



Auditor-General for the Northern Territory
Auditing for Parliament

February 2016

Report to the Legislative Assembly



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Northern Territory Auditor-General's Office

Auditing for Parliament

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

11 February 2016

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits and reviews conducted during the six months to 31 December 2015 and I request that you table the report today in the Legislative Assembly.

The larger part of the report outlines the results of audits of financial statements prepared by statutory bodies and Government Business Divisions. The requirements that cover the preparation and audit of those statements are set out in various Acts of Parliament.

The process of annual financial reporting by Agencies is an important part of their accountability to the Parliament for managing the resources under their control. This report is intended to assist the process of accountability by providing analysis of financial results and by drawing Parliament's attention to matters of interest.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Julie Crisp'.

Julie Crisp
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 and reviews conducted during the period 1 July 2015 to 31 December 2015. The results of 38 separate audits and other tasks undertaken by my office are included, with the larger part of the report dealing with statutory audits of financial statements that were undertaken in the period following the end of the 2014-15 financial year. A further 42 end of year reviews and other tasks were also conducted however are not separately reported upon due to their nature.

This report summarises the results of the following types of audits and legislated tasks conducted during the period 1 July 2015 to 31 December 2015:

- Statutory Audits of Financial Statements;
- End of Year Reviews;
- Information Technology Audits;
- Controls and Compliance Audits;
- Performance Management System Audits; and
- *Public Information Act* Referrals.

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

Audit Opinions

Whilst the majority of audit opinions I issued during the period were unmodified opinions, two contained an Emphasis of Matter paragraph, designed to highlight a matter of importance, two were qualified on specific balances and my audit opinion on the Treasurer's Annual Financial Statements was modified in a number of respects. These are summarised below and further information relating to each modification is contained within the body of the report relevant to each audit. An explanation of each type of audit opinion is provided on pages 19 and 20.

Auditor-General's Overview cont...

Treasurer's Annual Financial Statements – Modified Opinion

I issued a modified opinion on the Treasurer's Annual Financial Statements. Whilst in my opinion, the Treasurer's Annual Financial Statement gives a true and fair view of the financial position of the General Government Sector and Public Financial Corporation Sector as at 30 June 2015 and of their performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the financial reporting requirements of the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*, the pervasiveness of the uncertainty associated with the results and financial position of the Power and Water Corporation and its controlled entity, Indigenous Essential Services, as reported within the Public Non-Financial Corporation Sector meant I was unable to form an opinion on the truth and fairness of the results reported for that sector and, consequently, I was unable to form an opinion on the truth and fairness of the consolidated Total Public Sector financial position and performance as at 30 June 2015 and for the year then ended.

Power Retail Corporation (Jacana Energy) – Qualified Opinion

I issued a qualified audit opinion on the Corporation's financial statements on 22 December 2015 as I was unable to obtain sufficient appropriate audit evidence supporting the loan from Power Water Corporation of \$21.49 million as disclosed in the total trade and payables balance of \$88.31 million in the Statement of Financial Position as at 30 June 2015. This finding has been assessed as not being material to the overall Treasurer's Annual Financial Statements.

NT Build – Qualified Opinion

I issued a qualified opinion as 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 Northern Territory gives rise to some doubt 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*. This audit qualification has been issued for several years and the Board of NT Build have taken action in an attempt to obtain greater assurance about the number and value of construction projects that have commenced in the Northern Territory. This finding has been assessed as not being material to the overall Treasurer's Annual Financial Statements.

Auditor-General's Overview cont...

NT Home Ownership – Emphasis of Matter

An emphasis of matter paragraph has been included in the NT Home Ownership audit report regarding its Shared Equity Investments. The financial interest of up to 50% that the agency holds in client properties is currently recorded as Shared Equity Investments and accounted for in accordance with AASB 140 *Investment Properties* on the basis that the properties are held for capital appreciation. The emphasis of matter paragraph makes reference to NT Home Ownership reviewing its accounting treatment of these shared equity investments during the 2016 financial year to ensure compliance with contemporary accounting practices. Any changes to disclosure will be adopted from 1 July 2015. This finding has been assessed as not being material to the overall Treasurer's Annual Financial Statements.

Jabiru Town Development Authority – Emphasis of Matter

An emphasis of matter was included in the audit opinion issued on the financial statements for the year ended 30 June 2015 for the Jabiru Town Development Authority.

“Moratorium on loan repayments

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 as to whether the Authority would be able to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Legislative changes

On 28 June 2013 the Aboriginal Land Rights and Other Legislation Amendment Bill 2013, was passed by Parliament. One of the identified impacts of this legislative change is the potential cessation of the lease over the Town of Jabiru currently held by the Authority. Should this occur the appropriateness of the Authority continuing to report on a going concern basis may be brought into question.”

It should be noted that the continued deficits incurred by the Authority also call into question the appropriateness of the Authority continuing to account on a going concern basis, particularly in light of the worsening net liability position. This finding has been assessed as not being material to the overall Treasurer's Annual Financial Statements.

Auditor-General's Overview cont...

Key findings from End of Year Reviews

End of year reviews are conducted at the majority of agencies in order to contribute to the audit of the Treasurer's Annual Financial Statements. During this reporting period, I conducted end of year reviews at 21 entities. Whilst I do not separately report the results of end of year reviews conducted at each agency, I have summarised below a number of findings that were consistent at more than one agency.

Valuations of land / property – Northern Territory Government controlled entities are now required to seek their own independent valuations of property rather than having all valuations coordinated by the Department of Treasury and Finance. Despite sourcing independent valuations, a number of agencies were unable to explain the reasons for the assumptions used in the valuation or why valuations were inconsistent with recorded unimproved capital values. As this process becomes more familiar, I would expect these agencies to be able to demonstrate an improved understanding of how the values recorded on their balance sheets were derived.

Monitoring of and accounting for fixed assets – further improvement is still required by a number of agencies in relation to timely accounting for property, plant and equipment including capitalisation of assets, establishment of depreciation and amortisation rates, assessment of useful lives and the conduct of regular stock-takes of assets.

User access issues – whilst the access to across government information systems was found to be secure, there were a number of user access security issues identified within some applications used by agencies to support operational requirements. Shortcomings included inadequate segregation of duties held by users and those responsible for change management and insufficient or irregular monitoring of exception reports.

Identification and management of reciprocal grant agreements – most agencies receive and provide grants intended to support the delivery of specific services. Where the grant agreement requires funds to be returned if the service is not provided in accordance with the funding received, this is known as a reciprocal grant agreement. Improvements are required in relation to monitoring agency progress in delivering in accordance with funding received through reciprocal grant agreements and also in relation to the monitoring of reciprocal funding agreements where service delivery is outsourced to non-government organisations.

Where these findings have been identified as relevant to an agency, future audits will assess the extent to which the finding has been addressed.

Auditor-General's Overview cont...

Better Practice Observations

Effective from 1 July 2015, a new suite of Treasurer's Directions was introduced. The Information and Communication Technology (ICT) series is designed to support the Northern Territory Government's ICT Governance Framework. The Treasurer's Directions specify key internal controls and agency accountabilities for the appropriate use of government ICT resources and are intended to ensure resources are applied and used appropriately, investment is managed, risks are assessed, benefits are realised and assets are safeguarded. In addition to contributing significantly to the development of the Treasurer's Directions and establishing the structure and protocols to support the framework, the Department of Corporate and Information Services has delivered comprehensive presentation sessions across government to ensure understanding of, and compliance with, the ICT Series of Treasurer's Directions. Compliance with the Treasurer's Directions is assessed as part of my Agency Compliance Audit program which has now been updated to include the ICT Series.

Auditor-General's Overview cont...

