4,859 | 5,149 |
| Less Current Liabilities | (5,434) | (3,898) |
| Working Capital | 8,526 | 6,793 |
| Add Non Current Assets | 4,265 | 4,035 |
| Less Non Current Liabilities | (310) | (261) |
| Net Assets | 12,481 | 10,567 |
| Represented by: | | |
| Accumulated funds | 11,568 | 9,756 |
| Capital | 913 | 811 |
| Equity | 12,481 | 10,567 |

Department of Business and Employment

IT outsourcing project

Objectives and Scope

The whole-of-government information and communication technology services are supplied by a number of private providers under contracts that were executed following a tendering and evaluation process that commenced in 2009.

The services covered by the contracts in question are:

- network management;
- PABX network management;
- fixed voice carriage;
- mobile voice and data;
- satellite voice;
- data carriage
- internet carriage; and
- service desk management.

The objective of this review was to evaluate the effectiveness of controls that have been instituted by the Agency to manage the outsourced IT service package contracts to give assurance that contracted services are delivered in accordance with the various contracts.

This reviewed followed an earlier review conducted in 2010 which examined the transition process from the previous service delivery model to the current model.

Opinion

As a result of the review I formed the opinion that appropriate contract management controls have been implemented by the Department to provide assurance that contractual obligations imposed on providers are adhered to. However, opportunities were identified for improving compliance management, performance reporting integrity and the formalisation of contract management procedures.

Department of Business and Employment cont...

Key Findings

As indicated above, a revised IT sourcing model was implemented in 2010 and includes a number of separate service package bundles that are intended to meet specific NT Government technology service requirements. Since my previous report, all services have been transferred into the new model with the final contract being transitioned in December 2010.

IT outsourcing contract management policies and procedures

The service contracts set out the key management activities to be performed and form the basis for contract management activities. In general the control procedures were found to be satisfactory although the finalisation of some procedures was still to be completed.

Contract management roles and responsibilities

Roles and responsibilities for contract management were found to be satisfactory.

Performance, compliance assessment and reporting processes

The monitoring of service provided and their comparison with defined service levels was found to be satisfactory. However it was noted that compliance checking against service providers' responsibilities when no specific deliverable is required (for example ensuring service providers comply with key NTG IT security policies and procedures) could be enhanced.

Scope management and variation processes

The procedure for approving and executing contract variations was found to be satisfactory.

Stakeholder (including NT Government agencies) management and communication

The processes that are intended to ensure that good communication is maintained between the Department, other Agencies and service providers were found to be satisfactory.

Department of Business and Employment cont...

IT Outsourcing vendor payment controls; including cost allocation and performance based payments

The procedures for the payment of suppliers' invoices and the allocation of charges across Agencies were found to be adequate. However, the process is not automated to any great extent and a greater of risk of error exists as a result. There are also limitations within the OBIPS system, which is used for billing purposes that prevent accurate allocation of service credits to charges.

IT Outsourcing contracts incident management and escalation processes

Incident and problem management processes were found to be satisfactory.

The Department of Business and Employment has commented:

DBE notes the finding that appropriate contract management controls are implemented by the department with respect to IT Outsourcing. Opportunities identified during the audit have been considered and actions taken to further improve IT contract management.

Key procedures have been updated and the department has implemented a comprehensive training program for new staff with respect to these processes and procedures.

Key deliverables in service provider contracts are identified under the IT outsourcing model to ensure the achievement of defined services levels and mitigation of contract management risks. Contract officers undertake random compliance activities of non key deliverables and the audit of non-specific deliverables has been inserted into the internal audit program.

Manual checks and reconciliations are undertaken to ensure the accuracy of data and monthly trend analyses are used to highlight significant movements in charges to agencies. Any billing errors are generally identified by internal processes and review by agencies.

OBIPS billing error do not pose a risk to public revenue as they relate to inter-agency invoicing for services provided by DBE and its GBDs. The department continually investigates opportunities to automate manual processes where possible and a planned review of the OBIPS has commenced.

Department of Business and Employment

Online Billing Information and Payments System (OBIPS)

Audit Objectives and Scope

The objective of this audit was to assess the adequacy of general information technology controls in relation to this system and the following control areas were included:

- application procedures
- application access management
- user authentication controls
- information Systems Operations
- change management for applications and data
- security configuration of the underlying database and operating system.

Audit Opinion

Opportunities exist to improve the IT control environment that supports the OBIPS application, particularly controls relating to user access management, authentication controls and documented procedures.

Background

The OBIPS billing application is used to invoice agencies for charges generated by the Department of Business and Employment, NT Fleet and Data Centre Services. The system is also used for generating invoices to a small number of external customers.

Department of Business and Employment cont...

Key Findings

While the system is considered capable of supporting inter-agency billing there is scope to improve the management and control environment of the application.

The OBIPS application has been subject to limited ongoing development and enhancement. A strategy had not been defined to determine future requirements for development, replacement or enhancement of the application.

Procedures and standards relating to the administration of the application were outdated and considered to be incomplete. Processes and standards had not been defined for changes to user access, group privileges, functionality and configuration.

Weaknesses were identified in user access management processes, with examples noted including user access changes not being formally approved, terminated staff access privileges not being revoked and user access reviews not being undertaken.

Audit trails had not been established within the application or its associated database to track security events or transactions. This limited the ability for user or systems activity to be investigated if required.

The Department of Business and Employment has commented:

DBE acknowledges the Auditor-General's findings and actions are underway to resolve issues. OBIPS was identified for review in 2010/11 and a broad functional review of the application has commenced with the audit findings of the Auditor-General incorporated into the project scope.

It should be noted that OBIPS' sole function is to invoice NTG agencies for services provided by DBE and its GBDs and any weaknesses in controls do not pose a risk to public revenue. Identified weaknesses in internal controls are low risk and only affect internal expenditure allocations across agencies.

Access management and user authentication controls have been strengthened and operational procedures and standards updated for application administration. System enhancements and development of new procedures and standards are currently on hold pending the outcome of the review.

Department of Education and Training

Building the Education Revolution – Performance Management System audit

Audit Objectives and Scope

The objective of this audit was to assess the adequacy of the Department of Education and Training's (DET) performance management systems that enable it to assess the extent to which the Commonwealth's Building the Education Revolution program (BER) was, or is, being delivered effectively and efficiently.

The audit was not directed to forming an opinion on the accuracy of the reports and documentation received during the course of the audit.

The focus of the audit was to review the performance management systems that were in place within DET for the purpose of controlling those elements of the BER that were, or are, deemed to be the responsibility of the Northern Territory as set out in the Bilateral Agreement of April 2009 between the Commonwealth and the Territory.

Audit Opinion

I formed the opinion that while the Department lacked a comprehensive system for managing the program, there were compensating systems that were capable of providing sufficient information to enable the overall progress of the program to be monitored and corrective action to be taken if required.

Background

Building the Education Revolution (BER) was a macro-economic response to the global economic crisis of 2008, with the scale of the program and deadlines set for the delivery of capital works requiring a cross-agency and inter-jurisdictional response.

The scale of the BER was well summarised by the Commonwealth:

"The Building the Education Revolution (BER) program is the single largest element of the Australian Government's \$42 billion National Building Economic Stimulus Plan, with around 24,000 projects to be delivered in every community across Australia.

The \$16.3 billion BER program aims to modernise schools through the delivery of infrastructure and by doing so, support local jobs and stimulate investment.

Department of Education and Training cont...

The BER is now in its most dynamic phase with construction underway in thousands of schools across the country. In many locations, students, teachers and their communities are already enjoying the benefits of recently completed projects delivering world class 21st century facilities."

The Commonwealth and Northern Territory Governments entered into a bilateral agreement in recognition of "a mutual interest in implementing the National Partnership Agreement and the need to work together to:

- *provide economic stimulus through the rapid construction and refurbishment of school infrastructure;*
- *build learning environments to help children, families and communities participate in activities that will support achievement, develop learning potential and bring communities together".*

Flowing from the bilateral agreement were three contracts that were executed by the Commonwealth and the Territory. These were:

- Primary Schools for the 21st Century
- Science and Language Centres for 21st Century Secondary Schools
- National School Pride

Primary Schools for the 21st Century (P21)

Funding from the P21 element of the BER was provided to primary schools and special schools across Australia for:

- construction of new libraries;
- construction of new multipurpose halls (e.g. gymnasium, indoor sporting centre, assembly area or performing arts centre) or, in the case of smaller schools, covered outdoor learning areas; construction of classrooms, replacement of demountables or other building to be approved by the Commonwealth; or
- refurbishment of existing facilities.

Science and Language Centres for 21st Century Secondary Schools (SLC)

This element of BER provided funding to schools for refurbishment or construction of new science laboratories or language learning centres.

Department of Education and Training cont...

National School Pride (NSP)

The NSP program provided funding to eligible schools to undertake construction of small scale infrastructure and/or minor refurbishment projects including:

- Construction or upgrade of fixed shade structures, covered outdoor learning areas, sporting grounds and facilities;
- Green updates (water tanks); and
- Specialised infrastructures for students with disabilities or special needs.

The following table outlines funding provided to the Northern Territory for the three elements of the BER program at the time of the audit:

| Element | Number of schools | Number of projects | Funding (\$ million) | Funding percentage (%) |
|---|-------------------|--------------------|----------------------|------------------------|
| Primary Schools for the 21 st Century | 133 | 135 | 173.07 | 84 |
| Science and Language Centres for 21 st Century | | | | |
| Secondary Schools | 8 | 8 | 15.76 | 8 |
| National School Pride | 150 | 150 | 15.77 | 8 |
| Total | 291 | 293 | 204.60 | 100 |

Department of Education and Training cont...

Implementation of the BER Program

DET utilised the expertise and services of the Department of Construction and Infrastructure (DCI) for the delivery of capital works projects. Following consultation with industry through an industry advisory forum it was determined that the Northern Territory would leverage existing capital works capacity through DCI as an experienced and informed buyer.

Therefore procurement and project management of P21 and SLC projects was delivered through the existing government arrangements managed by DCI with the inclusion of a tier of outsourced project managers to assist with the volume and breadth of the program.

Under the NSP element of the BER program, individual schools managed the implementation of the NSP projects including managing the funds and procuring building contractors and other supplies where they had the willingness and capacity to do so.

The implementation and delivery of the BER built on the systems in place and was achieved through a strong working partnership between DET as the overarching client and conduit to identify school priorities and ongoing support during delivery, DCI as the buyer and advisor on procurement and construction matters and the operational services of external project managers to enable a timely commencement of the BER program.

The procurement approach for the P21 and SLC elements of the BER program utilised existing procurement legislation, regulation and policy to ensure accountability, local participation and value for money. Competitive tenders were sought from various prequalified contractors, and experienced and independent quantity surveyors were engaged to evaluate each project and estimate costs prior to tendering. Tenders were compared to the quantity surveyor's estimates as part of the value for money assessment process. Where costs did not demonstrate value for money, tendered prices were negotiated or the project was retendered.

Instances were noted during the audit where a small number of tenders were received for certain P21 and SLC projects located in the remote areas of the Northern Territory. The risk of higher costs being charged was mitigated by the involvement of independent quantity surveyors and the Procurement Review Board in the NT resulting in appropriate oversight of the project costs.

Department of Education and Training cont...

Under the NSP element of the BER program, individual schools managed funds for smaller building and maintenance projects having a cost of \$200,000 or less. Those schools were responsible for the procurement of contractors and supplies under the existing Northern Territory procurement legislation, regulations and policies.

Monitoring BER Progress and Initiating Corrective Action

The BER was overseen by a School Project Committee and that Committee received periodical reports that included information about the progress of each individual project, issues affecting projects, together with individual project budgets, expenditure to date and committed expenditure. Although these reports appear to have been designed to meet the information needs of the Commonwealth, I have formed the view that they were also suitable to local monitoring and control purposes and appear to have been used as such.

Program Evaluation

I noted that DET has complied with all Department of Education, Employment and Workplace Relations (DEEWR) mandatory program reporting and evaluation procedures and all DEEWR requests for program assurance data. However, it was noted that DET was yet to establish a formal program evaluation process to determine whether the BER program outcomes were achieved efficiently and effectively.

I note that there have been discussions between State and Territory education authorities, and the Commonwealth, regarding the development of an evaluation methodology that can be applied nationally. DET has also advised that it intends to evaluate the program in line with best practice recommendations agreed to with the Commonwealth.

Department of Education and Training cont...

Progress of the BER Program to August 2011

At the time of the audit, the BER program implementation stage was nearing completion. As at August 2011, all projects had commenced, with the majority of the projects having been completed under each of the BER program elements and this is summarised below:

| Element | Number of projects | Completed projects | Projects in progress | Percentage complete |
|---|--------------------|--------------------|----------------------|---------------------|
| Primary Schools for the 21 st Century | 135 | 119 | 16 | 88 |
| Science and Language Centres for 21 st Century | | | | |
| Secondary Schools | 8 | 8 | - | 100 |
| National School Pride | 150 | 148 | 2 | 99 |
| Total | 293 | 275 | 18 | 94 |

Primary Schools for the 21st Century

As at August 2011, 16 projects were still to be completed, with the delays due largely to the effects of the extraordinary wet season.

Science and Language Centres for the 21st Century Secondary Schools

7 of the 8 SLC projects were complete before the 31 March deadline, and all 8 projects had been completed and facilities were in use by schools by mid April 2011.

National Schools Pride

As at July 2011, \$15.32 million of \$15.77million had been committed, with 148 schools having completed their projects. The remaining two projects were still in progress.

Department of Education and Training cont...

Key Findings

The audit focused on the adequacy of the DET's performance management systems in relation to the BER program. As a general finding it was noted that:

- the systems put in place to monitor the program were necessary to satisfy DEEWR information requirements. Nevertheless those systems were adequate in terms of their ability to enable DET to monitor the progress of the BER;
- DET was moving towards a performance-based system and this is encouraged; and
- the evaluation of the effectiveness of the program was still to be undertaken and was dependent upon the development of a methodology to be agreed by the States, Territories and the Commonwealth.

The audit did identify a number of issues in relation to governance, risk management and planning, and the response to the midpoint review of BER:

- the DET's objectives and performance measures in relation to BER program should have been clarified in the divisional operating plan;
- the BER program's risk management process could have been enhanced;
- the capital works plan could have been revised to include the requirements of the BER program;
- more transparent reporting, including public disclosure, in relation to BER program was required;
- information systems supporting the BER reporting could have been enhanced; and
- findings from the midpoint review facilitated could have been addressed on a more timely basis.

Department of Education and Training cont...

The Department of Education and Training has commented:

The announcement of the BER did not align with the whole of Government budget four year rolling infrastructure plan maintained by NT Treasury or the infrastructure divisional plan of the DET.

The BER performance measures, as determined by the Commonwealth, were reported quarterly to DET Executive, as well as through NT Treasury budget and expenditure management systems and through the Chief Minister's and National Coordinators General. The BER funding was also reported in the relevant years in Budget Paper Number 4, which is the appropriate publication for accountability and transparency of the infrastructure program.

DET agrees that a fully integrated and automated project management system would have been beneficial. A whole of government integrated asset management system will be in place for future Stimulus packages or major initiatives. However the Commonwealth introduced systems for managing the BER process for funding applications, for reporting and performance management which was adopted by all Education Authorities. The benefit of the centralised Commonwealth system was to avoid duplication of establishing and funding a new system within the Stimulus implementation timeframe.

DET supports the recommendation that the BER program's risk assessment could have been enhanced and has now implemented an agency Risk Management Framework.

DET's Accountability and Performance Improvement Framework is now supported by an integrated planning software and central database which will improve monitoring and reporting on future Stimulus packages or major initiatives.

Department of Housing, Local Government and Regional Services

Tenancy Management System

Background

This audit was performed in anticipation of a significant increase in the stock of rental housing controlled by the Department of Housing, Local Government and Regional Services. One of the principal contributors to the increased stock will be the Strategic Indigenous Housing and Infrastructure Program.

The audit focused on the information technology aspects of the system.

Key Findings

As a result of the audit, it found that:

- there was an absence of a formal and consistent change control process that could result in unauthorised or untested changes being introduced in the system's production environment. That, in turn, was considered to have the potential to lead to processing errors or to functionality that may fail to meet the Department's expectations;
- an absence of a formalised user access management procedure, which included a lack of periodic validation of system users' and administrators' access to the system. The absence of formal access privileges was considered to have the potential to increase the risk of unauthorised access to systems and data resulting in risks to the reliability of data in the system and to the integrity of reports generated by the system;
- inappropriate access to agency data transferred between the system and Centrelink. This, in turn, was considered to increase the risk of corrupted or inappropriately modified data being included in reports transmitted to Centrelink.

Recommendations in respect of each of the issues outlined above were made to the Department, which responded appropriately.

