



Auditor-General for the Northern Territory
Auditing for Parliament

August 2013

Report to the Legislative Assembly



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Contents

	Page
Contents	3
Transmittal letter to the Speaker	5
Auditor-General's Overview	7
Reports on the Results of Audits	9
Matters Referred to Auditor-General Pursuant to Section 6 of the Public Information Act	59
Appendix 1: Audit Opinion Reports Issued Since 31 December 2012	63
Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 30 June 2013	65
Appendix 3: Proposed Audit Activity in the Six Months Ending 31 December 2013	67
Appendix 4: Overview of the Approach to Auditing the Public Account and Other Accounts	69
Appendix 5: Overview of the Approach to Auditing Performance Management Systems	71
Appendix 6: Agencies not Audited in the year ended 30 June 2013	73
Appendix 7: Public Information Act	75
Appendix 8: Abbreviations	79
Index of Matters Reported	81

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Northern Territory Auditor-General's Office

Auditing for Parliament

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

27 August 2013

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months ended 30 June 2013 and I request that you table the report today in the Legislative Assembly.

The larger part of the report deals with the results of performance management system audits, compliance audits that were performed to assess the adequacy of controls over the administration of public monies and audits of information technology systems that were undertaken to assess whether access to those systems and controls over systems' data were adequate. Also included are the results of audits of financial statements for those institutions that are required to report on a calendar year basis.

Yours sincerely,

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

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 January 2013 to 30 June 2013.

The audits that are reported here cover four broad areas; financial audits, reviews of information technology systems, compliance audits and performance management system audits.

The first half of the 2013 calendar year saw the completion of audits of the financial statements of each the Territory's principal tertiary educational institutions: Charles Darwin University, Menzies School of Health Research and Batchelor Institute of Indigenous Tertiary Education, each of which is required to report on a calendar year basis.

Financial statements prepared by Agencies each year are not audited as this would first require a direction from the Treasurer to Accountable Officers to submit those statements to the Auditor-General pursuant to section 11(3) of the *Financial Management Act*. Consequently, I place considerable reliance upon what are known as compliance audits to assess the extent to which Agencies' internal control systems function effectively, whether Agencies are complying with prescribed requirements pertaining to internal control and, flowing from that, whether I am able to rely upon the financial information prepared by Agencies at the end of each financial year as part of my audit of the Treasurer's Annual Financial Statements.

Compliance audits were conducted at twelve Agencies during the period covered by this report. The issues raised by the audits bear similarities to the results of similar audits conducted in other Agencies during 2011-12 and while I do not consider the results to affect the reliability of data used in the preparation of the Treasurer's Annual Financial Statements, they do highlight the need for Accountable Officers to satisfy themselves on a regular basis that their internal controls are functioning in the way that might be expected.

One performance management system audit was conducted during the period under review and that audit examined the management by the Department of Health of the contract for the provision of aeromedical retrieval services by CareFlight.

Auditor-General's Overview cont...

It has become customary to conduct information technology audits during the first half of the financial year in order to gain some assurance about the adequacy of information system controls in order to form a view as to whether those systems can be relied upon as part of the audits or review of financials statements that are conducted at the end of the financial year. Included in this report are the results of audits of the electronic funds transfer system that is used by Agencies, together with a post-implementation review of the asset management system developed by the Power and Water Corporation and the Corporation's Maximo system.

Reports on the Results of Audits

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Batchelor Institute of Indigenous Tertiary Education

Audit findings and analysis of the financial statements for the year ended 31 December 2012

Background

The Batchelor Institute of Indigenous Tertiary Education (the Institute) is established under the *Batchelor Institute of Indigenous Tertiary Education Act*. Section 46 of the Act requires the Institute to prepare financial statements within 3 months of the end of the Institute's financial year (31 December) and to submit those to the Auditor-General.

Audit Opinion

The audit of the financial statements of the Institute for the year ended 31 December 2012 resulted in an unqualified independent audit opinion. That opinion was issued on 31 May 2013.

Key Findings

Financial analysis

The financial performance and financial position of the Institute are illustrated in the following tables.

Batchelor Institute of Indigenous Tertiary Education cont...

Financial Performance for the year		
	2012	2011
	\$'000	\$'000
Revenue from continuing operations	43,108	47,083
Less expenses from ordinary activities		
Employee expenses	(26,242)	(24,393)
Depreciation	(1,551)	(1,475)
Other	(13,603)	(15,448)
Total expenses from continuous operations	(41,396)	(41,316)
Operating result before income tax expense	1,712	5,767
Less Income tax expense	-	-
Operating result after income tax expense	1,712	5,767

As shown above, the Institute reported an operating surplus for the year ended 31 December 2012 of \$1.712 million, compared with a result of \$5.767 million for the prior year. The decline in the result was due mainly to a fall in income of \$3.975 million which, in turn, was attributable to a reduction of \$12.888 million in funding from the Australian Government offset by an increase of \$2.549 million received from the Northern Territory Government and an increase of \$6.456 million in revenue from consultancy and contract fees.

The decline in funding received from the Australian Government reflects a fall in student numbers for the year, together with reduced funding for the Away From Base project as a result of the establishment of the Australian Centre for Indigenous Knowledge and Education (ACIKE) and the accompanying collaboration between the Institute and the Charles Darwin University during 2012.

The Institute's expenditure of \$41.396 million in 2012 was consistent with expenditure in 2011 of \$41.316 million. While employee related expenses increased by \$1.849 million due to salary increases provided to staff, other expenses decreased by approximately \$1.884 million (related largely to a reduction in travel expenses, consultants' fees and training expenses).

Batchelor Institute of Indigenous Tertiary Education cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Current assets	18,830	19,541
Less current liabilities	(6,236)	(7,193)
Working capital	12,594	12,348
Add non current assets	35,700	31,301
	48,294	43,649
Less non current liabilities	(782)	(692)
Net assets	47,512	42,957
Represented by:		
Reserves	30,393	27,550
Accumulated funds	17,119	15,407
Equity	47,512	42,957

The increase in net assets, and equity, for the year was \$4.555 million and this increase consists of the operating result of \$1.712 million together with an amount of \$2.843 million arising from the revaluation of buildings, infrastructure, and art and library collections.

Charles Darwin University

Audit findings and analysis of the financial statements for the year ended 31 December 2012

Background

The Charles Darwin University (the University) is established under the *Charles Darwin University Act*. The University controls three subsidiary entities: the Menzies School of Health Research; the Charles Darwin University Foundation, a company limited by guarantee and which acts as trustee of the Charles Darwin University Foundation Trust; and CDU Amenities Limited, which is also a company limited by guarantee.

The University provides both higher education, and vocational education and training (VET). Higher education funding is provided to the University by the Commonwealth Government through direct grants, and through the proceeds of student loans under the auspices of the HECS-HELP Scheme. VET funding is provided by the Northern Territory Government through monies appropriated by the Legislative Assembly to the Department of Education and Training. The University also attracts research funding from a variety of sources.

The University is required by its enabling Act to prepare financial statements as at 31 December each year and to submit those statements to the Auditor-General by 31 March each year.

Audit Opinion

The audit of the financial statements of Charles Darwin University for the year ended 31 December 2012 resulted in an unqualified independent audit opinion. That opinion was issued on 28 May 2013.

Key Findings

Financial Performance and Financial Position of the University

The financial performance of the University, as measured by its operating result, was \$25.5 million (\$12.0 million for 2011). The higher education component of the University achieved a surplus of \$38.4 million for the year, which was offset by a \$12.9 million deficit on the part of the VET component.

Charles Darwin University cont...

Financial Performance of the University for the year – excluding controlled entities

	2012	2011
	\$'000	\$'000
Revenue from ordinary activities		
Financial assistance and grants from the Commonwealth	124,937	95,096
Financial assistance from the Northern Territory Government	59,781	58,407
Other revenue (HECS, fees, interest, etc)	71,125	68,757
Total revenue from ordinary activities	255,843	222,260
Less expenses from ordinary activities		
Employee related costs	(127,339)	(118,417)
Administration, operational and other expenses	(103,291)	(91,814)
Total expenses from ordinary activities	(230,360)	(210,231)
Operating result for the year	25,483	12,029

The increase in revenue for the year was a result of:

- a significant increase in Australian Government financial assistance grants, accompanied by an increase in Northern Territory Government financial assistance; and
- an increase in HECS – HELP, and Fees and Charges.

The increase in expenses was predominantly due to an increase in employee related expenses, which increased by \$8.9 million for the year. A notable expense for the year was that of scholarships, grants and prizes which totaled \$17.4 million compared with \$11.4 million for 2011.

Charles Darwin University cont...

Financial Position of the University at year end – excluding controlled entities

	2012	2011
	\$'000	\$'000
Current assets	127,981	94,779
Less current liabilities	(31,482)	(29,572)
Working capital	96,499	65,207
Add non current assets	406,657	384,870
	503,156	450,077
Less non current liabilities	(7,734)	(1,458)
Net assets	495,422	448,619
Represented by:		
Reserves, restricted and accumulated funds	495,422	448,619
Equity	495,422	448,619

The increase in net assets, and equity, for the year was represented by the operating result of \$25.483 million together with a gain of \$21.320 million arising from the revaluation of land and buildings.