Audit Activity during the Audit Period 1 July 2015 to 31 December 2015

Audit activity within the Northern Territory Auditor-General's Office has been markedly different during the six months forming the basis for this report compared to the previous year. Audit hours and related costs have been significantly higher, in some instances directly as a result of the absence of comprehensive planning and audit preparation by entities relating to restructures and disposals of various government controlled entities. Affected entities included:

Entity	Hours 2015	Hours 2014
	1 July to 31 December	1 July to 31 December
Darwin Port Corporation	285	198
Power and Water Corporation	2,428*	1,223
Indigenous Essential Services Pty Ltd	664*	282
Jacana Energy	476	0
Territory Generation	426	0
Territory Insurance Office	0	1,167
Motor Accidents (Compensation) Commission	398	0
Darwin Bus Service	86	128
Board of the Museum and Art Gallery of the NT	125	0
Total	4,888	2,998

* Audit yet to be completed

The Role and Responsibilities of the Auditor-General

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

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

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

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

The Auditor-General is assisted by personnel of the Northern Territory Auditor-General's Office who plan audits and tasks conducted by private sector Authorised Auditors.

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.

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.

The Role and Responsibilities of the Auditor-General cont...

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 verify that balances disclosed in the Treasurer's Annual Financial Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

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

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 for audit. 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 were noted during the course of an audit, specific comment is included in my report to the Legislative 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.

The Role and Responsibilities of the Auditor-General cont...

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

The *Audit Act* requires the Auditor-General to report to the Legislative Assembly at least once each year. Established practice has been for reports to be submitted twice each year.

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

Where there are delays in Agencies or Entities completing financial statements and resultant delays occur in the subsequent audit, it is sometimes necessary to comment on these activities in the next report.

Results of any reviews of referred information under the *Public Information Act* are included when the reviews are concluded.

The approximate timing and the contents of these reports are:

- First half of the calendar year – contains commentary on Agencies and Entities with a 30 June financial year-end being 30 June of the previous calendar year. Material is included depending on when each audit is completed. The report also contains commentary on the Auditor-General's audit of the Treasurer's Annual Financial Statement.
- Second half of the calendar year – contains commentary on Agencies and Entities with a 31 December year-end being 31 December of the previous calendar year together with the results of information technology audits, compliance audits and audits of performance management systems. Material is included depending on when each audit is completed.

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Guide to Using this Report

Auditing

There are two general varieties of auditing undertaken in the Northern Territory Public Sector, independent auditing and internal auditing. Only independent audits are undertaken through the Office of the Auditor-General. I, and my Principal Auditors (as my representatives), do attend meetings of Agencies' audit and risk committees where invited, but only in the role of observer.

Independent Audit (also known as External Audit)

Independent audits are generally undertaken in order for an entity to achieve compliance with statutory or legal arrangements. Independent audits may be mandated by legislation or be required by a contractual arrangement. The audit work and resultant opinion is undertaken by an individual or entity independent of the Agency or Entity subjected to audit. These audits can take the form of financial statements audits, compliance audits or performance audits.

Internal Audit

Treasurer's Direction Part 3, Section 2 requires an Accountable Officer to ensure his/her Agency has an adequate internal audit capacity. Internal audit is a management tool designed to provide assurance to the Accountable Officer that systems and internal controls operating within Agencies are adequate and effective. It carries out its functions by undertaking audits, reviews and other related tasks for improving the performance of organisations. The selection of audit topics, risk management and audit framework and delivery of internal audit services are the responsibility of the Accountable Officer.

Guide to Using this Report cont...

Types of Financial Reports

Financial reports submitted for independent audit are prepared under either a general purpose or special purpose framework.

General Purpose Financial Report

A general purpose financial report comprises a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report, prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

Special Purpose Financial Report

A special purpose financial report comprises a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report, prepared in accordance with a special purpose framework. The requirements of the applicable financial reporting framework determine the format and content of a financial report prepared in accordance with a special purpose framework.

Types of Assurance Engagements

The amount of audit work performed, and the resultant independent opinion, varies between an audit and a review. The level of assurance provided by the opinion is either reasonable or limited.

Reasonable Assurance

A reasonable assurance engagement is commonly referred to as an audit. A reasonable assurance engagement is an assurance engagement where the auditor is required to perform sufficient work to reduce the risk of misstatement to an acceptably low level in order to provide a positive form of conclusion.

Limited Assurance

A limited assurance engagement is commonly referred to as a review. A limited assurance engagement is an assurance engagement where the assurance practitioner's objective is required to perform sufficient audit procedures to reduce the risk of misstatement to a level that is acceptable in the circumstances but where the risk is not reduced to the level of a reasonable assurance engagement. A negative opinion is provided that states that nothing has come to the attention of the reviewer that indicates material misstatement or non-compliance with established criteria.

Guide to Using this Report cont...

Audit Opinions

There are two overarching categories of audit opinion, an unmodified audit opinion (sometimes referred to as a “clean” opinion) and a modified audit opinion.

Unmodified Audit Opinion

Unmodified opinions provide a reasonable level of assurance from the auditor that the financial statements present a true and fair reflection of an entity’s results for the period reported.

Notwithstanding an audit opinion may positively attest to the truth and fairness of the financial statements, additional paragraphs may be included in the audit opinion in relation to a matter the auditor believes requires emphasis.

An “Emphasis of Matter” paragraph means a paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the financial report. The inclusion of an emphasis of matter paragraph in the audit opinion is intended to draw the reader’s attention to the relevant disclosure in the financial report.

An “Other Matter” paragraph means a paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial report that, in the auditor’s judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities and/or the auditor’s report.

Modified Audit Opinion

Australian Auditing Standard ASA705 *Modifications to the Opinion in the Independent Auditor’s Report*, paragraph 2, establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- a) The nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- b) The auditor’s judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Guide to Using this Report cont...

Qualified Opinion

An auditor shall express a qualified opinion when:

- a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
- b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive. [ASA705, paragraph 7]

Adverse Opinion

An adverse opinion is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report. [ASA705, paragraph 8]

Disclaimer of Opinion

An auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive. [ASA705, paragraph 9]

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial report due to the potential interaction of the uncertainties and their possible cumulative effect on the financial report. [ASA705, paragraph 10]

Guide to Using this Report cont...

Assurance Engagements Conducted by the Auditor-General

The types of audits generally conducted through the Auditor-General's Office include:

- Statutory Audits of Financial Statements;
- End of Year Reviews;
- Information Technology Audits;
- Controls and Compliance Audits; and
- Performance Management System Audits.

Statutory Audits of Financial Statement Audits

Statutory audits of financial statements are conducted on the full financial reports of government business divisions, government owned corporations and other government controlled entities that prepare statutory financial statements. The Treasurer's Annual Financial Statement is subjected to audit.

Agencies are required, by Treasurer's Directions 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 individually, but are reviewed as part of the audit of the Public Account and of the Treasurer's Annual Financial Statement.

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

Within this report, the audit opinion and summaries of key findings by entity represent the more important findings. By targeting these sections, readers can quickly understand the major issues faced by a particular Agency or Entity or by the public sector more broadly.

Guide to Using this Report cont...

End of Year Reviews

The end of year review provides an audit focus on year end balances particularly within Agencies. The nature of the review is determined annually whilst planning the audit of the Treasurer's Annual Financial Statement, but includes testing of transactions occurring around year end to provide a degree of confidence about the data provided to Treasury and which will form part of the overall reporting on the Public Account.

Information Technology Audits

Information technology audits are undertaken as stand-alone audits of key government wide, or Agency systems. Each of the systems selected for audit during the six months ended 31 December 2015 plays an important role in processing data and providing information for the purposes of financial management and, more particularly, for the purposes of financial reporting and the preparation of the Treasurer's Annual Financial Statement.