Desert Knowledge Australia

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

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

DKA is managed by a Board, the members of which hold office in accordance with the provisions of the Act.

Audit Opinion

The audit of the Desert Knowledge Australia for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 23 November 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

During the 2010-11 financial year, the Northern Territory Government transferred the ownership of the Desert Knowledge precinct head works, having a total cost of \$5,304,766, to DKA. Included in the head works was a sewerage plant with a cost of \$939,850, and permanent road earthworks having a cost of \$4,364,916.

The Centre for Appropriate Technology also transferred ownership of solar equipment having a total value of \$705,474 to DKA during the year.

Desert Knowledge Australia cont...

Unexpended Specific Purpose Grants

Included in liabilities

| Projects | 2011 | 2010 |
|----------------------------------|----------------|----------------|
| | \$ | \$ |
| Outback Business Network Project | 68,381 | 307,653 |
| remoteFOCUS | 324,923 | 340,000 |
| Desert Leadership | 71,000 | 100,000 |
| Total | 464,304 | 747,653 |

Included in Equity

| Projects | 2011 | 2010 |
|----------------------------|---------------|---------------|
| | \$ | \$ |
| Nevada Institute Seed Fund | 70,751 | 70,751 |
| Total | 70,751 | 70,751 |

Total Unexpended Specific Purpose Grants

| Projects | 2011 | 2010 |
|---|----------------|----------------|
| | \$ | \$ |
| Outback Business Network Project | 68,381 | 307,653 |
| remoteFOCUS | 324,923 | 340,000 |
| Desert Leadership | 71,000 | 100,000 |
| Nevada Institute Seed Fund | 70,751 | 70,751 |
| Total Unexpended Specific Purpose Grants | 535,055 | 818,404 |

Desert Knowledge Australia cont...

Financial Performance for the year

| | 2011 | 2010 |
|-------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Other income | 610 | 828 |
| Rent received | 196 | 184 |
| Interest revenue | 90 | 51 |
| Grants – NT Government | 897 | 848 |
| Grants – Other | 2,271 | 1,522 |
| Transfer to unexpended grants | (464) | (485) |
| Donation of assets | 705 | - |
| Total Income | 4,305 | 2,948 |
| Expenditure | | |
| Salaries | (1,487) | (1,103) |
| Depreciation and amortisation | (352) | (246) |
| Board costs | (76) | (50) |
| Consultants | (153) | (84) |
| Media/marketing/advertising | (153) | (74) |
| Motor vehicles | (68) | (59) |
| Travel | (163) | (100) |
| Desert Knowledge Precinct | (267) | (215) |
| Desert Knowledge Symposium | (32) | (1) |
| OBN Partner Payments | (931) | (667) |
| Other | (619) | (210) |
| Total Expenditure | (4,301) | (2,809) |
| Net Surplus/(Deficit) | 4 | 139 |

Desert Knowledge Australia cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|---------------|--------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 2,182 | 3,174 |
| Receivables and other current assets | 620 | 267 |
| Less Current Liabilities | (1,311) | (1,456) |
| Working capital | 1,491 | 1,985 |
| Add Non Current Assets | 14,212 | 8,520 |
| Less Non Current Liabilities | (3,040) | (3,151) |
| Net Assets | 12,663 | 7,354 |
| Represented by: | | |
| Equity Contribution | 7,739 | 2,434 |
| Accumulated surplus | 4,924 | 4,920 |
| Equity | 12,663 | 7,354 |

Government Printing Office

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Government Printing Office (GPO) is a Government Business Division that provides printing services to the Government and its Agencies. All Agencies are expected to use the GPO for their printing and publication needs. The GPO is required to outsource a proportion of its work to private sector printing firms.

The host Agency was the Department of Business and Employment.

Audit Opinion

The audit of the Government Printing Office for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 30 September 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The GPO reported a net surplus before tax of \$42,000 a decrease of \$198,000 from the prior year. This decrease is attributable to an overall decrease in revenue of \$299,000 (5.1%) from \$5.917 million to \$5.618 million.

Total expenditure decreased by \$101,000 (1.8%) from \$5.677 million to \$5.576 million. This was predominantly due to a decrease of \$88,000 associated with the purchases of goods and services. That expense is correlated with sales revenue, which also declined for the year.

Government Printing Office cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Sales of goods and/or services | 5,467 | 5,820 |
| Other | 151 | 97 |
| Total Income | 5,618 | 5,917 |
| Expenditure | | |
| Operational costs | (3,112) | (3,198) |
| Employee Expenses | (2,353) | (2,349) |
| Depreciation and amortisation | (111) | (130) |
| Total Expenditure | (5,576) | (5,677) |
| Surplus/(Deficit) Before Income Tax Expense | 42 | 240 |
| Income tax expense | (13) | (72) |
| Surplus/(Deficit) After Income Tax Expense | 29 | 168 |
| Dividends | (15) | (84) |
| Net Surplus/(Deficit) | 14 | 84 |

Government Printing Office cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 2,842 | 3,003 |
| Receivables and other current assets | 1,177 | 741 |
| Less Current Liabilities | (1,049) | (898) |
| Working Capital | 2,970 | 2,846 |
| Add Non Current Assets | 318 | 429 |
| Less Non Current Liabilities | (162) | (163) |
| Net Assets | 3,126 | 3,112 |
| Represented by: | | |
| Accumulated funds | 2,753 | 2,739 |
| Capital | 373 | 373 |
| Equity | 3,126 | 3,112 |

Jabiru Town Development Authority

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Jabiru Town Development Authority has overall responsibility under the *Jabiru Town Development Act* for maintenance and development of the town of Jabiru, the issue of sub-leases of land and for administration, management and control of the town. A head lease agreement between the Authority and the Commonwealth over the town is due to expire in 2021.

A 1985 cost sharing agreement set out the principles for the allocation between participating parties of expenditure required for the town development. The participating parties were principally the Commonwealth Government, the NT Government, Energy Resources Australia Limited and the Authority.

The NT Government provided loan funds of \$8.4 million for construction of water supply, sewerage and associated infrastructure assets. Those assets were constructed to facilitate expansion of the town to its final estimated population. During the period January 1984 to June 1986 the Authority's debt to the NT Government increased to \$8.8 million due to the capitalisation of net unpaid interest. In August of 1986 the Government granted the Authority a moratorium on interest payments and principal repayments on existing loans. That moratorium continued to apply at 30 June 2011.

Audit Opinion

The audit of the Jabiru Town Development Authority for the year ended 30 June 2011 was unqualified and was issued on 14 November 2011.

Jabiru Town Development Authority cont...

Key Findings

The audit opinion, while unqualified, did include the following emphasis of matter:

“Without qualification to the opinion expressed above, attention is drawn to the following matter. Under the heading of Basis of Accounting and Going Concern in Note 1(a), the Authority refers to its expectation of the continuation of the moratorium on the Authority’s future interest and repayment of loans due to the Northern Territory Government totalling \$8,804,916. Without this moratorium, there would be significant uncertainty whether the Authority would be able to continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.”

Financial Performance for the year

| | 2011 | 2010 |
|-------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Income | | |
| Grants | 29 | 29 |
| Interest | 141 | 110 |
| Total Income | 170 | 139 |
| Expenditure | | |
| Administration expenses | (137) | (202) |
| Amortisation of town infrastructure | (62) | (63) |
| Impairment Loss | - | (60) |
| Total Expenditure | (199) | (325) |
| Net Surplus/(Deficit) | (29) | (186) |

Jabiru Town Development Authority cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 3,280 | 3,347 |
| Receivables and other current assets | 17 | 15 |
| Less Current Liabilities | (13) | (112) |
| Working Capital | 3,284 | 3,250 |
| Add Non Current Assets | 584 | 647 |
| Less Non Current Liabilities | (8,805) | (8,805) |
| Net Assets | (4,937) | (4,908) |
| Represented by: | | |
| Accumulated deficit | (4,937) | (4,908) |
| Equity | (4,937) | (4,908) |

Legislative Assembly Members' Superannuation Trust

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The provision of superannuation benefits to Members of the Legislative Assembly was affected by two Acts passed by the Legislative Assembly during 2004-05. The first, the *Legislative Assembly Members' Superannuation Amendment (Scheme Closure) Act* closed the defined benefits scheme to new members. The second Act, the *Legislative Assembly Members' Superannuation Contributions Act*, established new superannuation arrangements for Members who were elected to the Legislative Assembly for the first time at the general election in June 2005 and at subsequent elections. The new arrangements provide for the payment of the 9 per cent superannuation guarantee to a Member's superannuation fund of choice or, in the absence of a nomination of a fund by a Member, to a default fund.

Audit Opinion

The audit of the Legislative Assembly Members' Superannuation Trust for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 10 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The triennial Actuarial Review of the defined benefit scheme was carried out as at 30 June 2011. The estimated value of vested benefits at 30 June 2011 (the value of members' rights that were not conditional upon continued scheme membership) was \$69.3 million while the net assets available to pay benefits amounted to \$50.6 million.

Net assets of the Fund increased by \$3.832 million. That increase was due largely to an increase of \$4.038 million in market value of investments.

Investment revenue was affected by slower growth in the net market value of investments to \$1.428 million (2010: \$4.273 million), offset by an increase in distributions from investments.

Legislative Assembly Members' Superannuation Trust cont...

Abridged Statement of Changes in Net Assets

| | 2011 | 2010 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Interest and distributions | 3,129 | 1,295 |
| Changes in net market value of investments | 1,428 | 4,273 |
| Member contributions | 183 | 190 |
| Member surcharge contributions | 36 | - |
| Territory contributions | 1,700 | 2,000 |
| Total Income | 6,476 | 7,758 |
| Expenditure | | |
| Benefits paid | (2,613) | (2,457) |
| Superannuation contribution surcharge | (22) | (22) |
| Other expenses | (3) | (3) |
| Total Expenses | (2,638) | (2,482) |
| Revenue Less Expenses Before Income Tax | 3,838 | 5,276 |
| Less income tax expense | (6) | (250) |
| Change in Net Assets | 3,832 | 5,026 |

Legislative Assembly Members' Superannuation Trust cont...

Abridged Statement of Net Assets

| | 2011 | 2010 |
|-------------------------------|-------------------|-------------------|
| | \$'000 | \$'000 |
| Cash at bank and other assets | 334 | 531 |
| Investments | 50,698 | 46,659 |
| Total Assets | 51,032 | 47,190 |
| Less Liabilities | (461) | (451) |
| Net Assets | 50,571 | 46,739 |
| Vested benefits | 69,339 | 66,811 |

Nitmiluk (Katherine Gorge) National Park Board

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

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

Audit Opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 21 November 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Revenue decreased from \$1.118 million for 2009-10 to \$0.77 million for 2010-11. This was attributable to a decline in visitor numbers.

Revenue received is distributed to both the Traditional Owners, who receive 64 per cent and to the Department of Natural Resources, Environment, The Arts and Sport (NRETAS) which receives the remaining 36 per cent.

As can be seen from the Board's balance sheet, which follows, the total assets of the Board equalled its total liabilities. The values shown there reflected the amounts receivable from concessionaires together with the matching amounts that were payable to the Traditional Owners and to NRETAS at 30 June 2011.

Nitmiluk (Katherine Gorge) National Park Board cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------|-----------|
| | \$,000 | \$'000 |
| Income | | |
| Park income | 770 | 1,118 |
| Less Payments to Traditional Owners | (471) | (689) |
| Less Payments to parks and Wildlife Commission of the NT | (299) | (429) |
| NT Government funding sundry income | 58 | 45 |
| Total Income | 58 | 45 |
| Expenditure | | |
| Operational costs | (58) | (45) |
| Total Expenditure | - | - |
| Net Surplus/(Deficit) | - | - |

Nitmiluk (Katherine Gorge) National Park Board cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | | |
| Receivables and other current assets | 345 | 374 |
| Less Current Liabilities | (345) | (374) |
| Working Capital | - | - |
| Add Non Current Assets | - | - |
| Less Non Current Liabilities | - | - |
| Net Assets | - | - |
| Represented by: | | |
| Accumulated surplus | - | - |

Northern Territory Government and Public Authorities Employees' Superannuation Fund

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS) was established by the *Superannuation Act* (the Act). The Scheme was initially closed to new members in 1999 through the use of administrative instruments, but a subsequent review revealed that a number of employees retained their eligibility to join the scheme by virtue of the structure of their contracts of employment. The affected employees were then offered membership of the scheme after the initial date of closure.

A union representing a significant number of public sector employees campaigned over the validity of the initial closure and the Northern Territory agreed to a test case heard before the Northern Territory Supreme Court. That case was heard in May 2008, with the Court ruling in favour of the Northern Territory.

In the meantime, amendments to the *Superannuation Act* that were passed by the Legislative Assembly in 2004 effectively closed the scheme to new members.

The NTGPASS is a defined benefit scheme which means that the benefits payable by the Scheme are linked to years of membership and salary levels.

The future liability of the Government, and each year's emerging cost, for providing benefits to withdrawing members is calculated by an appropriately qualified actuary and I have relied upon the work performed by that actuary when conducting my audit.

An actuarial review of the scheme was performed as at 30 June 2011. The unfunded accrued liability of the scheme at 30 June 2011, after taking into account the value of assets held by the scheme at that date, was \$758.1 million, compared with \$702.8 million at 30 June 2010.

Audit Opinion

The audit of Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 18 October 2011.

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

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Vested benefits increased to \$1,635.97 million (2010: \$1,495.18 million) while net assets of the fund increased by \$82.233 million to \$736.658 million (2010: \$654.425 million) mainly due to the increase in market value of investments by \$57.757 million (2010 increase: \$67.7 million).

Territory contributions increased by \$21.4 million to \$59.605 million (2010: \$38.205 million).

Member contributions, Surcharge payments received, Government co-contributions and transfers and rollovers into the fund increased by \$4.468 million to \$110.835 million (2010: \$106.367 million).

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

Abridged Statement of Changes in Net Assets

| | 2011 | 2010 |
|--|------------------|-----------------|
| | \$'000 | \$'000 |
| Income | | |
| Interest and distributions from investments | 504 | 422 |
| Movement in net market value of investments | 57,757 | 67,701 |
| Member contributions | 50,996 | 42,158 |
| Member surcharge payments received | 222 | 269 |
| Territory contributions | 59,605 | 38,205 |
| Transfers and rollovers | 59,617 | 63,940 |
| Total Income | 228,701 | 212,695 |
| Expenses | | |
| Benefits expense | (139,865) | (86,766) |
| Other expenses | (265) | (165) |
| Total Expenses | (140,130) | (86,931) |
| Revenue Less Expenses Before Income Tax | 88,571 | 125,764 |
| Less income tax expense | (6,338) | (3,855) |
| Change in Net Assets | 82,233 | 121,909 |

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

Abridged Statement of Net Assets

| | 2011 | 2010 |
|-------------------------------|----------------------|----------------------|
| | \$'000 | \$'000 |
| Cash at bank and other assets | 26,646 | 26,432 |
| Investments | 750,175 | 667,268 |
| Total assets | 776,821 | 693,700 |
| Less Liabilities | (40,163) | (39,275) |
| Net Assets | 736,658 | 654,425 |
| Vested benefits | 1,635,970 | 1,495,180 |

Northern Territory Legal Aid Commission

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The NT Legal Aid Commission (the Commission) is established under the *Legal Aid Act*. The Commission's charter is to ensure that people in the Northern Territory, particularly those who are disadvantaged, understand and have access to help to protect and enforce their legal rights and interests.

Audit Opinion

The audit of Northern Territory Legal Aid Commission for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 7 December 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission reported a deficit of \$767,344 (2010: \$849,866), which was an improvement of \$82,522 when compared with prior year's result. The improved result was attributable to:

- a reduction of legal expenses by \$193,668. Legal expenses are dependent on the types of matters received by the Commission, and vary from matter to matter.
- a decrease in depreciation expense of \$44,456.
- a decrease in administrative expenses of \$85,575 offset by;
- an increase in other expenses of \$83,978; and
- an increase in employee expenses of \$186,449 to \$5,558,230 (2010: \$5,371,781) due mainly to a 3% EBA increase in salaries.
- revenue increased by \$29,250 against the prior year due mainly to the increase in Commonwealth grant funding consistent with the provisions of a National Partnership Agreement.

Northern Territory Legal Aid Commission cont...