The reported reserves of the University at 31 December 2012 included restricted funds of \$48.4 million. This amount represented the unexpended value of revenues received for the purpose of funding of specific projects and is not, therefore, available to meet discretionary spending by the University.

Charles Darwin University Foundation

Audit findings and analysis of the financial statements for the year ended 31 December 2012

Background

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

The Foundation and the Trust were established as the fundraising arm of the University and both are controlled entities of the University within the meaning of section 41 of the *Charles Darwin University Act*.

The purpose of the Foundation is to enhance the relationship between the University and the wider Northern Territory community, and to raise funds for the University. In pursuit of this objective, the Foundation seeks donations and other contributions while also providing assurance to donors that bequests and donations will be applied in accordance with the wishes of the testator or donor.

Audit Opinion

The audit of the financial statements of the Foundation and the Trust for the year ended 31 December 2012 resulted in unqualified independent audit opinions for both entities and these were issued on 3 May 2013.

Key Findings

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

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

Charles Darwin University Foundation cont...

Financial Performance for the year – CDU Foundation – Trust Only

	2012	2011
	\$'000	\$'000
Revenue from ordinary activities	4,617	1,424
Less expenses from ordinary activities		
Trust donations disbursed	(2,449)	(1,098)
Donations in kind – operational	(78)	(49)
Other	(4)	(6)
Total expenses from ordinary activities	2,531	(1,152)
Net operating result for the year	2,086	272

The Trust's total revenue increased from \$1.4 million in 2011 to \$4.6 million in 2012, due largely to a donation of \$3.1 million received during the year from INPEX for the establishment of the North Australian Centre for Oil and Gas (NACOG). Trust distributions also increased from \$1.1 million in 2011 to \$2.4 million in 2012, including \$1.1 million of the donation to establish the NACOG, with the net result being a surplus for the year of \$2.1 million.

Charles Darwin University Foundation cont...

Financial Position at year end – CDU Foundation – Trust Only

	2012	2011
	\$'000	\$'000
Current assets	6,588	4,529
Less current liabilities	-	(17)
Working capital	6,588	4,512
Add non current assets	463	411
Net assets	7,051	4,923
Represented by:		
Investment revaluation reserve	109	66
Retained earnings	6,942	4,857
Total Trust funds	7,051	4,923

Department of Corporate and Information Systems

Electronic Funds Transfer System

Background

The transfer of the Northern Territory Government's banking services from the Westpac Banking Corporation to the National Australia Bank in 2012 was accompanied by a number of changes to the Government's systems and processes, including changes to electronic funds transfer systems that are used to process payments to creditors and employees.

This audit focused on ensuring that appropriate controls had been designed and implemented to address key risks associated with electronic payments.

Key Findings

The audit found that appropriate security had been established within the system to restrict access to sensitive functions. It was also noted that the rules for system security had been configured to achieve segregation of duties in order to avoid circumstances where one person had control over successive stages of the approval and payment process.

The level of approval required for system changes and for the initiation of transactions was considered adequate. User identification and authentication controls had been implemented within the system, with those controls being considered to be satisfactory.

It was noted that the system had only limited reporting capability in respect of security event and audit log reporting. This limitation had the potential to restrict management's ability to monitor performance of sensitive activities within the system.

It was also noted that limited procedures and standards existed to guide those responsible for the management of the system. Those procedures are considered to be important in ensuring that controls are consistently applied in the management of what is a sensitive system.

The business continuity plan for the Department of Corporate and Information Services (DCIS) was under development at the time of the audit and it was recommended to the Department that "work-around" practices and contingency plans for interruptions in banking services or payment systems should be considered as part of the plan.

Department of Corporate and Information Systems cont...

Other recommendations were made at the conclusion of the audit in respect of:

- System interfaces with other key Government systems. These interfaces require ongoing maintenance, but it was noted that there were only limited documented procedures that outlined roles and responsibilities for those charged with the monitoring and maintenance responsibility for the interfaces.
- The need to review the number of personnel with access to certain key functions, with that access limited to a centralised team.

Department of Corporate and Information Systems cont...

The Department of Corporate and Information Services has commented:

DCIS notes the audit determined that appropriate management controls are applied over the electronic funds transfer system including satisfactory security for segregation of duties, system change approvals and user identification and authentication controls. The audit also identified opportunities to further strengthen the system with additional reporting and procedural documentation.

The EFT system provided under the contract is the same as that used by all corporate customers of the banking provider. EFT transaction reports are available for agency monitoring. In addition to standard systems data reports, a tailored reporting suite is being designed in consultation with the bank under the scheduled enhancement program. Expansion of the reporting capability will be complete by November.

Business continuity plans have been enhanced to include contingency actions and system work around processes specific to Northern Territory Government banking requirements. Plans have been developed in close collaboration with the bank through a detailed evaluation of the requirements of both organisations.

Previous banking procedures are being updated to align with the new system. This task is well progressed and on track for completion this quarter.

Agency employees requiring system access are regularly reviewed and confirmed, with agencies to ensure appropriate access. This has resulted in agencies requesting removal of some low security permissions since the audit.

Department of Health

Aero Medical Services Contract

Introduction

Aero medical retrieval services are an integral component of the health care system in the Northern Territory, particularly given the geographical dispersion of a sizable part of the Territory's population. The pattern of development across the Territory has seen the centralisation of key medical facilities with an accompanying need to transfer patients to major population centres when circumstances dictate. This, in turn, requires that an integrated service be available under which the provision of aircraft and their crews, including appropriately trained aero-medical teams be available to retrieve patients when the need arises.

Audit Scope and Objective

The objective of this audit was to determine whether the systems established by the Department of Health support the management of the contract between the Northern Territory Government and CareFlight for the provision of aero medical services and, in particular, enable CareFlight's performance and contractual obligations to be monitored and managed. This audit was undertaken during the period March to May 2013 and was focused on the Top End Medical Retrieval Service.

As this audit was a performance management system audit, the objective was centred on the extent to which a system existed across the Department and the Top End Health Network that enabled all facets of the contract with CareFlight to be managed effectively.

Inputs to that system would include activity data drawn from CareFlight's IT systems (as provided for in the contract) and invoices submitted by CareFlight. Outputs from the system would include payments to CareFlight (made only after activity data had been reconciled with invoices), and activity reports to the Health Network (in their capacity as initiators of aeromedical retrievals and recipients of patients, and trainers of clinicians involved in retrieval activities) and to Departmental managers at various levels to enable overall activity and performance under the contact to be assessed over the contract's life. In this context the involvement of Health Networks is seen as an important part of the overall management of the contract if a disjointed management model is to be avoided.

Department of Health cont...

Audit Opinion

Based upon the evidence gathered during the audit I have formed the opinion that the systems established by the Department, at the time of the audit, did not fully support the management of the contract between the Northern Territory Government and CareFlight for the provision of aero medical services and, in particular, did not enable CareFlight's performance and contractual obligations to be monitored and managed at a level commensurate with that required of a contract of this magnitude.

Many of the findings and recommendations from a July 2005 Risk Management Services' (RMS) "*Review of the Aeroretrieval Medical Service System*" are as applicable to the CareFlight contract as they were to the previous aero medical retrieval service model, under which Pearl Aviation was contracted to supply the aircraft. This is somewhat disturbing given those recommendations were aimed at establishing control frameworks for managing that contract and processing associated payments and leads to questions about the Department's ability to manage contracts, given the eight years since the RMS review.

The Department itself has acknowledged that there were deficiencies in its ability to monitor and manage CareFlight's performance and contractual obligations as evidenced through specific, targeted steps it had taken in the second half of 2012, including engaging a consulting firm to conduct a contract review, and the recruitment of staff with contract management qualifications and experience.

I acknowledge that the Department was, at the time of the audit, implementing the recommendations that were included in the report prepared by the consultants and the timing of my audit might be seen as unfortunate in that it took place before the Department's staff had the opportunity to implement fully those recommendations.

Notwithstanding the findings that are set out in this report I believe that the Department needs to continue with the work that it has commenced and that is intended to improve the systems for managing the contract, while recognising that realistic timeframes are necessary to put these improvements in place.

Department of Health cont...

Key Findings

Contract management

This audit focused on the systems that the Department had in place to manage the contract between the Department and CareFlight for the provision of aero medical services. It was clear during the audit visit that the Department was in the midst of improving and expanding those systems and establishing a clear contract management framework, encompassing all aspects of the contract management, including meeting agendas, evidence, data and reporting requirements, invoicing, and payments. One issue noted during the audit was an apparent heavy reliance on CareFlight to keep and maintain data. At the same time the data captured by CareFlight's systems were not being adequately extracted by the Department to enable it to verify invoices and to generate management reports to meet the needs of both contract managers and clinicians.