Controls and Compliance Audits

Controls and compliance audits are conducted of selected systems or accounting processes to determine whether the systems and processes achieve compliance with legislated or otherwise mandated requirements. These audits are intended to assist me in my audit of the Public Account.

Performance Management System Audits

The audit process determines whether existing systems or practices, or management controls over systems, are adequate to provide relevant and reliable performance information that will assist intended users of the information make decisions relating to accountability and achieving results. These audits are also intended to assist me in my audit of the Public Account.

Public Information Act Referrals

The *Public Information Act* requires the Auditor-General, upon receipt of a written request of an Assembly member, or the Auditor-General's initiative, to conduct a review of particular public information to determine whether the Act is contravened in relation to the information. Following review of the information, I issue a preliminary decision to the public authority that gave the relevant public information. When preparing my report about the review, I take into consideration any comments provided by the public authority following my preliminary decision. The reports on referrals are included in my reports to the Legislative Assembly.

Reports on the Results of Audits, Reviews and Assessments

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Board of the Museum and Art Gallery of the Northern Territory

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Museum and Art Gallery of the Northern Territory (MAGNT) was established pursuant to the *Museum and Art Gallery of the Northern Territory Act 2014* and is owned by the Territory. MAGNT consists of:

- the ground and facilities prescribed by the Regulations;
- the collection (including art works, specimens, exhibits, equipment, data and publications owned by the Territory and held for the purpose of the MAGNT); and
- any other thing prescribed by the Regulations.

Audit Opinion

The audit of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 9 December 2015.

Key Findings

Inventory Stocks

The Board maintained inventory stocks with a recorded value of \$93,000 as at 30 June 2015. These stocks included toys, books, shirts and other souvenir items which formed part of the opening balances transferred to the Board at the date of its establishment. These are stored in one of Board's store rooms and appear to have been held for more than one year. As the Board has leased out the shop to an external party, the Board plans to dispose of these stocks and recoup some profit through on-line sales. As the outcome was not determinable at the time of my audit report, these stocks were fully provided for as at 30 June 2015.

Board of the Museum and Art Gallery of the Northern Territory cont...

Audit Preparedness

During the audit, there were a number of adjustments posted affecting the balances reported in the initial trial balance provided to my Authorised Auditors. These adjustments were identified during the audit of reconciliations supporting the trial balance.

Consequently, the financial statements together with some audit information and supporting schedules were not completed or provided to my Authorised Auditors at the commencement of my audit. As a result the audit process was inefficient, the audit completion was delayed and additional audit work had to be performed which resulted in cost over-runs being incurred in completing the audit. As this was the first year MAGNT has been subject to audit, these issues should be resolved prior to future audits being conducted.

Standard Policies and Procedures

Upon its inception, the Board continued to follow the controls instituted by its predecessor. As a result, there is no clearly identified policy requiring the staff approval or authorisation of certain transactions and the preparation of the account reconciliations, among others. This is evidenced by bank reconciliations not being completed during the year. It also came to my attention that accounting policies and procedures had not been formally endorsed. I have recommended that the Board considers and approves a standard policy and procedures manual that is suitable to its operations and ensures compliance with the internal policies at all times.

Performance Overview

The year end 30 June 2015 financial statements are the Board's first reported financial statements since it was established. The Board recognised a net surplus of \$189,000 for the year.

The Board's main revenue for the year was from grants and subsidies while its expenses were mainly related to employee expenses, property management and goods and services.

The net surplus is \$36,000 lower than its approved budget as presented by the Department of Arts and Museum, on behalf of the Board, prior to the Board's establishment. This is due mainly to the Board undertaking fewer contract services and projects than initially anticipated or budgeted.

Board of the Museum and Art Gallery of the Northern Territory cont...

Financial Performance for the year

	2015
	\$'000
Income	
Sales of goods and/or services	364
Current grants and subsidies	7,780
Other	194
Total income	8,338
Expenditure	
Employee expenses	(3,830)
Repairs and maintenance	-
Supplies and services	(2,448)
Depreciation and amortisation	(25)
Property management	(1,492)
Grants and subsidies	(354)
Total expenditure	(8,149)
Surplus before income tax expense	189
Income tax expense	-
Surplus after income tax expense	189

Board of the Museum and Art Gallery of the Northern Territory cont...

Financial Position at year end

	2015
	\$'000
Cash and cash equivalents	922
Receivables and other current assets	373
Less current liabilities	(826)
Working capital	469
Add non-current assets	76
Less non-current liabilities	(162)
Net assets	383
Represented by:	
Accumulated funds	189
Capital	194
Equity	383

Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Central Australia Health Service (the Service) was established as a health service pursuant to the National Health Reform Agreement and the *Hospital Services Act 2014*. The Treasurer has deemed the Service to be a Government Business Division for the purposes of the *Financial Management Act*.

The Service comprises the Alice Springs and Tennant Creek hospitals, primary health care, aged care and mental health and is funded predominantly by national health reform payments paid through the Department of Health.

Audit Opinion

The audit of the Central Australia Health Service for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 16 October 2015.

Key Findings

Performance Overview

The Service revalued hospital land and buildings this financial year recording a decrement of \$44.6 million as outlined below:

Particulars	Amounts		Revaluation increase / (decrease) \$
	pre-revaluation \$	after revaluation \$	
Land			
Alice Springs Hospital	1,300,160	1,625,000	324,840
Tennant Creek Hospital	160,000	290,000	130,000
Building			
Alice Springs Hospital	148,550,237	112,788,100	(35,762,137)
Tennant Creek Hospital	33,791,334	24,490,900	(9,300,434)
Net revaluation decrease:			(44,607,731)

This net revaluation decrease was recognised against previous upward revaluations in the asset revaluation reserve and consequently had minimal impact on the financial performance and resulting deficit for the year ended 30 June 2015.

Central Australia Health Service cont...

The decrease in the cost of supplies and services is largely attributable to a reduction in cross-border charges of \$19.5 million. Similarly the change in processes to receipting of cross-border charges is reflected in the decreased sales of goods and/or services.

Employee expenses increased by approximately \$13 million due to both an average increment in wages and salaries of 3% together with an increase in the number of employees. At the time of the audit, the allocation of personnel between the Department of Health, Top End Health Service and Central Australia Health Service was yet to be coded fully within the payroll system. Audit analysis therefore had to be undertaken at the overall health portfolio level which showed an increase from 6,065 personnel in 2014 to 6,323 personnel in 2015.

The most significant factor impacting the Service's financial position at year end was the downward revaluation of non-current assets applied against the asset revaluation reserve. The other significant decrease can be seen in the value of receivables, reflecting the reduction in cross-border charges. Cumulatively, the effect on equity of these two factors was a reduction of \$59 million.

Notwithstanding the work already undertaken by the Service in relation to receipting and monitoring of Commonwealth grants, further work is required by the Service in relation to the management and monitoring of progress against and compliance with grant terms and conditions.

Central Australia Health Service cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Sales of goods and/or services	162,793	176,999
Current grants and subsidies	133,197	128,192
Other	66	165
Total income	296,056	305,356
Expenditure		
Employee expenses	(202,399)	(189,387)
Repairs and maintenance	(5,577)	(3,563)
Supplies and services	(95,922)	(111,178)
Depreciation and amortisation	(8,757)	(8,497)
Interest expenses	(41)	(39)
Grants and subsidies	(11,442)	(11,389)
Total expenditure	(324,138)	(324,053)
Surplus/(deficit) before income tax expense	(28,082)	(18,697)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(28,082)	(18,697)

Central Australia Health Service cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	6,968	9,473
Receivables and other current assets	41,791	56,729
Less current liabilities	(59,620)	(62,421)
Working capital	(10,861)	3,781
Add non-current assets	178,391	222,267
Less non-current liabilities	(6,649)	(6,227)
Net assets	160,881	219,821
Represented by:		
Accumulated funds	(55,887)	(27,782)
Asset revaluation surplus	2,189	46,295
Capital	214,579	201,308
Equity	160,881	219,821

Central Australia Health Service cont...

