



Auditor-General for the Northern Territory
Auditing for Parliament

February 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	11
Matters Referred to Auditor-General Pursuant to Section 6 of Public Information Act	127
Appendix 1: Audit Opinion Reports Issued Since 30 June 2012	131
Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 31 December 2012	135
Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2013	137
Appendix 4: Overview of the Approach to Auditing the Public Account and Other Accounts	139
Appendix 5: Overview of the Approach to Auditing Performance Management Systems	141
Appendix 6: Public Information Act	143
Appendix 7: Abbreviations	145
Index of Matters Reported	147

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Northern Territory Auditor-General's Office

Auditing for Parliament

The Honourable the Speaker of the Legislative
Assembly of the Northern Territory
Parliament House
Darwin NT 0800
19 February 2013

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 31 December 2012 and I request that you table the report today in the Legislative Assembly.

The report deals solely with the results of audits of financial statements that were conducted during the period 1 July 2012 to 31 December 2012. Those audits are required by various Acts of Parliament.

Yours sincerely,

F McGuiness
Auditor-General for the Northern Territory

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Auditor-General's Overview

Audits Included in this Report

This Report outlines the results of audits conducted during the period 1 July 2012 to 31 December 2012. The results of 23 separate audits are included here, with all audits reported upon being audits of financial statements undertaken in the period following the end of the 2011/12 financial year.

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

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

In addition, the Northern Territory Government controls, either directly or indirectly, a small number of companies that have been incorporated pursuant to the *Commonwealth Corporations Act 2001*. These audits are performed subject to the provisions of the Commonwealth legislation, with the Auditor-General being deemed by the *Corporations Act 2001* to be a Registered Company Auditor.

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

Auditor-General's Overview cont...

An unqualified audit opinion indicates that the financial statements in question comply with Australian Accounting Standards. Two qualified audit opinions were issued for 2011/12. The first was in respect of NT Build where I was unable to satisfy myself that all revenues due to the Board had been recognised in NT Build's financial statements. The nature of the building approval processes that currently apply in the Territory gives rise to some doubts as to whether NT Build has been advised of all construction work that might be said to fall within the scope of the *Construction Industry Long Service and Benefits Act*.

The second qualification was in respect of the Land Development Corporation. The Corporation was deemed by the Treasurer to be a Government Business Division for 2011/12 which meant that it was required, for the first time, to submit financial statements for audit. While I was able to satisfy myself about the reliability of financial information in respect of 2011/12, I was not able to do so for the prior year of 2010/11. The result was that I was not able to issue an opinion attesting to the reliability of those financial statements when they are taken as a whole.

Two financial statement audits that commenced at the conclusion of the 2011/12 year remain outstanding. In one case it has not been possible to obtain a signed copy of the financial statements because the Board has not been able to ratify the financial statements. In the second case, while financial statements have been prepared those statements have been returned to the company in question on more than one occasion for corrections in the light of issues raised during the audit. I expect that reports on both entities' financial statements will be included as part of my next report to the Legislative Assembly that is scheduled for March 2013.

Included also is a summary of matters dealt with in accordance with the provisions of the *Public Information Act*. The second half of the financial year saw a sharp increase in the number of requests submitted to me by Members of the Legislative Assembly pursuant to the provisions of the Act. As a result of reviews I determined that the first two pieces of public information reviewed contravened the provisions of the Act and made recommendations intended to avoid future contraventions. It was pleasing to note that the recommendations appeared to have been implemented and that in subsequent reviews I was able to determine that the Act had not been contravened.

Auditor-General's Overview cont...

2012/13 may prove to be a year of challenges for both Agencies and my Office. Changes to the machinery of government that occurred following the swearing in of the new government in 2012 have led to the creation of several shared service hubs whereby some Agencies will provide financial and related services to other Agencies. The effectiveness of these arrangements are expected to be tested at the end of the current financial year when financial statements for all Agencies, Government Business Divisions and statutory bodies will be required to be prepared by the end of August, with audits commencing immediately after that to enable the Treasurers' Annual Financial Statement to be tabled in October 2013.

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Reports on the Results of Audits

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Construction Division

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

The host Agency is the Department of Infrastructure.

Audit Opinion

The audit of the Construction Division for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 16 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The total income for the Division in 2012 was \$83.3 million compared to the prior year income of \$87.5 million. The decrease of \$4.2 million, or 4.7 per cent, was due largely to a decrease of \$3.3 million in the value of sale of goods and services and a decrease in interest income by \$0.5 million.

The decline in revenue from the sale of goods and services when compared to the prior year was due to a decrease in program and project management activities for the year.

The fall in revenue resulted in the recording of a deficit before income tax for the year, with no income tax equivalent being paid as a consequence. The net asset position of the Division increased to \$14.6 million from \$2.9 million at 30 June 2011. This was largely attributable to the receipt of an equity injection of \$12.0 million from the Central Holding Authority.

Construction Division cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Sales of goods and/or services	83,161	86,409
Other	174	1,055
Total income	83,335	87,464
Operational costs	(22,578)	(22,547)
Employee expenses	(33,783)	(32,910)
Consultants fees	(27,281)	(30,544)
Depreciation and amortisation	(66)	(39)
Total expenditure	(83,708)	(86,040)
Surplus/(deficit) before income tax expense	(373)	1,424
Income tax expense	-	(427)
Surplus/(deficit) after income tax expense	(373)	997

Construction Division cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	1,120	6,600
Receivables and other current assets	30,429	12,446
Less current liabilities	(15,745)	(14,929)
Working capital	15,804	4,117
Add non-current assets	430	316
Less non-current liabilities	(1,686)	(1,512)
Net assets	14,548	2,921
Represented by:		
Accumulated surplus	7,018	7,391
Reserves	7,530	(4,470)
Equity	14,548	2,921

Darwin Bus Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

The host Agency is the Department of Transport.

Audit Opinion

The audit of the Darwin Bus Service for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 22 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The DBS after tax surplus for the year increased by \$0.2 million to \$0.7 million. DBS income depends on kilometres travelled on route services and route services income increased by \$0.4 million as a result of increases in both the rate per kilometre and kilometres travelled. The increase in route service revenue was partly offset by a decrease in charter income and other income.

Employee expenses increased by \$0.1 million due to salary increases and overtime paid to bus drivers resulting from the enterprise bargaining agreement.

Darwin Bus Service cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Sales of goods and/or services	8,510	8,242
Other	728	802
Total income	9,238	9,044
Expenditure		
Employee expenses	(4,291)	(4,167)
Fleet operating expenses	(2,142)	(2,382)
Supplies and services	(979)	(869)
Depreciation and amortisation	(799)	(877)
Total expenditure	(8,211)	(8,295)
Surplus/(deficit) before income tax expense	1,027	749
Income tax expense	(308)	(225)
Surplus/(deficit) after income tax expense	719	524

Darwin Bus Service cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	3,932	2,999
Receivables and other current assets	1,433	1,506
Less current liabilities	(1,299)	(1,056)
Working capital	4,066	3,449
Add non-current assets	6,405	6,687
Less non-current liabilities	(170)	(195)
Net assets	10,301	9,941
Represented by:		
Accumulated funds	9,954	9,594
Reserves	347	347
Equity	10,301	9,941

Darwin Port Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

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

Audit Opinion

The audit of Darwin Port Corporation for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 28 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation realised a surplus (before tax) for the year of \$1.1 million compared to \$0.8 million recorded in the prior year. The improvement was due largely to increases in the sales of goods and services of \$2.4 million and interest revenue. A further factor in the improved operating result for the year was a decrease in the operational expenses by \$0.5 million due to a fall in the value of goods and services procured during the year.

The Corporation's net asset position improved by \$20.4 million to \$202.8 million, largely as a result of the revaluation of the Corporation's assets and significant capital spending. Also contributing to the improved net asset position was a decrease in borrowings, which followed the discharge of two loans during the year.

Darwin Port Corporation cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Sales of goods and/or services	35,673	33,235
Community Service Obligations	3,161	4,316
Other	701	328
Total income	39,535	37,879
Expenditure		
Employee expenses	(13,374)	(12,190)
Operational costs	(10,362)	(10,836)
Repairs and maintenance expenses	(4,484)	(4,005)
Depreciation and amortisation	(7,309)	(7,203)
Borrowing costs	(2,990)	(2,887)
Total expenditure	(38,519)	(37,121)
Surplus/(deficit) before income tax expense	1,106	758
Income tax benefit [#]	7,643	4,617
Surplus/(deficit) after income tax expense	8,659	5,375
Net gain on revaluation of non-current assets	17,832	925
Total comprehensive income	26,491	6,300

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

Darwin Port Corporation cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	6,631	10,230
Receivables and other current assets	4,009	5,077
Less current liabilities	(9,799)	(8,343)
Working capital	841	6,964
Add non-current assets	251,392	220,398
Less non-current liabilities	(49,432)	(44,938)
Net assets	202,801	182,424
Represented by:		
Accumulated funds	(6,269)	(14,928)
Reserves	48,782	30,950
Contributed equity	160,288	166,402
Equity	202,801	182,424

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

Audit Opinion

The audit of Darwin Waterfront Corporation for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 19 October 2012.

Key Findings

The value of property, plant and equipment reported in the financial statements represents the aggregate values of several complex assets transferred by the former Department of Construction and Infrastructure to the Corporation. The lack of a comprehensive fixed asset register means that details about the assets and the extent to which they may represent a combination of a number of assets was not readily available. This may impair the Corporation's ability to manage and maintain its stock of assets and result in the under depreciation of assets, given that the individual assets may have different economic lives.

Since the completion of the audit the Corporation, acting in conjunction with the Department of Lands, Planning and the Environment, has initiated a process intended to develop a comprehensive asset register better able to support management decision-making.

Darwin Waterfront Corporation cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
User charges	1,828	1,316
Operating grants and other contributions	16,868	16,819
Other	122	107
Total income	18,818	18,242
Expenditure		
Territory availability payments	(2,718)	(2,757)
Territory efficiency payments	(165)	(189)
Territory incentive payments	(734)	(723)
Territory operating payments	(2,679)	(2,562)
Agent service arrangements	(815)	(841)
Depreciation and amortisation	(4,284)	(4,311)
Employee expenses	(688)	(948)
Finance costs	(5,766)	(5,835)
Property maintenance	(1,554)	(1,489)
Other	(2,350)	(1,913)
Total expenditure	(21,753)	(21,568)
Surplus/(deficit)	(2,935)	(3,326)

Darwin Waterfront Corporation cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	1,203	870
Receivables and other current assets	590	521
Less current liabilities	(5,075)	(4,755)
Working capital	(3,282)	(3,364)
Add non-current assets	232,072	236,357
Less non-current liabilities	(84,656)	(85,924)
Net assets	144,134	147,069
Represented by:		
Accumulated deficit	(14,104)	(11,169)
Contributed equity	158,238	158,238
Equity	144,134	147,069

Darwin Waterfront Corporation has commented:

The asset register for the Corporation has been prioritised and work is underway to ensure a comprehensive asset register is developed and available by the end of April 2013, that meets both the Corporation financial reporting and internal asset management requirements. Once completed a copy of the Register will be provided to the Auditor-General for review and feedback.

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

Data Centre Services (DCS) is a Government Business Division established to manage the Northern Territory Government's Data Centre, and to provide mainframe and mid-range hardware support to government Agencies.

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

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 28 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

DCS reported a surplus before tax of \$5.3 million with the most significant factors contributing that result being:

- an increase of \$1.7 million in goods and services revenue due to business growth in the mid-range server segment of the business for application hosting and data storage; and
- an increase in consultants' fees from \$3.4 million to \$4.1 million in the current year. These costs primarily relate to information technology consultants.

DCS reported a strong net asset position of \$14.4 million as at 30 June 2012 compared with the \$12.5 million as at 30 June 2011. The increase of \$1.9 million was due largely to an increase in current assets of \$2.4 million compared to the prior year offset by an increase in total liabilities of \$0.4 million. Cash balances increased from \$9.1 million to \$9.8 million, while receivables also increased from \$4.8 million to \$5.4 million. Those increases reflect the increase in revenue for the year.

Data Centre Services cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Sales of goods and/or services	25,135	23,464
Other	339	311
Total income	25,474	23,775
Expenditure		
Operational costs	(12,287)	(11,152)
Employee expenses	(5,889)	(5,907)
Depreciation and amortisation	(1,965)	(1,540)
Total expenditure	(20,141)	(18,599)
Surplus/(deficit) before income tax expense	5,333	5,176
Income tax expense	(1,600)	(1,553)
Surplus/(deficit) after income tax expense	3,733	3,623

Data Centre Services cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	9,787	9,101
Receivables and other current assets	6,531	4,859
Less current liabilities	(5,797)	(5,434)
Working capital	10,521	8,526
Add non-current assets	4,221	4,265
Less non-current liabilities	(363)	(310)
Net assets	14,379	12,481
Represented by:		
Accumulated funds	13,435	11,568
Capital	944	913
Equity	14,379	12,481

Desert Knowledge Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

Audit Opinion

The audit of Desert Knowledge Australia for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 26 November 2012.

Key Findings

The audit did not disclose any material weaknesses in controls.

Performance Overview

DKA's income for the year ending 30 June 2012 was \$2.7 million, a decline of \$2.1 million from the prior year. The year ending 30 June 2011 was characterised by the receipt of a high level of grants and donations; something not repeated during 2012. As a consequence the operating result was a deficit of \$0.9 million compared to a surplus of \$0.5 million for the prior year.

Desert Knowledge Australia cont...