Failure to implement earlier recommendations

Whilst changes in staff within the Department have not helped with the ability to manage the contract, there are processes and systems that should have been in place and established to assist with the management of the contract with Pearl Aviation and the Interim Service contract with CareFlight that I would have expected to have been carried across to the Top End Medical Retrieval Service (TEMRS) contract. Many of the findings and recommendations from the July 2005 Risk Management Services' (RMS) "*Review of the Aeroretrieval Medical Service System*" are as applicable to the CareFlight contract as they were to the previous aero medical retrieval service model with Pearl Aviation being contracted for the supply of aircraft.

Department of Health cont...

Lack of adequate data to support contractual payments

During the course of the audit information was sought from the Department about the number of aero medical retrievals, per year and by month; the number of retrievals by location and the number of retrievals by flying hours per month. The Department indicated that while it had most of this information, it was not readily available and would have to be compiled. Further, I was advised that only data for 2012 was available. The Department did not appear to be applying analytical techniques to identify the average retrieval times and the average cost per retrieval. There is also a need, I believe, to identify the various components/services that are provided by CareFlight and to manage those components individually (Top End Medical Retrieval Service (TEMRS) and CareFlight Medical Escort (CME)). I noted that the Department was implementing a number of improvements in this area at the time of the audit.

Recommendations

That the Department:

- continue the work that it has begun to improve the systems for managing the contract and given sufficient realistic timeframes to put these improvements in place;
- strengthen its documentation management and recording systems to ensure that final versions of contracts, including all associated schedules and addendums are able to be located in both signed hard copy and electronic versions;
- report the progress against the consultant's recommendations through to the Chief Executive Officer, not just to the Executive Director responsible for the Business Unit, notwithstanding that it was the Business Unit that initiated the review;
- conduct a review of all invoices paid to CareFlight since the commencement of the contract (1 September 2011 for rotary wing (RW) services and 16 September 2011 for fixed wing (FW) services) to ensure that the Department has been charged correctly in line with the contract specifications, with particular attention to verifying flying hours (noting that additional information is required from CareFlight to enable this to occur) as well as reviewing the rates used for excess flying hours charges;
- follow up on suspected overpayments made to CareFlight as a result of incorrect invoicing by CareFlight – amount that was being investigated at the time of the audit and was in the vicinity of \$185,000;

Department of Health cont...

- ensure that accrued and prepaid expenses are recognised appropriately in the Department's financial statements in order to ensure that Australian Accounting Standards and Treasurer's Directions are complied with;
- investigate and formalise cost analysis techniques to provide useful relevant and reliable information about the service being provided to drive opportunities for better contract management and patient outcomes;
- revisit and reconsider the broader information requirements of the Department, including the Hospital Network and Remote Health divisions; and
- formalise the data reporting and recording requirements for all potential users, including Department Administration for reporting to the Minister and Treasury, Remote Health and Emergency Departments for training medical staff, to allow better management, cost analysis of the service and patient outcomes.

Key Dates

As already indicated, the Department previously operated an aero medical retrieval service model known as the Northern Territory Aero Medical Service (NTAMS). Under this arrangement the Department supplied medical staff and logistics, while a contractor provided the fixed wing aircraft.

In the Top End this provider was Pearl Aviation. The decision in December 2008 to re-tender the aero-medical contract for the Top End led to the termination of the contract with Pearl Aviation.

As part of the tendering process for a new service provider, the Department took the opportunity to revise the aero medical retrieval services model and incorporate recommendations from the:

- 2003 Bansemer *"Review of the Northern Territory Department of Health and Community Services"*;
- June 2005 report by Associate Professor Russell Gruen for the development of the Royal Darwin Hospital – National Centre for Critical Care and Trauma Response;
- August 2006 *"Review of the Northern Territory's Aeromedical Retrieval Services"* by J. Cornish and Associates;

Department of Health cont...

- November 2008 *“Aeromedical Services Model and Aircraft Fleet Assessment for the Northern Territory’s Aerial Medical Service (NTAMS)”* by J. Cornish and Associates;
- and Departmental staff with appropriate experience.

The new model was called the Top End Medical Retrieval Service (TEMRS) and was based upon the successful contractor providing an integrated service based on fixed wing and rotary wing aircraft, logistics and medical staff for the Top End.

While the contract with Pearl Aviation had been due to expire on 9 July 2014, initial negotiations between the Department and Pearl Aviation were directed towards an expiry date of 31 December 2010. However, as aircraft maintenance work was required if the aircraft were to continue the service, it was agreed that the contract would terminate on 30 June 2010. Pearl Aviation was provided with a compensation payment of \$3.5 million, exclusive of GST for early termination.

Tenders for the new integrated TEMRS were advertised on 22 December 2009 and closed on 14 April 2010.

As the contract with Pearl Aviation was scheduled to cease on 30 June 2010 and given the need to evaluate appropriately the tender responses received on 14 April 2010, while also providing sufficient time for the successful tenderer to establish the required service, an Interim Service provider was required.

CareFlight was chosen to provide the Interim Service which commenced on 1 July 2010 and expired on 15 September 2011 following the granting of several extensions.

The Tender Assessment Panel undertook the tender evaluation for the TEMRS during the life of the Interim Service. The assessment was a complex process, took considerable time and involved legal, aviation and Treasury expertise as well as drawing on Departmental resources including administration, contract and medical staff. In February 2011 the Panel provided its recommendation to the Department’s Chief Executive (CE).

Following the CE’s review, the service model was further refined and another round of discussions held with tenderers to clarify the service model requirements and to ascertain whether they could be achieved.

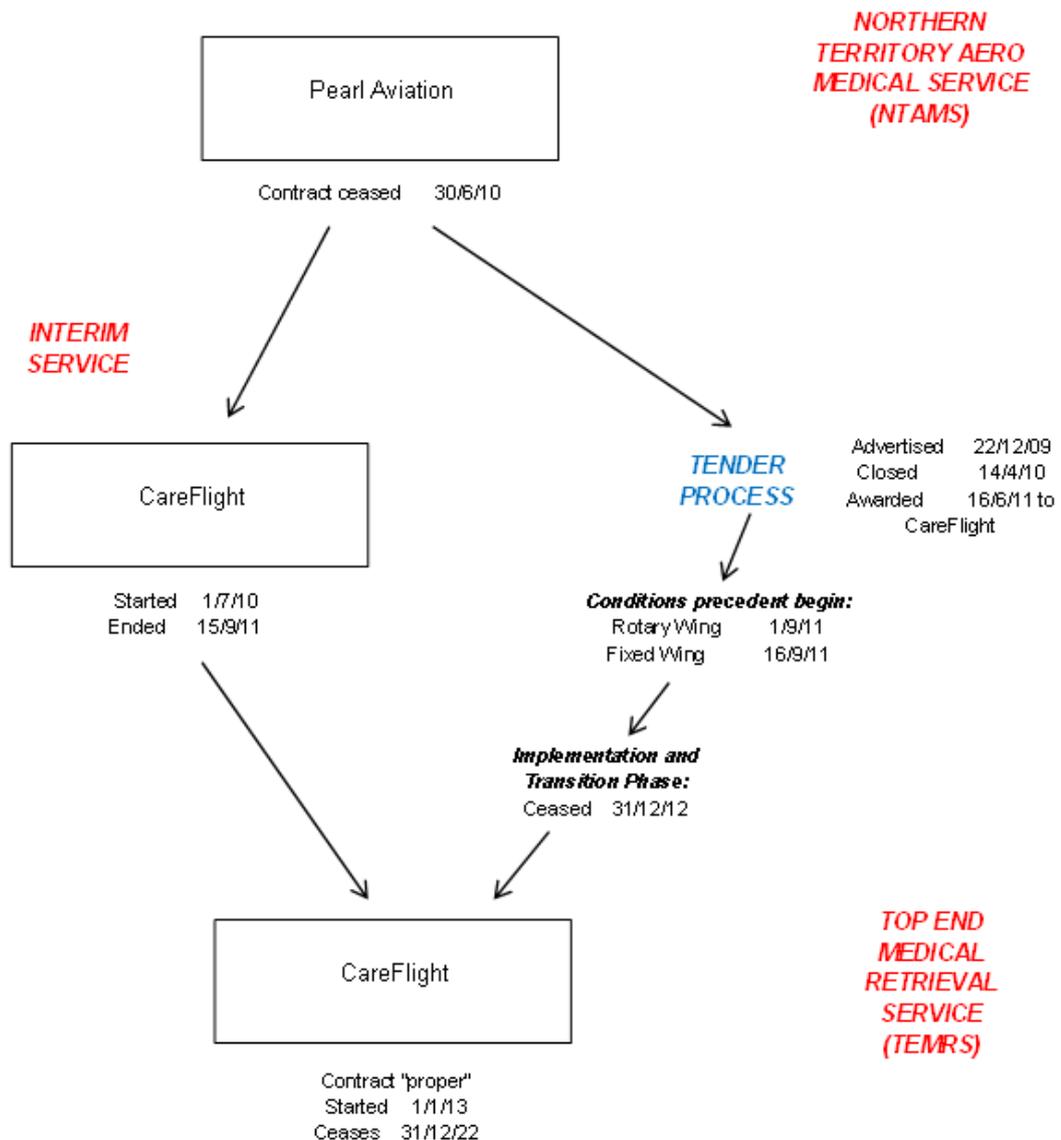
Department of Health cont...