Financial Performance for the year

| | 2011 | 2010 |
|-------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Grants – NT Government | 3,954 | 3,954 |
| Grants – Commonwealth | 4,510 | 4,547 |
| Grants – Other | 210 | 79 |
| Rendering of Service services | 181 | 298 |
| Other | 179 | 127 |
| Total Income | 9,034 | 9,005 |
| Expenditure | | |
| Administration | (1,305) | (1,389) |
| Employee Expenses | (5,558) | (5,372) |
| Legal | (1,705) | (1,898) |
| Depreciation and amortisation | (210) | (255) |
| Other | (1,023) | (941) |
| Total Expenditure | (9,801) | (9,855) |
| Net Surplus/(Deficit) | (767) | (850) |

Northern Territory Legal Aid Commission cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 778 | 1,507 |
| Receivables and other current assets | 1,761 | 1,644 |
| Less Current Liabilities | (1,212) | (1,191) |
| Net Current Assets | 1,327 | 1,960 |
| Add Non Current Assets | 1,083 | 1,186 |
| Less Non Current Liabilities | (221) | (190) |
| Net Assets | 2,189 | 2,956 |
| Represented by: | | |
| Reserves | 2,434 | 912 |
| Retained earnings | (245) | 2,044 |
| Equity | 2,189 | 2,956 |

Northern Territory Major Events Company Pty Ltd

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Northern Territory Government established the Northern Territory Major Events Company Pty Ltd with the objective of attracting major events to the Northern Territory and promoting and coordinating events such as the Darwin round of the V8 Supercar Championship.

Audit Opinion

The audit of Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 12 January 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The increase in both revenue and expenditure recognised during the year was due to the biennial Arafura Games and Masters Games being held in the 2011 year. These two events contributed \$0.94 million to the increase in revenue and \$1.524 million to the increase in expenditure during the year.

Northern Territory Major Events Company Pty Ltd cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Government grants | 4,912 | 4,957 |
| Sales of goods and/or services | 5,119 | 3,543 |
| Other | 151 | 112 |
| Total Income | 10,182 | 8,612 |
| Expenditure | | |
| Employee Expenses | (1,425) | (1,573) |
| Depreciation | (12) | (12) |
| Other | (8,777) | (7,066) |
| Total Expenditure | (10,214) | (8,651) |
| Surplus/(Deficit) Before Income Tax Expense | (32) | (39) |
| Income tax expense | - | - |
| Surplus/(Deficit) After Income Tax Expense | (32) | (39) |
| Dividends | - | - |
| Net Surplus/(Deficit) | (32) | (39) |

Northern Territory Major Events Company Pty Ltd cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|------------|------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 1,421 | 2,104 |
| Receivables and other current assets | 906 | 734 |
| Less Current Liabilities | (1,801) | (2,291) |
| Net current assets | 526 | 547 |
| Add Non Current Assets | 19 | 31 |
| Net Assets | 545 | 578 |
| Represented by: | | |
| Retained profits | 545 | 578 |
| Contributed equity (\$2) | - | - |
| Equity | 545 | 578 |

Northern Territory Police Supplementary Benefit Scheme

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Northern Territory Police Supplementary Benefit Scheme (NTPSBS) differs from other superannuation schemes discussed in this report in that it was established under a Trust Deed rather than by legislation and is intended to supplement pensions payable from the Commonwealth Superannuation Scheme (CSS) for members of the Northern Territory Police, Fire and Emergency Services.

Eligibility for membership of the CSS ceased from 1 January 1988 and membership of the scheme is declining steadily as a consequence. At 30 June 2011 there were 90 members (97 in 2010) and 158 pensioners (149 in 2010).

Members finance a share of scheme benefits by contributing one per cent of their salary to the fund, which is managed by the Trustees. Each member has an accumulation account in the fund representing the member's contributions and interest earnings.

A member qualifies for a supplementary benefit if:

- the member is at least 50 years of age or has at least 25 years CSS contributory service when ceasing to be a member of the scheme; and
- the member becomes entitled to a CSS age retirement pension, early retirement pension, deferred pension or postponed pension on or after ceasing to be a member of the scheme.

The supplementary benefit is based on the amount of the member's CSS employer-financed pension and the member's age when ceasing to be a member of the NT Police Force or a CSS contributor, whichever occurs later. Upon qualification for a supplementary benefit, the member's accumulated contributions and interest are paid to the Territory, which is responsible for the payment of the supplementary benefit.

Northern Territory Police Supplementary Benefit Scheme cont...

The supplementary benefit is paid as a lifetime indexed pension, which commences when the CSS employer-financed pension commences. Alternatively, a pension may be commuted to a lump sum equal to ten times the annual amount of pension. Where a person ceases membership and is not entitled to a supplementary benefit, an amount equal to the member's contributions plus interest is paid.

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 7 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The value of vested benefits as at 30 June 2011 increased by \$2.2 million to \$45.4 million (2010: \$43.3 million).

Net assets of the scheme increased to \$2.51 million (2010: \$2.45 million) due mainly to an increase in the market value of investments to \$2.79 million (2010: 2.58 million).

2010-11 market returns were not sufficient to offset negative returns recorded for 2007-08 and 2008-09, and at 30 June 2011 the five year average real annual rate of return on the fund stood at -0.99 per cent.

Benefit payments increased to \$248,059 (2010: \$235,887) as a result of an increased number of members leaving the scheme during in 2010-11. Member contributions increased marginally to \$100,808 (2010: \$99,004).

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Changes in Net Assets

| | 2011 | 2010 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Income | | |
| Interest | 6 | 6 |
| Movement in net market value of investments | 206 | 270 |
| Contribution revenue | 104 | 101 |
| Total Income | 316 | 377 |
| Expenses | | |
| Benefits | | |
| Refunds of accumulated contributions | (89) | (37) |
| Payment of accumulated contributions to the Territory | (159) | (199) |
| Superannuation contribution surcharge | (2) | (2) |
| Other expenses | (2) | (2) |
| Total Expenses | (252) | (240) |
| Revenue Less Expenses Before Income Tax | 64 | 137 |
| Income tax expense | - | (1) |
| Change in Net Assets | 64 | 136 |

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Net Assets

| | 2011 | 2010 |
|-------------------------------|-------------------|-------------------|
| | \$'000 | \$'000 |
| Cash at bank and other assets | 96 | 209 |
| Investments | 2,789 | 2,583 |
| Total assets | 2,885 | 2,792 |
| Less Liabilities | (372) | (343) |
| Net Assets | 2,513 | 2,449 |
| Vested benefits | 45,447 | 43,251 |

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

Northern Territory Treasury Corporation

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Northern Territory Treasury Corporation is constituted under the *Northern Territory Treasury Corporation Act* and is the investment and borrowing agent for the Northern Territory.

The Under Treasurer constitutes the Corporation and is the Accountable Officer. There is an Advisory Board constituted under section 8 of the Act and the Board may, pursuant to section 11 of the Act, delegate any of its powers and functions.

The Corporation is a Government Business Division and maintains its accounts in accordance with accounting principles applied generally by financial institutions. It is required to submit its financial statements for audit by the Auditor-General each year.

Audit Opinion

The audit of Northern Territory Treasury Corporation for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 30 September 2011.

Northern Territory Treasury Corporation cont...

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The surplus before income tax of \$23.5 million for the year ended 30 June 2011 increased from the prior year result of \$22.6 million. The increase was represented by:

- an increase in interest income of approximately \$24.5 million which was attributable to an increase in the value of loans made by the Corporation when compared with the position at 30 June 2010; and
- an increase in interest expense of \$23.5 million as a consequence of increased borrowings undertaken to meet the financing requirements of the Northern Territory Treasury Corporation.

Financial Performance for the year

| | 2011 | 2010 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Income | | |
| Interest | 196,791 | 172,279 |
| Other | 471 | 471 |
| Total Income | 197,262 | 172,750 |
| Expenditure | | |
| Interest | (171,465) | (148,001) |
| Administration | (2,286) | (2,174) |
| Total Expenditure | (173,751) | (150,175) |
| Surplus/(Deficit) Before Income Tax Expense | 23,511 | 22,575 |
| Income tax expense | (7,053) | (6,773) |
| Surplus/(Deficit) After Income Tax Expense | 16,458 | 15,802 |
| Dividends | (16,458) | (15,802) |
| Net Surplus/(Deficit) | - | - |

Northern Territory Treasury Corporation cont...

Financial Position at year end

| | 2011 | 2010 |
|------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Total Assets | 3,113,897 | 2,907,334 |
| Less Total Liabilities | (3,092,267) | (2,885,704) |
| Net Assets | 21,630 | 21,630 |
| Represented by: | | |
| Contributed capital | 21,630 | 21,630 |
| Reserves | - | - |
| Equity | 21,630 | 21,630 |

NT Build

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

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

Audit Opinion

The audit of NT Build for the year ended 30 June 2011 resulted in a qualified independent audit opinion, which was issued on 18 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Build achieved a sound financial result for the year, achieving a surplus of \$6.94 million compared to \$4.62 million for 2009-10. That increase was achieved on the base of strong revenues of \$12.3 million for 2010-11 compared to \$10.1 million for the prior year.

The value of NT Build's holding of cash and cash equivalents, financial investments and levy debtors stood at \$40.7 million at 30 June 2011 compared with \$30.5 million at the same time last year. The provision for scheme liabilities at 30 June 2011 was \$20.9 million compared with \$17.4 million at June 2010. The scheme's retained surplus at 30 June 2011 was \$20.6 million.

The levy rate will remain unaltered for 2011-12 as a result of the scheme's financial performance for 2010-11.

NT Build cont...

One observation made following the audit was the level of participation by eligible workers in the scheme. Data held by NT Build suggests a decline in scheme membership since the scheme's inception. In contrast Australian Bureau of Statistics' data suggests that the Northern Territory construction labour force has increased over the same period. Among the factors that may be affecting the participation rate in the scheme are high rates of turnover of employment in the local construction industry and the voluntary nature of the scheme. However, it may also be the case that NT Build has not been able to attract all eligible workers to the scheme.

Any future increase in the scheme participation rate might be expected to lead to a correspondingly higher cost of accruing benefits and that carries with it a need to ensure that the levy rate is free to move in order to accommodate the higher costs. As things stand it is likely that any increase in participation in the scheme will be gradual, giving sufficient time to adjust the levy rate over time to ensure that the scheme's solvency is not jeopardised by the emergence of increasing benefit liabilities that are not properly funded.

Qualification

The audit opinion on the financial statements of NT Build for the year ended 30 June 2011 was again qualified as follows:

"The statutory obligation to notify NT Build of the commencement of a project rests with the developer. NT Build has implemented a number of mechanisms to help monitor compliance and identify leviable projects and consequently those liable to pay the levy, including monitoring projects where building permits under the Building Act are issued. It is noted that not all types of construction work carried out in the Territory require a building permit.

Due to the nature of the approval process within the Northern Territory construction industry, there exists some uncertainty regarding the ability of NT Build to identify all construction and maintenance projects that fall within the scope of the Construction Industry Long Service Leave and Benefits Act. As such, I was unable to satisfy myself as to the completeness of the \$9,939,428 recognised as 'Contributions from levy payers' in the statement of comprehensive income."

NT Build cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Contributions from levy payers | 9,939 | 8,333 |
| Other | 2,378 | 1,773 |
| Total Income | 12,317 | 10,106 |
| Expenditure | | |
| Employee Expenses | (737) | (594) |
| Occupancy costs | (100) | (58) |
| Depreciation and amortisation | (3) | (67) |
| Fees and allowances | (40) | (16) |
| Long service leave benefit payments | (465) | (536) |
| Long service scheme expense | (3,499) | (3,805) |
| Other | (529) | (405) |
| Total Expenditure | (5,373) | (5,481) |
| Surplus/(Deficit) Before Income Tax Expense | 6,944 | 4,625 |

NT Build cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 21,441 | 17,641 |
| Receivables and other current assets | 20,450 | 13,747 |
| Less Current Liabilities | (621) | (564) |
| Working Capital | 41,270 | 30,824 |
| Add Non Current Assets | 15 | 18 |
| Less Non Current Liabilities | (20,407) | (16,908) |
| Net Assets | 20,878 | 13,934 |
| Represented by: | | |
| Implementation funding | 297 | 297 |
| Accumulated surplus | 20,581 | 13,637 |
| Equity | 20,878 | 13,934 |

NT Build cont...

NT Build has commented:

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

The NT Build Board has and continues to closely monitor the level of participation by eligible workers in the scheme and is currently in the process of developing new strategies to address the issue.

The Board acknowledges the adverse effects on scheme participation caused by issues such as;

- *the high rates of turnover of employment*
- *the high level of Australian Business Number (ABN) workers in the local construction industry; and*
- *the voluntary nature of the scheme.*

Throughout the 2010-2011 reporting period, NT Build continued to work closely with the Department of Lands and Planning to pursue suitable amendments to both the Building Act and the Planning Act in order to strengthen NT Build's ability to maximise levy compliance.

In this regard, NT Build made a submission in response to a Ministerial discussion paper entitled Building Regulation in the NT issued for comment by the building industry and the community. The NT Build Board's submission, forwarded to the Building Industry Reference Group (BIRG), supported the proposal that the building regulatory provisions be amended to require evidence that a Project Notification Form has been lodged with NT Build before a Building Permit is issued. Such an amendment would greatly enhance levy compliance within the building control areas, (representing the majority of leviable construction works).

NT Build cont...

NT Build comments continued:

While the Board notes the change to the current building approval regime will have a limited effect, it will enable NT Build to better concentrate its resources on identifying both leviable construction undertaken throughout the non- controlled remote areas of the Northern Territory, including on mining sites, and on other categories of "construction" (eg; civil works and some maintenance) as defined by the Construction Industry Long Service Leave and Benefits Act not covered under the building regulatory provisions. It is understood the final BIRG report, incorporating comments on all submissions received in response to the discussion paper, has been completed and is currently under consideration by the Northern Territory Government.

Notwithstanding the above the Board remains confident that a high level of compliance is being achieved, although a level of uncertainty may always exist. As a consequence, NT Build continues to utilise and refine a range of mechanisms to identify construction projects throughout the Northern Territory.

In any event, where non payment is being detected the Board is taking a rigorous approach to debt collection including legal action where necessary. Further, through the Board's strategic audit and levy compliance program routine audits of selected construction projects are being conducted to ensure that levy payers are declaring and remitting the correct amount of levy.

NT Fleet

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

NT Fleet is a Government Business Division that is responsible for the management of the Northern Territory Government's motor vehicle fleet other than vehicles controlled by the Northern Territory Police, Fire and Emergency Services.

NT Fleet's revenues are derived from rental charges levied upon Agencies that lease vehicles.

The host Agency was the Department of Business and Employment.

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 30 September 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet reported a net surplus before tax of \$14.469 million, an increase of \$1.275 million from the prior year. Total revenue increased by \$4.287 million from \$46.778 million to \$51.065 million. That increase was attributable to growth in hire charges derived from hiring which was, in turn, attributable to growth in the size of the vehicle fleet and increased hire rates.

Total expenditure increased by \$3.012 million from \$33.584 million to \$36.596 million. This was predominantly due to the increase in depreciation and amortisation expense of \$2.209 million.

NT Fleet cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Income | | |
| Revenue from vehicle lease rentals | 45,551 | 42,504 |
| Gain on disposal of assets | 5,023 | 3,952 |
| Other revenues | 491 | 322 |
| Total Income | 51,065 | 46,778 |
| Expenditure | | |
| Operational costs | (11,505) | (10,951) |
| Employee Expenses | (2,632) | (2,312) |
| Depreciation and amortisation | (22,263) | (20,054) |
| Borrowing costs | (196) | (267) |
| Total Expenditure | (36,596) | (33,584) |
| Surplus/(Deficit) Before Income Tax Expense | 14,469 | 13,194 |
| Income tax expense | (4,341) | (3,958) |
| Surplus/(Deficit) After Income Tax Expense | 10,128 | 9,236 |
| Dividends | (5,064) | (4,618) |
| Net Surplus/(Deficit) | 5,064 | 4,618 |

NT Fleet cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 13,631 | 9,934 |
| Receivables and other current assets | 1,691 | 2,066 |
| Less Current Liabilities | (16,351) | (13,226) |
| Working Capital | (1,029) | (1,226) |
| Add Non Current Assets | 91,416 | 89,499 |
| Less Non Current Liabilities | (174) | (3,160) |
| Net Assets | 90,213 | 85,113 |
| Represented by: | | |
| Accumulated funds | 89,710 | 84,646 |
| Capital | 503 | 467 |
| Equity | 90,213 | 85,113 |

NT Home Ownership

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

NT Home Ownership was formerly a division of Territory Housing, but which was subsequently constituted as a Government Business Division to oversee the Government's home purchase assistance initiatives, including Homestart NT. 2010-11 represents the third year of operation for this entity.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 10 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Home Ownership reported a surplus before tax at 30 June 2011 of \$4.4 million compared to \$4.1 million last year. The most significant factors contributing to the surplus were:

- \$9.3 million interest income associated mainly with home loans and \$2.8 million gain on revaluation of investments; offset by
- interest expense of \$7.5 million on loans from NT Treasury Corporation.