Unexpended Specific Purpose Grants

At 30 June 2012, DKA's reported equity included the value of unexpended grants provided for specific purposes as shown in the following table:

Projects	2012	2011
	\$	\$
Outback Business Network Project	-	68,381
remoteFOCUS	340,000	324,923
Desert Leadership	80,000	71,000
Nevada Institute Seed Fund	70,751	70,751
Total unexpended specific purpose grants	490,751	535,055

Desert Knowledge Australia cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Other income	830	611
Rent received	213	196
Interest revenue	85	90
Grants – Northern Territory Government	725	897
Grants – other	853	2,271
Donation of assets	-	705
Total income	2,706	4,770
Expenditure		
Salaries	(1,361)	(1,487)
Depreciation and amortisation	(375)	(352)
Board costs	(83)	(76)
Consultants	(278)	(153)
Media/marketing/advertising	(40)	(153)
Motor vehicles	(60)	(68)
Travel	(96)	(163)
Desert Knowledge Precinct	(277)	(267)
OBN partner payments	(144)	(931)
Other	(904)	(651)
Total expenditure	(3,618)	(4,301)
Surplus/(deficit)	(912)	469

Desert Knowledge Australia cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	1,684	2,182
Receivables and other current assets	106	620
Less current liabilities	(455)	(825)
Working capital	1,335	1,977
Add non-current assets	13,907	14,212
Less non-current liabilities	(2,957)	(3,062)
Net assets	12,285	13,127
Represented by:		
Equity contribution	7,809	7,739
Accumulated surplus	4,476	5,388
Equity	12,285	13,127

Desert Knowledge Australia cont...

Desert Knowledge Australia has commented:

Thank you for sending through a copy of the text relating to DKA that will be included in your next report to the Legislative Assembly. As we have discussed and noted over the past years, the nature of our grants and how assets are passed over to us can mean that on the face of it our operating deficit/surplus can vary considerably from year to year. If considered without context this can too easily give the wrong impression of our performance. I would therefore like to make the following comments:

- 1. In relation to the decline in revenue in 2011/12, we would like it noted that the previous year's revenue included a 'donation' of \$705,000 of solar technology assets for the DKA Solar Centre and that significant amounts of revenue received in 2010/11 were for activities expensed in 2011/12.*
- 2. The operating deficit of \$0.9 million is mostly related to expenses for activities during 2011/12 for which revenue was received in 2010/11 and also includes a depreciation expense in 2011/12 of \$375,000.*

DKA continues to manage its finances carefully and appreciates the ongoing support of the Northern Territory Government to help us continue the important work of this Statutory Corporation.

Government Printing Office

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

Audit Opinion

The audit of the Government Printing Office for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 28 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The GPO reported a deficit before tax of \$74,000 (2011: \$42,000 surplus). The operating result before income tax declined by \$116,000 from the prior year due to an increase in expenditure of \$274,000 (4.9 per cent) from \$5.6 million to \$5.9 million partially offset by an increase in revenue of \$158,000 (2.8 per cent) from \$5.6 million to \$5.8 million.

The increase in expenditure was predominantly due to the increase in sub-contractors and other operation expenses.

Personnel costs increased by \$60,000 which was consistent with the increase in public sector salary and wage costs flowing from enterprise bargaining outcomes.

Government Printing Office cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Sales of goods and/or services	5,546	5,467
Other	230	151
Total income	5,776	5,618
Expenditure		
Operational costs	(3,332)	(3,112)
Employee expenses	(2,413)	(2,353)
Depreciation and amortisation	(105)	(111)
Total expenditure	(5,850)	(5,576)
Surplus/(deficit) before income tax expense	(74)	42
Income tax expense	-	(13)
Surplus/(deficit) after income tax expense	(74)	29

Government Printing Office cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	2,276	2,842
Receivables and other current assets	812	1,177
Less current liabilities	(832)	(1,049)
Working capital	2,256	2,970
Add non-current assets	949	318
Less non-current liabilities	(153)	(162)
Net assets	3,052	3,126
Represented by:		
Accumulated funds	2,679	2,753
Capital	373	373
Equity	3,052	3,126

Jabiru Town Development Authority

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

The Authority is indebted to the Northern Territory Government as a result of loans provided to the Authority for the construction of infrastructure. The value of loans provided was \$8.4 million, but by 1986 the amount outstanding had increased to \$8.8 million due the capitalisation of net unpaid interest. In August of 1986 the Government granted the Authority a moratorium on interest payments and principal repayments on existing loans. That moratorium continued to apply at 30 June 2012.

Audit Opinion

The audit of the Jabiru Town Development Authority for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 4 December 2012.

Jabiru Town Development Authority cont...

Key Findings

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

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

Jabiru Town Development Authority cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Grants	28	29
Interest	134	141
Total income	162	170
Expenditure		
Administration expenses	(127)	(137)
Amortisation of town infrastructure	(62)	(62)
Impairment loss	-	-
Total expenditure	(189)	(199)
Surplus/(deficit)	(27)	(29)

Jabiru Town Development Authority cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	3,351	3,280
Receivables and other current assets	14	17
Less current liabilities	(46)	(13)
Working capital	3,319	3,284
Add non-current assets	522	584
Less non-current liabilities	(8,805)	(8,805)
Net assets	(4,964)	(4,937)
Represented by:		
Accumulated deficit	(4,964)	(4,937)
Equity	(4,964)	(4,937)

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

The Land Development Corporation (the Corporation) was declared a Government Business Division (GBD) by the Treasurer on 11 October 2011.

Audit Opinion

The audit of the Land Development Corporation for the year ended 30 June 2012 was characterised by my inability to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I did not express an opinion on the financial report. The 'disclaimer of opinion' was issued on 20 November 2012.

Disclaimer of Opinion

The basis for my disclaimer was due to the financial report of the Corporation for the year ended 30 June 2011 not being audited. I was unable to satisfy myself about the reliability of figures for 2010/11 that are disclosed in the comprehensive operating statement, cash flow statement, balance sheet and statement of changes in equity. Whilst I was satisfied with the material accuracy of amounts recorded in the balance sheet at 30 June 2012, the effect of opening balances on the 2011/12 reported financial performance and cash flows prevented me from forming an opinion on the Corporation's financial report when taken as a whole.

Other Statutory Requirements

The *Financial Management Act* requires the financial statements and Auditor-General's report of the Land Development Corporation to be tabled in the Legislative Assembly within four months after the end of the financial year. The time taken by the Corporation to prepare successive sets of financial statements to the point where I was satisfied that those statements complied with Treasurer's Directions and Australian Accounting Standards, together with delays in obtaining evidence from the Corporation in support of the information disclosed in its financial statements meant I was not able to issue an audit opinion until well after the statutory period.

Land Development Corporation cont...

Key Findings

A number of issues arose during the course of the audit that resulted in significant time being required to satisfy myself about the reliability of information presented in the Corporation's financial statements.

Specific issues included:

- Data contained in the Land Register Database being either incorrect or incomplete.
- The submission of a number of different versions of the Land Register Database for audit purposes, while supporting documentation for the cost of land recorded could not be easily obtained for verification.
- The Corporation's decision to change the basis for measurement of investment property part way through the audit.
- A number of different versions of the trial balance being submitted for audit purposes.

Related Party Transactions

Treasurer's Directions define a GBD, which includes the Corporation, as being not-for-profit entities. Flowing from that, a GBD is not required to disclose contracts or transactions with related parties. The Corporation relied upon that exemption and elected to not disclose transactions with entities related to current or previous members of the Board.

Non-disclosure in financial statements of the relationships and transactions with related parties may result in those statements being misleading, as users of the statements may not have a complete understanding of the substance of the relationships and/or transactions.

Given the nature of the Corporation's activities, I recommended that the Corporation review its current policy of not disclosing related party relationships and transactions in its financial statements.

Internal Audit Processes

Deficiencies were noted in the Corporation's internal audit processes in that the internal audit function had not been established, a detailed risk assessment had not been undertaken, and the draft internal audit plan had not been approved by the Corporation's audit committee.

Land Development Corporation cont...

Performance Overview

The year ended 30 June 2012, represents the first year that the Land Development Corporation has operated as a GBD.

The Corporation reported a surplus before income tax of \$50.7 million (2011: \$3.3 million net surplus) and this was attributable to:

- An increase in revenue from land sales of \$5.2 million together with a decline in the cost of land sold of \$4.3 million.
- Assets acquired for no consideration of \$7.5 million. In the prior year these increments were recognised in the asset revaluation reserve.
- Other gains of \$32.6 million relate to the effect of changes in accounting policy that have been recognised in the comprehensive operating statement.
- Increases in revenue have been partially offset by an increase in expenditure (excluding the cost of land sold) of \$1.6 million from \$5.4 million to \$7.0 million. The increase in expenditure is predominantly due to an interest expense of \$1.6 million which was a result of the equity to debt swap.

Land Development Corporation cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Revenue from land sales	23,247	18,089
Royalties, rents and dividends	1,684	1,474
Assets acquired for nil consideration	7,501	-
Other gains	32,644	-
Other	948	336
Output revenue	-	1,498
Total income	66,024	21,397
Cost of land sold	(8,364)	(12,713)
Depreciation and amortisation	(184)	(144)
Employee expenses	(1,845)	(1,588)
Interest	(1,621)	-
Operational costs	(3,336)	(3,669)
Total expenditure	(15,350)	(18,114)
Surplus/(deficit) before income tax expense	50,674	3,283
Income tax expense	(3,159)	-
Surplus/(deficit) after income tax expense	47,515	3,283
Revaluation surplus	-	24,373
Change in accounting policy	(64,090)	-
Comprehensive result	(16,575)	27,656

Land Development Corporation cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	67,738	16,043
Receivables and other current assets	20,301	4,878
Less current liabilities	(63,690)	(8,283)
Working capital	24,349	12,638
Add non-current assets	99,399	127,054
Less non-current liabilities	(20,072)	(4,962)
Net assets	103,676	134,730
Represented by:		
Capital	54,095	64,889
Reserves	1,864	65,954
Accumulated funds	47,717	3,887
Equity	103,676	134,730

Land Development Corporation cont...

The Land Development Corporation has commented:

The Corporation will review its policy on disclosure of related party transactions as recommended by the Auditor-General prior to finalising the 12/13 financial report. Further policy and process enhancements relating to financial reporting relating to the land register documentation, investment property valuation and process improvements in preparation for the annual financial statements have been identified and are underway.

The development of an internal audit plan has been progressed and will also be available for the next audit visit.

Legislative Assembly Members' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

The *Legislative Assembly Members' Superannuation Contributions Act* details superannuation arrangements for Members who were elected to the Legislative Assembly for the first time at the general election in June 2005 and at subsequent elections. The arrangements provide for the payment of the 9 per cent superannuation guarantee to a Member's superannuation fund of choice or, in the absence of a nomination of a fund by a Member, to a default fund - the Legislative Assembly Members' Superannuation Fund formed under the *Legislative Assembly Members' Superannuation Fund Act*.

Amendments to the *Superannuation Act* passed during 2012 have assigned to the Trustee Board, established under that Act, the power to exercise powers and perform functions under the *Legislative Assembly Members' Superannuation Fund Act*.

Audit Opinion

The audit of the Legislative Assembly Members' Superannuation Fund for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 3 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The value of vested benefits as at 30 June 2012 had increased to \$70.7 million (2011: \$69.3 million). Net assets of the Fund were \$48.6 million and this represented 69 per cent of the value of vested benefits as at 30 June 2012. This position can be compared with that at 30 June 2011 where the value of the net assets represented 73 per cent of the value of vested benefits.

The net assets of the Fund decreased by \$1.9 million (2011: increased by \$3.8 million), mainly due to a decrease in the value of investments.

Territory contributions decreased by \$1.2 million to \$0.5 million (2011: \$1.7 million).

Legislative Assembly Members' Superannuation Fund cont...

Abridged Statement of Changes in Net assets

	2012	2011
	\$'000	\$'000
Income		
Interest and distributions	3,061	3,129
Changes in net market value of investments	(3,060)	1,428
Member contributions	185	183
Member surcharge contributions	-	36
Territory contributions	500	1,700
Total income	686	6,476
Expenditure		
Benefits paid	(2,779)	(2,613)
Superannuation contribution surcharge	(13)	(22)
Other expenses	(3)	(3)
Total expenses	(2,795)	(2,638)
Revenue less expenses before income tax	(2,109)	3,838
Less income tax benefit/(expense)	187	(6)
Change in net assets	(1,922)	3,832

Legislative Assembly Members' Superannuation Fund cont...

Abridged Statement of Net assets

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	159	301
Future tax benefits	256	33
Investments	48,684	50,698
Total assets	49,099	51,032
Less liabilities	(450)	(461)
Net assets	48,649	50,571
 Vested benefits	 70,731	 69,339

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

Nitmiluk (Katherine Gorge) National Park Board

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

Audit Opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 6 December 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Revenue declined from \$0.8 million for 2010/11 to \$0.6 million for 2011/12. This was attributable to a decline in visitor numbers.

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

As can be seen from the Board's financial position the total assets of the Board equalled its total liabilities. The values shown there reflected the amounts receivable from concessionaires together with the matching amounts that were payable to the Traditional Owners and to NRETAS at 30 June 2012.

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

Financial Performance for the year

	2012	2011
	\$'000	\$,000
Income		
Park income	625	770
Less payments to Traditional Owners	(389)	(471)
Less payments to NRETAS	(236)	(299)
Northern Territory Government funding sundry income	71	58
Total income	71	58
Expenditure		
Operational costs	(71)	(58)
Total expenditure	(71)	(58)
Surplus/(deficit)	-	-

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

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	-	-
Receivables and other current assets	177	345
Less current liabilities	(177)	(345)
Working capital	-	-
Add non-current assets	-	-
Less non-current liabilities	-	-
Net assets	-	-
Represented by:		
Accumulated surplus	-	-

Northern Territory Government and Public Authorities Employees' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

The Northern Territory Government and Public Authorities Superannuation Scheme (the Scheme) is established pursuant to the provisions of the *Superannuation Act* (the Act). The Act was amended during 2012 and those amendments included the establishment of the Northern Territory Government and Public Authorities Employees' Superannuation Fund (the Fund). The Fund is credited with:

- contributions received from eligible employees;
- employers' shares of benefits that are payable;
- money borrowed for the purposes of the Fund;
- income derived from investments of the Fund; and
- profits made from realization of investments of the Fund.

The amendments to the Act also established the Trustee Board. The Board is required to:

- hold the Fund as trustee for the members of the Scheme;
- to direct the Commissioner in managing and investing the Fund on the Board's behalf;
- to exercise powers and perform functions under the *Legislative Assembly Members' Superannuation Fund Act*;
- with the approval of the Minister, to exercise powers and perform functions in relation to any other superannuation fund or scheme; and
- to exercise any other functions conferred on the Trustee Board under this or any other Act.