Central Australia Health Service has commented:

The decrease in the cost of supplies and services for Central Australia Health Service is largely attributable to changes in the treatment of cross-border charges under the National Health Reform funding arrangements. The agency has modified the calculation of cross-border charges and revenues to incorporate these changes going forward.

While, the agency met the requirements of Treasurers Direction A2.4 by performing revaluations of land and building assets every five years, it is acknowledged that improvements could be made to in the fair value and impairment assessment processes. To improve the process the agency will:

- 1. Establish a five year rolling plan for the revaluation of land and buildings*
- 2. Establish an annual impairment testing process undertaken by the Department of Health's Infrastructure Unit*
- 3. Explore avenues to apply indexation to land and buildings annually to reduce the impact of future revaluations.*

The agency has undertaken a considerable amount of work on the management and monitoring of Commonwealth grants and continues to focus on implementing improvements in this area.

Personnel increases in 2015 were largely a result of additional services and increased activity, funded through a combination of Territory and Australian Government funding.

Cobourg Peninsula Sanctuary and Marine Park Board

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

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

Audit Opinion

The audit of the Cobourg Peninsula Sanctuary and Marine Park Board for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 6 November 2015.

Key Findings

As noted in previous reports to the Legislative Assembly, a land claim was lodged in 1978 under the *Aboriginal Land Rights (NT) Act* over the Cobourg Peninsula, resulting in the *Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park Act*. The land claim was never withdrawn and was subsequently re-activated.

The Board has reported that:

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

Cobourg Peninsula Sanctuary and Marine Park Board cont...

Performance Overview

The Board incurred a \$46,000 deficit for the year ended 30 June 2015 compared to a surplus of \$27,000 for the year ended 30 June 2014, a difference of \$73,000. Whilst revenue increased by \$26,000 from the prior year, operational costs increased by \$99,000. Expenses relating to Board and Committee functions increased by approximately \$51,000 and audit fees of \$14,000 were allocated to the Board as a result of the implementation of cost recovery measures by the Northern Territory Auditor-General's Office.

Royalties derived from the collection of crocodile eggs halved, reducing income by \$6,000. Park income net of payments to traditional owners was fairly constant between years (\$42,000 in 2015 compared to \$43,000 in 2014) reflecting slightly decreased revenue following the cessation of two concessional agreements. This decrease was offset by reductions in payments to traditional owners.

The decrease in accumulated funds reflects the \$46,000 deficit, with the significant financial position changes reflected in a decrease of \$25,000 in cash and receivables and an increase in trade creditors of \$16,000.

Cobourg Peninsula Sanctuary and Marine Park Board cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Park income	229	271
Payments to traditional owners	(187)	(228)
Other revenue	123	96
Total income	165	139
Expenditure		
Operational costs	(211)	(112)
Total expenditure	(211)	(112)
Surplus/(deficit) before income tax expense	(46)	27

Cobourg Peninsula Sanctuary and Marine Park Board cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	251	267
Receivables and other current assets	34	43
Less current liabilities	(41)	(25)
Working capital	244	285
Add non-current assets	8	13
Less non-current liabilities	-	-
Net assets	252	298
Represented by:		
Accumulated funds	252	298
Equity	252	298

Darwin Bus Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The host Agency of Darwin Bus Service was the Department of Transport.

Darwin Bus Service was a Government Business Division which, together with a private sector operator, provided bus services on behalf of the Northern Territory Government to residents of Darwin and surrounding rural areas. The assets of Darwin Bus Service were sold on 5 October 2014 to Territory Transit Pty Ltd.

Until the date of the sale, Darwin Bus Service generated its revenue through charging the Department of Transport on the basis of 'kilometres provided'. Bus fares were collected on behalf of the Department and formed part of the Department's revenues. Darwin Bus Service also received revenue from the Department at a contracted rate in circumstances where it may have been directed by Government to provide free services to the public on special occasions.

Audit Opinion

The audit of the Darwin Bus Service for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 25 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls however the audit could have been completed earlier had consideration been given to the impacts of the sale at a whole of government level at the time the assets were sold, thus facilitating more timely reporting and resolution of audit findings.

Performance Overview

During the year the assets of Darwin Bus Service were sold. The sale resulted in a loss on the disposal of the assets of \$160,276 as reported in Note 4 to the financial statements of Darwin Bus Service.

Darwin Bus Service cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Sales of goods and/or services	2,332	8,840
Other	281	575
Total income	2,613	9,415
Expenditure		
Employee expenses	(1,576)	(5,050)
Fleet operating expenses	(559)	(2,215)
Supplies and services	(795)	(1,775)
Loss on disposal of assets	(158)	-
Depreciation and amortisation	-	(891)
Total expenditure	(3,088)	(9,931)
Surplus/(deficit) before income tax expense	(475)	(516)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(475)	(516)

Darwin Bus Service cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	-	3,601
Receivables and other current assets	-	8,455
Less current liabilities	-	(989)
Working capital	-	11,067
Add non-current assets	-	-
Less non-current liabilities	-	-
Net assets	-	11,067
Represented by:		
Accumulated funds	-	10,720
Reserves	-	347
Equity	-	11,067

Darwin Port Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

Darwin Port Corporation (the Corporation) is a Government Business Division established under the *Darwin Port Corporation Act*. The Act requires the Corporation to act in a commercial manner however the Minister may direct it to act in a non-commercial manner.

The Corporation provided 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 ships and naval vessel visits.

As a Government Business Division, 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 2015 resulted in an unmodified independent audit opinion, which was issued on 17 September 2015.

Events Since the Completion of the Audit

On 13 October 2015 the Northern Territory Government announced the Territory would lease the Darwin Port land and facilities of East Arm Wharf (including the Darwin Marine Supply Base) and Fort Hill Wharf to Landbridge Group for 99 years for \$506 million. The share of Darwin Port Operations Pty Ltd (DPO) held by Darwin Port Corporation (DPC) was also sold to Landbridge Group as part of the same transaction.

Key Findings

The audit did not identify any material weaknesses in controls. The scope of the audit did not extend to auditing the lease and sale arrangements which occurred subsequent to 30 June 2015.

Performance Overview

On 26 June 2015, DPO became a wholly owned subsidiary of Darwin Port Corporation. The establishment of DPO was for the purposes of continuing the port business operations through DPO from 1 July 2015 and to potentially seek private investment in the entity. As a result, the Corporation was required to prepare consolidated financial statements. The intention to seek private investment necessitated \$249 million of the Corporation's property, plant and equipment assets being reclassified to current assets held for distribution.

Darwin Port Corporation cont...

The Corporation's profit before income tax decreased from \$17 million in 2014 to \$12 million in 2015 (\$5 million). The key attributes for the decrease in profit are:

- A \$2 million increase in revenue from \$58 million in 2014. The decline in iron ore exports of approximately 35% in cargo volumes, resulted in lower wharfage revenue for the Corporation however this was offset by increased income through increased demand in berth utilisation from the livestock export sector and vessel related charges in connection with the INPEX pipe laying activity. An out of cycle price increase in February 2015 introduced a fixed berthage fee and an increase in the daily berthage charge. Selected wharfage tariffs were increased which contributed to the overall increase in revenue compared to the prior year.
- Operating expenses increased by \$7 million to \$48 million compared to prior year expenses of \$41 million. Of the \$7 million increase in expenses, \$4 million related to depreciation arising from the revaluation of assets. The remaining \$3 million increase relates to increased employee expense, repairs and maintenance and the costs associated with the loan extinguishment, each being approximately \$1 million.