A decision was eventually reached, some 14 months after Tenders closed, and on 16 June 2011 CareFlight was awarded the TEMRS contract for both the fixed wing and rotary wing components of the service. The contract is for 10 years, expiring on 31 December 2022.

The contract commenced on 1 January 2013, with both the fixed and rotary wing services required to be transitioned from the transitional service arrangements to the new contract arrangements by 31 December 2012. Figure 1 below shows the key dates.

Department of Health cont...

**Figure 1
Key dates**



The TEMRS contract is complex as it is required to deal with both aviation and medical matters and accompanying that contract are a number of subordinate contracts including finance, leasing and other agreements.

Department of Health cont...

Significant expense

The TEMRS is a significant contract with an annual budgeted cost of \$26.7 million, GST exclusive.¹ It is a challenging contract to manage in terms its complexity and largely due to events requiring aero-medical retrieval being difficult to forecast with reliability.

Aero medical retrieval is initiated by medical staff within the Department/Hospital Network and outside of the contract management staff/administration control. This separation of roles can give rise to divergent views with one group focused on minimising risk to people while the other may be concerned about the costs of doing so. The collection of adequate and appropriate data and proper data analysis, with accompanying training of medical staff may assist in providing a useful basis for preventing the emergence of conflicts in this area.

For 2012-13, payments to CareFlight to 31 March 2013 amounted to \$23 million. Given that the Department was in the midst of establishing and transferring expenditure to separately identify the TEMRS from the low acuity services provided, the splits recorded below should be viewed with some caution. I did not audit the transactions or the recording of expenditure as part of this audit.

Table 1
Payments to CareFlight 1 July 2012 to 31 March 2013

Cost Centre	Budget YTD March	Expend YTD March	\$ Variance YTD March	% Variance YTD March	Full Year Budget
721499 Careflight	23,299,411.00	20,075,889.79	3,223,521.21	13.84	30,613,826.00
724175 Careflight CME Plane		2,904,479.36	2,904,479.36		
724180 TEMRS HANGERS		-	-		
Total	23,299,411.00	22,980,369.15	319,041.85	1.37	30,613,826.00

Source: Department of Health, March 2013 Cost Centre Managers Report

¹ Source: Department of Health

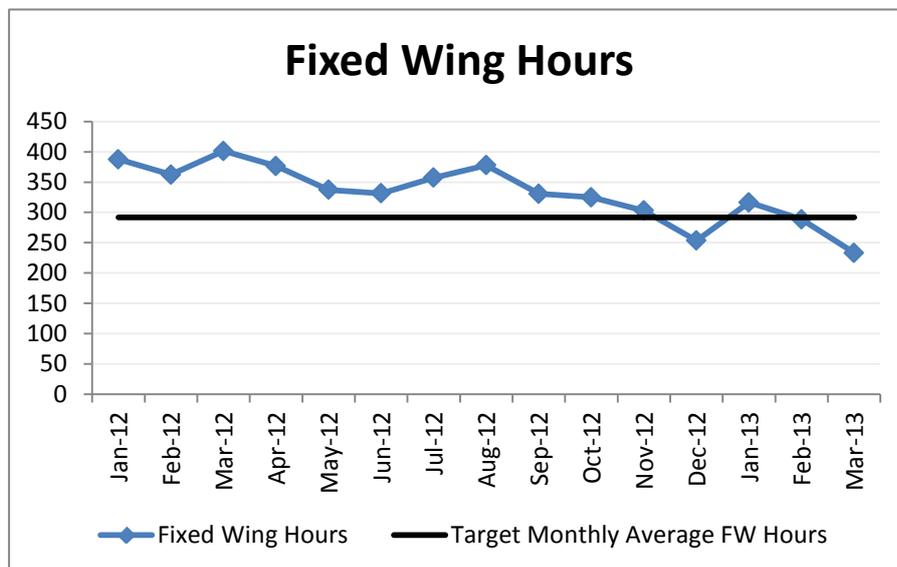
Department of Health cont...

Flying hours

The fixed wing service is contracted for 3,500 hours per year. In 2012 the service flew 4,134.4 hours, an excess of 643.4 hours. In that same period, the rotary wing service, which is contracted for 180 hours per year, flew 151.1 hours, a shortfall of 28.9 hours, which the Department was required to pay for but did not utilise.

Fixed wing and rotary wing hours are shown in the graphs below (Figures 2 and 3) for the period January 2012 to March 2013. The thick black line in each graph represents the average monthly contracted hours for each service to give a 'target' for each month to assist with analysing trends.

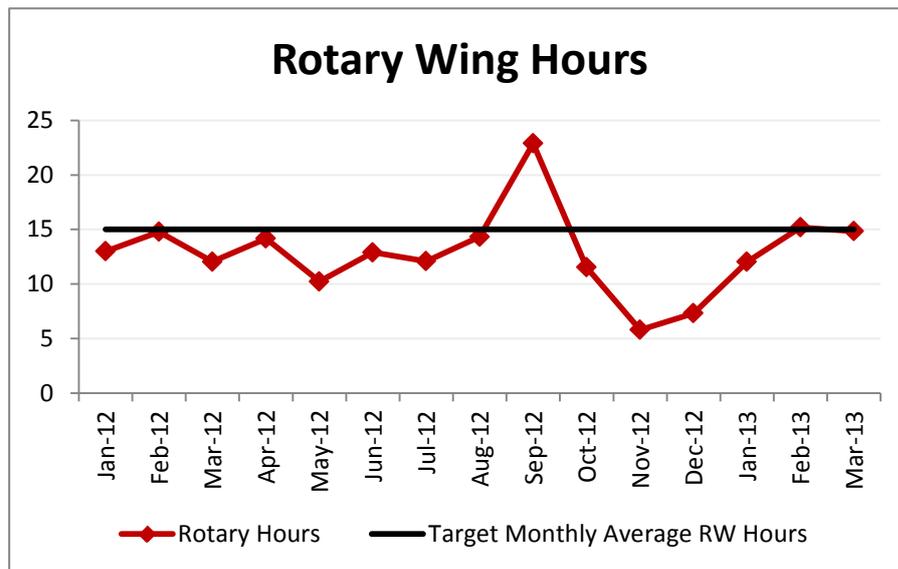
Figure 2
Fixed Wing Flying Hours



Source: Department of Health

Department of Health cont...

Figure 3
Rotary Wing Flying Hours



Source: Department of Health

The graphs above reflect hours flown in respect of contracted services, but not shown in the graphs are hours flown for transfers of low acuity patients which lie outside the TEMRS contract.

Department of Health cont...

Retrieval statistics

As data about aero-medical retrievals was not readily available and could not be provided without significant compilation work, the Department was unable to provide me with the number of aero medical retrievals undertaken by location at the time of the audit visit. Documentation provided by CareFlight to a consultant², as part of the review referred to previously, identified 2,029 patient retrievals under the TEMRS contract in the period February 2012 to November 2012. That documentation also listed the top 10 referral sites, ranked by patient numbers for the period May 2011 to April 2012, with Katherine Hospital being the largest referral hospital, as shown below:

Figure 4
Retrieval sites³

Ranking (#)	Location	Patient Numbers
1	Katherine	533
2	Gove	219
3	Maningrida	213
4	Wadeye	200
5	Bathurst Island	184
6	Borrooloola	153
7	Elcho Island	144
8	Lajamanu	118
9	Oenpelli	107
10	Ngukurr	99
	TOTAL	1 970

² Source: NT Aeromedical Efficiencies Presentation, CareFlight

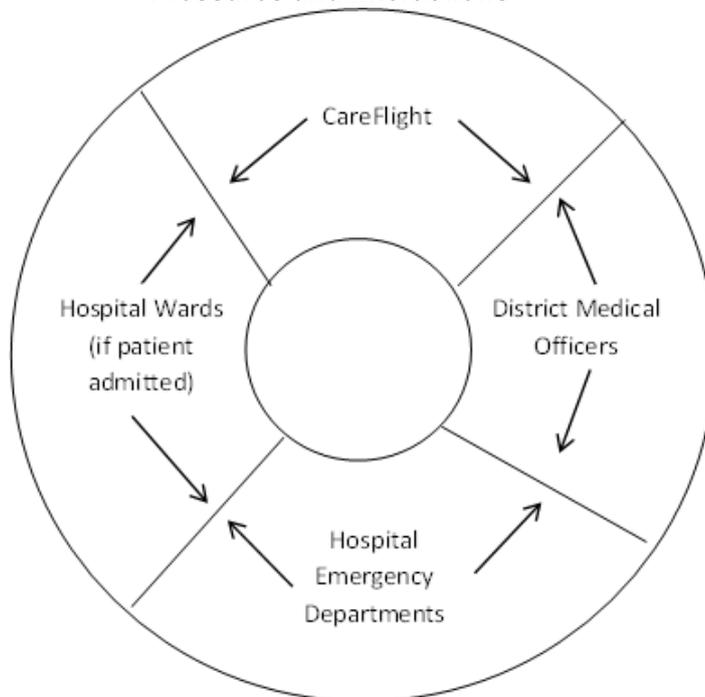
³ Source: NT Aeromedical Efficiencies Presentation, CareFlight

Department of Health cont...