The Trustee Board is also required to prepare financial statements in respect of the Fund, with those statements prepared on commercial accounting principles or on such other basis as the Treasurer may direct.

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

Audit Opinion

The audit of the Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 5 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

A notable issue for 2011/12 was the decline of \$47.7 million in the net market value of investments in pooled superannuation trusts. Offsetting that decline, to some extent, was the increase of \$9.3 million in contributions revenue from members and the Northern Territory Government. As a result, total revenue for the year fell from \$228.7 million for 2010/11 to \$184.6 million for 2011/12 while expenses increased by \$22.9 million, largely due an increase of \$29.8 million in benefits expenses.

Vested benefits increased to \$1,708.9 million at June 2012 compared with \$1,636.0 million at June 2011. Against this, the net assets of the fund were \$755.7 million at 30 June 2012.

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

Abridged Statement of Changes in Net assets

	2012	2011
	\$'000	\$'000
Income		
Interest and distributions from investments	485	504
Movement in net market value of investments	10,093	57,757
Member contributions	52,044	50,996
Member surcharge payments received	136	222
Territory contributions	67,903	59,605
Transfers and rollovers	53,922	59,617
Total income	184,583	228,701
Expenses		
Benefits expense	(162,712)	(139,865)
Other expenses	(338)	(265)
Total expenses	(163,050)	(140,130)
Revenue less expenses before income tax	21,533	88,571
Less income tax expense	(7,311)	(6,338)
Change in net assets	14,222	82,233

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

Abridged Statement of Net assets

	2012	2011
	\$'000	\$'000
Cash at bank and other assets	26,536	26,646
Investments	765,268	750,175
Total assets	791,804	776,821
Less liabilities	(40,924)	(40,163)
Net assets	750,880	736,658

Vested benefits	1,708,930	1,635,970
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Vested benefits are the value of benefits payable on voluntary withdrawal from the scheme at that date.

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

Audit Opinion

The audit of Northern Territory Legal Aid Commission for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 30 November 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission reported a net loss for the period of \$775,337 (2011: \$767,344), an increase of \$7,993. This was due to the following:

- an increase in employee expenses of \$1.2 million to \$6.7 million in 2012 (2011: \$5.6 million), mainly due to an increase in the number of employees from 70 in 2011 to 76 employees at June 2012, coupled with the effect of an increase in salaries consistent with an Enterprise Bargaining Agreement;
- an increase in operating expenses of \$0.9 million to \$5.1 million in 2012 (2011: \$4.2 million). This was largely due to an increase in legal costs, by \$808,169, paid to external solicitors for professional fees and disbursements.

Offset by:

- an increase in the revenue of the Commission by \$1.9 million to \$10.9 million in 2012 (2011: \$9.0 million) and a revaluation increment of \$274,960 following a revaluation of property controlled by the Commission. The increase in the Commission's revenue was due mainly to higher grant revenue received from the Northern Territory Government.

I note that the Commission has reported operating deficits for each of the last three years and that for the financial year ended 30 June 2012, the Commission liquidated financial investments in order to maintain adequate levels of operating cash.

Northern Territory Legal Aid Commission cont...

The Commission has forecast a further deficit of the order of \$611,000 for the year ending 30 June 2013. In the absence of adequate funding from the Commonwealth and Territory Governments it is possible that the Commission may again be required to resort to the liquidation of investments to finance its operations, but it is unlikely that it will have the capacity to pursue that policy beyond 2012/13 at which point the ability of the Commission to continue as a going concern would need to be considered.

Northern Territory Legal Aid Commission cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Revenue		
Grants – Northern Territory Government	5,065	3,954
Grants – Commonwealth	4,511	4,510
Grants – other	788	210
Rendering of Service services	348	181
Other	168	179
Total income	10,880	9,034
Expenditure		
Administration	(1,390)	(1,305)
Employee expenses	(6,744)	(5,558)
Legal	(2,513)	(1,705)
Depreciation and amortisation	(169)	(210)
Other	(1,114)	(1,023)
Total expenditure	(11,930)	(9,801)
Surplus/(deficit)	(1,050)	(767)
Net gain on revaluation of non-current assets	275	-
Total comprehensive surplus/(deficit)	(775)	(767)

Northern Territory Legal Aid Commission cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	846	778
Receivables and other current assets	1,085	1,761
Less current liabilities	(1,460)	(1,212)
Net current assets	471	1,327
Add non-current assets	1,240	1,083
Less non-current liabilities	(297)	(221)
Net assets	1,414	2,189
Represented by:		
Reserves	1,801	2,434
Retained earnings	(387)	(245)
Equity	1,414	2,189

Northern Territory Legal Aid Commission cont...

The Northern Territory Legal Aid Commission has commented:

The 6 additional employees employed by the Commission in the Financial Year 2011/12 are costed entirely to the Commonwealth and were brought on to further Commonwealth initiatives at Commonwealth expense.

The Commission is currently adequately funded by the Commonwealth but is inadequately funded by the Territory to fulfil its statutory obligations under the Legal Aid Act (NT) and to meet the legal needs flowing from new initiatives under Territory law.

Northern Territory Police Supplementary Benefit Scheme

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

Eligibility for membership of the CSS ceased from 1 January 1988 and membership of the scheme is declining steadily as members retire and leave the scheme. At 30 June 2012 there were 77 members (83 in 2011) and 163 pensioners (160 in 2011).

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

A member qualifies for a supplementary benefit if:

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

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

Northern Territory Police Supplementary Benefit Scheme cont...

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

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 3 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The value of vested benefits as at 30 June 2012 increased by \$19.6 million to \$65.0 million (2011: \$45.4 million).

Net assets of the Trust decreased to \$2.3 million (2011: \$2.5 million) mainly due to a decrease in the value of market investments to \$2.4 million (2011: \$2.8 million) offset by an increase in cash. Market returns for the year were insufficient to offset negative returns recorded for 2007/08 and 2008/09. Consequently, the five year real rate of return on the Fund was -4.10 per cent.

Benefits payments decreased slightly as a result of fewer members leaving the Scheme during 2011/12. At the same time member contributions decreased marginally.

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Changes in Net assets

	2012	2011
	\$'000	\$'000
Income		
Interest	6	6
Movement in net market value of investments	(67)	206
Contribution revenue	105	104
Total income	44	316
Expenses		
Benefits		
Refunds of accumulated contributions	81	(89)
Payment of accumulated contributions to the Territory	(287)	(159)
Superannuation contribution surcharge	(1)	(2)
Other expenses	(2)	(2)
Total expenses	(209)	(252)
Revenue less expenses before income tax	(165)	64
Income tax expense	(1)	-
Change in net assets	(166)	64

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Net assets

	2012	2011
	\$'000	\$'000
Cash at bank and other assets	150	96
Investments	2,447	2,789
Total assets	2,597	2,885
Less liabilities	(250)	(372)
Net assets	2,347	2,513
 Vested benefits	 65,003	 45,447

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

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

The Under Treasurer constitutes the Corporation and is the Accountable Officer. There is an Advisory Board constituted under section 8 of the Act and the Board may, pursuant to section 11 of the Act, delegate any of its powers and functions to a member of the advisory board, an employee of the Corporation or an employee, within the meaning of the *Public Sector Employment and Management Act*.

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

Audit Opinion

The audit of Northern Territory Treasury Corporation for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 28 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The surplus before income tax of \$29.9 million for the year ended 30 June 2012 increased from the prior year result of \$23.5 million.

The increase of \$6.4 million was largely represented by interest income which increased by approximately \$36.2 million. The increase in interest income was largely due to an increase in loans made, and to higher cash balances held, during the year. The increased revenues were offset by an increase in interest expense of \$29.7 million.

Northern Territory Treasury Corporation cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Interest	232,980	196,791
Other	473	471
Total income	233,453	197,262
Expenditure		
Interest	(201,142)	(171,465)
Administration	(2,385)	(2,286)
Total expenditure	(203,527)	(173,751)
Surplus/(deficit) before income tax expense	29,926	23,511
Income tax expense	(8,978)	(7,053)
Surplus/(deficit) after income tax expense	20,948	16,458

Northern Territory Treasury Corporation cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Total assets	4,098,068	3,113,897
Less total liabilities	(4,076,438)	(3,092,267)
Net assets	21,630	21,630
Represented by:		
Contributed capital	21,630	21,630
Reserves	-	-
Equity	21,630	21,630

NT Build

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

Audit Opinion

The audit of NT Build for the year ended 30 June 2012 resulted in a qualified independent audit opinion, which was issued on 18 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Qualification

The audit opinion on the financial statements of NT Build for the year ended 30 June 2012 was again qualified as follows:

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

Due to the nature of the approval process within the Northern Territory construction industry, there exists some uncertainty regarding the ability of NT Build to identify all construction and maintenance projects that fall within the scope of the Construction Industry Long Service Leave and Benefits Act. As such, I am unable to satisfy myself as to the completeness of the \$12,031,220 disclosed as ‘Contributions from levy payers’ in the comprehensive operating statement.”

NT Build cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Contributions from levy payers	12,031	9,939
Other	1,558	2,378
Total income	13,589	12,317
Expenditure		
Employee expenses	(711)	(737)
Occupancy costs	(94)	(100)
Depreciation and amortisation	(3)	(3)
Fees and allowances	(50)	(40)
Long service leave benefit payments	(574)	(465)
Long service scheme expense	(7,630)	(3,499)
Other	(611)	(529)
Total expenditure	(9,673)	(5,373)
Surplus/(deficit) before income tax expense	3,916	6,944

NT Build cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	27,150	21,441
Receivables and other current assets	26,328	20,450
Less current liabilities	(734)	(621)
Working capital	52,744	41,270
Add non-current assets	12	15
Less non-current liabilities	(27,962)	(20,407)
Net assets	24,794	20,878
Represented by:		
Implementation funding	297	297
Accumulated surplus	24,497	20,581
Equity	24,794	20,878

NT Build cont...

NT Build has commented:

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

NT Build supports the amendment of building regulatory provisions to require evidence that a Project Notification Form has been lodged with NT Build before a Building Permit is issued. Such an amendment would greatly enhance levy compliance within the building control areas, (representing the majority of leviable construction works). In this regard, NT Build will continue to work closely with the Department of Lands, Planning and the Environment to pursue suitable amendments to both the Building Act and the Planning Act in order to strengthen NT Build's ability to maximise levy compliance.

While the Board notes the change to the current building approval regime will have a limited effect, it will enable NT Build to better concentrate its resources on identifying both leviable construction undertaken throughout the non-controlled remote areas of the Northern Territory, including on mining sites, and on other categories of "construction" (eg; civil works and some maintenance) as defined by the Construction Industry Long Service Leave and Benefits Act not covered under the building regulatory provisions.

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

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

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

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

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 28 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet reported a surplus before tax and dividends of \$16.2 million, an improvement of \$1.7 million compared to the prior year.

Total expenses increased by \$2.1 million to \$38.7 million largely due to an increase in depreciation and amortisation expense of \$1.5 million.

Personnel costs remained relatively consistent with prior year with a \$12,000 decrease.

A loan of \$3 million to NT Fleet from the Northern Territory Treasury was fully repaid in April 2012.

NT Fleet incurred an expense of \$4.9 million in respect of an income tax equivalent, while also paying a dividend of \$5.7 million for the year.

NT Fleet cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Revenue from vehicle lease rentals	48,070	45,551
Gain on disposal of assets	6,271	5,023
Other revenues	553	491
Total income	54,894	51,065
Expenditure		
Operational costs	(12,139)	(11,505)
Employee expenses	(2,620)	(2,632)
Depreciation and amortisation	(23,788)	(22,263)
Borrowing costs	(158)	(196)
Total expenditure	(38,705)	(36,596)
Surplus/(deficit) before income tax expense	16,189	14,469
Income tax expense	(4,857)	(4,341)
Surplus/(deficit) after income tax expense	11,332	10,128

NT Fleet cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	8,602	13,631
Receivables and other current assets	2,181	1,691
Less current liabilities	(13,632)	(16,351)
Working capital	(2,849)	(1,029)
Add non-current assets	98,890	91,416
Less non-current liabilities	(162)	(174)
Net assets	95,879	90,213
Represented by:		
Accumulated funds	95,376	89,710
Capital	503	503
Equity	95,879	90,213

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

NT Home Ownership is a Government Business Division which oversees the Government's home purchase assistance initiatives.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 18 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Home Ownership reported a surplus before tax and dividends at 30 June 2012 of \$1.5 million compared to \$4.4 million for the prior year, largely as a result of:

- \$10.4 million interest income associated mainly with loans to home purchasers and \$0.7 million gain on revaluation of investments; offset by
- interest expense of \$8.5 million on loans from Northern Territory Treasury Corporation.

NT Home Ownership recorded net assets as at 30 June 2012 of \$38.0 million (2011: \$37.0 million), which comprised of:

- \$163.2 million (2011: \$137.9 million) of loans to home purchasers;
- \$55.6 million investments in minority interest in shared equity investments;
- Cash and deposits of \$6.8 million; offset by
- Borrowings and advances of \$186.4 million (2011: \$163.1 million) from Treasury Corporation.

NT Home Ownership cont...

Financial Performance for the year

	2012	2011
	\$,000	\$,000
Income		
Other income	34	92
Interest revenue	10,418	9,280
Community Service Obligations (CSO)	1,191	1,239
Gain on sale of investments	291	1,032
Gain on sale of land	188	-
Gain on revaluation of investments	738	2,838
Total income	12,860	14,481
Expenditure		
Employee expenses	(202)	(212)
Administration fees	(2,061)	(1,974)
Borrowing costs	(8,495)	(7,492)
Other expenses on ordinary activities	(563)	(401)
Total expenditure	(11,321)	(10,079)
Surplus/(deficit) before income tax expense	1,539	4,402
Income tax expense	(240)	(469)
Surplus/(deficit) after income tax expense	1,299	3,933

NT Home Ownership cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	6,763	10,300
Receivables and other current assets	3,242	2,369
Less current liabilities	(8,416)	(8,260)
Working capital	1,589	4,409
Add non-current assets	215,688	188,967
Less non-current liabilities	(179,245)	(156,363)
Net assets	38,032	37,013
Represented by:		
Accumulated surplus	15,287	14,268
Contributed equity	22,745	22,745
Equity	38,032	37,013

Power and Water Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

The Corporation controls one fully owned subsidiary company (Indigenous Essential Services Pty Ltd) and holds 50 per cent of the ordinary shares issued by BGP Tenure Holdings Pty Ltd.