The net asset position of the Corporation was \$253 million as at 30 June 2015 which represents an increase of \$26 million compared to prior year. The increase results from the following key attributes:

- A net upward revaluation of property, plant and equipment of \$46 million less outward transfers of \$12 million provided an uplift of asset values of \$34 million as reflected in the Corporation's reserves and accumulated funds. The assets transferred were Stokes Hill Wharf and Frances Bay Mooring Basin. The Corporation reduced total borrowing and advances by \$45 million to approximately \$16 million, the remaining balance consisted of \$12 million in borrowings and \$4 million in lease liabilities. The Northern Territory Government agreed to extinguish the \$12 million owed by the Corporation on 1 July 2015 leaving the \$4 million lease liability which was subsequently transferred to the DPO.
- Loan repayments, loans extinguished and deposits repaid resulted in a \$45 million improvement to the net liability position. This also resulted in a lower cash position of \$6 million compared to prior year's cash balance of \$31 million.

Darwin Port Corporation cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Sales of goods and/or services	57,434	54,328
Community Service Obligations	1,908	2,900
Other	744	549
Total income	60,086	57,777
Expenditure		
Employee expenses	(14,701)	(13,771)
Operational costs	(14,655)	(13,515)
Repairs and maintenance expenses	(4,532)	(3,505)
Depreciation and amortisation	(10,832)	(7,396)
Borrowing costs	(2,654)	(2,460)
Loss on disposal of assets	(681)	-
Total expenditure	(48,055)	(40,647)
Surplus before income tax expense	12,031	17,130
Income tax benefit/(expense)	227	(4,024)
Surplus after income tax expense	12,258	13,106
Net gain on revaluation of non-current assets	45,946	-
Total comprehensive income	58,204	13,106

Darwin Port Corporation cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	5,917	31,294
Receivables and other current assets	258,211	6,765
Less current liabilities	(19,631)	(21,195)
Working capital	244,497	16,864
Add non-current assets	12,387	269,314
Less non-current liabilities	(3,561)	(58,575)
Net assets	253,323	227,603
Represented by:		
Accumulated funds	42,482	18,533
Reserves	83,037	48,782
Contributed equity	127,804	160,288
Equity	253,323	227,603

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

Darwin Waterfront Corporation (the Corporation) was established pursuant to the *Darwin Waterfront Corporation Act* to develop, manage and service the Darwin Waterfront Precinct (the 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 2015 resulted in an unmodified independent audit opinion, which was issued on 25 September 2015.

Key Findings

Performance Overview

The Corporation reported a deficit of \$4.2 million compared to the prior year's deficit of \$3.3 million. Total income increased by \$1.6 million of which \$0.6 million represented additional funding for the operational costs associated with Stokes Hill Wharf which was transferred to the Corporation from Darwin Port Corporation during the financial year. The following grants and subsidies were received during the year in order to meet the payments due to the Operator of the Darwin Convention Centre:

- **Territory Availability Payment (TAP)** (2015: \$2.9 million, 2014: \$2.8 million). The TAP is paid quarterly in arrears and covers capital, interest, return on equity (part) and maintenance costs. This payment is subject to permanent financial adjustment for failure to maintain a functioning asset.
- **Territory Operating Payment (TOP)** (2015: \$3.1 million, 2014: \$2.9 million). The TOP is an operational subsidy paid quarterly in advance and is based on the fixed 25 year budget which can only be increased with the Territory's approval.
- **Territory Efficiency Payment (TEP)** (2015: nil, 2014: nil). The TEP is an annual bonus payment to the Operator of the Convention Centre where there are demonstrated savings between the actual revenue and expenditure for that operating year and the base business case operating contribution for that year (measured against the subsidy portion of the TOP). The TEP is capped at 35% of the savings where 100% of the key performance measures are met such that the Territory receives 65% of any savings to the operating subsidy.

Darwin Waterfront Corporation cont...

- **Territory Incentive Payment (TIP)** (2015: \$0.8, 2014: \$0.8 million). The TIP is paid annually and is assessed against the base 2005 business case to encourage the Operator to exceed the levels of performance noted in the business case.

Expenditure paid in relation to the Darwin Convention Centre totalled \$6.8 million compared to \$6.5 million in the previous year. Depreciation and amortisation increased by approximately \$1.5 million, and property maintenance by \$0.7 million. These three elements were the largest contributors to the increase in total expenditure of \$2.6 million. The Corporation took control and responsibility for Stokes Hills Wharf from Darwin Port Corporation effective 1 January 2015. As a result, the Corporation received revenue from new sources such as berthing fees and property rental in addition to funding from the Northern Territory Government to cover the operational costs of Stokes Hill Wharf. The value of the assets transferred was \$11.9 million of which \$7.5 million was attributed to land and \$4.4 million to community infrastructure, plant and equipment.

As funding received from the Northern Territory Government does not include any allocation for non-cash items such as depreciation and amortisation, the Corporation's accumulated deficit has increased by \$4.2 million and is likely to continue to do so. The deficit to net equity ratio at 30 June 2015 is 2.8% compared to 2.3% as at 30 June 2014.

Darwin Waterfront Corporation cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
User charges	2,175	2,044
Operating grants and other contributions	19,113	17,842
Other	248	40
Total income	21,536	19,926
Expenditure		
Territory availability payments	(2,962)	(2,886)
Territory efficiency payments	-	-
Territory incentive payments	(786)	(775)
Territory operating payments	(3,094)	(2,870)
Agent service arrangements	(982)	(1,039)
Depreciation and amortisation	(5,831)	(4,360)
Employee expenses	(961)	(857)
Finance costs	(5,495)	(5,597)
Property maintenance	(2,619)	(1,924)
Other	(3,038)	(2,914)
Total expenditure	(25,768)	(23,222)
Surplus/(deficit) before income tax expense	(4,232)	(3,296)
Income tax benefit	-	-
Surplus/(deficit) after income tax expense	(4,232)	(3,296)

Darwin Waterfront Corporation cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	837	714
Receivables and other current assets	426	285
Less current liabilities	(5,769)	(5,328)
Working capital	(4,506)	(4,329)
Add non-current assets	233,277	224,546
Less non-current liabilities	(79,771)	(81,594)
Net assets	149,000	138,623
Represented by:		
Accumulated deficit	(25,037)	(20,805)
Contributed equity	174,037	159,428
Equity	149,000	138,623

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

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 2015 resulted in an unmodified independent audit opinion, which was issued on 1 October 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

DCS reported a net surplus of \$4.3 million compared to the prior year's net surplus of \$3.2 million.

Revenue increased by \$1.2 million from the prior year, predominantly due to an increase in demand for Enterprise Storage and Application Development.

Operational costs decreased by \$0.93 million and employee expenses increased by \$0.61 million however depreciation and amortisation decreased by \$0.15 million resulting in total expenditure \$0.48 million lower than the previous year.

As a Government Business Division, DCS paid a dividend to the Northern Territory Government of approximately \$2.2 million (50% of accounting profit), with the final result reflecting an increase in DCS's financial position of approximately \$2.2 million.