Pressures and interactions

If the system for the provision of aero-medical services is viewed pictorially, as shown below in Figure 5, with some of the elements of the system shown as segments of a circle, the segments can be considered as inter-acting with each other in various ways. Factors affecting one segment have consequences for the other segments. The impact on each segment varies and is fluid depending on the circumstances of each patient. From CareFlight, to emergency departments, to hospitals (the wards if a patient is admitted), to District Medical Officers/Rural Medical Practitioners (making the decision to retrieve an individual) all sitting within a system of contract management and administration (managing the terms and cost drivers). The contract management staff need to remain vigilant in ensuring all parties within the Department and Hospital Network are involved in reviews of the service, and have access to information and data to make informed decisions to improve patient outcomes.

Figure 5
Pressures and interactions⁴



⁴ Source: Department of Health

Department of Health cont...

Low acuity services

To further complicate the Department's dealings with CareFlight, CareFlight is also providing low acuity, or CME services. These flights had not been contracted at the time of the audit. However, I understand that discussions were underway to have these service brought within the scope of a contract.

The TEMRS contract is to transport patients with a Priority code of P1 to P3, but there are other patients who are assessed as P4 or P5, and referred to as low acuity, who may require transport for treatment where a normal mode (bus, charter plane, or vehicle) is not appropriate as the individuals concerned may require medical supervision, often by a nurse. There appeared to be some uncertainty about what services the Department has contracted for and what sits within the TEMRS and what lies outside the scope of the contract. Contracting for the low acuity service aims to clarify that.

The low acuity service was outside the scope of this audit, but documentation provided by CareFlight to a consultant as part of the review referred to previously identified 899 low acuity patient transfers⁵ in the period February 2012 to November 2012.

⁵ Source: NT Aeromedical Efficiencies Presentation, CareFlight

Department of Health cont...

The Department of Health has commented:

The Department agrees with the recommendations of the Auditor. The Department is pleased to note that the audit report recognised the fact that the Department had, prior to the audit, identified issues associated with the Aero Medical Contract management and had taken significant steps commencing in November 2012 to address these issues. As identified in the audit opinion, the Department has undertaken a contract review and recruited staff with contract management qualifications and experience. The internal review, now supported by the audit findings and recommendations, has resulted in a dedicated focus on major contract management as part of the New Services Framework reform. The actioning of both the internal review and audit recommendations will fully strengthen the Department's approach to major contract management. I am pleased to advise that there has been considerable ongoing remedial action since the audit was undertaken addressing the findings to the Aero Medical Services Contract audit including implementing reporting mechanisms to ensure strategic monitoring of the recommendation implementation at the highest level within the Executive Team.

Further, we have included the audit recommendations in our outstanding recommendation register which will be monitored by the Director of Risk and Audit and the Department's Risk and Audit Committee.

Department of Health

Primary Care Information System

Background

The Primary Care Information System (PCIS) is a health information system used by the Department of Health for providing a central electronic Client Health Record for patient activity. The system provides additional functionality including care plans, prescribed medications, document storage and reporting. At the time of the audit, the system was used by 1,597 persons including physicians, medical specialists, pharmacists, and hospitals.

Audit Opinion

Based on evidence submitted to me and on observations made during the course of the audit, I determined that appropriate computer controls had been designed and implemented for the PCIS computer environment. However opportunities existed to strengthen information security controls and disaster recovery planning as outlined below.

Key Findings

Information Security

The PCIS application resides on a midrange server within the Department of Health computer environment. Access to the PCIS is restricted to authorised users, but I recommended that the Department should consider strengthening end-user computing controls to ensure adequate security is in place to ensure the privacy of clinical data. The recommendations included disabling USB drives on end user computers, delayed or secured printing, disabling of screenshots on the end user computers, and encryption of physical media or media in transit.

More broadly, opportunities for the strengthening of network security architecture were noted in order to improve protection of sensitive systems, such as the PCIS.

Change Management

A documented change management policy had been established by the Department that applied to all changes within the PCIS environment. System fixes and enhances to the PCIS application are developed by a third-party, Ascribe, before being tested internally in a separate environment and approved for release into production. Based on this assessment I observed opportunities to further strengthen these processes particularly in relation to the approval of changes.

Department of Health cont...

Business Continuity and Disaster Recovery Plan

Business Continuity planning had not been formally undertaken for the Department. Although manual “work-around” procedures existed for the sites/hospitals although these procedures were not considered to be comprehensive. In addition, it was considered that further work was required to enable Departmental staff to gain a sound understanding of the system and its role and to document the dependencies, risks and business continuity strategies relating to a significant systems outage.

There was no documented disaster recovery plan at the time of the audit and the relevant branch of the Department was in the process of developing business cases in support of the allocation of staff to develop a disaster recovery strategy for several critical information systems that are central to the delivery of primary health services.

The Department of Health has commented:

The Department agrees with the recommendations of the Auditor. The Department has engaged a program of work that involves a more substantial product upgrade that is aimed at addressing a number of underlying system shortcomings relating to the reusability of clinical data, system capabilities and configurability to support clinical workflow and changing business requirements.

Menzies School of Health Research

Audit findings and analysis of the financial statements for the year ended 31 December 2012

Background

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

Audit Opinion

The audit of the financial statements of Menzies School of Health Research for the year ended 31 December 2012 resulted in an unqualified independent audit opinion, which was issued on 14 May 2013.

Key Findings

New Buildings

The School was granted funding by the Commonwealth and Northern Territory Governments for the purpose of constructing research and training facilities at the Charles Darwin University (CDU) and Royal Darwin Hospital (RDH) sites. The total estimated costs of this project were \$47.2 million.

Construction was underway on the new buildings at the time of the audit with costs incurred to the end of 2012 amounting to \$7.1 million.

Menzies School of Health Research cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Revenue from continuing operations	38,461	37,934
Less expenses from ordinary activities		
Employee expenses	(24,692)	(22,383)
Administration, operational and other expenses	(13,996)	(11,762)
Total expenses from ordinary activities	(38,688)	(34,145)
Net operating result for the year	(227)	3,789

There was a modest increase of \$0.5 million in the School's total revenues for 2012, with total revenue rising from \$37.9 million in 2011 to \$38.4 million in 2012. The most significant factor in the increased revenue was an increase of \$0.65 million in revenue received from Charles Darwin University, with the total amount received from the University being \$2.5 million. As in past years, the largest part of the School's revenue was received from the Commonwealth with \$19.0 million being received in 2012 compared to \$18.8 million in 2011. Revenue received from the Northern Territory Government increased slightly to \$5.96 million compared to \$5.93 million for 2011.

The School's operating expenditure increased from \$34.1 million in 2011 to \$38.6 million in 2012, mainly due to an increase in employee related expenses of \$2.3 million and an increase in expenses classed as Other Expenditure of \$2.1 million, with this category including expenses incurred on consultancies, laboratory functions, research projects and scholarships.

As indicated in the table above, the School recorded an operating deficit of \$0.2 million for the year.

Menzies School of Health Research cont...

Financial Position at year end		
	2012	2011
	\$'000	\$'000
Current assets	40,294	44,037
Less current liabilities	(5,142)	(4,121)
Working capital	35,152	39,916
Add non current assets	7,776	3,113
	42,928	43,029
Less non current liabilities	(545)	(414)
Net assets	42,383	42,615
Represented by:		
Reserves	10,988	15,319
Retained earnings	31,395	27,296
Equity	42,383	42,615

The School's working capital had declined at 31 December 2012 when compared with the position in 2011 and this was due largely to a decline in cash balances. That decline is attributable to payments made during the year in connection with the construction of new buildings referred to above.

Northern Territory Major Events Company Pty Ltd

Audit findings and analysis of the financial statements for the year ended 30 June 2012

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 2012 resulted in a qualified independent audit opinion, which was issued on 26 March 2013.

Key Findings

Qualification

The audit opinion on the financial statements of Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2012 was qualified as follows:

“Northern Territory Major Events Company Pty Ltd has not valued or recorded in-kind contributions received in the statement of comprehensive income for the year ended 30 June 2012. I was unable to obtain sufficient appropriate audit evidence to determine the amount of in-kind contributions received by Northern Territory Major Events Company Pty Ltd.”