Audit Opinion

The audit of Power and Water Corporation for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 26 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The financial statements prepared by the Corporation are consolidated statements for the group of entities that comprises the Corporation in its own right, together with Darnor Pty Ltd, Gasgo Pty Ltd, BGP Tenure Holdings Pty Ltd and Indigenous Essential Services Pty Ltd. Both Darnor Pty Ltd and Gasgo Pty Ltd were wound up during the year following the expiry of the 1985 Palm Valley Gas Purchase Agreement, and the 2006 Mereenie Gas Sale Agreement.

The Corporation's own financial activities for the year resulted in a modest profit after tax of \$20,000, much improved on the prior year's result which was an after-tax loss of \$74.4 million. The 2011/12 result was achieved notwithstanding lower revenues for the year, due primarily to a decline in sales of goods and services which fell from \$509.4 million for 2010/11 to \$412.1 million for 2011/12. Revenues for the year were affected by an increase of \$130.1 million in 2010/11, the result of adjustment to the Gas Acquisition Agreement which ceased with the sale of the Amadeus Gas Pipeline.

Power and Water Corporation cont...

Expenses for the year also declined due to lower energy and material costs as illustrated by the decline in the Corporation's energy expenses from \$346.7 million for 2010/11 to \$195.5 million for 2011/12. In addition 2010/11 also included impairment losses of \$72.2 million which were largely absent for 2011/12.

For 2011/12 one of the principal sources of funds of the Corporation was borrowings of \$159.0 million and the net cash flows from operating activities which contributed \$48.6 million towards the cash position at year end. Those amounts were generally applied to funding the Corporation's capital program for the year.

The values of the property, plant and equipment assets shown on the Corporation's balance sheet are at what is known as deemed cost. These values are likely to be less than the replacement costs and if the earnings of the Corporation are considered in the context of its ability to replace those assets without recourse to equity raising or further borrowings, the financial results may not be adequate to ensure that the real value of the Corporation's capital is maintained.

2013 is expected to see the first major assessment for several years of the replacement costs of the Corporation's infrastructure and that is expected to provide a useful basis for assessing the financial sustainability of the Corporation.

The financial result for the group was after-tax loss of \$803,000 compared with an after-tax loss of \$74.4 million for the prior year. Again, major factors in the improved result were lower energy and material costs, and lower impairment losses.

Power and Water Corporation cont...

Financial Performance for the year of the Consolidated Entity

	2012	2011
	\$'000	\$'000
Income		
Sale of goods	438,286	539,117
Rendering of services	121,023	107,394
Interest revenue	5,259	5,496
Other	116,103	100,033
Total income	680,671	752,040
Expenditure		
Raw materials and consumables used	(230,042)	(379,739)
Finance costs	(64,673)	(51,677)
Repairs and maintenance expenses	(88,232)	(69,823)
Employee expenses	(102,280)	(102,585)
External service agreements	(31,574)	(29,174)
Depreciation and amortisation	(79,681)	(75,473)
Impairment of noncurrent assets	(374)	(72,177)
Other expenses	(84,536)	(78,008)
Total expenditure	(681,392)	(858,656)
Surplus/(deficit) before income tax expense	(721)	(106,616)
Income tax benefit/(expense)	(82)	32,255
Surplus/(deficit) after income tax expense	(803)	(74,361)

Power and Water Corporation cont...

Financial Position at year end of the Consolidated Entity

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	149,267	184,849
Receivables and other current assets	125,379	106,710
Less current liabilities	(173,743)	(165,726)
Working capital	100,903	125,833
Add non-current assets	1,936,742	1,718,657
Less non-current liabilities	(1,472,157)	(1,319,859)
Net assets	565,488	524,631
Represented by:		
Retained profits	412,906	413,709
Contributed equity	152,582	110,922
Equity	565,488	524,631

Territory Discoveries

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

Territory Discoveries' host Agency is Tourism NT.

Audit Opinion

The audit of Territory Discoveries for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 9 October 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Territory Discoveries reported a deficit of \$43,000 for the financial year ended 30 June 2012 (2011: surplus of \$101,000). The decline in financial performance was predominantly due to a decline in holiday sales.

Total expenses declined by \$78,000 to \$5.6 million in 2011/12. That decrease was mainly attributable to a fall in employee expenses by \$149,000.

The value of Territory Discoveries' net assets at 30 June 2012 declined by \$43,000 when compared to the position in 2011, with that decline being attributable largely to a fall in the level of travel deposits held with associated net cash outflows for the year.

Territory Discoveries cont...

Financial Performance for the year

	2012	2011
	\$'000	\$'000
Income		
Government grants	1,403	1,400
Sales of goods and/or services	2,810	3,108
Community Service Obligation	1,016	925
Other	311	329
Total income	5,540	5,762
Expenditure		
Operational costs	(3,305)	(3,235)
Employee expenses	(2,277)	(2,426)
Depreciation and amortisation	(1)	-
Total expenditure	(5,583)	(5,661)
Surplus/(deficit) before income tax expense	(43)	101
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(43)	101

Territory Discoveries cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Cash and cash equivalents	6,684	6,758
Receivables and other current assets	37	97
Less current liabilities	(3,483)	(3,577)
Working capital	3,238	3,278
Add non-current assets	11	-
Less non-current liabilities	(23)	(9)
Net assets	3,226	3,269
Represented by:		
Accumulated losses	(2,451)	(2,408)
Contributed equity	5,677	5,677
Equity	3,226	3,269

Territory Insurance Office

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

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

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

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

Audit Opinion

The audit of the Territory Insurance Office for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 27 September 2012.

Key Findings

The audit did not identify any material weaknesses in controls.

Territory Insurance Office cont...

Prudential Review

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

For the purposes of the Determination, the Auditor-General has been deemed to be the "appointed auditor" consistent with the requirements imposed upon general insurers that are subject to direct supervision by APRA. Accordingly, I conducted reviews of both the insurance and banking functions of TIO during 2011/12 to assess the extent to which TIO met the requirements of the APRA prudential standards. Following that review I advised the Treasurer and the Board of TIO that I was generally satisfied that TIO had met the requirements of the APRA prudential standards.

Performance Overview

The Motor Accident Compensation (MAC) Fund comprehensive income after tax declined from \$45.3 million in the prior year to \$1.3 million in 2011/12. The comprehensive income after tax of TIO's insurance and banking activities also decreased from \$8 million in 2011 to \$7.1 million in 2012.

The decline in MAC profits was primarily a result of the significant fall in interest rates that form the basis for discount rates used to value financial liabilities and assets. Thus the declines in interest rates that have been seen in recent years have led to a marked increase in the current values of liabilities while an environment characterised by low interest rates tends to be accompanied by reduced yields on financial assets. TIO's insurance and banking operations were also affected by the fall in interest rates and yields for similar reasons.

Territory Insurance Office cont...

Financial Performance for the year

	TIO Insurance & Banking		MAC Fund		TIO (consolidated)	
	2012	2011	2012	2011	2012	2011
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Underwriting result						
Net premium revenue	63	61	60	56	123	117
Net claims expense	(53)	(53)	(93)	(41)	(146)	(94)
Acquisition costs	(5)	(6)	-	-	(5)	(6)
Underwriting result	5	2	(33)	15	(28)	17
Non-underwriting revenues and expenses						
Investment revenue						
Interest receivable	44	48	9	8	53	56
Change in value of investments	5	1	18	3	23	4
Gain on disposal of investments	2	3	4	6	6	9
Other investment income	4	7	14	22	18	29
Total investment revenue	55	59	45	39	100	98
Other revenue and expenses						
Other revenue #	6	8	1	-	7	-
Borrowing costs	(30)	(32)	-	-	(30)	(32)
Other costs and depreciation#	(26)	(26)	(13)	(10)	(39)	(28)
Total other revenue and expenses	(50)	(50)	(12)	(10)	(62)	(60)
Non-underwriting result	5	9	33	29	38	38
Profit/(loss) before tax	10	11	-	44	10	55
Tax and other comprehensive income	(3)	(3)	1	1	(2)	(2)
Comprehensive income after tax	7	8	1	45	8	53

includes inter-business unit charges

Note: Totals may not add due to rounding.

Territory Insurance Office cont...

Financial Position at year end

	TIO Insurance & Banking		MAC Fund		TIO (consolidated)	
	2012	2011	2012	2011	2012	2011
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Assets						
Cash and cash equivalents	22	21	7	6	29	27
Trade and other receivables *	59	52	3	4	61	54
Other financial assets	233	226	448	391	681	617
Intangible assets	2	1	-	-	2	1
Loans	522	526	-	-	522	526
Reinsurance and other recoveries	37	39	35	32	72	71
Property, plant and equipment	14	15	33	32	47	47
Deferred reinsurance expense	21	20	-	-	21	20
Deferred acquisition costs	4	4	-	-	4	4
Current tax assets	-	-	-	-	-	-
Deferred tax assets	4	4	-	-	4	4
Total assets *	918	908	526	465	1,443	1,371
Liabilities						
Outstanding claims liability	(140)	(138)	(331)	(273)	(471)	(411)
Trade and other payables *	(29)	(28)	(3)	(3)	(31)	(29)
Deposits	(502)	(498)	-	-	(502)	(498)
Tax liabilities	(4)	(2)	-	-	(4)	(2)
Provisions	(5)	(5)	-	-	(5)	(5)
Unearned premium liability	(69)	(62)	(28)	(26)	(97)	(88)
Securitisation liabilities	(53)	(66)	-	-	(53)	(66)
Total liabilities *	(802)	(799)	(362)	(302)	(1,163)	(1,099)
Net assets	116	109	164	163	280	272

* includes inter-business unit's debtor/creditors

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Background

The Territory Wildlife Parks (TWP) is a Government Business Division that operates the Territory Wildlife Park at Berry Springs and the Alice Springs Desert Park. The TWP has required ongoing financial support, through its host Agency, to enable it to meet its operating expenses.

The host Agency was the Department of Natural Resources, Environment, the Arts and Sport during 2011/12, with that responsibility transferring to the Parks and Wildlife Commission of the Northern Territory for 2012/13.

Audit Opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2012 resulted in an unqualified independent audit opinion, which was issued on 27 September 2012.

Key Findings

Whilst the audit did not identify any material weaknesses in controls it is notable that TWP has recorded financial deficits since its inception and that it continues to rely upon financial support in the form of Community Service Obligations to enable it to manage its cash flow requirements. TWP incurred an operating loss of \$2.3 million for 2011/12.

Income

Revenue increased by \$1.6 million (16 per cent) from \$9.9 million for the prior year to \$11.5 million in 2011/12 with the major contributor to revenue being the Community Service Obligation (CSO) which comprised 82 per cent of revenue. In 2012 the CSO increased by \$1.5 million for repairs and maintenance work.

Revenue from the sale of goods represented the remaining 18 per cent of total revenue, and was \$2.1 million for 2011/12, compared to \$2.0 million in the prior year. Revenue from the sale of goods was comprised predominantly of park entry fees and was relatively consistent with the prior year sale of goods revenue.

Territory Wildlife Parks cont...

Expenses

Total operating expenses for the year were \$13.8 million, which represented an increase of \$0.9 million from \$12.9 million in the prior year. This was predominantly due to the increase in purchases of goods and services expenses, mainly relating to repairs and maintenance.

I noted that personnel numbers declined by 20 during the year. This resulted in employee expenses decreasing from \$6.5 million in 2010/11 to \$6.3 million for 2011/12. The number of employees referred to includes permanent, casual and temporary employees.

Assets

Asset values declined by \$1.5 million (5 per cent) for the year, from \$27.7 million to \$26.2 million.

Liabilities

Liabilities declined from \$4.0 million for 2010/11 to \$1.4 million as at 30 June 2012. The decrease was mainly due to the effect of an advance payment of the Community Service Obligation (CSO) in 2010/11 being shown as a liability at 30 June 2011 whereas no such advance payment was received during 2012.

Territory Wildlife Parks cont...

Financial Performance for the year

	2012	2011
	\$'000	\$,000
Income		
Community Service Obligations	9,418	7,915
Sales of goods and services	2,059	2,023
Other revenues	50	5
Total income	11,527	9,943
Expenditure		
Employee expenses	(6,321)	(6,535)
Depreciation and amortisation	(1,719)	(1,678)
Other expenses	(5,781)	(4,700)
Total expenditure	(13,821)	(12,913)
Surplus/(deficit) before income tax expense	(2,294)	(2,970)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(2,294)	(2,970)
Asset revaluation	-	(5,619)
Comprehensive result	(2,294)	(8,589)

Territory Wildlife Parks cont...

Financial Position at year end

	2012	2011
	\$'000	\$'000
Current Assets	1,035	950
Less current liabilities	(1,196)	(3,732)
Working capital	(161)	(2,782)
Add non-current assets	25,117	26,720
Less non-current liabilities	(221)	(225)
Net assets	24,735	23,713
Represented by:		
Accumulated losses	(14,208)	(11,914)
Contributed equity	20,197	16,881
Asset revaluation reserve	18,746	18,746
Equity	24,735	23,713

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2012

Audit Opinion

My audit opinion on the Treasurer's Annual Financial Statement (TAFS) for 2011/12 was qualified because of uncertainty surrounding the valuation of work in progress in relation to the Strategic Indigenous Housing and Infrastructure Program.

Introduction

The Treasurer's Annual Financial Statement for the twelve months ended 30 June 2012 paints a picture of public finances that deteriorated over the twelve months since June 2011. Total revenues for 2011/12, on a whole-of-government basis, increased by 2.0 per cent to \$5,670 million while total expenses increased by 3.3 per cent to \$5,504.4 million. The result was a deterioration of \$65.0 million in the Net Operating Balance for the year. The Net Operating Balance is a measure of the extent to which the Territory's revenues are sufficient to finance the full cost of its operations and it can also be viewed as a measure of the public sector's ongoing sustainability. Thus while the Total Public Sector's Net Operating Balance of \$166 million indicates that revenues were sufficient to cover the cost of delivery of programs and the production of goods and services for the year, a continuation of circumstances that see revenue growth that is less than growth in expenses can be expected to lead to an erosion of the Net Operating Balance and the public sector's financial sustainability.