NT Home Ownership recorded net assets as at 30 June 2011 of \$37 million, which included:

- \$141.2 million of loans to home purchasers;
- \$52.7 million investments in shared equity investments;
- cash and deposits of \$10.3 million; offset by
- borrowings and advances of \$163.1 million from NT Treasury Corporation.

NT Home Ownership cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$,000 | \$,000 |
| Income | | |
| Other income | 92 | 32 |
| Interest revenue | 9,280 | 7,684 |
| Community Service Obligations (CSO) | 1,239 | 1,239 |
| Gain on sale of investments | 1,032 | 1,518 |
| Gain on revaluation of investments | 2,838 | 4,054 |
| Total Income | 14,481 | 14,527 |
| Expenditure | | |
| Employee expenses | (212) | (209) |
| Administration fees | (1,974) | (2,049) |
| Borrowing costs | (7,492) | (7,761) |
| Other expenses on ordinary activities | (401) | (387) |
| Total Expenditure | (10,079) | (10,406) |
| Surplus/(Deficit) Before Income Tax Expense | 4,402 | 4,121 |
| Income tax expense | (469) | (20) |
| Income tax adjustment 2008/09 | - | 1,921 |
| Surplus/(Deficit) After Income Tax Expense | 3,933 | 6,022 |
| Dividends | (548) | (23) |
| Net Surplus/(Deficit) | 3,385 | 5,999 |

NT Home Ownership cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 10,300 | 15,152 |
| Receivables and other current assets | 2,369 | 2,005 |
| Less Current Liabilities | (8,260) | (7,067) |
| Working Capital | 4,409 | 10,090 |
| Add Non Current Assets | 188,967 | 176,683 |
| Less Non Current Liabilities | (156,363) | (153,145) |
| Net Assets | 37,013 | 33,628 |
| Represented by: | | |
| Accumulated surplus | 14,268 | 10,883 |
| Contributed equity | 22,745 | 22,745 |
| Equity | 37,013 | 33,628 |

Power and Water Corporation

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Power and Water Corporation is the primary provider of electricity generation and distribution services, and the sole provider of water and sewerage services in the Northern Territory.

The Corporation became a Government Owned Corporation on 1 July 2002 following the commencement of the *Government Owned Corporations Act* in December 2001.

The Corporation controls three fully owned subsidiary companies: Darnor Pty Ltd; Gasgo Pty Ltd; and Indigenous Essential Services Pty Ltd, and holds 50% of the ordinary shares issued by BGP Tenure Holdings Pty Ltd.

Gasgo Pty Ltd's responsibility for purchasing gas on behalf of the Corporation has now ended and the company's directors approved that the company transfer its rights and obligations to the Corporation from 1 July 2011. In addition the responsibilities of Darnor Pty Limited for ensuring Power and Water's interests in the Amadeus Basin to Darwin Pipeline were safeguarded also ceased in June 2011.

As a result Darnor and Gasgo have initiated the processes for terminating all of their business transactions and it is anticipated that both companies will be de-registered during 2011-12.

Audit Opinion

The audit of Power and Water Corporation for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 27 September 2011.

Power and Water Corporation cont...

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

For the year ended 30 June 2011 the Corporation's financial result was a deficit before tax of \$106 million. That result was an improvement on the prior year which resulted in a deficit of \$356 million.

The financial result for 2010-11 was affected by:

- impairment losses amounting to \$72 million in respect of water assets;
- an increase of \$55 million in expenses for energy and materials; and
- an increase of \$71 million in revenue from the sale of goods and services.

Power and Water Corporation cont...

Financial Performance for the year of the Consolidated Entity

| | 2011 | 2010 |
|--|------------------|--------------------|
| | \$'000 | \$'000 |
| Income | | |
| Sale of goods | 539,117 | 514,860 |
| Rendering of services | 107,394 | 94,875 |
| Finance revenue | 5,496 | 3,011 |
| Other | 100,033 | 120,469 |
| Total Income | 752,040 | 733,215 |
| Expenditure | | |
| Raw materials and consumables used | (379,739) | (365,728) |
| Finance costs | (51,677) | (43,964) |
| Repairs and maintenance expenses | (69,823) | (74,859) |
| Employee expenses | (102,585) | (88,492) |
| External service agreements | (29,174) | (24,675) |
| Depreciation and amortisation | (75,473) | (89,077) |
| Impairment of noncurrent assets | (72,177) | (319,751) |
| Other expenses | (78,008) | (83,012) |
| Total Expenditure | (858,656) | (1,089,558) |
| Surplus/(Deficit) Before Income Tax Expense | (106,616) | (356,343) |
| Income tax benefit/(expense) | 32,255 | 107,591 |
| Surplus/(Deficit) After Income Tax Expense | (74,361) | (248,752) |
| Dividends | - | - |
| Net Surplus/(Deficit) | (74,361) | (248,752) |

Power and Water Corporation cont...

Financial Position at year end of the Consolidated Entity

| | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 184,849 | 168,319 |
| Receivables and other current assets | 106,711 | 99,193 |
| Less Current Liabilities | (165,726) | (159,704) |
| Working Capital | 125,834 | 107,808 |
| Add Non Current Assets | 1,718,657 | 1,486,083 |
| Less Non Current Liabilities | (1,319,859) | (1,105,821) |
| Net Assets | 524,632 | 488,070 |
| Represented by: | | |
| Retained profits | 413,709 | 488,070 |
| Contributed equity | 110,922 | - |
| Equity | 524,631 | 488,070 |

Territory Discoveries

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

Territory Discoveries is a Government Business Division established to increase the exposure of, and potential economic returns to, the NT tourism industry, particularly small to medium sized operators. Territory Discoveries develops travel, tour and accommodation packages for sale in domestic and international markets. It promotes the sale of these packages through the retail travel network and direct to the consumer via a range of advertising and marketing mechanisms including brochure production, internet sites and trade and consumer journals.

Territory Discoveries' host Agency is Tourism NT.

Audit Opinion

The audit of Territory Discoveries for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 11 October 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Territory Discoveries cont...

Financial Performance for the year

| | 2011 | 2010 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Income | | |
| Government grants | 1,400 | 1,738 |
| Sales of goods and/or services | 3,108 | 3,904 |
| Community Service Obligations | 925 | 903 |
| Other | 329 | 485 |
| Total Income | 5,762 | 7,030 |
| Expenditure | | |
| Operational costs | (3,235) | (3,836) |
| Employee expenses | (2,426) | (3,011) |
| Depreciation and amortisation | - | (1) |
| Other | - | (75) |
| Total Expenditure | (5,661) | (6,923) |
| Surplus/(Deficit) Before Income Tax Expense | 101 | 107 |
| Income tax expense | - | - |
| Surplus/(Deficit) After Income Tax Expense | 101 | 107 |
| Dividends | - | - |
| Net Surplus/(Deficit) | 101 | 107 |

Territory Discoveries cont...

Financial Position at year end

| | 2011 | 2010 |
|--------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 6,758 | 7,607 |
| Receivables and other current assets | 97 | 117 |
| Less Current Liabilities | (3,577) | (4,541) |
| Working Capital | 3,278 | 3,183 |
| Add Non Current Assets | - | - |
| Less Non Current Liabilities | (9) | (15) |
| Net Assets | 3,269 | 3,168 |
| Represented by: | | |
| Accumulated losses | (2,408) | (2,509) |
| Contributed equity | 5,677 | 5,677 |
| Equity | 3,269 | 3,168 |

Territory Insurance Office

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

The Territory Insurance Office (TIO) is established by the *Territory Insurance Office Act* and the functions of TIO are to:

- act as an insurer in respect of the assets and prospective liabilities of the Territory and statutory corporations;
- transact workers compensation insurance in respect of persons required by the *Workers Rehabilitation and Compensation Act*, or any Act replacing that Act, to insure;
- administer a motor accident compensation scheme in accordance with an Act or an agreement between the Office and the person or body responsible for the scheme;
- provide such financial services as are approved by the Minister;
- transact such general business of insurance as the Minister directs; and
- promote and participate in the promotion of road and industrial safety.

The liabilities of TIO that arise from contracts of insurance, entered into by TIO, from deposits made with TIO and from liabilities that arise from motor accident compensation activities conducted by TIO are guaranteed by the Northern Territory.

Audit Opinion

The audit of the Territory Insurance Office for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 22 September 2011.

Key Findings

The audit did not identify any material weaknesses in controls.

Territory Insurance Office cont...

Prudential Review

In 2007-08 the Treasurer issued a Determination pursuant to section 7 of the *Territory Insurance Office Act*. That Determination requires TIO to comply with prudential standards issued by the Australian Prudential Regulatory Authority (APRA). Thus while TIO may lie outside the jurisdiction of APRA, the effect of the Treasurer's Determination is to subject TIO to the same level of prudential regulation that applies to other insurers and Authorised Deposit-Taking Institutions.

For the purposes of the Determination, the Auditor-General has been deemed to be the "appointed auditor" consistent with the requirements imposed upon general insurers that are subject to direct supervision by APRA. Accordingly, I conducted reviews of both the insurance and banking functions of TIO during 2010-11 to assess the extent to which TIO met the requirements of the APRA prudential standards. Following that review I advised the Treasurer and the Board of TIO that I was generally satisfied that TIO had met the requirements of the APRA prudential standards.

Performance Overview

TIO's overall operating performance result improved in comparison to the prior year and the after-tax profit from banking, general insurance and the MAC Fund for the 2010-11 financial year were \$2.6 million, \$5.12 million and \$44.3 million, respectively. This compares to an after-tax profit from banking, general insurance and the MAC Fund for the 2009-10 financial year of \$2.68 million, \$0.60 million and \$32.2 million, respectively.

The rise in insurance profits was assisted by improved case management. The focus on refining the workers compensation and MAC case management models has seen more claimants able to return to health and work sooner than expected. Changes to risk pricing also appear to have had a positive effect on TIO's results.

The performance of investment markets continued to have a significant effect on TIO's financial performance. With investment markets' performance having improved during the year, TIO's investment returns exceeded expectations by \$13 million.

Territory Insurance Office cont...

Financial Performance for the year

| | TIO Insurance & Banking | | MAC Fund | | TIO | |
|--|----------------------------|------------|-----------|-----------|-----------|-----------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$'m | \$'m | \$'m | \$'m | \$'m | \$'m |
| Underwriting result | | | | | | |
| Net premium revenue | 61 | 59 | 56 | 51 | 117 | 110 |
| Net claims expense | (53) | (61) | (41) | (44) | (94) | (105) |
| Acquisition costs | (6) | (4) | - | (1) | (6) | (5) |
| Underwriting result | 2 | (6) | 15 | 6 | 17 | - |
| Other revenues and expenses | | | | | | |
| Interest receivable | 48 | 45 | 8 | 6 | 56 | 51 |
| Change in value of investments | 1 | 5 | 3 | 12 | 4 | 17 |
| Loss on disposal of investments | 3 | 1 | 6 | 3 | 9 | 4 |
| Other investment income | 7 | 5 | 22 | 15 | 29 | 20 |
| Total investment revenue | 59 | 56 | 39 | 36 | 98 | 92 |
| Other revenue # | 8 | 8 | - | - | - | - |
| Borrowing costs | (32) | (30) | - | - | (32) | (30) |
| Other costs and depreciation# | (26) | (23) | (10) | (10) | (28) | (25) |
| Net other revenues and expenses | 9 | 11 | 29 | 26 | 38 | 37 |
| Net profit (loss) before tax | 11 | 5 | 44 | 32 | 55 | 37 |

inter business unit charges

Territory Insurance Office cont...

Financial Position at year end

| | TIO Insurance & Banking | | MAC Fund | | TIO | |
|----------------------------------|----------------------------|--------------|--------------|--------------|----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$'m | \$'m | \$'m | \$'m | \$'m | \$'m |
| Assets | | | | | | |
| Cash and cash equivalents | 21 | 28 | 6 | 2 | 27 | 30 |
| Trade and other receivables # | 52 | 50 | 4 | 4 | 54 | 53 |
| Other financial assets | 226 | 225 | 391 | 342 | 617 | 567 |
| Intangible assets | 1 | 1 | - | - | 1 | 1 |
| Loans | 526 | 564 | - | - | 526 | 564 |
| Reinsurance and other recoveries | 39 | 30 | 32 | 33 | 71 | 63 |
| Property, plant and equipment | 15 | 14 | 32 | 32 | 47 | 46 |
| Deferred reinsurance expense | 20 | 27 | - | - | 20 | 27 |
| Deferred acquisition costs | 4 | 5 | - | - | 4 | 5 |
| Current tax assets | - | 1 | - | - | - | 1 |
| Deferred tax assets | 4 | 6 | - | - | 4 | 6 |
| Total Assets # | 908 | 951 | 465 | 413 | 1,371 | 1,363 |
| Liabilities | | | | | | |
| Outstanding claims liability | (138) | (131) | (273) | (268) | (411) | (399) |
| Trade and other payables # | (28) | (37) | (3) | (3) | (29) | (39) |
| Deposits | (498) | (531) | - | - | (498) | (531) |
| Tax liabilities | (2) | (2) | - | - | (2) | (2) |
| Provisions | (5) | (5) | - | - | (5) | (5) |
| Unearned premium liability | (62) | (59) | (26) | (24) | (88) | (83) |
| Securitisation liabilities | (66) | (86) | - | - | (66) | (86) |
| Total Liabilities # | (799) | (851) | (302) | (295) | (1,099) | (1,145) |
| Net Assets | 109 | 100 | 163 | 118 | 272 | 218 |

inter business unit's debtor/creditors

Territory Wildlife Parks

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Background

This Government Business Division operates the Territory Wildlife Park (TWP) at Berry Springs and the Alice Springs Desert Park. The parks have required ongoing financial support, through their host Agency, to enable them to meet their operating expenses.

The host Agency is the Department of Natural Resources, Environment, the Arts and Sport.

Audit Opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2011 resulted in an unqualified independent audit opinion, which was issued on 28 September 2011.

Key Findings

The audit did not identify any material weaknesses in controls. However, it is notable that the Territory Wildlife Parks has recorded financial deficits since its inception and that it continues to rely upon financial support in the form of Community Service Obligations to enable it to manage its cash flow requirements. Territory Wildlife Parks incurred a \$3.0 million deficit for 2010-11 year compared to deficit of \$3.1 million in 2009-10.

Performance Overview

Revenue of \$9.9 million for 2010-11 was consistent with the prior year's revenue of \$9.8 million. The principal source of revenue was in the form of CSO receipts of \$7.9 million for each of the 2010-11 and 2009-10 years. The CSO represented approximately 80% of total revenue.

Revenue from the sale of goods represents the remaining 20 per cent of total revenue, and was \$2.02 million for the 2010-11 year, compared to \$1.9 million in the prior year, with the increase being attributable largely to sales from the Territory Wildlife Park cafe, the control of which returned to TWP early in the financial year.

Territory Wildlife Parks cont...

Visitor numbers to both the Alice Springs and the Berry Springs parks have declined in recent years, with aggregate numbers for 2010-11 being approximately 14 per cent below those for 2008-09. These declines stem from a number of factors including the Global Financial Crisis and the high value of the Australian dollar both of which have affected the level of inbound tourists to the Territory, changes in the behaviour of visitors to the Territory and the emergence of other venues and activities in competition to the parks.

Financial Performance for the year

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$,000 | \$'000 |
| Income | | |
| Community Service Obligations | 7,915 | 7,915 |
| Sales of goods and services | 2,023 | 1,892 |
| Other revenues | 5 | 48 |
| Total Income | 9,943 | 9,855 |
| Expenditure | | |
| Employee Expenses | (6,535) | (6,286) |
| Depreciation and amortisation | (1,678) | (1,922) |
| Other expenses | (4,700) | (4,710) |
| Total Expenditure | (12,913) | (12,918) |
| Surplus/(Deficit) Before Income Tax Expense | (2,970) | (3,063) |
| Income tax expense | - | - |
| Surplus/(Deficit) After Income Tax Expense | (2,970) | (3,063) |
| Dividends | - | - |
| Net Surplus/(Deficit) | (2,970) | (3,063) |
| Asset Revaluation | (5,619) | - |
| Comprehensive Result | (8,589) | (3,063) |

Territory Wildlife Parks cont...

Financial Position at year end

| | 2011 | 2010 |
|------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Current Assets | 950 | 408 |
| Less Current Liabilities | (3,732) | (1,899) |
| Working Capital | (2,782) | (1,491) |
| Add Non Current Assets | 26,720 | 32,925 |
| Less Non Current Liabilities | (225) | (223) |
| Net Assets | 23,713 | 31,211 |
| Represented by: | | |
| Accumulated losses | (11,914) | (8,944) |
| Contributed equity | 16,881 | 15,790 |
| Asset revaluation reserve | 18,746 | 24,365 |
| Equity | 23,713 | 31,211 |

Treasurer's Annual Financial Statement

Audit findings and Analysis of the Financial Statements for the Year Ended 30 June 2011

Audit Opinion

My audit opinion on the Treasurer's Annual Financial Statement (TAFS) for 2010-11 was unqualified.