Data Centre Services cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Sales of goods and/or services	28,513	27,343
Other	328	317
Total income	28,841	27,660
Expenditure		
Operational costs	(13,537)	(14,467)
Employee expenses	(7,389)	(6,782)
Depreciation and amortisation	(1,745)	(1,897)
Total expenditure	(22,671)	(23,146)
Surplus before income tax expense	6,170	4,514
Income tax expense	(1,851)	(1,354)
Surplus after income tax expense	4,319	3,160

Data Centre Services cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	14,959	12,463
Receivables and other current assets	6,842	5,637
Less current liabilities	(5,796)	(4,924)
Working capital	16,005	13,176
Add non-current assets	4,348	5,057
Less non-current liabilities	(473)	(504)
Net assets	19,880	17,729
Represented by:		
Accumulated funds	18,614	16,463
Capital	1,266	1,266
Equity	19,880	17,729

Department of Business

Financial Assistance Management System and Receipting and Tracking System Review

Scope

The objective of this review was to perform an assessment of general computer controls associated with two applications, being the Financial Assistance Management System (FAMS) and the Receipting and Tracking Information System (RTS), which are currently in use by the Department of Business ("the Department").

FAMS is the database that is used to store details in regard to grant applicants. The database records detail of all grants issued by the Department, and has been used by the Department (and the Department's predecessors) for approximately 20 years.

RTS is used to process all receipts in relation to the application or renewal of Licenses.

The review was not directed to auditing the financial information in the Department's annual report.

Key Findings

Nothing came to my attention during the course of this review to suggest that the controls, as applicable to the FAMS and Receipting and Tracking systems were not effective however opportunities for improvement were identified.

Access Level Review

There are currently three access levels within RTS, they are read only, read/write access and administrator access.

- Read only access represents enquiry only access and is provided to back office staff to enable them to view information on screen without enabling them to enter or edit data;
- Read/write access represents customer service operator level access, with the ability to process receipts within the system; and
- Administrator access which provides super user level access.

From review of the controls and processes in place around the administration of the RTS, it was noted that while access reviews do occur, there is currently no formal process to regularly review access levels assigned to users and to ensure that users who no longer require access are removed.

Where there is no regular review of user access, there is an increased risk that there may be unauthorised access to, and manipulation of, transaction data.

Department of Business cont...

Disaster Recovery Plan

The Department has an Information Technology Systems Disaster Recovery Plan which was last updated in July 2015. While it is noted that the plan is subject to regular review and update, it is not actually being regularly tested.

The current plan contains a section which details document quality control, which includes author, audience, a revision history and the approver however it does not detail how frequently the plan should be subject to testing. Where such a plan is not subject to regular testing, it increases the risk that those personnel who are expected to implement the plan in the event of a disaster are unfamiliar with its content and how to respond to an incident. Not testing the plan regularly means there is no mechanism by which lessons learned through realistic test scenarios can be incorporated into plan revisions.

Formal Reporting from Data Centre Services (DCS)

The Department currently outsources the hosting and maintenance of their systems to DCS. However it is noted that there is no formal reporting received from DCS in relation to the activities undertaken, issues raised or incidents that have occurred. Ad-hoc reporting is provided by DCS when some system changes are being made and a reporting portal is available to selected users in the Department to run limited reports on DCS activities as required.

Through discussion with Department staff it was noted that whilst DCS have responsibility for managing the Department's applications, within the Department there is limited understanding and clarity over what this entails and what maintenance activities have been performed by DCS.

Where there is limited reporting received from the Department's outsourced information technology service provider, it reduces the level of clarity and understanding of the performance of the Department's information technology applications and any associated impacts this may have had on the operations of the Department. The receipt of comprehensive information from DCS would contribute to any future business cases for enhancement or replacement of existing applications.

Department of Business cont...

Department of Business has commented:

The recommendation for regular access review for the Receipting and Tracking system – noted and agreed.

Disaster Recovery Plan – The agency has procedures in place for manual receipting in the event the RTS is not available. This has been tested infrequently during temporary power outages. The impact of system failure for FAMS is low as identified in the Disaster Recovery Plan.

The Department and other agencies rely on Data Centre Services to recover their IT systems. A realistic test scenario may not be practical for DCS. Note in the event of an All of Government disaster, the system recovery priorities are predetermined by DCIS.

Formal reporting from Data Centre Services – The agency agrees to review the current information available from DCS and will request DCS provide regular status reports for all agency hosted systems.

Department of Corporate and Information Services

Cyber Preparedness Review

Scope

The objective of this review was to examine processes for detecting and managing across-Government cyber security incidents.

The following activities at the Department of Corporate and Information Services (DCIS) were subject to review:

- The across government approach to cyber preparedness;
- The approach to providing awareness and education to users, managers and incident management personnel;
- Security event information and event monitoring;
- The facilitation of cyber security scenario based workshops with key DCIS personnel; and
- Across government security incident management.

Findings from this review are based on a review of documentation and discussions with a number of personnel at DCIS. The review was not directed to auditing the financial information in the Department's annual report.

Key Findings

The processes for detecting and managing across government cyber security incidents systems were considered satisfactory, however, opportunities for improvement were identified.

Cyber Security Policies

A number of existing cyber security policies and standards were undergoing a review process in order to be updated. As a result, there are some key policies and standards that are currently in the draft stage. Draft policies and standards are ineffective as they are unenforceable if they have not been agreed, finalised, endorsed and communicated to users.

Department of Corporate and Information Services cont...

Incident Management Process

Incident management is currently primarily managed by system vendors with DCIS only being notified of escalated events.

Whilst an incident handling process exists to support the resolution of incidents and the completion of post incident reviews, there is no analysis able to be performed across all incidents. Consequently, there is no evidence that lessons learned from previous incidents are assessed in a structured and formal manner.

Without receiving and maintaining detailed historical data on incidents, DCIS cannot analyse trends in order to identify potential areas of weakness within the whole of government environment. If lessons learned from incidents are not formally assessed and adopted, there remains a risk of future whole of government exposure to similar incidents in the future.

Ongoing Education / Awareness Training

Upon joining DCIS, users are given basic cyber security training as part of the mandatory induction programme and emails are occasionally sent to both remind staff of cyber awareness issues and raise awareness of the documents that are available for users in the NTG portal. Users also have a screen provisioned in the portal outlining the users' responsibilities with regard to cyber security incidents. The users are required to acknowledge their responsibilities upon accessing the portal.

At the time of the review, a security awareness quiz, which was previously implemented and used to test the level of user comprehension, was no longer available. Further, there was no ongoing scheduled education or awareness training specific to cyber security provided to users, managers and incident management personnel.

The absence of ongoing education or awareness training specific to cyber security may result in staff being unaware of potential cyber security threats faced by the Northern Territory Government and the ways and means to respond to or report a cyber-incident. Users may be unaware of their agency's security policies, standards, procedures and best practices.

Scenario Based Cyber Security Workshops

Whilst DCIS personnel regularly attend security related workshops and conferences, scenario based cyber security workshops involving realistic simulations of incidents have not been conducted and hence cyber security incident scenarios facing the whole of government environment may not be adequately understood, identified and prepared for.

Department of Corporate and Information Services cont...

Department of Corporate and Information Services has commented:

DCIS notes the key audit finding that satisfactory processes exist for detecting and managing across government cyber security incidents.

A range of cyber security and related ICT policies and standards are in place, with a number undergoing cyclical review, including alignment with the Australian Government ICT security policy approach. Current policies and standards remain in force.

ICT policy controls have been strengthened following the introduction of the ICT Governance Framework in 2014, with draft ICT policies and standards now formally considered by the ICT Leadership Group and the ICT Governance Board.

A central incident management tool is used to log incidents and regular meetings are held with contracted service providers and agencies to consider incidents, trends and remediation. Incidents resulting in disruptions to systems are subject to formal post-incident reviews, which are captured in a central repository for lessons learnt and future reference. DCIS is enhancing incident management through procurement of a Security Incident and Event Management System with a design requirement to provide improved trend analysis and modelling of future risks.