The Northern Territory has little influence over the larger part of its revenue. For 2011/12, 70 per cent of the Territory's revenues were provided by the Commonwealth. Of that, GST dominated and while the rate of growth in GST revenue was greater than for the prior year, it was less than the rate of growth of expenses, particularly employment expenses.

Total public sector capital spending declined slightly in 2011/12 when compared to the previous year. For 2011/12 gross capital spending amounted to \$1,200 million, of which \$943.0 million was incurred by the General Government Sector mainly in relation to housing, transport and health. A further \$254.4 million was incurred by the Public Non Financial Corporation Sector, primarily in the areas of electricity and water asset creation or replacement.

Treasurer's Annual Financial Statement cont...

One effect of the significant capital outlays was a negative Fiscal Balance of almost \$618 million. While this was a slight improvement on the 2010/11 result, which was a negative result of \$744 million, it highlights the extent to which the activities of the Total Public Sector have drawn, or can be expected to draw, on the savings of other sectors of the economy in 2011/12 and future years.

While the financial result for 2011/12, as measured by the Net Operating Balance, represented a deterioration when compared with the prior year, it should present few surprises when considered in the context of “deleveraging” and subdued credit growth that appears to be underway in Australia and which may result in a slow recovery in GST growth.

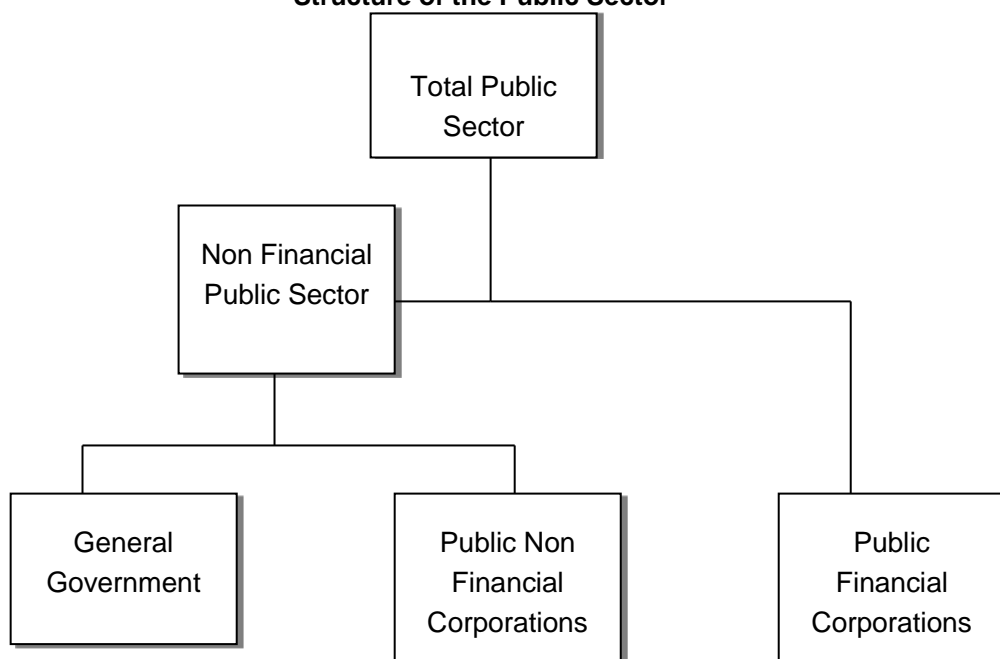
The Uniform Presentation Framework and the Structure of the Public Sector

The Treasurer's Annual Financial Statement (TAFS), which was tabled in the Legislative Assembly in October 2012, is required to be prepared pursuant to section 9 of the *Financial Management Act*. The basis for the preparation of the TAFS is set down by the *Fiscal Integrity and Transparency Act* which requires that the Government Finance Statistics (GFS) be used and the requirements form the basis of the Uniform Presentation Framework (UPF) that has been adopted by each jurisdiction in the interest of consistency of financial reporting.

Treasurer's Annual Financial Statement cont...

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

Figure 1
Government Finance Statistics
Structure of the Public Sector



Treasurer's Annual Financial Statement cont...

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

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

The discussion about the financial performance and position of the sectors that follow is confined to the Total Public Sector and the General Government Sector. The Total Public Sector is examined because its financial statements provide a comprehensive picture of the Northern Territory Government's financial performance and position, based on the performance and position of each of the entities that it controls. While it is common for the focus of analysis to be on the Non Financial Public Sector, this reports takes a whole of public sector view because of the substantial borrowings of \$3,794 million (\$2,834 million at June 2011) of the Public Financial Corporation Sector which are guaranteed by the Northern Territory Government. The General Government Sector is also examined because it is, arguably, the most important sector of government. It is that sector which is funded largely through taxation and on that basis alone deserves to be considered separately, but it is also the sector that is responsible for the provision of those services that the community commonly associates with the role of a government.

Treasurer's Annual Financial Statement cont...

Entities Excluded From the TAFS

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

The principal determinant as to whether an entity is included in the TAFS is "control", which is the capacity of the Northern Territory Government to dominate the financial and operating policies of that entity so as to enable it to operate with the Government in pursuing the Government's own objectives. Important indicators of the existence of control include the extent to which an entity is accountable to Executive Government or to a particular Minister, and the extent to which the Government has a residual financial interest in the net assets of the entity.

Treasurer's Annual Financial Statement cont...

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

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

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

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

Treasurer's Annual Financial Statement cont...

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

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

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

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

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

Treasurer's Annual Financial Statement cont...

Financial Performance and Position of the Total Public Sector

Financial Performance

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

The financial performance of the Total Public Sector for 2011/12, as measured by the Net Operating Balance and by Net Lending or Borrowing is illustrated in Table 1 below:

Table 1
Financial Performance of the Total Public Sector

	2011/12 \$' million	2010/11 \$' million
Revenues	5,670.1	5,559.1
Expenses	(5,504.4)	(5,328.5)
Net operating balance	165.7	230.6
Net acquisition of non-financial assets	(783.3)	(975.0)
Net lending/(borrowing)	(617.6)	(744.4)

Total Public Sector financial performance for 2011/12 was characterised by an increase in total revenues of 2.0 per cent, to \$5,670.1 million. Grants received from the Commonwealth continued to dominate, with 70 per cent of the Total Public Sector's revenues coming from that source. Revenues received from the Commonwealth increased by \$175.4 million, with increases occurring in:

	\$' million
Goods and Services Tax	161.8
Other grants and capital contributions	43.4
offset by decreases in:	
National partnerships	(23.1)
Specific purpose payments	(6.7)
Total	175.4

Treasurer's Annual Financial Statement cont...

Taxation revenues raised under various Territory Acts of Parliament increased by a net amount of \$5.5 million or 1.4 per cent for the year. Increased revenues amounting to \$15.3 million were recorded in respect of taxes on employment, gambling, insurance and motor vehicle registration fees, while a decline in revenues of \$9.8 million was recorded in respect of stamp duties.

Expenses for the Total Public Sector increased by \$175.9 million (3.3 per cent) for the year, with that increase being dominated by the increase in employment expenses (\$159.9 million).

Table 1 contains two measures of performance: the Net Operating Balance which was a surplus of \$165.7 million at 30 June 2012. The Net Operating Balance result indicates that the revenues received by the public sector for the year were sufficient to meet the full costs of resources consumed in providing services to the community. The resulting surplus was applied towards the capital expenses incurred for the year, resulting in Net Borrowing by the Total Public Sector of \$617.6 million. The Net Borrowing result for the Total Public Sector is an indication of the extent to which the Northern Territory Government may need to draw upon the savings of other sectors of the economy.

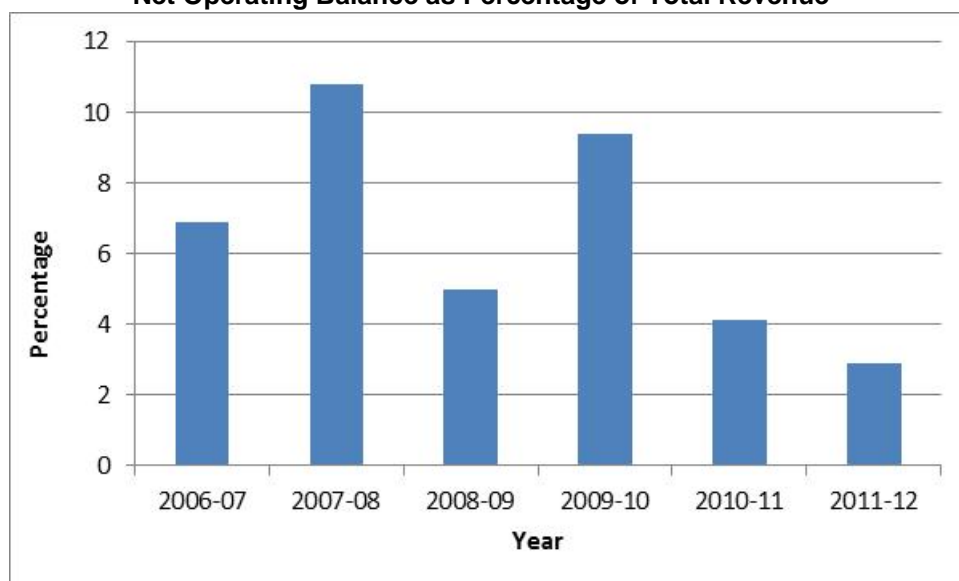
The deterioration in the Net Operating Balance was due largely to an increase of \$159.9 million in employee benefits expense. That increase alone outstripped the Total Public Sector's increase in revenues for the year. The increase in employment expenses for the year appears to be attributable to a growth in employment numbers. Data published by the Office of the Commissioner for Public Employment indicates that full-time equivalent employment numbers increased by 880 for the year ended 30 June 2012, with the majority of the increases occurring in the former Departments of Children and Families, Education and Training, Health, and Justice.

Treasurer's Annual Financial Statement cont...

As can be seen at Figure 2, the Total Public Sector Net Operating Balance result, shown as a percentage of the Territory's revenue, over the six years to June 2012 highlights the extent to which this measure has fluctuated due to a range of factors including the timing of grants from the Commonwealth and the timing of the expenditure of those grant funds. However, it is notable that the measure has declined over two successive years. A positive Net Operating Balance has been one of the sources of funds for the Territory's capital program and a continuing decline in this performance measure carries with it a risk of higher borrowings to meet capital funding requirements. This suggests that corrective action may need to be considered if any unplanned increase in the Territory's borrowing program is to be avoided. As there may be limited opportunities to increase revenues, given the heavy reliance on grants from the Commonwealth, any initiatives intended to improve the Net Operating Balance result may need to be directed to reductions in operating expenses.

Figure 2
Total Public Sector

Net Operating Balance as Percentage of Total Revenue



Treasurer's Annual Financial Statement cont...

Total Public Sector financial performance, as represented by the Net Operating Balance measure was also reflected in the cash flow results for the year. The Total Public Sector generated positive net cash flows of \$638.8 million from operations, a deterioration when compared with the result of \$711.6 million for 2010/11.

That cash surplus was applied to financing the capital program and after capital outlays are taken into account, a cash deficit of \$488.1 million resulted. That deficit was financed by borrowings, offset by investment in financial assets. This is outlined in Table 2 below:

Table 2
Total Public Sector
Summary of Cash Flows

	2011/12 \$'million	2010/11 \$'million
Cash receipts from operations	5,934.9	5,762.6
Cash payments from operations	(5,296.1)	(5,051.0)
Net cash flows from operations	638.8	711.6
Less: Net cash flows from investing in non-financial assets	(1,126.9)	(1,297.1)
Cash deficit	(488.1)	(585.5)
Less: Net cash from financing activities	687.2	427.7
Net increase/(decrease) in cash	199.1	(157.8)
Opening balance of cash and deposits	319.9	477.7
Closing balance of cash and deposits	519.0	319.9

Treasurer's Annual Financial Statement cont...

Flowing from the above, the net cash flows of \$638.8 million generated by the operating activities of the Total Public Sector formed part of the total cash inflows for the year. That amount was supplemented by net borrowings totalling \$960.2 million and \$74.1 million from the sale of non-current assets. The resulting amount of \$1,673.1 million was applied as follows:

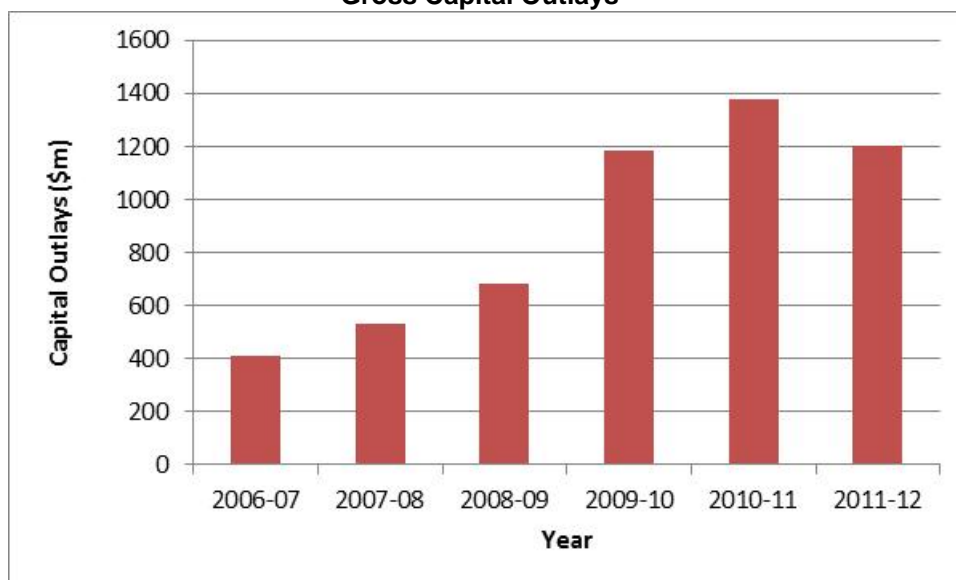
	\$'million
Investment in non-financial assets as part of the capital program	1,201.0
Investment in financial assets for liquidity and policy purposes	253.0
Repayment of advances and deposits	20.0
Increase in cash and cash balances	199.1
Total	1,673.1

Both the General Government and Public Non Financial Corporation Sectors have been characterised by high levels of capital spending for several years and that has been reflected in increasing investment in non-financial assets reported at the Total Public Sector level. 2011/12 saw a slowing of the rate of growth in capital spending and this largely reflects the winding down of Commonwealth funded capital programs in the General Government Sector together with lower spending in the Non-Financial Corporation Sector.