Introduction

The Treasurer's Annual Financial Statements for 2010-11 paint a picture of public finances affected by the reverberations of the global financial crisis of 2008.

Total revenues for 2010-11, on a whole-of-government basis, increased by 2.3 per cent to \$5,559 million while total expenses increased by 8.2 per cent to \$5,328 million. The result was a deterioration of \$280.0 million in the Net Operating Balance for the year. The Net Operating Balance is a measure of the extent to which the Territory's revenues are sufficient to finance the full cost of its operations and it can also be viewed as a measure of the public sector's ongoing sustainability. Thus while the total public sector's financial performance was held within limits that ensured its financial sustainability for 2010-11, the forces that have led to the tightening in the Net Operating Balance foreshadow medium term difficulties if the overall economic climate does not improve.

Previous reports on the TAFS pointed to a buoyant national economy that continued to deliver growth in GST revenues and strong local economic activity that maintained growth in local taxes; enabled sound Net Operating Balances to be achieved and, flowing from that, permitted surpluses to be applied towards the reduction of the Territory's net debt. Global economic uncertainty has led to a national decline in consumption expenditure by firms and households as they seek to limit their exposure to external financial shocks and this has led to a decline in GST revenue collected by the Commonwealth for distribution to the States, and to subdued growth in Territory taxation. Thus after several years of declining Territory net debt, the position was reversed for 2010-11 with the ratio of net debt to total revenues at the general government sector increasing for the first time since 2002.

Goods and Services Tax (GST) revenues received by the Territory declined by 5.8 per cent to \$2,344.8 million. That represented an absolute decline of \$144.4 million for the year.

Treasurer's Annual Financial Statement cont...

The amount of GST revenues available to the States is a function of the total pool of GST revenues available for distribution by the Commonwealth and the revenue sharing relativities that are applied by the Commonwealth Government, on the advice of the Commonwealth Grants Commission. The 2011 update to the revenue sharing relativities that was carried out by the Grants Commission is expected to have only a marginal effect upon the Territory's share of total grants and it is possible that while the Territory's share of the total GST pool may have increased the overall size of the pool may not increase in real terms.

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.

Treasurer's Annual Financial Statement cont...

Budget Paper No 2 for 2011-12, *Fiscal and Economic Outlook* sets out the Government's medium-term fiscal objectives and targets as follows:

- **sustainable service provision:** expenditure growth not to exceed revenue growth, excluding tied Commonwealth funding;
- **infrastructure for economic and community development:** maintain infrastructure investment at appropriate levels;
- **competitive tax environment:** ensure territory taxes and charges are competitive with the average of the states and territories; and
- **prudent management of debt and liabilities:** reduce debt to pre-GFC levels once the economy rebounds.

Treasurer's Annual Financial Statement cont...

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

| Principal | What Is Required? | Extent To Which Target Achieved |
|---|---|---|
| Sustainable service provisions | Limiting the growth in operating expenses to less than the growth in operating revenue excluding tied Commonwealth funding in the general government sector to achieve operating surpluses that can be used to fund capital investment. | The net operating balance for the tax-supported General Government Sector for 2010-11 was a surplus of \$238.3 million while the budgeted net operating balance for 2011-12 is \$94.9 million, with deficits budgeted for the remaining years through to 2014-15. While the Government has some latitude, it will require a recovery in economic confidence and associated revenues, particularly in relation to the GST, to enable it adhere to the Territory's fiscal strategy without resorting to further budget improvement measures to restrict public spending. |
| Competitive tax environment | Ensure Territory taxes and charges are competitive with the average of the States. | The Territory's "tax effort" is in line with the Australian average when volatility with mineral royalties is removed. The Territory's taxation per capita is second lowest of all jurisdictions. |
| Prudent management of debt and liabilities | Net Debt and employee liabilities as proportion of total revenue to fall. | Net debt of the General Government Sector has declined over several years, but since 2009-10 it has again increased due to the increased level of capital spending to maintain an adequate level of economic activity in the Territory. |

Treasurer's Annual Financial Statement cont...

While the financial result for 2010-11 represents a deterioration when compared with the past few years, it should present few surprises when overall economic uncertainty is taken into account and in this context there may be few grounds for complacency. As already indicated, the Territory relies heavily upon GST revenues and the amount distributed by the Commonwealth to the Territory is a function of the size of the GST pool and the relativities recommended by the Commonwealth Grants Commission.

The size of the GST pool is affected by the overall level of economic activity in Australia and, in particular, spending on goods and services. It is possible that it may be some time before the rate of growth in GST receipts returns to levels seen in prior years.

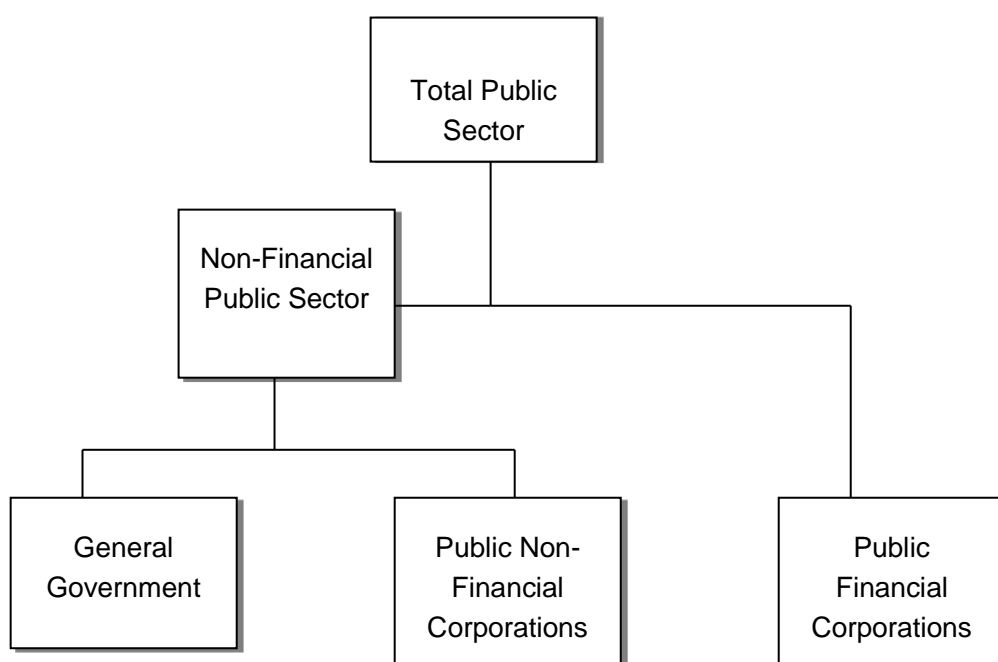
The Uniform Presentation Framework and the Structure of the Public Sector

The Treasurer's Annual Financial Statement (TAFS), which was tabled in the Legislative Assembly in October 2011, is required to be prepared pursuant to Section 9 of the *Financial Management Act*. The basis for the preparation of the TAFS is set down by the *Fiscal Integrity and Transparency Act* which requires that the Government Finance Statistics (GFS) be used and the requirements form the basis of the Uniform Presentation Framework (UPF) that has been adopted by each jurisdiction in the interest of consistency of financial reporting.

Treasurer's Annual Financial Statement cont...

A key aspect of the UPF and the GFS is the classification of the public sector into three primary sub-sectors, two of which are consolidated to form the Non-Financial Public Sector. That sector is then further consolidated with the Public Financial Corporations Sector to form the Total Public Sector. These sectoral relationships are depicted below:

Figure 1
Government Finance Statistics
Structure of the Public Sector



Treasurer's Annual Financial Statement cont...

A description of the principal sectors that comprise the public sector for reporting purposes under the UPF is as follows:

| | |
|--|--|
| General Government Sector | Comprises those entities that are mainly engaged in the production of goods and/or services outside the normal market mechanism. Goods and services are provided free of charge or at nominal charges well below their costs of production |
| Public Non Financial Corporation Sector | Comprises those entities that are primarily engaged in the production of goods or services of a non-financial nature, at a price which aims to recover most of the costs involved. |
| Public Financial Corporation Sector | Comprises those entities that perform central banking functions or which have the authority to incur liabilities and acquire financial assets in the market on their own account. |
| Total Public Sector | Comprises the General Government, Non Financial Corporation and Financial Corporation sectors after eliminating inter-sector transactions and balances in order to present the relationship between the total public sector and the "rest of the world". |

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

Treasurer's Annual Financial Statement cont...

Entities Excluded From the TAFS

The Total Public Sector consolidated financial statements comprises all Agencies, Government Business Divisions, Government Owned Corporations, the Territory Insurance Office and other entities that are deemed to be controlled by the Northern Territory Government. The TAFS consolidation process involves the aggregation of all entities' financial reports into a single set of financial statements after having eliminated 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...

The entities listed below have not been consolidated into the TAFS because they are not considered to have satisfied the control test outlined above:

- Charles Darwin University
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board
- Nitmiluk (Katherine Gorge) National Park Board
- Surveyors Board of the Northern Territory of Australia
- Northern Territory Grants Commission
- Northern Territory Government and Public Authorities Employees' Superannuation Fund
- Legislative Assembly Members' Superannuation Trust
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local Government/Regional Councils

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

Financial Reports Prepared as part of the Uniform Presentation Framework (UPF)

The financial statements that are required to be prepared under the UPF comprise:

- operating statement;
- balance sheet; and
- cash flow statement.

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

- **Net Operating Balance** – a measure of financial performance calculated as the excess of revenues over expenses. The net operating balance is a measure of the sustainability of a government.
- **Net Lending/Borrowing** – a measure of financial performance sometimes referred to as Fiscal Balance and calculated as the net operating balance less the net acquisition of non-financial assets. It is a measure of the extent to which a government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors.
- **Net Worth** – a measure of financial position that comprises total assets (financial and non-financial) less total liabilities and contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.
- **Net Financial Worth** – a measure of financial position that comprises total financial assets less total liabilities. This measure can be viewed as an alternative measure for assessing the sustainability of fiscal activities as it may be difficult to attach market values to some general government sector non-financial assets that form part of the calculation of Net Worth.
- **Net Debt** – a measure of financial position comprising certain financial liabilities less financial assets. The items included in this measure are discussed in some detail in the Budget Papers.

Treasurer's Annual Financial Statement cont...

Financial Performance and Position of the Total Public Sector

Financial Performance

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

The financial performance of the total public sector for 2010-11, as measured by both the Net Operating Balance and the Net Borrowing or Lending measures deteriorated when compared with the prior year. This is illustrated in Table 1 below:

Table 1
Financial Performance of the Total Public Sector

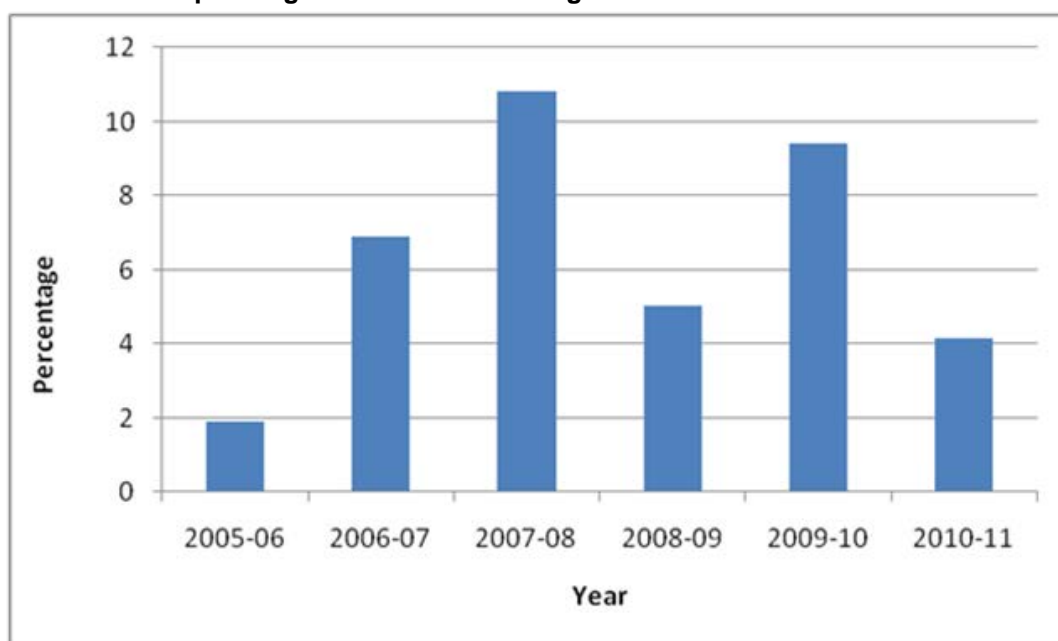
| | 2010-11 | 2009-10 |
|---|-------------------|-------------------|
| | \$'million | \$'million |
| Revenues | 5,559.1 | 5,433.1 |
| Expenses | (5,328.5) | (4,922.4) |
| Net Operating Balance | 230.6 | 510.7 |
| Net Acquisition of Non-Financial Assets | (975.0) | (809.3) |
| Net Lending/(Borrowing) | (744.4) | (298.6) |

Table 1 contains two measures of performance: the Net Operating Balance which was a surplus of \$230.6 million and Net Lending or Borrowing which was a deficit of \$744.4 million. The Net Operating Balance result indicates that the revenues received by the public sector for the year were sufficient to meet the full costs of resources consumed in providing services to the community. The resulting surplus was applied towards the capital expenses incurred for the year, resulting in Net Borrowing by the Total Public Sector of \$744.4 million. The Net Borrowing result indicates that the activities of the Sector for the year may require the Northern Territory Government to draw against the savings of other sectors of the economy either for 2010-11 or in future years.

Treasurer's Annual Financial Statement cont...

As can be seen at Figure 2, the Total Public Sector achieved sound Net Operating Balance results when considered in the context of the relationship of those results to the Territory's revenue over the six years shown in the table, although the results in any one year were affected by a range of factors including the timing of grants from the Commonwealth and the timing of the expenditure of those grant funds.

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



Treasurer's Annual Financial Statement cont...

Total Public Sector financial performance for 2010-11 was characterised by an increase in total revenues by 2.3 per cent, to \$5,559.1 million. Grants received from the Commonwealth continued to dominate, with almost 69 per cent of the Total Public Sector's revenues coming from that source. For 2010-11 revenues received from the Commonwealth increased by \$67.7 million, with increases occurring in:

| | \$ million |
|--|------------|
| National partnerships | 243.8 |
| Specific purpose payments | 4.7 |
| Other grants and capital contributions | 21.9 |
| offset by decreases in: | |
| Goods and Services Tax | 144.4 |
| General purpose grants | 158.3 |

Taxation revenues raised under Territory legislation declined by \$17.6 million or 4.2 per cent for the year. That decrease was dominated by stamp duties, which declined by \$23.5 million (or 18.6 per cent) and by taxes on gambling which declined by \$10.5 million (or 17.3 per cent), partly offset by growth in payroll tax of \$11 million.

Treasurer's Annual Financial Statement cont...

Total Public Sector financial performance, as represented by the Net Operating Balance measure was also reflected in the cash flow results for the year. The Total Public Sector generated positive net cash flows of \$711.6 million from operations for the year, a deterioration when compared with the result of \$959.0 million for 2009-10. The operating cash surplus, supplemented by net cash inflows generated as a result of financing activities, was applied to financing the capital program and to the acquisition of financial assets for policy and liquidity purposes. This is outlined in Table 2 below:

Table 2
Total Public Sector
Summary of Cash Flows

| | 2010-11 \$'million | 2009-10 \$'million |
|---|-------------------------------|-------------------------------|
| Cash receipts from operations | 5,762.6 | 5,655.4 |
| Cash payments from operations | (5,051.0) | (4,696.4) |
| | 711.6 | 959.0 |
| Less: Net cash flows from investing in non-financial assets | (1,297.1) | (1,095.0) |
| Less: Net cash from financing activities | 427.7 | 296.3 |
| Net Increase/(Decrease) in cash | (157.8) | 160.3 |
| Opening balance of cash and deposits | 477.7 | 317.4 |
| Closing balance of cash and deposits | 319.9 | 477.7 |

Treasurer's Annual Financial Statement cont...