The company received significant non-monetary contributions from suppliers and volunteers during events held in the year ended 30 June 2012. The company was not able to provide information that detailed the nature of the services received which would permit a reliable value to be placed upon time contributed to the company by volunteers. In my view the company’s inability to quantify the value of volunteer’s contributions represented a potentially material omission from the financial statements.

Northern Territory Major Events Company Pty Ltd cont...

Performance Overview

The Company reported a significant loss of \$296,374 for the year ended 30 June 2012 in comparison to relatively minor losses reported over the previous two years.

As in past years the largest source of revenue for the company was grants provided by the Northern Territory Government which totaled \$5.45 million for 2011-12 compared to \$5.26 million for the prior year. Revenue derived by the company through ticket sales and sponsorships declined by \$971,000, with cancellation of the Arafura Games having a material effect.

Events such as the Alice Springs Masters Games and the World Solar Challenge are biennial and were not staged during the year and this also led to lower revenue when compared with the prior year.

Revenues, expenses and the operating result for the year, together with the company's balance sheet for the year ended 30 June 2012 are shown in the following tables.

Northern Territory Major Events Company Pty Ltd cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Government grants	5,449	5,262
Other	3,948	4,920
Total income	9,397	10,182
Expenditure		
Employee expenses	(1,553)	(1,425)
Depreciation	(53)	(12)
Other	(8,087)	(8,769)
Total expenditure	(9,693)	(10,206)
Surplus/(deficit) before income tax expense	(296)	(24)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(296)	(24)
Dividends	-	-
Net surplus/(deficit)	(296)	(24)

Northern Territory Major Events Company Pty Ltd cont...

Financial Position at year end	2012	2011
	\$'000	\$'000
Cash and cash equivalents	1,851	1,421
Receivables and other current assets	1,105	906
Less current liabilities	(2,706)	(1,817)
Net current assets	250	510
Add non current assets	50	103
Less non current liabilities	(43)	(59)
Net assets	257	554
Represented by:		
Retained profits	257	554
Contributed equity (\$2)	-	-
Equity	257	554

Power and Water Corporation

Asset Management System Post Implementation Review

Audit Objective

The objective of the audit was to review the Asset Management Capability (AMC) project to assess the ability of the asset management system to meet the needs of users with a view to providing guidance for future similar projects.

Audit Opinion

The Asset Management System (AMS) implementation has achieved the objectives set out as part of the AMS procurement process. However a number of insights were noted that may provide guidance for future projects.

Background

The Power and Water Corporation's (the Corporation) new asset management system was implemented in August 2012 and is intended to provide an integrated solution for asset management.

The system comprises six modules and replaces the former maintenance system (Work Information Management System (WIMS)) and a geographical and fault management system, while consolidating works management, materials management, purchasing and contracts management, and project management into an Enterprise Asset Management System.

All the key functional requirements that were specified at the outset of the project were considered to have been achieved albeit at a final cost that was significantly higher than the original estimate.

Audit discussions with Corporation staff who are users of the system indicated that the various user groups had a positive perception of the solution, the benefits achieved up until the time of the audit and the potential for future benefits to be realised.

Overview of the Project

The AMS project was initiated in 2006 to replace aging and unsupported asset management software, and to develop a long term solution for enhanced asset management capability within the Corporation. A business case was initially approved by the Board for a project cost of the order of \$15 million in 2006 to support the implementation of a standard "off-the-shelf" software solution.

Power and Water Corporation cont...

It became clear that an “off-the-shelf” package was unlikely to offer a solution that would benefit the Corporation and deliver the business benefits that were required to be achieved. A revised project strategy was then endorsed in March 2008 emphasising the need for process improvement, data improvement, greater asset management capability and better systems integration.

A tender process was undertaken in December 2008 to select an implementation partner, which led to a contract being awarded in early 2009. A consulting firm was appointed to assist with business consulting, project planning, process design and a range of project quality assurance activities throughout the project. Based on the costing estimates and other information that became available during the procurement process, a revised business case based on a cost of \$27.4 million was approved by the Board in July 2009.

In September 2009, the Corporation entered into a contract for software and services. The firm that was employed was a large information technology firm and the prime contractor for the systems implementation. It provided oversight of other firms that were involved in providing software and services for the integrated solution. This point marked the end of Stage 1.

In September 2009, the prime contractor developed the solution design for Stage 2 in collaboration with the Corporation’s stakeholders who were represented by the AMC Project Reference Group. The outcome was a blueprint for the delivery and implementation in the final stage (Stage 3). The consulting firm provided quality assurance in respect of the solution design on behalf of the Corporation.

Stage 2 ended in June 2010 (3 months later than planned) at which point the project scope and costs were reviewed. A further business case for a project based on a cost of \$32.4 million was then approved by the Board in August 2010, with a revised planned “go-live” date shifting from March 2011 to August 2011.

By August 2011, concerns began to emerge about delays in progress. Particular concerns were being expressed about data cleansing and migration and the Project Manager indicated that data cleansing activities would not be completed in time for the December 2011 “go-live”. A project audit performed by the consulting firm in September 2011 also supported this view, noting that many elements of the project had fallen behind schedule, such as data cleansing, cutover planning, business readiness, testing and training.

Power and Water Corporation cont...

The increase in the project's estimated cost primarily related to additional resources for data cleansing and migration, reporting and business readiness activities and a range of project overhead costs associated that flowed from the extension of the project's life.

User acceptance testing was being undertaken at this time and it became apparent that significant differences were emerging between user expectations of the system and what had been designed and built. While user acceptance testing was completed against the defined system requirements, the extent of gaps between the expectations of users and system's actual design and performance led to a decision being made to conduct an additional round of end-to-end testing based on actual business processes. This testing marked the beginning of an extensive process to re-evaluate, enhance (and rework) the system to more closely align with the expectations of the Corporation's staff who would be users of the system.

As it became evident that the project plan was not achievable and was incomplete, the Corporation engaged independent consultants to develop a new consolidated, integrated project plan and to "stress test" that plan based on a range of possible scenarios involving delay to the project. That exercise highlighted that the project had fallen approximately 5 months behind schedule due to delays and extensions to key activities. A revised project schedule was then approved by the Steering Committee in November 2011, with a further revised business case valued at \$43.7 million being approved by the Board in December 2011, and with a revised "go-live" date of March 2012.

Given the state of the project and the gaps identified between the system functionality and business needs, the following changes were made in order to complete the project and deliver a system which met critical business needs. These included:

- Dissolving the Steering Committee and Reference Group and establishing a single and much smaller General Management Team.
- Business requirements, process maps and related aspects were completely reviewed, updated and revalidated. Gaps between business requirements and the system design that had emerged to that point were identified and prioritized.
- The project leadership shifted the focus of the project team to one that placed greater emphasis on business engagement and outcomes.
- Employees who had expert knowledge of business processes were inserted into the project.

Power and Water Corporation cont...

- The prime contractor was engaged on a time and materials basis to assist with rectifying the gaps between system design and organizational requirements that have been identified, and to assist with items which “had to be fixed”. The firm was re-engaged under the contract for the cutover and warranty periods.
- Staff allocated to the project increased significantly, particularly around the project areas of business readiness, solution development and data cleansing and migration.
- A further two rounds of business user testing and end-to-end process testing were performed to validate the modified solution.

Once the extent of business requirements and required changes to the system were determined, Board approval was obtained for an increased budget of \$53.58 million in March 2012. This was subsequently increased to a final approved budget of \$57.81 million in July 2012 to support the resources needed to finalise the project.

The system became operational from 8th August 2012 and “went live” on 21st August 2012, approximately 6 years after the initial business case was approved and 4 years after the revised project approach was approved. The final cost of the project was more than three times the initial budget that was approved by the Board that was approved by the Board. However, I noted that the scope of the project had expanded substantially since 2006 when approval was given to proceed with the implementation of an “off the shelf” solution.

It was noted during the audit that, during the period 2008 to 2010, the Corporation was faced with a major capital program intended to upgrade, replace or relocate a number of major assets in response to significant service failures. These priorities conflicted with the asset management system project during those years and reduced the Corporation’s capacity to provide internal business resources to the project.

Status of the System At The Time Of The Audit

As noted above, the system went live in August 2012 with 570 defects (29 major), including 164 items that had been fixed and were awaiting testing. “Work-around” strategies had been defined for the major issues, which supported the decision to “go-live” with the system.

Power and Water Corporation cont...

At the time of the audit, 533 open items existed within the issues register, with the items in question including both defects and change requests initiated by users. Of that number, 162 were classified as high priority and remediation strategies had been defined and were being implemented.

In order to ensure that maximum benefit will be achieved from the new, integrated solution, the Corporation had scheduled end-to-end reviews of the system across key areas of the Corporation to identify opportunities for further processes improvement, user understanding, data quality and system functionality, with a view to making significant efficiency improvements, to increase utilisation of the system and to strengthen control effectiveness. The first of these reviews was undertaken for Procure-to-Pay processes in January 2013. Other processes such as Inventory and Stores, and Faults and Outages were to be reviewed throughout 2013.