Treasurer's Annual Financial Statement cont...

The pattern of capital spending over the past six years is illustrated at Figure 3.

Figure 3
Total Public Sector
Gross Capital Outlays



Treasurer's Annual Financial Statement cont...

Financial Position

The three measures of financial position employed by the UPF were outlined previously under "Introduction". Each of the measures, Net Debt, Net Financial Worth and Net Worth, deteriorated when compared with the prior year and those movements are consistent with the reported results for the fiscal balance for the year ended 30 June 2012. The components of the changes in each of the measures of financial position are summarised in Table 3, below:

Table 3
Total Public Sector
Components of Financial Position

	Balance at 30 June 2012 \$' million	Movement for 2011/12 \$'million	Balance at 30 June 2011 \$'million
Cash and deposits	519.0	199.1	319.9
Advances paid	164.3	25.3	139.0
Investments, loans and placements	2,126.9	233.2	1,893.7
Deposits held	(550.9)	14.3	(565.2)
Advances received	(248.7)	5.6	(254.3)
Borrowings	(3,905.3)	(958.9)	(2,946.4)
Net debt	(1,894.7)	(481.4)	(1,413.3)
Equity assets	0.1	-	0.1
Non-equity financial assets	356.0	20.4	335.6
Superannuation liabilities	(3,797.7)	(1,058.5)	(2,739.2)
Other employee entitlements and provisions	(597.4)	(54.4)	(543.0)
Other non-equity liabilities	(1,032.6)	(90.9)	(941.7)
Net financial worth	(6,966.3)	(1,664.8)	(5,301.5)
Carrying amount of non-financial assets	13,973.8	1,110.3	12,863.5
Net worth	7,007.6	(554.4)	7,562.0

Note: Totals may not add due to rounding.

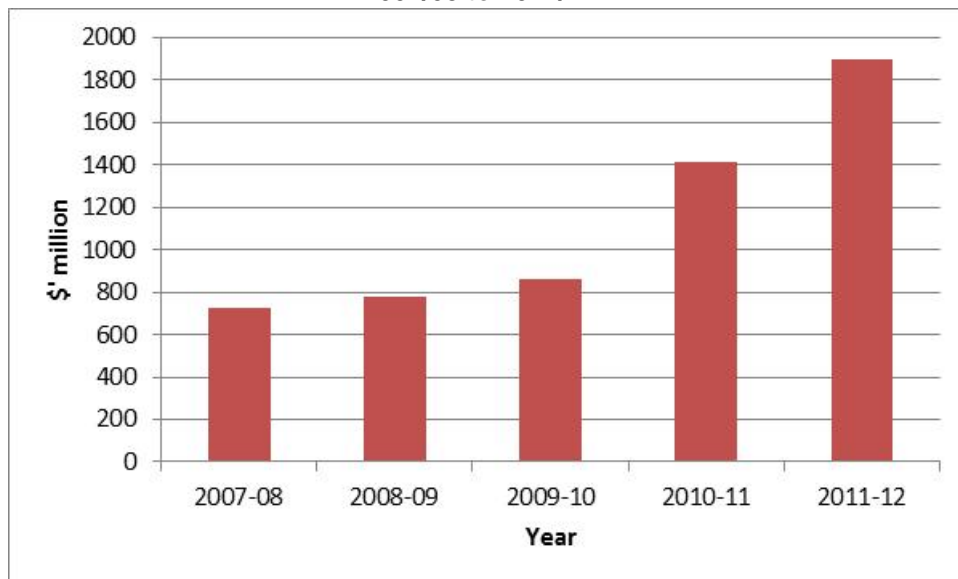
Treasurer's Annual Financial Statement cont...

From Table 3 it can be seen that:

- Net Debt increased by \$481.4 million, with increased borrowings being a significant factor.
- Net Financial Worth declined by \$1,664.8 million largely as a result of the increase in Net Debt, together with increases in superannuation and other employee liabilities.
- Net Worth declined by \$554.4 million reflecting the significant decline in Net Financial Worth that outweighed the increase in the carrying amount of non-financial assets.

Figure 4 illustrates the extent to which Net Debt, having declined in the immediate period up to 2007/08, began to increase once more in 2008/09 with the rate of increase being particularly noticeable in 2010/11 and 2011/12.

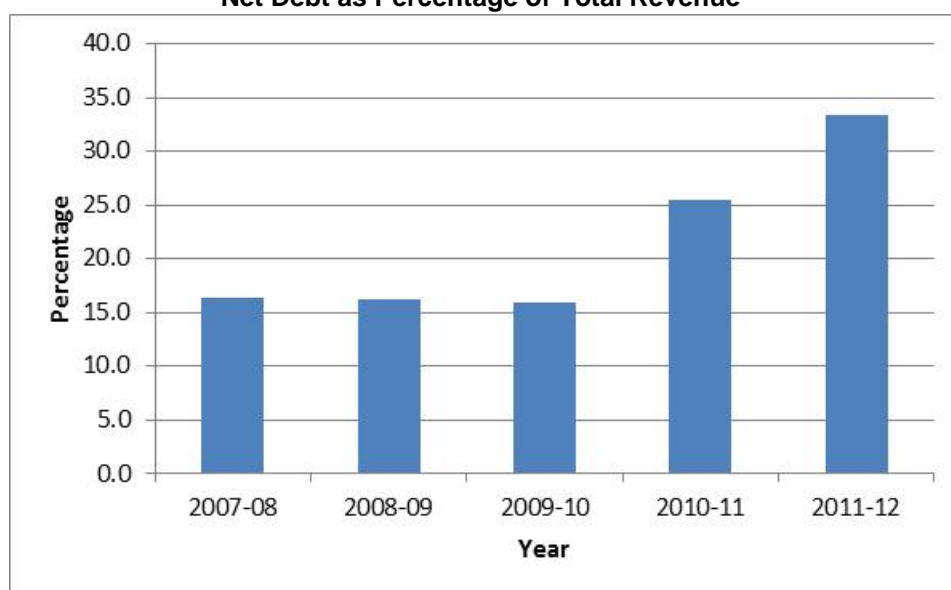
Figure 4
Total Public Sector
Net Debt
2007/08 to 2011/12



Treasurer's Annual Financial Statement cont...

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

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



As noted above, the picture conveyed by Figure 5 is similar to that conveyed by Figure 4. Net Debt as a percentage of total revenue had remained relatively steady between 2007/08 and 2009/10 after which the ratio increased sharply in 2010/11, with that increase being sustained for 2011/12 as the rate of growth in expenses outstripped growth in revenue while coinciding with an increased capital program with a consequent reliance on increased debt to meet overall spending commitments.

Treasurer's Annual Financial Statement cont...

The Mini-Budget that was tabled in the Legislative Assembly on 4 December 2012 included forward estimates that suggest that the growth in this ratio will continue to increase for at least two years before stabilising. That outcome rests on assumptions of cuts to capital outlays accompanied by growth in operating expenses (including employee expenses) that is less than expected increases in general price levels. The forecast rate of growth in operating expenses is likely to be achieved only by reducing the expenditure base as it existed at 30 June 2012. While this is achievable it may prove to be challenging.

The expected growth in private sector capital projects may provide an opportunity for the Territory to sharply reduce its own capital outlays to levels that equate with the annual depreciation expense without significant effects on local economic activity. That, in turn, may assist in curtailing any further deterioration in the Net Debt and Net Financial Worth measures.

Financial Performance and Position of the General Government Sector

The General Government Sector is the sector of government that is overwhelmingly dependent upon "own source" taxation and Commonwealth grants as its source of funds. It can be viewed as the principal sector of government as it is this sector that is responsible for the provision of services such as health, education, justice, policing and emergency services; services that are central to the role of a modern government.

The Sources of Public Sector Revenue

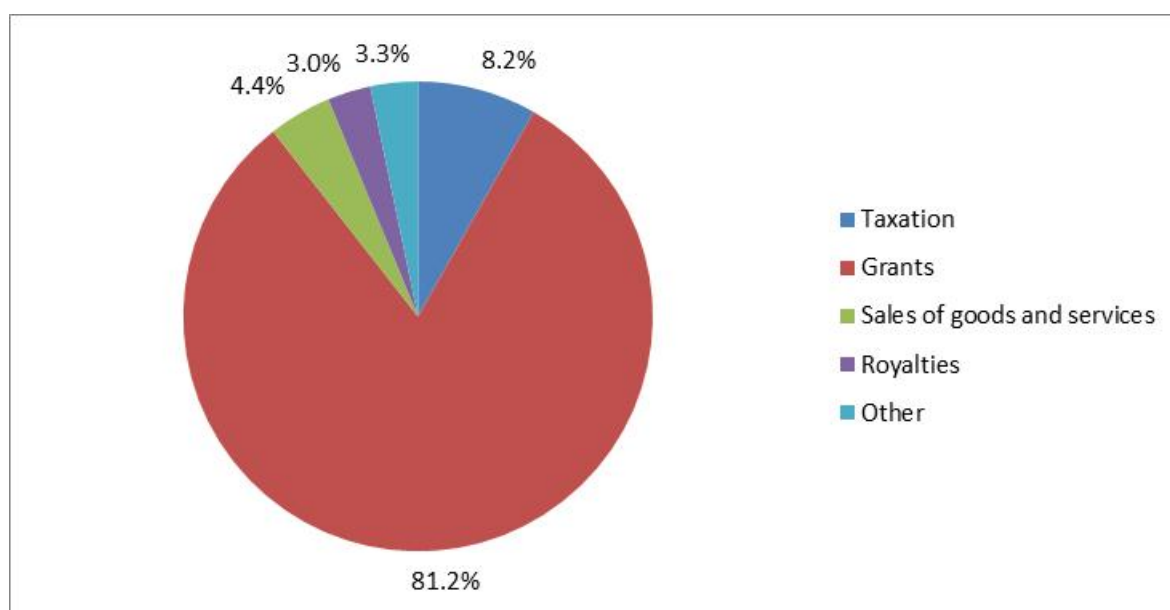
The financial relationship between the Commonwealth, the States and Territories is affected by the existence of what is known as "vertical fiscal imbalance". This is the result of a progressive shift of taxing powers from the States to the Commonwealth in the years following federation, while the responsibility for the delivery of services remains largely the responsibility of the States and Territories. Vertical fiscal imbalance is arguably more pronounced in Australia than in other federal systems.

Treasurer's Annual Financial Statement cont...

The imbalance between taxing powers on the one hand and service delivery obligations on the other requires the transfer of revenues from the Commonwealth to the States and Territories. The relative shares of GST revenues to be transferred are based upon recommendations made by the Commonwealth Grants Commission. The Commission uses a complex methodology that takes account of differences in the per capita capacities of the states to raise revenues, and differences in the per capita amounts required to be spent by the states in providing an average standard of public services. The process by which the Commission's recommendations seek to ensure that each state has the capacity to provide the average standard of state-type public services if it makes the same effort to raise revenue as the states on average, and operates at an average level of efficiency, is referred to as "horizontal fiscal equalisation".

The sources of revenue of the Northern Territory General Government Sector for 2011/12 are shown in Figure 6, below:

Figure 6
Components of General Government Sector Revenue 2011/12



Treasurer's Annual Financial Statement cont...

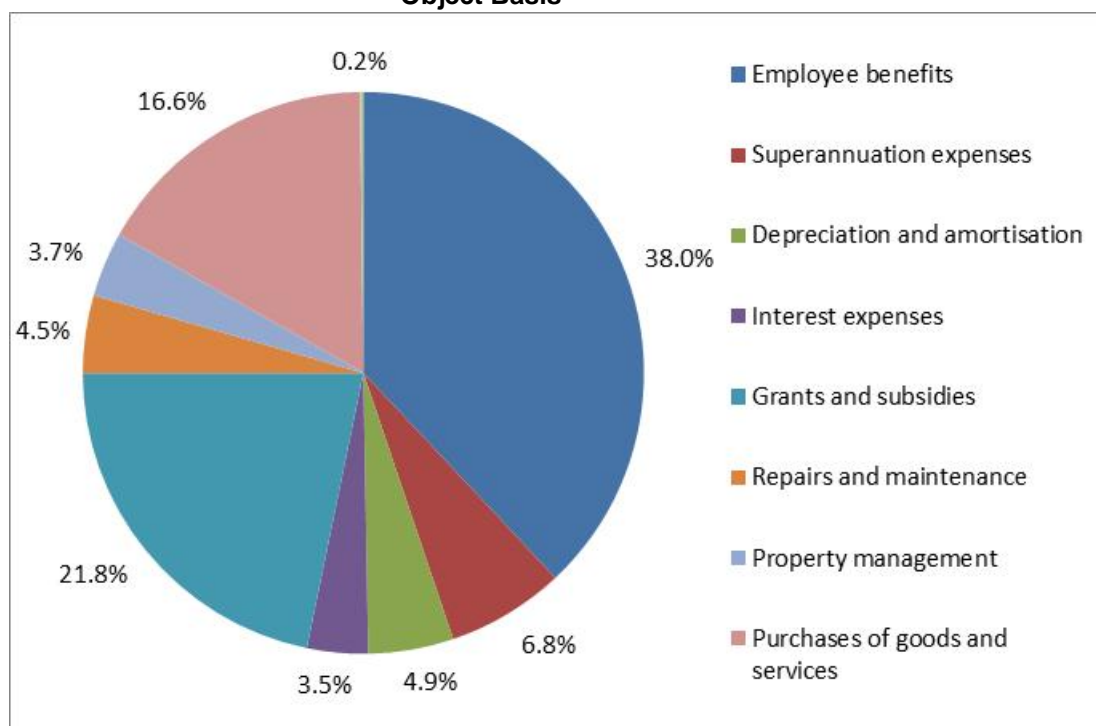
What Figure 6 highlights is the extent to which the General Government sector is reliant upon grants, both current grants and capital grants, provided by the Commonwealth; in aggregate they represented more than 81 per cent of the total revenues of the General Government Sector for 2011/12. The largest component of Commonwealth grants was the Territory's share of the GST which amounted to \$2,506.6 million. That was \$161.8 million more than was received for 2010/11, with the increase predominantly reflecting an increase in the Territory's share of the pool based on revisions to the relativities that are used to determine the distribution of GST entitlements among the States and Territories.