The online security awareness quiz has been updated to comply with web standards and uploaded to NTG Central website. DCIS is also working with the Office of the Commissioner for Public Employment to investigate online learning modules for ICT security awareness.

Security awareness training guidelines under the Australian Government Protective Security Framework are being assessed for application in the NT. Options for cyber security scenario based workshops are being explored with the Australian Signals Directorate.

Department of Corporate and Information Services

myPaysheets Review

Scope

The objective of this review was to perform an assessment of key controls associated with the Paysheet system in place at the Department of Corporate and Information Services (DCIS).

The myPaysheets system captures time and attendance. The system then translates this information to payments to relevant staff.

The following activities were subject to this review:

- The design of information technology general controls in the areas of change management, logical access, backup and recovery, problem management and job scheduling;
- Examination of operational effectiveness of the change management controls;
- Examination of operational effectiveness of the logical access controls with respect to the management of the new, terminated and privileged (application and database) users and user authentication;
- Examination of permissions assigned to users including information technology and non-information technology staff with privileged access within the system;
- Examination of operational effectiveness of the completeness and accuracy controls for data received via key interfaces; and
- Existence of documentation supporting the system.

Findings from this review are based on a review of documentation and discussions with a number of personnel at DCIS. The review was not directed to auditing the financial information in the Department's annual report.

Department of Corporate and Information Services cont...

Key Findings

Nothing came to my attention during the course of this review to suggest that the controls, as identified in the scope paragraph, relating to the myPaysheets project were not effective, however opportunities for improvement were identified.

Segregation of Duties

As a part of the assessment of individual's access capabilities, ten individuals were found to have the ability to develop and promote changes within the system.

A key pillar of controlling changes to production systems is restricting access to production code libraries, production deployment tools, and validating that segregation of duties exists between the development and production environments. Segregation of duties, in particular, is critical as it reduces the risk of inappropriate changes being made to the production system.

There is a risk that inappropriate changes can be accidentally, or intentionally, made to the system which may impact the integrity of the data.

Department of Corporate and Information Services cont...

Department of Corporate and Information Services has commented:

The matter is addressed and system controls are effective as indicated in the audit findings. DCIS reviewed access rights and removed production system access for eight people. The production change deployment process is being enhanced to better segregate access to development and production environments.

Department of Correctional Services

Pronto Review

Scope

The objective of this review was to perform an assessment of key controls associated with the Pronto system in place at Department of Correctional Services (the Department).

The Pronto system is the primary financial system for the Department's financial management and inventory control. The system was introduced to replace the Prisoner Money Management System which recorded the stock holding / inventory of the prison shops, and prisoner monies held in trust within the Accountable Officers Trust Account. It replaced the MYOB system which previously recorded the stock holding/inventory of prison stores.

Pronto was implemented incrementally throughout the Department in 2015.

The Pronto system has approximately 90 users and interfaces with a number of systems including the Integrated Offender Management System, Prisoner Purchasing System and the Government Accounting System (GAS). Key modules have been implemented including Prisoner trust account management, Inventory, Sales and General Journal access however further financial management and functionality enhancements are still being developed (e.g. Accounts Payable and online portal access). A critical timeline has been developed, with full system functionality scheduled to be implemented by January 2017.

The following areas of general computer controls relating to the Pronto application system were tested:

- Application, database and operating system security management;
- User access management and user authentication;
- Computer environment change management;
- Interface controls;
- Segregation of duties management; and
- Backup and recovery / disaster recovery planning.

The findings are based on a review of documentation, system configuration and discussions with relevant Department personnel. The review was not directed to auditing the financial information in the Department's annual report.

Department of Correctional Services cont...

Key Findings

Based on discussion with key stakeholders and review of relevant documentation, I have determined that significant improvements are required to strengthen the general computer controls for the Pronto system. The Pronto application is managed by the Department and is hosted on a Linux server, which is managed by Data Centre Services (DCS).

Information Security (Pronto environment)

Key information security controls have been implemented within the Pronto environment to protect information within the application, database and operating system layers. The application is supported by role based security, with privileged access being limited to a small number of Department and Pronto support personnel, identifiable through unique user names. User identification and authentication controls have been implemented at all layers of the environment including interfaces. User access management processes exist, however they require improvement, for the application, database and operating system.

I noted the following opportunities exist to strengthen information security controls:

- User access governance within Pronto should be improved, with a number of key exceptions being noted regarding potentially excessive and conflicting access being identified;
- Password controls should be strengthened in Pronto and Linux; and
- The Linux server hosting Pronto should be regularly patched to reduce security vulnerability risks.

Change Management (Pronto environment)

Key change management controls have been designed for the Pronto environment, including a formal change management procedure which has been developed and endorsed by the Department. The Pronto system is a vendor provided product and is subject to full vendor product support and patching. The infrastructure environment hosting Pronto is managed by DCS and is also subject to formal change control.

Department of Correctional Services cont...

I noted the following opportunities to strengthen current change management processes:

- A separate test server should be created to reduce the risk of performance or availability issues occurring in the production environment as a result of testing; and
- All key Pronto enhancements and changes should go through formal change management approval and testing processes.

Backup and Disaster Recovery (Pronto environment)

Backups of the Pronto environment are performed by DCS on a daily basis and are stored on-site on hard disk and off-site using tapes. The backups cover the full hosted file system including the application and database. Functional specification and configuration requirements have been documented by the Department to aid in a system rebuild if required. A disaster recovery plan has also been established by DCS for guidance during a disaster scenario.

I noted the following opportunities to strengthen current backup and disaster recovery processes:

- Periodic restores of backups should be performed to ensure recoverability; and
- Periodic disaster recovery testing should be performed to certify the continuity of Pronto services in the event of a future disaster.

Interface Management (Pronto environment)

Real-time interfaces have been implemented between Pronto and the Integrated Offender Management System and the Prisoner Purchasing System. A nightly batch interface exists between Pronto and the Government Accounting System (GAS). Data is sent via a queuing system built into the interface which stores messages for processing. If one application is down, transactions are queued until the relevant system is restored. The data is then processed according to the queuing system. The interfaces are monitored on an ongoing basis, with automated email and SMS alerts sent to information technology support staff if errors occur.

The work undertaken by my Authorised Auditors did not detect any significant interface management issues.

Department of Correctional Services cont...

Department of Correctional Services has commented:

The Department notes and accepts the advice of the Auditor-General's office.

The Department advises that actions have been undertaken to strengthen the user access governance, including the review and removal of unnecessary access and development of an access governance framework is progressing.

The Department has improved the password controls and has a robust change management approval and testing process.

The Department is liaising with the Department of Corporate and Information Services regarding the patching of the Linux server, backup and disaster recovery testing for the server.

Department of Correctional Services

Evaluation of Selected Aspects of the Agency's Performance Management System Audit

Background

Section 15 of the *Audit Act* provides that “*the Auditor-General may conduct an audit of 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.*”

The objective of an audit conducted under Section 15 includes “*determining whether the performance management systems of the 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.*”

In order for an Agency to effectively communicate progress against its objectives, there should be a clear linkage between the Agency's publicly stated strategic goals (as reported in Budget Paper 3) and the Agency's performance against those strategic goals (as reported in the Agency's Annual Report).

To this end, I have assessed whether the following components of a performance management system are implemented and operating effectively within the Department in relation to a selected strategic goal as established in Budget Paper 3 released in May 2013:

- A strategic plan exists for the Department;
- The strategic plan reflects the Department's strategic goals as stated in Budget Paper 3;
- Business plans exist for each Output Group within the Department;
- The relevant business plan provides actions and performance targets aligned with the Department's strategic plan;
- There is a process for determining the performance measure appropriate to each strategic objective;
- Performance is actively monitored during the course of the year within the Department;

Department of Correctional Services cont...