Key Findings

Project Governance and Control

From 2008 until January 2012, the project governance structure included a formally established Reference Group, a Steering Committee and an Executive Management Committee. The Steering Committee consisted of up to 18 people, including the Managing Director, Chief Financial Officer, Chief Information Officer, Legal Counsel and all General Managers. Each of these groups met at regular intervals and operated against defined terms of reference.

In response to the challenges experienced with the project in late 2011, a new project manager was appointed and one of the Corporation's General Managers was appointed to ensure that the project remained focused on the objectives set initially. The governance structure was rationalised significantly and refocused to include the General Management Team (in place of the Steering Committee and Reference Group) and the Executive Management Team.

The following key observations were made during the course of the audit:

- Prior to 2012, Steering Committee progress reports did not present information clearly to enable effective monitoring of actual progress against planned progress, and forecast effort to complete against planned effort to complete. It was therefore difficult for recipients of the reports to identify the potential impact of project slippages, changes in scope and expanded activities. The status reports were often only seen as containing tasks completed in a particular month, items planned for the following month and issues arising.

Power and Water Corporation cont...

- Although the Steering Committee included strong representation from across the Corporation, it was noted that a number of challenges occurred which can be traced to the level of early input by business units into the business requirements analysis, data requirements and provision of subject matter expertise throughout the life of the project.
- Although there was increasing scrutiny of the project in the second half of 2011, there appeared to be limited debate and analysis within the Steering Committee regarding project progress, feasibility of planning and level of resourcing prior to this period.

Project Planning

Project definition documents were prepared for the project, including project charter, project implementation plans, project execution plans, resourcing plans and plans for each stream of the project. The following key observations were made relating to project planning prior to user acceptance testing:

- A number of instances were noted where project plans did not reflect realistic elapsed timeframes, effort required and appropriate alignment of tasks where inter-dependencies between various project tasks existed. This suggests that insufficient detailed analysis of required activities may have been performed.
- A project plan was prepared, but it was not maintained consistently and, prior to the revised project plan late in 2011, it did not provide adequate, integrated details of dependencies, effort, resources, and timelines for detailed tasks on the project. This created significant limitations in the ability to easily track and update the impact of scope changes and project delays on project timelines, resource requirements and dependencies.

Risk Management

Project risk management processes included preparation, maintenance and reporting of a project risk register. It was noted that the risk register did include risks in early 2011 relating to quality of user requirements, ongoing changes to functional requirements, data cleansing and extent of business involvement. Although these risks had defined control strategies, it appears that limited periodical analysis was undertaken to assess the extent to which the risks were actually eventuating and affecting project outcomes.

Power and Water Corporation cont...

Quality Management

Quality management processes were defined for the project and were largely outsourced to the consulting firm. This included quality reviews of key milestone deliverables and two project health quality reviews. The following observations were made during the audit in relation to quality management processes:

- The consulting firm was involved in both project delivery and quality assurance, which had the potential to create a conflict of interest.
- Project quality audits were undertaken on an ad hoc and relatively infrequent basis by either the consulting firm or by the Corporation's internal auditors.
- Although project deliverables were being examined for compliance with the project requirements, the project would have benefited from additional validation of end-to-end business requirements at the beginning of the implementation phase, given the time that had elapsed since the business requirements were initially specified.

Contractor Management

The major principal contractors relating to the project were a large information technology firm (approximately \$25 million) and a consulting firm (approximately \$6 million). Formal contract arrangements and statements of work were established with these service providers. Weekly meetings were held with the prime contractor regarding delivery of services and contractual requirements. Contract payments were linked to achievement of agreed milestones, deliverables and performance.

As noted above, the prime contractor was engaged during early 2012 on a time and materials basis to assist the Corporation with rectifying the identified late changes in user requirements. Cutover and warranty activities were then performed in accordance with the contract.

The prime contractor has subsequently been awarded the third level support contract for Maximo following a competitive tender process.

Power and Water Corporation cont...

Management of Organisational Change

Change management involved a range of activities such as formal communication across the Corporation, training and capability development, and other business engagement activities. Due to the extent of concerns raised during and after early user acceptance testing about the gaps between the system, as implemented, and user expectations, business readiness activities (including training) were expanded significantly beyond that originally planned to maximise acceptance of the new system. Training was based on a detailed analysis of training needs, with significant input from business subject matter experts.

Communication to users was managed through a combination of periodic newsletter updates, closed group briefing sessions, and publication of information promoting the benefits and functionality of the asset management system.

Power and Water Corporation

Maximo

Audit Objective

The objective of the audit was to examine the design of application and general computer controls within the Maximo computer environment.

Audit Opinion

Based on discussions with key stakeholders and review of project documentation I have determined that appropriate computer controls have been designed for the Maximo computer environment, however, opportunities exist to strengthen a number of security controls and application controls as described below.

Background

The Maximo application went live in August 2012, after an extensive project to implement enhanced Asset Management Capability into the Power and Water Corporation (the Corporation). The application interfaces directly with the Corporation's Financial Management System and provides functionality which includes procure to pay, asset management, project management and inventory management.

Key Findings

Information Security

Information security is critical to any IT system. Opportunities for improvement were noted relating to role design and periodic user access review. Weaknesses in security design were also noted within the Maximo database, including limited password controls and the shared password for the Maximo user account within the project team.

Application Controls

Application controls have been incorporated into the Maximo system to protect the integrity of transaction processing. Weaknesses were noted in relation to several of these controls.

Selected Agencies

Agency Compliance Audits

Audit Objectives and Scope

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

Background

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

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

Selected Agencies cont...

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

- Aboriginal Areas Protection Authority;
- Department of Arts and Museums;
- Department of Business;
- Department of Education and Children's Services;
- Department of Health;
- Department of Housing;
- Department of Infrastructure;
- Department of Local Government;
- Department of Regional Development and Women's Policy;
- Department of the Attorney-General and Justice;
- Department of Treasury and Finance;
- Northern Territory Police, Fire and Emergency Services.

Key Findings

A number of issues were raised as a result of the audits including:

- lack of compliance with Procurement Directions, and procurement policies;
- weaknesses in the reconciliation of Accountable Officers' Trust Accounts;
- lack of compliance with Treasurers' Directions, particularly in relation to controls over telephones, hospitality and travel expenditure;
- deficiencies in controls over fixed assets;
- incomplete registers of financial interests, contingencies, guarantees and indemnities;
- lack of internal audit capacity accompanied by weaknesses in internal audit procedures; and
- incomplete Agency Accounting and Property Manuals that did not fully comply with Treasurer's Directions.

Selected Agencies cont...

The Aboriginal Areas Protection Authority has commented:

An external compliance audit was performed at the Aboriginal Areas Protection Authority (AAPA) in the financial year 2012/13.

The audit concentrated on the use of the Treasurer's Directions and Procurement Directions.

A number of issues were raised as the result of the audit which was discussed along with the recommendations.

The CEO of the AAPA has instructed the Director Corporate Services to implement the recommendations which will result in the reduction of these issues in further audits.

The Department of Arts and Museums has commented:

I have reviewed the audit's key findings and note that minimal issues apply to the Department of Arts and Museums, with only one item requiring action in relation to ensuring that all fields in the Department's Guarantees and Indemnities Register are fully completed. As such, this has been actioned in accordance with the Treasurer's Directions.

The Northern Territory Police, Fire and Emergency Services has commented:

Northern Territory Police, Fire and Emergency Services notes the report's findings and is taking the necessary remedial action to address identified issues.

The agency carefully monitors and maintains internal controls on an ongoing basis and will continue to make improvements wherever possible.

Matters Referred to Auditor-General Pursuant to Section 6 of the Public Information Act

The Referral of a Complaint to the Auditor-General

On 1 August 2013 a Member of the Legislative Assembly referred to me, pursuant to section 6(1) of the *Public Information Act* (the Act), a copy of a letter that had been sent to Northern Territory households and alleged that the contents of the letter may have breached the principles laid down in the Act. The letter in question outlined the reasons behind the Northern Territory Government's decision to decline the offer from the Commonwealth with regards to a new school funding formula.

Review of the Allegations

I reviewed the contents of the letter and concluded that the Act was not contravened. I arrived at that conclusion because I did not consider that the letter:

- included any overt statements that might be construed as promoting a particular political party's interests;
- included statements that were misleading or factually inaccurate; or
- confused statements of facts from statements of comments.

The statements made in the letter and, in particular, the table that was included as part of the letter were, in my opinion, based on data that are verifiable. The figures contained in the table represent the difference between what the schools listed might expect to receive over a six year period under existing funding arrangements and what they might expect to receive under the funding model proposed by the Commonwealth if not for the safety net included by the Commonwealth to ensure no school received less than it did previously. In essence, schools that currently receive funding that is greater than the Commonwealth's Schooling Resource Standard (SRS) will be limited to nominal annual funding increases of 3 per cent until such time as their real funding levels have declined to match the SRS. In contrast, schools that are funded at levels that are below the SRS will receive real funding increases until such time as they reach the SRS level. While the data set out in the table was confined to schools that might expect to face real declines in funding I formed the view that the intention of the letter was to demonstrate the extent to which some schools might be disadvantaged under the proposed Commonwealth funding model.