Treasurer's Annual Financial Statement cont...

General Government Sector Expenses

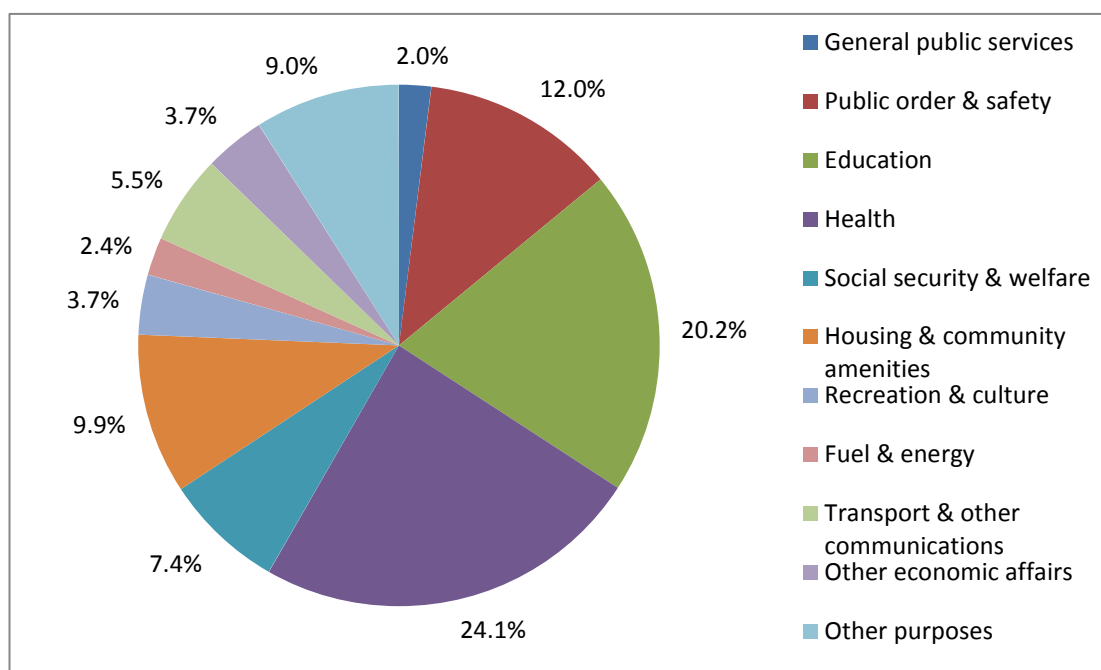
The expenses of the General Government Sector are shown in Figures 7 and 8, with Figure 7 showing expenditure on an object basis, while Figure 8 shows the same expenditure on a functional basis. Both bases are consistent with the requirements of the Uniform Presentation Framework.

Figure 7
General Government Sector Expenses 2011/12
Object Basis



Treasurer's Annual Financial Statement cont...

Figure 8
General Government Expenses 2011/12
Functional Basis



While Figure 7 highlights the extent to which expenses of the General Government Sector are dominated by employment expenses, purchases of goods and services, and the provision of grants and subsidies, with those three categories representing a little over 76 per cent of total expenses, Figure 8 highlights the extent which expenses are concentrated in the areas of health, education, housing and public order and safety. Together those four functional areas represent 68 per cent of the General Government Sector's total expenses.

Treasurer's Annual Financial Statement cont...

A comparison of budgeted and actual revenues and expenses for the General Government Sector for 2011/12 is shown in Table 4, below:

Table 4
General Government Sector
Budgeted Versus Actual Operating Statement
2011/12

	2011/12 Actual \$'million	2011/12 Budget \$'million	Increase/ (Decrease) \$'million
Taxation revenue	402.9	389.5	13.4
Grants	3,985.5	3,758.2	227.3
Sales of goods and services	213.6	186.2	27.4
Royalties	145.8	162.3	(16.5)
Interest income	67.8	56.3	11.5
Other	92.7	67.9	24.8
Total revenues	4,908.3	4,620.4	287.0
Employee expenses	(1,798.9)	(1,710.0)	88.9
Other operating expenses	(1,181.7)	(1,169.7)	12.0
Depreciation	(232.4)	(204.1)	28.3
Superannuation expense	(322.1)	(298.5)	23.6
Other interest expenses	(166.2)	(151.1)	15.1
Other property expenses	(2.0)	-	2.0
Grants and subsidies	(1,029.5)	(992.5)	37.0
Total expenses	(4,732.8)	(4,525.9)	206.9
Net operating balance	175.5	94.5	81.0

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

The actual financial outcome for the General Government sector for 2011/12 was \$175.5 million, \$81.0 million better than the expected outcome that was considered by the Legislative Assembly in May 2011. As Table 4 illustrates, the improved result was largely attributable to higher than forecast grants from the Commonwealth, of which tied funding was the most important.

Financial Position of the General Government Sector

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

- Net Debt;
- Net Financial Worth; and
- Net Worth.

Treasurer's Annual Financial Statement cont...

2011/12 saw a deterioration of each of the three measures of financial position, with increases in borrowings and deposits affecting the Net Debt position, and the sharp increase in superannuation liabilities affecting Net Financial Worth. While the carrying amount of non-financial assets increased, largely due to revaluations, that increase was not sufficient to overcome the decline in Net Financial Worth with the result that Net Worth declined also for 2011/12. The components of each of the measures of financial position and their movements for the year are summarised at Table 5:

Table 5
General Government Sector
Components of Financial Position

	Balance at 30 June 2012 \$'million	Movement for 2011/12 \$'million	Balance at 30 June 2011 \$'million
Cash and deposits	377.9	191.6	186.3
Advances paid	168.7	25.4	143.3
Investments, loans and placements	1,035.9	179.4	856.5
Deposits held	(804.2)	(504.9)	(299.3)
Advances received	(268.6)	(22.2)	(246.4)
Borrowings	(2,142.5)	(321.3)	(1,821.2)
Net debt	(1,632.8)	(451.9)	(1,180.9)
Other non-equity financial assets	211.3	69.1	142.2
Equity assets	2,509.7	18.3	2,491.4
Superannuation liabilities	(3,797.7)	(1,058.5)	(2,739.2)
Other employee entitlements and provisions	(544.9)	(49.2)	(495.7)
Other non-equity liabilities	(298.6)	(13.5)	(285.1)
Net financial worth	(3,553.0)	(1486.0)	(2,067.0)
Net carrying amounts of non-financial assets	10,560.5	931.5	9,629.0
Net worth	7,007.5	(554.5)	7,562.0

Note: Totals may not add due to rounding.

Treasurer's Annual Financial Statement cont...

Some care needs to be exercised when considering the Net Worth of the General Government Sector as one of the most material assets consists of equity – the value of the reported net assets of the Public Non Financial Corporation (PNFC) and the Public Financial Corporation (PFC) Sectors that are deemed to be “controlled” by the General Government Sector through the Central Holding Authority. The value of this asset class at 30 June 2012 was \$2,509.6 million. This asset is, in the case of the PNFC Sector, essentially illiquid and its underlying financial value to the General Government Sector is ultimately dependent upon the value of the dividend and tax equivalent payments received. For 2011/12, the General Government sector recognised \$25.0 million by way of dividends (\$16.7 million in 2010/11) and \$16.3 million by way of tax equivalent payments (\$8.9 million in 2010/11) from both the PNFC and PFC sectors.

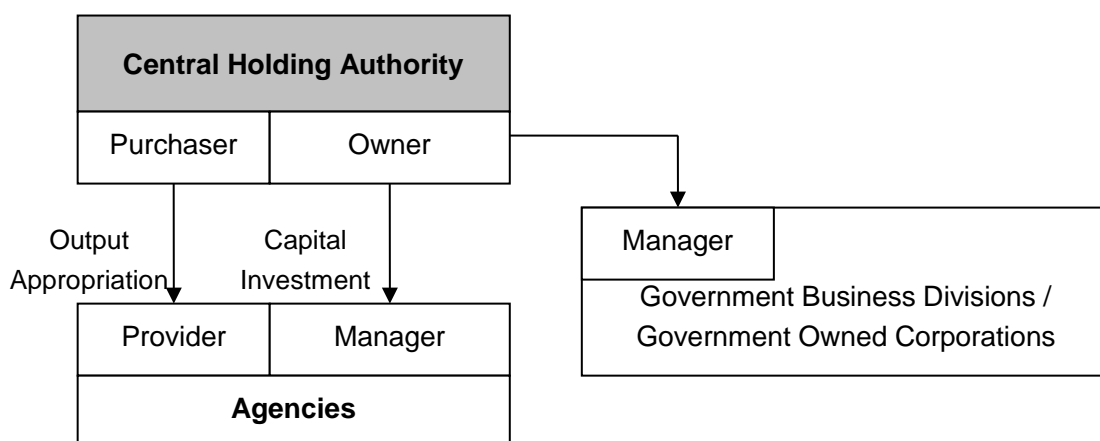
Treasurer's Annual Financial Statement cont...

The Central Holding Authority

The Government's Budget is framed around a set of principles that are sometimes referred to as the "purchaser-provider" model. Under this approach, Ministers are deemed to purchase "outputs" from agencies so as to achieve a set of higher order "outcomes". The Government is also viewed as the "owner" of, and lender to, agencies and, in that capacity, makes equity advances and loans to agencies.

From an accounting perspective the various roles of purchaser and funder reside with the Central Holding Authority (CHA) and the relationship between the CHA and agencies is depicted below:

Figure 9
Central Holding Authority Relationship



Source: Northern Territory Treasury

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

Treasurer's Annual Financial Statement cont...

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

- all revenues that are received by the Northern Territory Government with the exception of those revenues that are permitted to be credited to an Operating Account or an Accountable Officer's Trust Account. The principal revenues credited to the CHA are Territory taxation, Commonwealth grants, fees and charges, and fines raised pursuant to Territory legislation;
- all expenses incurred in relation to the "purchases" of outputs from Agencies, together with those expenses that are managed at a whole-of-government rather than at an Agency level such as borrowing expenses, superannuation expenses and long service leave expense;
- assets, other than physical assets, that have not been assigned to individual Agencies; and
- liabilities that are best managed at the whole-of-government level such as the Territory's stock of debt, and certain employee obligations.

Treasurer's Annual Financial Statement cont...

The financial performance of the CHA, in a general sense, will reflect policy decisions made by the Government to ensure that the objectives set for the General Government Sector are achieved, and the Government's capital program is adequate. Given this, it is to be expected that the financial performance of the CHA, as measured by the operating surplus or deficit, will fluctuate from one year to another. The performance for 2011/12, compared with that of 2010/11 is illustrated in Table 6, below:

Table 6
Central Holding Authority
Financial Performance

	2011/12	2010/11
	\$'000	\$'000
Taxation	500,864	488,686
Grants and subsidies	3,727,495	3,592,344
Royalties, rents and dividends	184,413	185,410
Other	109,903	163,605
Total revenues	4,522,675	4,430,045
Output expense	(3,015,535)	(2,821,119)
Commonwealth appropriation ⁽¹⁾	(749,801)	(698,946)
Interest expense	(143,057)	(123,002)
Superannuation expense	(1,211,620)	(209,394)
Other	(64,840)	(43,417)
Total expenses	(5,184,853)	(3,895,878)
Net operating surplus/(deficit)	(662,178)	534,167

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

Treasurer's Annual Financial Statement cont...

As can be seen from the preceding table, revenues of the CHA increased slightly for 2011/12, largely on account of increased grants from the Commonwealth. Against this, total expenses increased materially, with the increase in superannuation expense having the greatest effect. The factors that affected superannuation expense are outlined below.

The cash position of the CHA was stronger at 30 June 2012 than at the same time for 2011, due largely to increased borrowings undertaken during the year.

The CHA's cash flows for the year are summarised in Table 7:

Table 7
Central Holding Authority
Abridged Statement of Cash Flows

	2011/12	2010/11
	\$'000	\$'000
Net cash inflows from operating activities	440,221	603,500
Cash outflows from investing activities	(1,186,624)	(723,543)
Cash inflows/(outflows) from financing activities	945,555	(8,368)
Net increase/(decrease) in cash held	199,152	(128,411)
Opening balance of cash and deposits	139,763	268,174
Cash at end of financial year	338,915	139,763

Note: Totals may not add due to rounding.

From the above, it can be seen that the cash surplus on operations formed one of the funding sources that was applied to the funding of capital programs, comprising:

- Territory capital appropriation of \$415.3 million; and
- Commonwealth appropriation of \$457.4 million.

Treasurer's Annual Financial Statement cont...

Central Holding Authority and Appropriation of Moneys by the Legislative Assembly

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

For 2011/12, the *Appropriation Act* authorised an amount of \$4,557,167,000 to be applied from the CHA. The actual amounts applied, compared with the Budget, were as follows:

Table 8
Appropriation – Comparison of Actual and Budgeted Spending

Purpose	Actual \$'000	Budget \$'000	Variance \$'000
Output appropriation	3,015,535	2,919,445	96,090
Interest, taxes and administration	143,500	151,196	(7,696)
Employee entitlements	180,729	186,283	5,554
Treasurer's advance ⁽¹⁾	21,739	40,000	(18,261)
Total appropriated and expended for operating activities	3,361,503	3,296,924	64,579
Capital appropriation	415,353	315,446	99,907
Commonwealth appropriation ⁽²⁾	1,207,255	964,797	242,458
Total	4,984,111	4,577,167	406,944

(1) The figure shown here represents the unspent portion of Treasurer's Advance at 30 June 2012. The total amount of supplementation of Agencies' Allocations made pursuant to section 18 of the *Financial Management Act* and transfers of excess Allocation to Agencies made pursuant to section 20 of the Act was \$198.9 million. This was funded by the initial Allocation to the CHA of \$40 million, with a further amount of \$180.6 million being credited against Treasurer's Advance in accordance with section 19 of the Act.