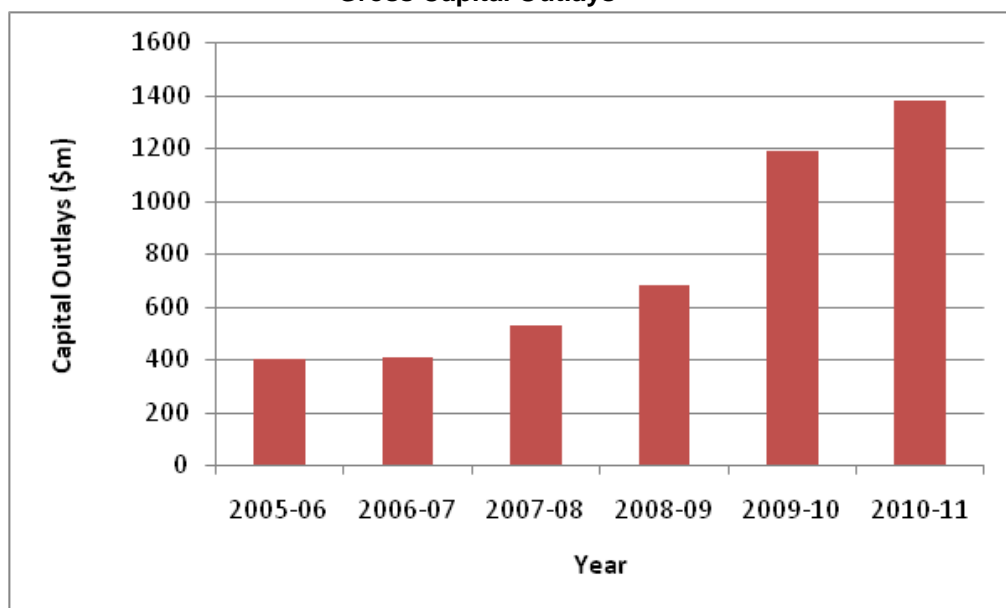
Flowing from the above, the net cash flows of \$711.6 million generated by the operating activities of Total Public Sector formed part of the total cash inflows. This amount was supplemented by net borrowings totalling \$189.5 million, \$260.9 million from a reduction of investments held for liquidity and policy purposes, \$82.4 million from the sale of non-current assets and \$157.8 million from a reduction in cash balances. The resulting amount of \$1,402.2 million was applied as follows:

| | \$'million |
|---|-------------------|
| Investment in non-financial assets as part of the capital program | 1,379.5 |
| Repayment of advances and deposits | 22.7 |
| Total | 1,402.2 |

Both the General Government and Public Non-financial Corporation Sectors have been characterised by high levels of capital spending for several years as the public sector has sought to address its own capital requirements while at the same time offsetting a decline in private sector investment. It is possible that private sector investment spending may increase in the short to medium term thereby allowing the public sector to reduce its outlays in this area. That may assist in slowing the rate of growth in Net Debt, but is not considered likely to offset any decline in the Net Operating Balance that may arise from a lack of real growth in revenues.

Treasurer's Annual Financial Statement cont...

Figure 3
Sector
Gross Capital Outlays



As can be seen from Figure 3, gross capital outlays have increased steadily since 2006-07. This growth includes expenditure in connection with the Strategic Indigenous Housing and Infrastructure Program, together with expenditure in connection with the response by the Commonwealth to the Global Financial Crisis which saw programs such as the Building the Education Revolution initiated. In addition the Territory has also increased its level of capital outlays to assist in maintaining an adequate level of private sector economic activity.

Treasurer's Annual Financial Statement cont...

Financial Position

The three measures of financial position employed by the UPF were outlined previously under "Introduction". One of measures, Net Worth, improved by \$715.6 million when compared with the prior year. However, much of that increase was attributable to the increases in the values of non-financial assets as a result of revaluations. The other measures of financial position; net financial worth and net debt deteriorated when compared with the position at 30 June 2010 and those movements are consistent with the reported results for the fiscal balance for the year ended 30 June 2011. The components of the changes in each of the measures of financial position are summarised in Table 3, below:

**Table 3 – Total Public Sector
Components of Financial Position**

| | Balance at 30 June 2011 \$' million | Movement for 2010-11 \$'million | Balance at 30 June 2010 \$'million |
|--|--|--|---|
| Cash and deposits | 319.9 | (157.8) | 477.7 |
| Advances paid | 139.0 | 9.8 | 129.2 |
| Investments, loans and placements | 1,893.7 | (236.7) | 2,130.4 |
| Deposits held | (565.2) | 17.3 | (582.5) |
| Advances received | (254.3) | 5.5 | (259.8) |
| Borrowings | (2,946.4) | (190.3) | (2,756.1) |
| Net Debt | (1,413.3) | (552.2) | (861.1) |
| Equity assets | 0.1 | - | 0.1 |
| Non-equity financial assets | 335.6 | 6.1 | 329.5 |
| Superannuation liabilities | (2,739.2) | (69.0) | (2,670.2) |
| Other employee entitlements and provisions | (543.0) | (51.9) | (491.1) |
| Other non-equity liabilities | (941.7) | (48.3) | (893.4) |
| Net Financial Worth | (5,301.5) | (715.3) | (4,586.2) |
| Carrying amount of non-financial assets | 12,863.5 | 1,431.0 | 11,432.5 |
| Net Worth | 7,562.0 | 715.7 | 6,846.3 |

Note: Totals may not add due to rounding.

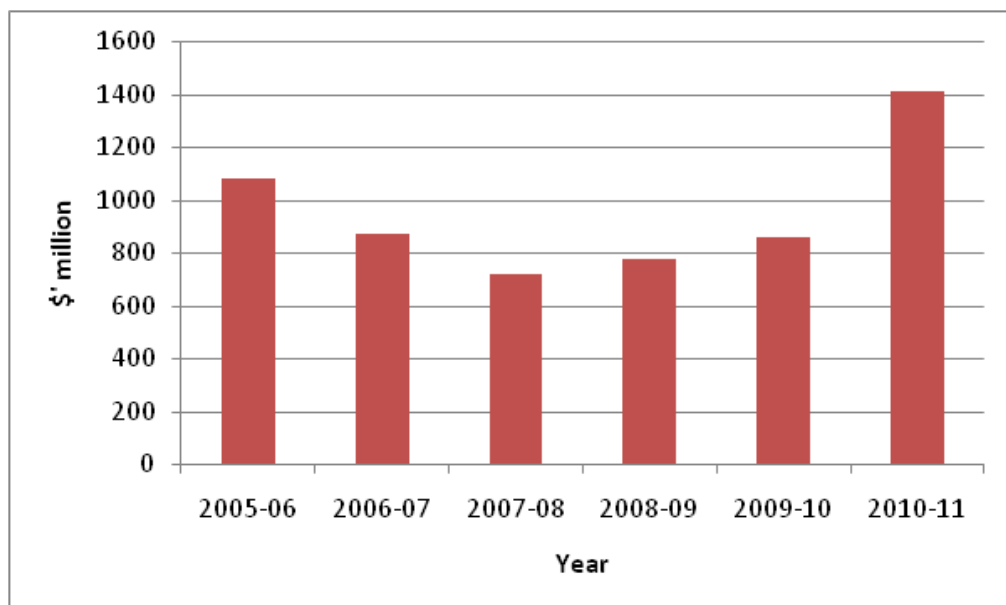
Treasurer's Annual Financial Statement cont...

From Table 3 it can be seen that:

- Net Debt increased by \$552.2 million, with lower revenues and higher capital investment being the principal factors, financed by the use of some financial investments, and a run-down of cash balances coupled with increased borrowings.
- Net Financial Worth declined by \$715.3 million largely as a result of the increase in Net Debt, together with increases in superannuation and other employee liabilities.
- Net Worth increased by \$715.7 million reflecting the increase in non-financial assets (which includes the effects of revaluing property, plant and equipment) offset by the reduction in Net Financial Worth which is described above.

Figure 4 illustrates the extent to which Net Debt began to increase as the effects of the Global Financial Crisis were felt following a period of steady improvement as the Territory took advantage of strong GST revenues:

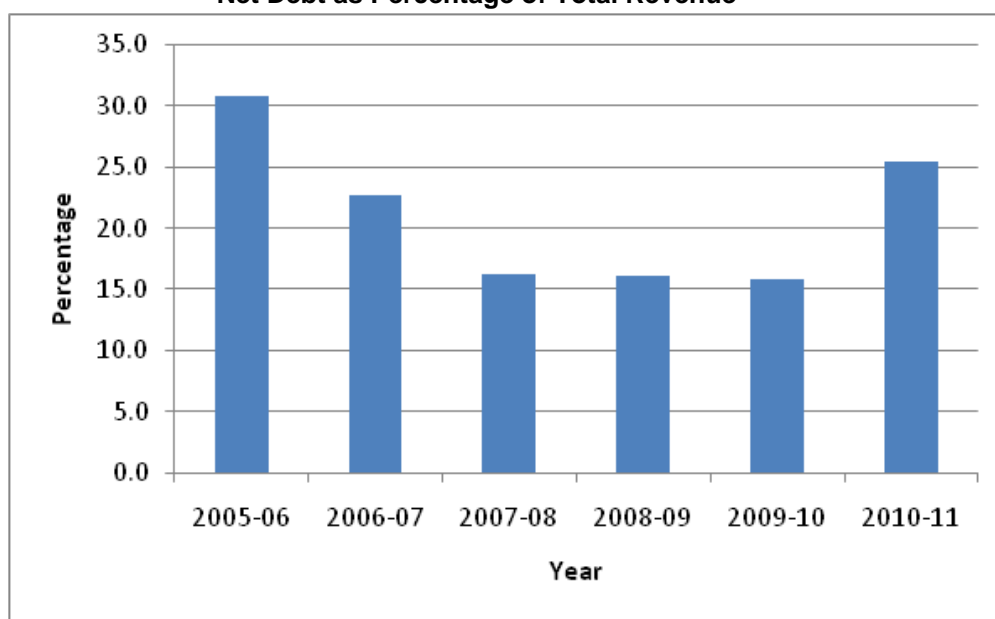
Figure 4
Total Public Sector
Net Debt
2005-06 to 2010-11



Treasurer's Annual Financial Statement cont...

While the movement in Net Debt does show a worsening trend in absolute terms, it can be put into perspective by relating Net Debt to Total Public Sector revenue which provides an indicator of the underlying capacity of the public sector to meet its liabilities and this is illustrated in Figure 5, below:

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



As noted above, Figure 5 illustrates the extent to which Net Debt as a percentage of total revenue declined over the five years to 2009-10, but increased sharply for 2010-11 as borrowings increased and financial assets declined during 2010-11.

Treasurer's Annual Financial Statement cont...

An examination of the forward estimates that were included as part of Budget Paper No. 2 *Fiscal and Economic Outlook* suggests that the trends outlined in Figures 4, and 5 may take some years to reverse. The extent to which those trends reverse may be beyond the ability of the Northern Territory Government to influence significantly as it will rely upon a growth in consumption expenditure in Australia as a whole, and the maintenance of existing Commonwealth Grants Commission relativities to influence the General Government and hence Total Public Sector revenues. While the Territory Government can influence expenditure, any significant reductions in discretionary expenditure would in all likelihood result in reduced economic activity in the private sector, to lower household sector incomes and cuts to, or elimination of, programs that provide utility to various sectors of the community.

Nevertheless, the recent announcement regarding the Inpex project may provide an opportunity for the Territory to reduce its own capital outlays. That, in turn, may assist in preventing any further adverse movement in Net Debt and Net Financial Worth.

Financial Performance and Position of the General Government Sector

The General Government Sector is that sector of government that is overwhelmingly dependent 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.

Treasurer's Annual Financial Statement cont...

The Sources of Public Sector Revenue

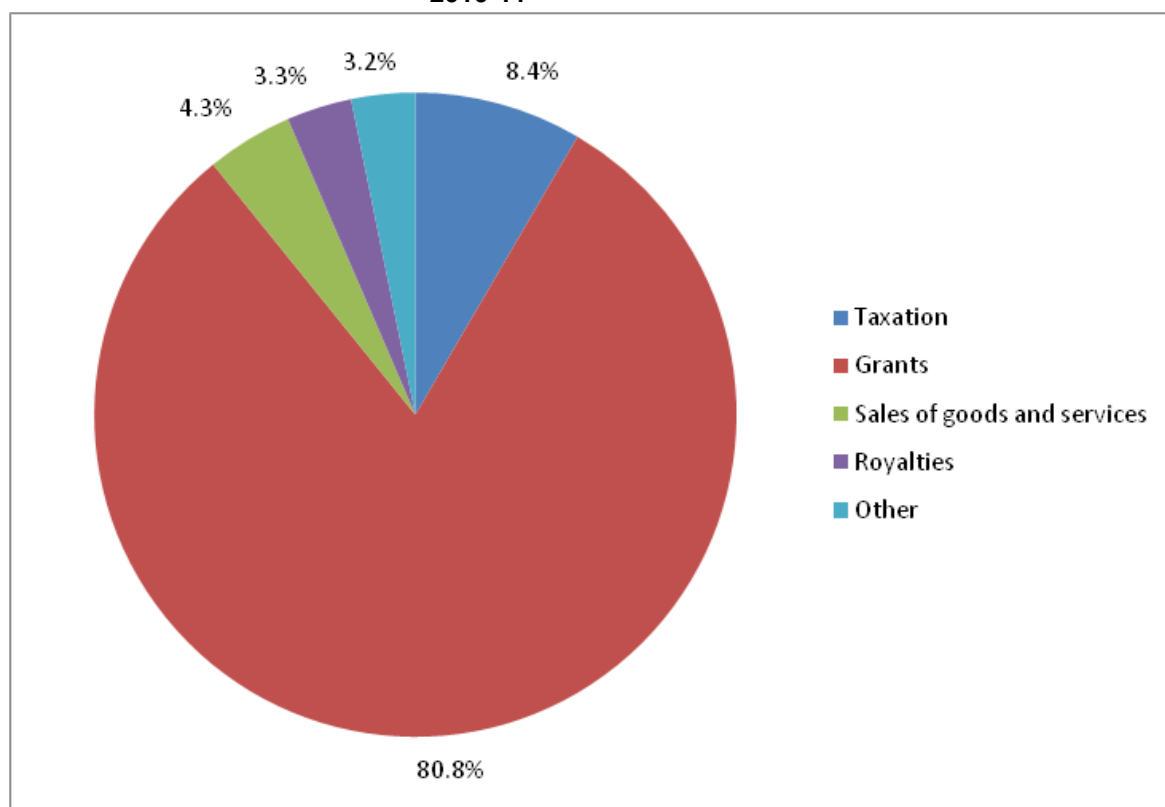
The financial relationship between the Commonwealth, and the States and Territories, is affected by the existence of what is known as “vertical fiscal imbalance”. This is the result of a progressive shift of taxing powers from the states to the Commonwealth in the years following federation, while the responsibility for the delivery of services remains largely the responsibility of the States and Territories. 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 and territories. The distribution of GST revenue is based upon recommendations made by the Commonwealth Grants Commission. The Commission uses a comprehensive 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...

The sources of revenue of the Northern Territory General Government Sector for 2010-11 are shown in Figure 6, below:

Figure 6
Components of General Government Sector Revenues As Percentage of Total Revenue
2010-11



Treasurer's Annual Financial Statement cont...

What Figure 6 highlights is the extent to which the Territory was reliant upon grants, both current grants and capital grants, for the year; in aggregate they represented 80.4 per cent of the total revenues of the Territory for 2010-11. The largest component of Commonwealth grants was the Territory's share of the Goods and Services Tax which amounted to \$2,344.8 million. That was \$144.4 million less than was received for 2009-10, reflecting the slowdown in expenditure by businesses and households in Australia since the emergence of the Global Financial Crisis.