Matters Referred to Auditor-General Pursuant to Section 6 of the Public Information Act cont...

Conclusions

As a result of my review I concluded that a contravention of the *Public Information Act* did not occur in that:

- statements of comment in the letter were distinguishable from statements of fact;
- the letter did not contain comments that might be construed by a reasonable person as misleading or factually inaccurate; and
- the letter did not include statements that a reasonable person might consider as comment on the views, policies or actions intended to promote the interests of a particular political party.

Recommendation

Section 8(3) of the Act permits me to make recommendations. However, any recommendations under that section are limited to:

- the withdrawal of the public information; or
- that specified changes be made to the content of the public information.

Given my conclusions, above, I made no recommendations in relation to this letter.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 31 December 2012

Financial Statements for the year ended 30 June 2012

	Date 2012 Financial Statements tabled to Legislative Assembly	Date of Audit report Year ended 30 June 2012	Date of Audit report Year ended 30 June 2011
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	20 May 13	21 November 11
Northern Territory Major Events Company Pty Ltd	Not required	26 March 13	12 January 12

Financial Statements for the year ended 31 December 2012

	Date 2012 Financial Statements tabled to Legislative Assembly	Date of Audit report Year ended 31 December 2012	Date of Audit report Year ended 31 December 2011
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	31 May 13	26 June 12
CDU Amenities Limited	Not required	22 May 13	4 May 12
Charles Darwin University	Not yet tabled	28 May 13	29 May 12
Charles Darwin University Foundation (a company limited by guarantee)	Not required	3 May 13	16 April 12
Charles Darwin University Foundation Trust	Not required	3 May 13	16 April 12
Menzies School of Health Research	Not required	13 May 13	9 May 12

Not required – Financial statements are not required to be tabled

Not yet tabled – as at 30 July 2013

Appendix 1: Audit Opinion Reports Issued Since 31 December 2012 cont...

Acquittals or other returns – for the year ended 31 December 2012

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 31 December 2012	Date of Audit Report Year ended 31 December 2011
Charles Darwin University Higher Education Research Data collection	31 August 13	26 June 13	26 June 12

Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 30 June 2013

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 2 of the February 2013 as being scheduled for the period:

Department of Corporate and Information Services

Assessment of the adequacy of key controls around the NAB electronic funds transfer system Refer page 20

Department of Health

Aero Medical Services Contract - CareFlight Refer page 23

Power and Water Corporation

Maximo Refer page 55

Post-implementation review of the Power and Water Corporation asset management system Refer page 47

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Appendix 3: Proposed Audit Activity in the Six Months Ending 31 December 2013

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

Department of Arts and Museums

Collections management

Department of Corporate and Information Services

IT Strategy and Governance

Department of Housing

Tenant Management System

Department of Transport

IT review of the Motor Vehicle Registry System (Movers)

Tourism NT

IT audit of Calypso

Selected Agencies

Fuel cards

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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 controls identified in the overall control environment review, Agency Compliance Audits and financial statement audits, an audit approach is designed and implemented to substantiate 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: Agencies not Audited in the year ended 30 June 2013

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

For activities relating to the financial year ended 30 June 2013, no audits were, or are intended to be, conducted at the following Agencies:

- Department of Mines and Energy;
- Department of Primary Industry and Fisheries;
- Department of Sport and Recreation;
- Northern Territory Electoral Commission;
- Office of the Commissioner for Public Employment;
- Ombudsman's Office.

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

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

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Appendix 7: Public Information Act

Background

The *Public Information Act*, which came into effect in 2010, seeks to achieve a transparent and accountable mechanism for the review of public information produced by public authorities. A public authority is defined in section 6 of the Act and that definition is broad, capturing any:

- Member of the Legislative Assembly or the holder of any office of the Legislative Assembly;
- Agency or body corporate established under a law of the Territory;
- body corporate that is held to be controlled by a public authority; and
- person appointed or engaged to perform work for a public authority.

Excluded from the definition are holders or occupiers of:

- judicial office;
- an office as a member of a tribunal established under a law of the Territory;
- the Auditor-General;
- a council constituted pursuant to the *Local Government Act*;
- the Territory Insurance Office;
- the Power and Water Corporation; and
- a person or body prescribed by regulation.

The definition of what constitutes public information is equally broad and is defined as “*information given by a public authority to the public by using money or other property of the Territory...*”. Exemptions from this definition are:

- information provided by a Member of the Legislative Assembly to members of his or her electorate if the preparation and giving of the information is funded by an allowance payable to the member for the electorate under a law of the Territory;
- a media release of a Member of the Legislative Assembly; and
- information prescribed by regulation.

Appendix 7: Public Information Act cont...

Section 6(1) of the Act provides that the Auditor-General must, upon the receipt of a written request of a Member of the Legislative Assembly, conduct a review of that information to determine whether the provisions of the Act have been contravened. The Auditor-General may determine that the Act has been contravened if the material that is the subject of the review contravenes section 6(2) of the Act in that it:

- promotes particular party interests;
- includes statements that are misleading or factually inaccurate; or
- does not clearly distinguish a statement of facts from a statement of comments.

Section 6(3) of the Act states that the Auditor-General must have regard to the public information guidelines in making a determination under the Act.

Public Information Guidelines

Section 9 of the Act permits the Minister to make guidelines to provide for the matters to be taken into account by the Auditor-General in making a determination under the Act and I have referred to the Public Information Guidelines as part of my consideration of the request made to me pursuant to section 6 of the Act and which is the subject of this report.

The guidelines establish standards for communication and these require *inter alia* that information is factual and that public authorities not comment on the views, policies or actions of a political party or politicians.

The guidelines also require that communication utilising public funds must meet at least one of the following criteria:

- to maximise compliance with the law;
- to achieve awareness of a new or amended law;
- to ensure public safety, personal security or encourage responsible behaviour;
- to assist in the preservation of order in the event of a crisis or emergency;
- to promote awareness of rights, responsibilities, duties or entitlements;
- to encourage usage of or familiarity with government products or services;
- to report on performance in relation to government undertakings;

Appendix 7: Public Information Act cont...

- to communicate functions of government, e.g. education campaigns; recruitment, community engagement, expressions of interest, future plans;
- to communicate on matter (sic) of social cohesion, civic pride, community spirit and/or tolerance.

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Appendix 8: Abbreviations

ACIKE	Australian Centre for Indigenous Knowledge and Education
AMC	Asset Management Capability
AMS	Asset Management System
CDU	Charles Darwin University
CME	CareFlight Medical Escort
DCIS	Department of Corporate and Information Services
EFT	Electronic Funds Transfer
FW	Fixed Wing
GST	Goods and Services Tax
HECS	Higher Education Contribution Scheme
IT	Information Technology
NACOG	North Australian Centre for Oil and Gas
NTAGO	Northern Territory Auditor-Generals Office
NTAMS	Northern Territory Aero Medical Service
PCIS	Primary Care Information System
RDH	Royal Darwin Hospital
RMS	Risk Management Services
RW	Rotary Wing
TEMRS	Top End Medical Retrieval Service
VET	Vocational Education and Training
WIMS	Work Information Management System

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Index of Matters Reported

	Page
Aboriginal Areas Protection Authority	
Agency Compliance Audit	56
Batchelor Institute of Indigenous Tertiary Education	
Audit findings and analysis of the financial statements for the year ended 31 December 2012	11
Charles Darwin University	
Audit findings and analysis of the financial statements for the year ended 31 December 2012	14
Charles Darwin University Foundation	
Audit findings and analysis of the financial statements for the year ended 31 December 2012	17
Department of Arts and Museums	
Agency Compliance Audit	56
Department of Business	
Agency Compliance Audit	56
Department of Corporate and Information Systems	
Electronic Funds Transfer System	20
Department of Education and Children's Services	
Agency Compliance Audit	56
Department of Health	
Agency Compliance Audit	56
Aero Medical Services Contract	23
Primary Care Information System	38
Department of Housing	
Agency Compliance Audit	56
Department of Infrastructure	
Agency Compliance Audit	56

Index of Matters Reported cont...

Department of Local Government	
Agency Compliance Audit	56
Department of Regional Development and Women's Policy	
Agency Compliance Audit	56
Department of the Attorney-General and Justice	
Agency Compliance Audit	56
Department of Treasury and Finance	
Agency Compliance Audit	56
Menzies School of Health Research	
Audit findings and analysis of the financial statements for the year ended 31 December 2012	40
Northern Territory Major Events Company Pty Ltd	
Audit findings and analysis of the financial statements for the year ended 30 June 2012	43
Northern Territory Police, Fire and Emergency Services	
Agency Compliance Audit	56
Power and Water Corporation	
Asset Management System Post Implementation Review	47
Maximo	55
Public Information Act	82

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