(2) Commonwealth appropriation did not identify separately the capital and recurrent components, although those components were separately identified in the CHA financial statements. Capital outlays amounted to \$457.4 million while recurrent outlays amounted to \$749.8 million.

Treasurer's Annual Financial Statement cont...

Public Sector Superannuation Liabilities

The largest liability of the Northern Territory Government is that of superannuation. That liability represents the value of unfunded employee benefits and at 30 June 2012 was valued at \$3,797.7 million (\$2,739.2 million at 30 June 2011). The liability is held by the General Government Sector and recognised as part of the liabilities of the Central Holding Authority.

The unfunded liability in respect of the various schemes at 30 June 2012 was as follows:

Table 9
Superannuation Scheme Unfunded Liabilities

Scheme	2012 \$'million	2011 \$'million
Northern Territory Government and Public Authorities Employees' Superannuation Fund	1,004.4	801.7
Commonwealth Superannuation Scheme	2,213.2	1,518.5
Legislative Assembly Members' Superannuation Fund	79.0	35.1
Northern Territory Superannuation Supplementary Scheme	273.4	225.2
Northern Territory Government Death and Invalidity Scheme	67.1	49.6
Northern Territory Police Supplementary Benefit Scheme	63.8	42.9
Other schemes	96.8	66.2
Total	3,797.7	2,739.2

Most of the schemes listed above are either defined benefit schemes or include defined benefit elements and with the exception of the "Other" and the Death and Invalidity Scheme, each scheme shown above is closed to new members.

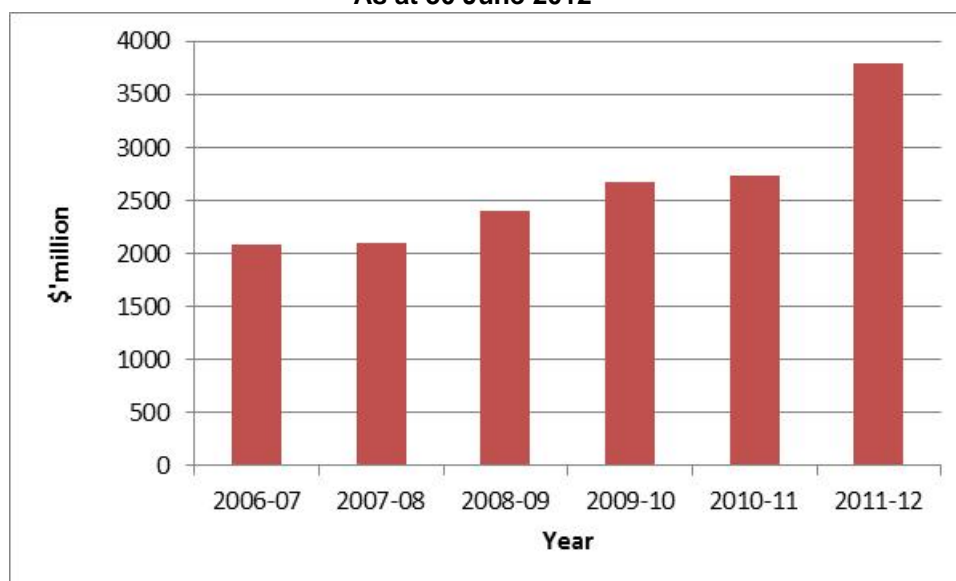
The value of unfunded liabilities of a defined benefit scheme is a function of a number of factors including expected real wage growth, expected earning rates on investments and the expected timing of benefit payments. In the case of defined benefit pension schemes, the expected longevity of members and pensioners will also affect the value of the liability.

Treasurer's Annual Financial Statement cont...

The liabilities shown in Table 9 are the present values of the future cash flows that are estimated will be required to meet benefits as they arise. The determination of the present values requires the discounting of future cash flows using an appropriate discount rate to arrive at the present value. The discount rate used is the yield on Commonwealth Government bonds. A decline in the discount rate will have the effect of increasing the overall unfunded liabilities of the public sector, with an accompanying increase in the annual superannuation expenses. At 30 June 2012 the discount rate was 3.1 per cent compared with 5.3 per cent at June 2011 and that decline was sufficient to cause an increase of \$1,058.5 million in the liability for superannuation for 2011/12. In effect the liability can be viewed as the amount that would need to be invested now at prevailing interest rates in order to meet superannuation liabilities as they fall due. When interest rates (and discount rates) increase in the future in response to changing economic conditions it is to be expected that the liability will decline accordingly.

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

Figure 10
General Government Sector
Liability for Superannuation
As at 30 June 2012



Treasurer's Annual Financial Statement cont...

Successive governments have closed almost all defined benefit schemes to new members in order to control the growth of the liability and new employees are now required to contribute to a scheme of their choice, with benefits confined to defined contributions.

Notwithstanding the efforts of governments, total liabilities have continued to increase by virtue of growth in real incomes, the increasing length of service of scheme members and a decline in bond yields that has occurred over recent years. A further and more recent effect is that of the Global Financial Crisis which affected the value of superannuation assets with an accompanying effect on the unfunded liability of the various schemes. There are some signs that superannuation asset values may be recovering and if that recovery should be sustained it might be expected that the value of the unfunded liability will begin to decline.

Current estimates suggest that the value of the liability will peak in about 2016/17, with associated nominal cash outflows peaking some years later. The financing of these cash flows is not likely to impose undue budgeting stress upon the Territory; a testament to the foresight of previous governments in closing the larger schemes to new members.

Successive governments, recognising that the payment of superannuation benefits would lead to significant payments being made within a relatively short period of time, established a reserve from which those payments could be made. This policy had the advantage of having a stock of investments that could be liquidated to meet superannuation payments as an alternative to imposing a cost upon the budget of the day. It also had the advantage of attempting to allocate the cost of superannuation to those generations that benefited from the provision of government services rather than burdening future generations with that cost.

Treasurer's Annual Financial Statement cont...

At 30 June 2012, the value of the reserve was approximately \$435 million, somewhat less than the accompanying superannuation liability of \$3,798 million. There is a strong case for ensuring that the policy of crediting to the reserve (and of investing in appropriate financial assets) continues and that the amounts credited to the reserve each year be increased as far as is practicable. This approach would have the effect of bringing forward some of burden to be incurred in financing emerging superannuation expenses thereby giving future governments some additional budgetary flexibility.

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

Background

A Member of the Legislative Assembly referred to me, pursuant to section 6(1) of the *Public Information Act*, copies of advertisements under the by-line “From the Office of the Chief Minister” and which were published in the *Northern Territory News* on the 15th October, 22nd October, 29th October, 5th November, 19th November and 26th November 2012, alleging that the contents of the advertisements breached the principles laid down in section 6(2) of the Act.

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.

Review of the Advertisements

Each advertisement referred to above was reviewed as required by the Act as a result of which I determined that two of the advertisements, those for the 15th October and 22nd October 2012, had contravened section 6(2) in that:

- information was presented in such a way as to convey a message of factuality, but failed to ensure that a means of identifying the source of data in support of the statements was included;
- statements of fact were not clearly distinguished from statements of comment;
- statements were included that a reasonable person might consider as comment on the views, policies or actions of a political party.

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

Section 7(2)(b) of the Act provides that the Auditor-General may specify any recommendations as he or she considers appropriate. A recommendation was included as part of my preliminary findings which were provided to the public authority that released the public information. The recommendation was that advice be sought from the Department of the Chief Minister about the appropriateness of the content of any public information that is proposed to be issued. In response to that recommendation I was advised that:

“...my office would seek the advice of the Public Information Act Committee, where there was uncertainty about the content of any public information that was proposed to be issued”.

I concluded that the remaining advertisements did not contravene the Act.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 30 June 2012

Financial Statements for the year ended 30 June 2012

	Date 2011/12 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	Not yet completed	21 November 11
Common Funds of the Public Trustee	Not yet tabled	9 November 12	2 February 12
Construction Division	1 November 12	16 October 12	17 October 11
Darwin Bus Service	30 October 12	22 October 12	10 October 11
Darwin Port Corporation	30 October 12	28 September 12	4 October 11
Darwin Waterfront Corporation	27 November 12	19 October 12	4 November 11
Data Centre Services	1 November 12	28 September 12	30 September 11
Desert Knowledge Australia	29 November 12	26 November 12	23 November 11
Government Printing Office	1 November 12	28 September 12	30 September 11
Indigenous Essential Services Pty Ltd	Not Required	26 September 12	27 September 11
Jabiru Town Development Authority	Not yet tabled	4 December 12	14 November 11
Land Development Corporation	6 December 12	20 November 12	N/A
Legislative Assembly Members' Superannuation Fund	31 October 12	3 October 12	10 October 11
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	6 December 12	21 November 11
Northern Territory Government and Public Authorities Employees' Superannuation Fund	31 October 12	5 October 12	18 October 11
Northern Territory Grants Commission	27 November 12	18 October 12	14 October 11

Appendix 1: Audit Opinion Reports Issued Since 30 June 2012 cont...

Financial Statements for the year ended 30 June 2012

	Date 2011/12 Financial Statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2012	Date of Audit Report Year ended 30 June 2011
Northern Territory Legal Aid Commission	Not yet tabled	30 November 12	7 December 11
Northern Territory Major Events Company Pty Ltd	Not required	Not yet completed	12 January 12
Northern Territory Police Supplementary Benefit Scheme	Not required	3 October 12	7 October 11
Northern Territory Treasury Corporation	31 October 12	28 September 12	30 September 11
NT Build	1 November 12	18 September 12	18 November 11
NT Fleet	1 November 12	28 September 12	30 September 11
NT Home Ownership	31 October 12	18 October 12	10 October 11
Power and Water Corporation	31 October 12	26 September 12	27 September 11
Surveyors Board of the Northern Territory of Australia	Not yet tabled	17 October 12	3 November 11
Territory Discoveries	6 December 12	9 October 12	11 October 11
Territory Insurance Office	31 October 12	27 September 12	22 September 11
Territory Wildlife Parks	31 October 12	27 September 12	28 September 11
Treasurer's Annual Financial Statement	31 October 12	25 October 12	20 October 11

Not required – Financial statements are not required to be tabled

Not yet completed – as at 31 January 2013

Not yet tabled – as at 31 January 2013

N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 30 June 2012 cont...

Acquittals or Other Returns - for the year ended 30 June 2012

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2012	Date of Audit Report Year ended 30 June 2011
Bilateral Agreement on the Nation Building and Jobs Plan:			
National School Pride Acquittal	31 October 12	14 December 12	30 November 11
Primary Schools for the 21st Century Acquittal	31 October 12	14 December 12	30 November 11
Science and Language Centres for the 21 st Century Secondary Schools Program	31 October 12	14 December 12	30 November 11
<i>Interstate Road Transport Act 1985</i>	31 December 12	19 December 12	14 November 11
Local Government Financial Assistance	Not specified	5 October 12	3 October 11
<i>Nation Building Program (National Land Transport) Act :</i>			
Investment Program	31 October 12	Not yet completed	20 December 11
Road Safety (Black Spot)	31 December 12	19 December 12	20 December 11
Roads to Recovery	31 December 12	Not yet completed	4 November 11
Natural Disaster Relief and Recovery Arrangements	31 December 12	12 December 12	16 December 11
Territory Insurance Office:			
MAC Business Annual Return	31 October 12	31 October 12	26 October 10
Insurance Business Annual Return	31 October 12	31 October 12	26 October 10
Banking Business Annual Return	31 October 12	31 October 12	26 October 10
Not specified – No deadline specified			
Not yet completed – as at 31 January 2013			

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Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 31 December 2012

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits, were identified in Appendix 3 of the October 2012 as being scheduled for the period:

Department of Health

Aero Medical Services Contract - Careflight	Not yet completed
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Department of Housing

National Partnership Agreement on Homelessness	Not yet completed
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Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2013

In addition to the routine audits, primarily compliance audits of selected agencies, interim audits of entities requiring financial statement opinions and follow up of outstanding issues in previous audits, the following audit have been scheduled for the period:

Department of Corporate and Information Services

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

Department of Health

Primary Care Information System

Power and Water Corporation

Maximo

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

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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: Public Information Act

Background

The *Public Information Act*, which came into effect on 1 August 2010, seeks to achieve a transparent and accountable mechanism for the review of public information produced by public authorities. For this purpose 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;
- 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; and
 - 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 6: 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.

Appendix 7: Abbreviations

APRA	Australian Prudential Regulatory Authority
CHA	Central Holding Authority
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DBE	Department of Business and Employment
DBS	Darwin Bus Service
DCS	Data Centre Services
DKA	Desert Knowledge Australia
GAS	Government Accounting System
GBD	Government Business Division
GFS	Government Finance Statistics
GPO	Government Printing Office
GST	Goods and Services Tax
IT	Information Technology
MAC Fund	Motor Accidents Compensation Fund
NRETAS	Natural Resources, Environment, the Arts and Sport
PFC	Public Financial Corporation
PNFC	Public Non Financial Corporation
TAFS	Treasurer's Annual Financial Statement
TIO	Territory Insurance Office
TWP	Territory Wildlife Parks
UPF	Uniform Presentation Framework

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Index of Matters Reported

	Page
Construction Division	13
Darwin Bus Service	16
Darwin Port Corporation	19
Darwin Waterfront Corporation	22
Data Centre Services	25
Desert Knowledge Australia	28
Government Printing Office	33
Jabiru Town Development Authority	36
Land Development Corporation	40
Legislative Assembly Members' Superannuation Fund	46
Nitmiluk (Katherine Gorge) National Park Board	49
Northern Territory Government and Public Authorities Employees' Superannuation Fund	52
Northern Territory Legal Aid Commission	56
Northern Territory Police Supplementary Benefit Scheme	61
Northern Territory Treasury Corporation	65
NT Build	68
NT Fleet	72
NT Home Ownership	75
Power and Water Corporation	78
Public Information Act	127
Territory Discoveries	82

	Page
Territory Insurance Office	85
Territory Wildlife Parks	89
Treasurer's Annual Financial Statement	93

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