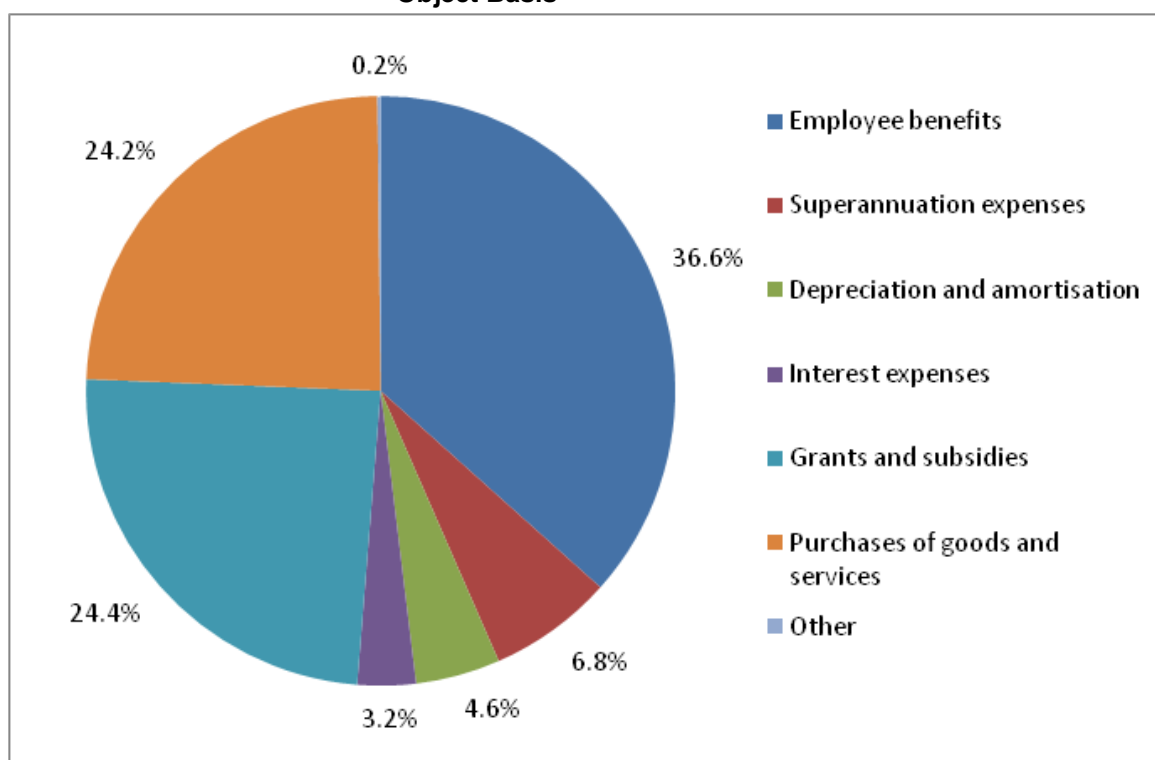
The Territory has no direct control over the amount received by way of GST grants; that is a function of a number of variables including national economic activity, the Territory's own revenue raising capacity and its relative population growth.

Treasurer's Annual Financial Statement cont...

General Government Sector Expenses

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

Figure 7
General Government Sector Expenses 2010-11
Object Basis



Treasurer's Annual Financial Statement cont...

Figure 8
General Government Expenses 2010-11
Functional Basis

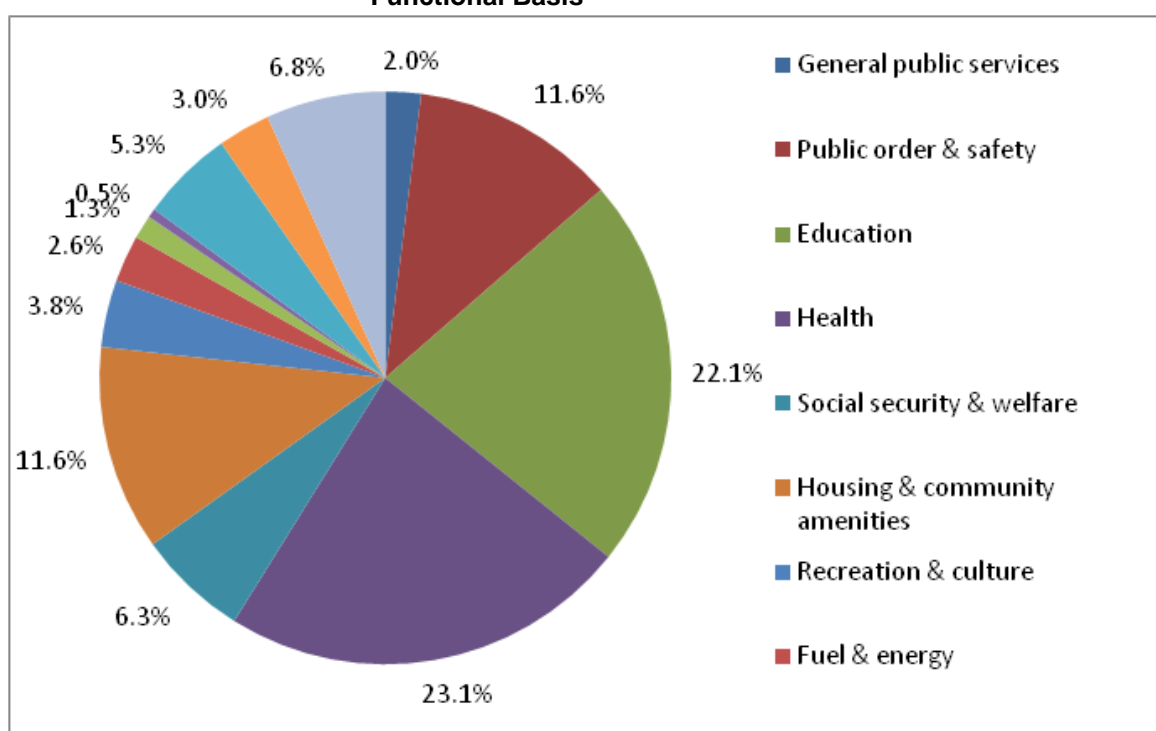


Figure 8 highlights the extent to which expenses of the General Government sector are dominated by employment expenses, the purchases of goods and services, and the provision of grants and subsidies, with those three categories represent 85 per cent of total expenses. At the same time four functional areas: health education, housing and public order and safety four functions represent 68 per cent of the General Government Sector's total expenses, as show in Figure 8.

Treasurer's Annual Financial Statement cont...

A comparison of revenues and expenses for the General Government Sector for the years 2010-11 and 2009-10 is shown in Table 4, below:

Table 4
General Government Sector
Operating Statement
For the Year Ended 30 June 2011

| | 2010-11 Actual \$'million | 2009-10 Actual \$'million | Increase/ (Decrease) \$'million |
|------------------------------|--|--|--|
| Taxation revenue | 397.0 | 414.6 | (17.6) |
| Grants | 3,815.0 | 3,747.2 | 67.8 |
| Sales of goods and services | 205.3 | 184.9 | 20.4 |
| Royalties | 154.6 | 145.6 | 9.0 |
| Interest income | 80.1 | 65.0 | 15.1 |
| Other | 71.4 | 91.5 | (20.1) |
| Total Revenues | 4,723.4 | 4,648.8 | 74.6 |
| Employee expenses | (1,642.6) | (1,532.2) | (110.4) |
| Other operating expenses | (1,091.7) | (1,000.4) | (91.3) |
| Depreciation | (207.4) | (173.7) | (33.7) |
| Superannuation expense | (306.4) | (289.3) | (17.1) |
| Other interest expenses | (143.0) | (134.9) | (8.1) |
| Other property expenses | (1.0) | (0.4) | (0.6) |
| Grants and subsidies | (1,093.0) | (981.8) | (111.2) |
| Total Expenses | (4,485.1) | (4,112.7) | (372.4) |
| Net Operating Balance | 238.3 | 536.1 | (297.8) |

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

Table 4 highlights the modest increase of \$74.6 million in revenues and general purpose grants, with the lack of growth due to the decline in the GST revenue. The amounts received by way of grants from the Commonwealth compared with the prior year are as follows:

Table 5
Revenues received from the Commonwealth

| | 2010-11 | 2009-10 |
|---------------------------|----------------|----------------|
| | \$'m | \$'m |
| GST revenue | 2,344.8 | 2,489.3 |
| General purpose grants | 146.4 | 204.5 |
| Specific purpose payments | 362.3 | 357.6 |
| National partnerships | 866.9 | 623.0 |
| Other | 94.6 | 72.8 |
| Total | 3,815.0 | 3,747.2 |

A notable point is the increase in revenues received by way of National Partnership grants. As can be seen from the preceding table, the value of these grants increased by \$243.9 million for the year. National Partnership grants are progressively replacing the former Commonwealth specific purpose payments. National partnership agreements have their roots in the Intergovernmental Agreement on Federal Financial Relations which defines them as agreements "defining the objectives, outputs and performance benchmarks related to the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements". It is likely that this class of grants will assume progressively more importance in the context of Commonwealth-Territory financial relations in the foreseeable future.

Total expenses of the General Government Sector increased by almost \$372.4 million, or 9.0 per cent, when compared with the prior year. The most significant contributors to the increase were employee expenses which increased by \$110.4 million or 7.2 per cent, and grants and subsidies which increased by \$111.2 million or 11.3 per cent. Employee expenses were affected by a growth in total employee numbers, with the creation of the Department of Families and Children having a marked effect, and by salary increases in line with enterprise bargaining agreements.

Treasurer's Annual Financial Statement cont...

The overall outcome was a deterioration in the sector's Net Operating Balance from \$536.1 million for 2009-10 to \$238.3 million for 2010-11.

The financial performance of the Sector for the year, as shown in the operating statement, was also reflected in its cash flows that are summarised at Table 6. The General Government Sector's cash and deposit balances at 30 June 2011 were \$186.3 million, compared with the original Budget projection of \$151.9 million. This was the result of lower than budgeted net cash flows from operations, offset by lower than budgeted capital outlays.

Table 6
General Government Sector
Summary of Actual and Budgeted Cash Flows
For The Year Ended 30 June 2011

| | Actual 2010-11 \$'million | Budget 2010-11 \$'million | Variance \$'million |
|---|--|--|--------------------------------|
| Cash receipts from operations | 4,918.1 | 4,771.2 | 146.9 |
| Payments for employees | (1,826.2) | (1,786.4) | (39.8) |
| Payments for goods and services | (1,258.2) | (1,141.5) | (116.7) |
| Grants and subsidies paid | (1,092.0) | (998.0) | (94.0) |
| Interest paid | (143.4) | (141.8) | (1.6) |
| Other | (8.9) | - | (8.9) |
| Net Cash Flows From Operating Activities | 589.4 | 703.5 | (114.1) |
| Net cash used in investing activities | (774.3) | (1,010.9) | 236.6 |
| Net cash received from financing activities | 60.9 | 64.5 | (3.6) |
| Net Increase/(Decrease) in Cash | (124.0) | (242.9) | 118.9 |
| Opening Balance of Cash and Deposits | 310.3 | 394.8 | (84.5) |
| Closing Balance of Cash and deposits | 186.3 | 151.9 | 34.4 |

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

Financial Position of the General Government Sector

As already discussed, there are three measures of financial position employed by the GFS:

- Net Debt
- Net Financial Worth
- Net Worth

In cases of Net Debt and Net Financial Worth, the financial position of the General Government Sector as at 30 June 2011 represented a deterioration of the position as at 30 June 2010 and also represented an adverse result when considered against the budgeted outcomes for the year. This outcome was a result of the Government's need to meet its ongoing operating expenses, while also funding higher capital outlays in the face of subdued revenue growth.

Treasurer's Annual Financial Statement cont...

The improvement in net worth for 2010-11 was the result of an increase in total assets to \$13,445.7 million (\$12,513.9 million as at 30 June 2010) which more than offset the increase in total liabilities. Total liabilities increased to \$5,883.8 million (\$5,667.6 million as at 30 June 2010), with the increases in the value of borrowings and superannuation liabilities representing the largest components of this increase. Within these broad aggregates there are, however, a number of movements of specific asset and liability classes and these are summarised at Table 7:

Table 7
General Government Sector
Components of Financial Position

| | Balance at 30 June 2011 \$'million | Movement for 2010-11 \$'million | Balance at 30 June 2010 \$'million |
|--|---|--|---|
| Cash and deposits | 186.3 | (123.9) | 310.2 |
| Advances paid | 143.3 | 9.7 | 133.6 |
| Investments, loans and placements | 856.5 | (278.2) | 1,134.7 |
| Deposits held | (290.8) | 151.2 | (442.0) |
| Advances received | (246.4) | (3.0) | (243.4) |
| Borrowings | (1,821.2) | (209.1) | (1,612.1) |
| Net Debt | (1,172.3) | (453.3) | (719.0) |
| Other non-equity financial assets | 142.2 | 12.9 | 129.3 |
| Equity assets | 2,356.7 | 202.9 | 2,153.8 |
| Superannuation liabilities | (2,739.2) | (69.1) | (2,670.1) |
| Other employee entitlements and provisions | (496.0) | (46.3) | (449.7) |
| Other non-equity liabilities | (290.1) | (40.0) | (250.1) |
| Net Financial Worth | (2,198.7) | (392.9) | (1,805.8) |
| Net carrying amounts of non-financial assets | 9,760.7 | 1,108.6 | 8,652.1 |
| Net Worth | 7,562.0 | 715.7 | 6,846.3 |

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

Some care needs to be exercised when considering the net worth of the General Government sector as one of the most material assets consists of equity – the value of the reported net assets of the Public Non-Financial Corporations (PNFC) and the Public Financial Corporations (PFC) Sectors that are deemed to be “controlled” by the General Government Sector through the Central Holding Authority. The value of this asset class at 30 June 2011 was \$2,356.7 million. This asset is, in the case of the PNFC Sector, essentially illiquid and its underlying value to the General Government Sector is ultimately dependent upon the value of the dividend and tax equivalent payments received. For 2010-11, the General Government sector recognised \$16.7 million by way of dividends (\$16.0 million in 2009-10) and \$8.9 million by way of tax equivalent payments (\$5.2 million in 2009-10) from both the PNFC and PFC sectors.

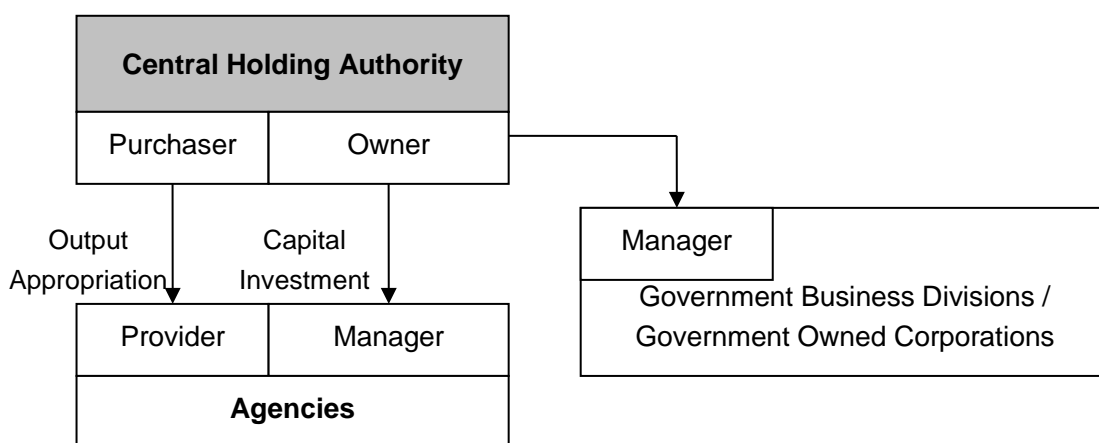
Treasurer's Annual Financial Statement cont...

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". 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 reside with the Central Holding Authority (CHA) and the relationship between the CHA and agencies is depicted below.

Figure 9
Central Holding Authority Relationship



Source: Northern Territory Treasury

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

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 Territory taxation, Commonwealth grants, and fees and fines raised pursuant to Territory legislation;
- all expenses incurred in relation to the "purchases" of outputs from Agencies, together with those expenses that are managed at a whole-of-government rather than at an Agency level such as borrowing expenses, superannuation expenses and long service leave expense;
- assets, other than physical assets, that have not been assigned to individual Agencies; and
- liabilities that are best managed at the whole-of-government level such as the Territory's stock of debt, and certain employee obligations.

The financial performance of the CHA, in a general sense, will reflect policy decisions made by the Government to ensure that the objectives set for the General Government Sector are achieved, and the Government's capital program is adequate. Given this, it is to be expected that the financial performance of the CHA, as measured by the operating surplus or deficit, will fluctuate from one year to another. The performance for 2010-11, compared with that of 2009-10 is illustrated in Table 8, below:

Treasurer's Annual Financial Statement cont...

Table 8
Central Holding Authority
Financial Performance

| | 2010-11 | 2009-10 |
|--|--------------------|--------------------|
| | \$'000 | \$'000 |
| Taxation | 488,686 | 494,523 |
| Grants and subsidies | 3,592,344 | 3,499,934 |
| Royalties, rents and dividends | 185,410 | 172,361 |
| Other | 163,605 | 181,226 |
| Total Revenues | 4,430,045 | 4,348,044 |
| Output expense | (2,821,119) | (2,629,536) |
| Commonwealth appropriation (1) | (698,946) | (605,099) |
| Interest expense | (123,002) | (111,554) |
| Superannuation expense | (209,394) | (394,394) |
| Other | (43,417) | (41,339) |
| Total Expenses | (3,895,878) | (3,781,922) |
| Net Operating Surplus/(Deficit) | 534,167 | 566,122 |

*This amount represents increases to appropriation pursuant to Section 19A of the *Financial Management Act* where monies have been provided to the Territory under either an Act of the Commonwealth or an arrangement between the Territory and Commonwealth.

As can be seen from the preceding table, revenues of the CHA were almost static for 2010-11, increasing by \$82 million for the year and the declines in GST and taxation revenues were barely matched by increases in other classes of revenue. Against this, total expenses increased for all classes of expense with the exception of superannuation expenses which declined by \$185 million as a result of an actuarial assessment of the liability. A significant factor in the fall in the value of the liability was the decline in the bond rate that is used to discount the value of future cash flows.

Treasurer's Annual Financial Statement cont...

The cash position of the CHA was weaker at 30 June 2011 than at the same time for 2010. Among the factors that affected the end-of-year cash position were:

- an decline in net operating cash flows(\$181.8 million);
- net cash outflows as a result of a reduction of \$218.9 million in deposits paid.

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

Table 9
Central Holding Authority
Abridged Statement of Cash Flows

| | 2010-11 | 2009-10 |
|---|------------------|----------------|
| | \$'000 | \$'000 |
| Net cash inflows from operating activities | 603,500 | 785,320 |
| Cash outflows from investing activities | (723,543) | (853,633) |
| Cash inflows/(outflows) from financing activities | (8,368) | 205,358 |
| Net increase/(decrease) in cash held | (128,411) | 137,045 |
| Opening Balance of Cash and Deposits | 268,174 | 131,129 |
| Cash at end of financial year | 139,763 | 268,174 |

Note: Totals may not add due to rounding.

From the above, it can be seen that the cash surplus on operations formed one of the funding sources for the capital program which totalled \$896.9 million, comprising:

- Territory capital appropriation of \$356.8 million; and
- Commonwealth appropriation of \$540.1 million.

Treasurer's Annual Financial Statement cont...

Central Holding Authority and Appropriation of Moneys by the Legislative Assembly

Notwithstanding the use of the accrual basis of accounting by governments, the appropriation of moneys remains cash-based. The process of appropriation is one by which the Legislative Assembly votes each year to appropriate cash for the purposes set out in the annual *Appropriation Act*.

For 2010-11, the *Appropriation Act* authorised an amount of \$4,719,865,000 to be applied from the CHA. The actual amounts applied, compared with the Budget, were as follows:

Table 10
Appropriation – Comparison of Actual and Budgeted Spending

| Purpose | Actual \$'000 | Budget \$'000 | Variance \$'000 |
|---|--------------------------|--------------------------|----------------------------|
| Output Appropriation | 2,821,119 | 2,728,537 | 92,582 |
| Interest, Taxes and Administration | 122,996 | 140,239 | (17,243) |
| Employee Entitlements | 167,630 | 185,062 | (17,432) |
| Treasurer's Advance(1) | 1,760 | 40,000 | (38,240) |
| Total Appropriated and Expended for Operating Activities | 3,113,505 | 3,093,838 | 19,667 |
| Capital Appropriation | 356,767 | 302,928 | 53,839 |
| Commonwealth Appropriation(2) | 1,239,085 | 1,323,099 | (84,014) |
| Total | 4,709,357 | 4,719,865 | (10,508) |

1 The figure shown here represents the net effect of Treasurer's Advance upon the CHA. The total amount of supplementation of Agencies' Allocations made pursuant to section 18 of the Financial Management Act and transfers of excess Allocation to Agencies made pursuant to section 20 of the Act was \$122.243 million. This was funded by the initial Allocation to the CHA of \$40 million, with a further amount of \$84.003 million being credited against Treasurer's Advance in accordance with section 19 of the Act.

2 Commonwealth appropriation did not identify separately capital and recurrent components, although those components were separately identified in the CHA financial statements. Capital outlays amounted to \$540.1 million while recurrent outlays amounted to \$698.9 million.

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 2011 that liability was \$2,739.2 million (\$2,670.2 million at 30 June 2010). That liability is held entirely by the General Government Sector and recognised as part of the liabilities of the Central Holding Authority.

The various schemes, and the unfunded liability in respect of each at 30 June 2011 were as follows:

Table 11
Superannuation Scheme Liabilities

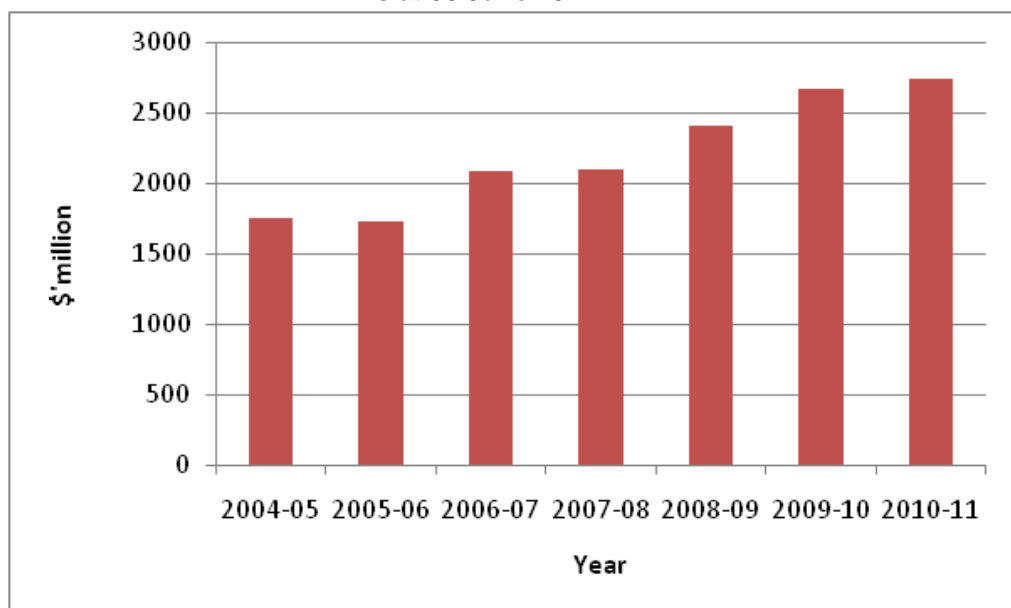
| Scheme | 2011 \$'million | 2010 \$'million |
|--|----------------------------|----------------------------|
| Northern Territory Government and Public Authorities Superannuation Scheme | 801.7 | 769.7 |
| Commonwealth Superannuation Scheme | 1,518.5 | 1,497.4 |
| Legislative Assembly Members' Superannuation Fund | 35.1 | 35.5 |
| Northern Territory Superannuation Supplementary Scheme | 225.2 | 222.9 |
| Northern Territory Government Death and Invalidity Scheme | 49.6 | 41.2 |
| Northern Territory Police Supplementary Benefit Scheme | 42.9 | 41.7 |
| Other Schemes | 66.2 | 61.8 |
| | 2,739.2 | 2670.2 |

Treasurer's Annual Financial Statement cont...

The value of unfunded superannuation liabilities is a function of a number of factors including real wage growth, expected earning rates on investments and the expected timing of benefit payments. In the case of defined benefit pension schemes, the expected longevity of members and pensioners will also affect the value of the liability. The liabilities shown above are the present values of the future cash flows that are estimated will be required to meet benefits as they arise. The determination of the present liabilities requires the discounting of the values of future cash flows using an appropriate discount rate to arrive at the present value. The discount rate used is the yield on Commonwealth Government bonds. Adverse movements of any of these factors will have the effect of increasing the overall unfunded liabilities of the public sector, with an accompanying increase in the annual superannuation expenses, and with that being reflected ultimately in higher future cash flows.

The growth in the liability for superannuation, incorporating all schemes, is shown at Figure 10, below:

Figure 10
General Government Sector
Liability for Superannuation
As at 30 June 2011



Treasurer's Annual Financial Statement cont...

Successive governments have closed defined benefit schemes to new members in order to control the growth of the liability. Thus the Commonwealth Superannuation Scheme has been closed to individuals employed by the Northern Territory, and the Northern Territory Government and Public Authorities Superannuation Scheme closed to new members. All persons employed by the Territory since 2009 are required to contribute to a scheme of their choice, with benefits confined to defined contributions. Similarly, the Legislative Assembly Members Superannuation Scheme was amended in 2004-05 with the effect that all members elected in 2005 and subsequently are members of a defined contribution rather than the defined benefit scheme that applies to members elected prior to 2005.

Notwithstanding the efforts of governments, total liabilities have continued to increase by virtue of growth in real incomes, the increasing length of service of those who were admitted to the schemes in question and a decline in bond yields that has occurred over recent years. A further and more recent effect is that of the Global Financial Crisis that has affected the value of superannuation assets with an accompanying effect on the unfunded liability of the various schemes.

In any event the liability is expected to begin to decline as members of the various schemes either retire or resign. Current estimates suggest that the value of the liability will peak in about 2016, with associated cash flows peaking some years later in 2025. This timing represents a slippage when compared with earlier estimates. For example the TAFS for 2005-06 suggested that the liability for superannuation was expected to peak in about 2012, with cash outlays expected to peak in around 2018. This slippage may be one more effect of the Global Financial Crisis where declines in the value of superannuation assets may cause some individuals to defer retirement until the situation improves.

Appendixes

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Appendix 1: Audit Opinion Reports Issued Since 30 June 2011

Financial Statements for the year ended 30 June 2011

| | Date 2010-11 Financial Statements tabled to Legislative Assembly | Date of Audit Report Year ended 30 June 2011 | Date of Audit Report Year ended 30 June 2010 |
|--|---|---|---|
| Cobourg Peninsula Sanctuary and Marine Park Board | 16 February 12 | 21 November 11 | 29 October 10 |
| Common Funds of the Public Trustee | Not yet tabled | 2 February 12 | 8 November 10 |
| Construction Division | 27 October 11 | 17 October 11 | 13 October 10 |
| Darnor Pty Ltd | N/A | 27 September 11 | 9 September 10 |
| Darwin Bus Service | 27 October 11 | 10 October 11 | 4 November 10 |
| Darwin Port Corporation | 27 October 11 | 4 October 11 | 28 September 10 |
| Darwin Waterfront Corporation | 30 November 11 | 4 November 11 | 2 November 10 |
| Data Centre Services | 27 October 11 | 30 September 11 | 29 September 10 |
| Desert Knowledge Australia | 30 November 11 | 23 November 11 | 17 November 10 |
| Gasgo Pty Limited | N/A | 27 September 11 | 9 September 10 |
| Government Printing Office | 27 October 11 | 30 September 11 | 28 September 10 |
| Indigenous Essential Services Pty Ltd | N/A | 27 September 11 | 17 September 10 |
| Jabiru Town Development Authority | 26 October 11 | 14 November 11 | 7 December 10 |
| Legislative Assembly Members' Superannuation Trust | 27 October 11 | 10 October 11 | 8 October 10 |
| Nitmiluk (Katherine Gorge) National Park Board | 21 February 12 | 21 November 11 | 26 October 10 |
| Northern Territory Government and Public Authorities Employees Superannuation Fund | 27 October 11 | 18 October 11 | 6 October 10 |
| Northern Territory Grants Commission | 24 November 11 | 14 October 11 | 7 October 10 |

Appendix 1: Audit Opinion Reports Issued Since 30 June 2011 cont...

Financial Statements for the year ended 30 June 2011

| | Date 2010-11 Financial Statements tabled to Legislative Assembly | Date of Audit Report Year ended 30 June 2011 | Date of Audit Report Year ended 30 June 2010 |
|--|---|---|---|
| Northern Territory Legal Aid Commission | 23 February 12 | 7 December 11 | 6 December 10 |
| Northern Territory Major Events Company Pty Ltd | N/A | 12 January 12 | 20 December 10 |
| Northern Territory Police Supplementary Benefits Scheme | N/A | 7 October 11 | 8 October 10 |
| Northern Territory Treasury Corporation | 27 October 11 | 30 September 11 | 28 September 10 |
| NT Build | | 18 November 11 | 29 October 10 |
| NT Fleet | 27 October 11 | 30 September 11 | 29 September 10 |
| NT Home Ownership | 27 October 11 | 10 October 11 | 15 October 10 |
| Power and Water Corporation | 27 October 11 | 27 September 11 | 12 September 10 |
| Surveyors Board of the Northern Territory of Australia | 23 February 12 | 3 November 11 | 22 November 10 |
| Territory Discoveries | 30 November 11 | 11 October 11 | 23 September 10 |
| Territory Insurance Office | 26 October 11 | 22 September 11 | 30 September 10 |
| Territory Wildlife Parks | 27 October 11 | 28 September 11 | 30 September 10 |
| Treasurer's Annual Financial Statement | 27 October 11 | 20 October 11 | 19 October 10 |

N/A –Financial statements are not required to be tabled

Not yet completed – as at 24 February 2012

Not yet tabled – as at 24 February 2012

Appendix 1: Audit Opinion Reports Issued Since 30 June 2011 cont...

Acquittals or other returns - for the year ended 30 June 2011

| | Deadline for submission of Audited Financial Statements | Date of Audit Report Year ended 30 June 2011 | Date of Audit Report Year ended 30 June 2010 |
|---|---|--|--|
| Bilateral Agreement on the Nation Building and Jobs Plan: | | | |
| National School Pride Acquittal | 31 October 11 | 30 November 11 | 7 March 2011 |
| Primary Schools for the 21st Century Acquittal | 31 October 11 | 30 November 11 | 7 March 2011 |
| Science and language Centres for the 21 st Century Secondary Schools Program | 31 October 11 | 30 November 11 | N/A |
| <i>Interstate Road Transport Act 1985</i> | 31 December 11 | 14 November 11 | 7 February 11 |
| Local Government Financial Assistance | ASAP | 3 October 11 | 7 October 10 |
| <i>Nation Building Program (National Land Transport) Act :</i> | | | |
| Investment Program | 31 December 11 | 20 December 11 | 17 May 11 |
| Road Safety (Black Spot) | 31 December 11 | 20 December 11 | 17 May 11 |
| Roads to Recovery | 31 October 11 | 4 November 11 | 27 January 11 |
| Natural Disaster Relief and Recovery Arrangements | 31 December 11 | 16 December 11 | 16 December 10 |
| Territory Insurance Office: | | | |
| MAC Business Annual Return | 31 October 11 | 26 October 10 | 29 October 10 |
| Insurance Business Annual Return | 31 October 11 | 26 October 10 | 29 October 10 |
| Banking Business Annual Return | 31 October 11 | 26 October 10 | 29 October 10 |
| N/A – Not applicable | | | |
| Not yet completed – as at 13 February 2012 | | | |
| Not yet tabled – as at 13 February 2012 | | | |

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Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 31 December 2011

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits, were identified in Appendix 3 of the October 2011 as being scheduled for the period.

Department of Business and Employment

| | |
|---|---------------|
| Credit Card analytics (an IT audit) | Ongoing |
| IT Outsourcing project (an IT audit) | Refer page 31 |
| On-Line Billing Information and Payments System (an IT audit) | Refer page 34 |

Department of Housing, Local Government and Regional Services

| | |
|--|---------------|
| Tenant management System IT Controls Environment (an IT Audit) | Refer page 44 |
|--|---------------|

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Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2012

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 audit have been scheduled for the period.

Department of Construction and Infrastructure

Construction works in progress

Department of Health

Grants by the Department to NGO's for the delivery of primary health services

Northern Territory Treasury

Treasury web portals

NT Police, Fire and Emergency Services

Calibration of speed detection and breath testing equipment

Office of the Commissioner for Public Employment

Project Employment Scheme

Power and Water

Accounts payable data analytics

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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: Overview of the approach to auditing performance management systems

Legislative Framework

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

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

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

Operational Framework

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

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity’s corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;

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

- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress with that achievement;
- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

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

Appendix 6: Abbreviations

| | |
|----------|--|
| AASB | Australian Accounting Standards Board |
| APRA | Australian Prudential Regulatory Authority |
| CBF | Community Benefit Fund |
| CSO | Community Service Obligation |
| DBE | Department of Business and Employment |
| DBS | Darwin Bus Service |
| DCS | Data Centre Services |
| DHF | Department of Health and Families |
| DKA | Desert Knowledge Australia |
| DPI | Department of Planning and Infrastructure |
| DEEWR | Department of Education, Employment and Workplace Relations |
| GAS | Government Accounting System |
| GBD | Government Business Division |
| GPO | Government Printing Office |
| GFS | Government Finance Statistics |
| IT | Information Technology |
| MAC Fund | Motor Accidents Compensation Fund |
| NTGPASS | Northern Territory Government and Public Authorities Superannuation Scheme |
| NTPFES | NT Police, Fire and Emergency Services |
| NTPSBS | Northern Territory Police Supplementary Benefit Scheme |
| OBIPS | Online Billing Information and Payments System OBIPS |
| SIMSC | Strategic Information Management Steering Committee |
| TAFS | Treasurer's Annual Financial Statement |
| TIO | Territory Insurance Office |
| UPF | Uniform Presentation Framework |

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Auditor-General for the Northern Territory
GPO Box 4594
Darwin NT 0801
Australia

Level 12
Northern Territory House
22 Mitchell Street
Darwin NT 0800
Australia

Telephone: (08) 8999 7155

E-mail: nt.audit@nt.gov.au
www.nt.gov.au/ago