- Performance results are reported to those accountable within the Department; and
- Performance results are reported in the Department's Annual Report and are accompanied by sufficient explanatory information that enables a reader to independently form a conclusion on the Department's performance.

A process flow diagram demonstrating the considerations to be had when determining the existence and effectiveness of a performance management system has been included on the next page. These are the questions that I asked when forming the assessment. When the Department is revisited in future performance management systems audits, I will be looking to expand work performed in the area shown in the grey shaded box.

Audit fieldwork was conducted between March and August 2015. The review was not directed to auditing the financial information in the Department's annual report.

Key Findings

Whilst a number of key elements of a performance management system were demonstrated, the Department could implement some improvements in order to make evident that it has developed and implemented an effective performance system that enables public reporting against established performance outcomes in relation to the strategic goal selected for audit. A number of recommendations to enhance the effectiveness of the Department's performance management systems were raised as a result of this audit including improving:

- timeliness and completeness of Business Plans;
- records management systems to ensure all data is retained, maintained, accessible at all times, reported appropriately and supports performance results;
- performance targets and guidance on captured data to ensure that performance results can be reliably measured and the result interpreted by the general public on a consistent basis;
- quality review processes to minimise errors in management and/or annual reporting; and
- consistency of trend data reported.

Department of Correctional Services cont...



Department of Correctional Services cont...

Department of Correctional Services has commented:

The Department notes and accepts the advice of the Auditor-General's office.

The Department is about to embark upon a review of the Strategic Intent 2013-2016 with the intent of providing an appropriate strategic guidance document for the next three years. Business plans, performance measures and reporting requirements will also be reviewed and refreshed. The opportunity to refine or redefine appropriate outcome and performance measures is expected to provide better clarity and reporting of efforts and performance of the department. Improved performance measures are expected to be requested for inclusion in Budget Paper 3 for the 2016-17 Budget.

The Department notes and accepts the feedback from the Auditor-General's office on improvements that can be made to our data handling and performance reporting.

Department of the Chief Minister

Darwin Marine Supply Base

Background

A series of reviews were undertaken by the previous Auditor-General examining major projects. One review scheduled, and subsequently placed on hold, related to the construction of the Darwin Marine Supply Base (MSB). Upon my appointment, I decided to re-commence the review in order to meet the stated objectives. Initial fieldwork was conducted between April and August 2014. Fieldwork recommenced in November 2014 with the majority of documentation received by the end of May 2015. My findings and recommendations are documented below. A summary of the key dates applicable to the MSB project is documented below to assist with providing a context for the project.

Event	Date
Government announcement that seeking to develop a MSB	2009
Terms of reference for Probity signed off by the Chief Executive of DPC	13 April 2010
EOI Invitation released	18 August 2010
Closing Date for EOI Responses – six bids received	27 October 2010
Probity Auditor's Report on EOI	3 December 2010
EOI Evaluation and short-listing of Proponents	6 December 2010
RFP released to the three shortlisted proponents	7 February 2011
Closing Date for responses to RFP (original closure date of 10 June 2011 was extended)	29 June 2011
First Request for further response closed	9 August 2011
Second Request for further response closed	17 August 2011
Probity Auditor's Report on RFP	9 September 2011
RFP Evaluation and Northern Territory Approvals	13 September 2011
Negotiation and Early Works Project Agreement Execution	13 December 2011
Project construction commenced (Early Works Agreement)	8 February 2012
Contracts signed	20 February 2012
Financial Close and Conditions precedent met	27 April 2012
Practical completion achieved	13 June 2014 *
Operating lease commencement	13 June 2014 *
Operating lease expiry (has an option to extend for a further 5 years)	12 June 2029

* Original contract completion date was 31 October 2013

Department of the Chief Minister cont...

Scope

This review was undertaken pursuant to sections 13 and 15 of the *Audit Act* with the objective of examining selected aspects of the project to construct the MSB and the adequacy of the performance management systems intended to support the delivery of the major project. It should be noted that the primary purpose of my procedures was to obtain sufficient and appropriate evidence to assess the existence and effectiveness of the performance management systems designed to support the management of the project to construct the MSB including the processes for awarding contracts to successful tenderers in accordance with the above objectives. The procedures did not encompass a comprehensive review of all systems and processes and were not designed to uncover all weaknesses, breaches and irregularities in those systems and processes. The review scope and objective was to provide the Legislative Assembly with:

1. An understanding of the arrangements for the management of the project to construct the Darwin Marine Supply Base (MSB) as described in the following sections of the report:
 - Overview of Public Private Partnerships
 - Background to the Project
 - Description of the Project
 - Planning the Project.
2. An assurance that the processes leading to the award of contracts to successful tenderer(s) were transparent as described in the following section of the report:
 - Management of the Project
 - Governance of the Procurement Process
 - Probity of the Procurement Process.
3. An overview of the legal and financial structure of the project and whether the cost of financing is reasonable in the circumstances as presented in the following sections of this report:
 - The Legal Framework
 - Responsibility for Risks
 - Cost to the Northern Territory
 - Implicit Interest Rate
 - MSB Project – Construction and Beyond.

Department of the Chief Minister cont...

Key Findings

The MSB represents a major project undertaken by the Northern Territory Government (NTG). Responsibility for the project was reallocated between departments during the stages of project inception; construction; and commissioning. At the time the MSB was under construction, ultimate responsibility was intended to rest with the Darwin Port Corporation (DPC).

Whilst it is not the role of the Auditor-General to question the government policy decisions made, I am able to examine how Government came to the decision on whether or not to invest in the MSB, including evaluating whether the MSB project meets the definition of a Public Private Partnership (PPP). Whilst initially being presented to the market as a PPP, the intended arrangements and structure of the MSB project changed prior to project completion.

Whilst for the most part the Expressions of Interest (EOI) and Request for Procurement (RFP) processes appeared to have been managed sufficiently, I identified deficiencies with the preliminary planning processes, particularly documentation around the decision prior to going to the market, and shortcomings in the documentation of negotiation processes with the preferred bidder. The actual process for arriving at a preferred bidder appeared reasonable.

There were critical points where the decision to proceed with the MSB and the proposed model to be used to procure the MSB could have, and should have, been reviewed more comprehensively. When it became clear that a private investment/financier was not going to invest in the project, there appeared to be no robust re-evaluation of the decision to use a PPP procurement model for the project. Upon the decision to proceed with the project there were no resulting amendments to the risk assessment, contractual documents or a redeveloped public sector comparator (PSC). Limited evidence of analysis was provided to me to support the change of the investment term from 30 years to 15 years.

My review of this project identified a number of opportunities for improvement which should be considered when undertaking future projects largely relating to the absence of sufficient, appropriate documentary evidence to support decisions. The following areas for improvement were identified as a result of this review:

- Compliance with and adherence to the Infrastructure Australia Guidelines, including the Northern Territory's own prescriptive requirements;
- Processes and controls relating to the development, documentation and management of records supporting decisions;
- Processes relating to contract development and management;

Department of the Chief Minister cont...

- Processes for capturing and subsequently accounting for the complete cost of major infrastructure projects;
- Governance arrangements relating to major projects; and
- Staffing requirements including capability, capacity, experience and the use of consultants.

Overview of Public Private Partnerships

A PPP is an arrangement often utilised for the procurement of large and complex infrastructure facilities. PPP's have been used increasingly by governments in a number of countries (and in most states in Australia) as a cost-effective means of delivering public infrastructure such as roads, public buildings, health and educational facilities, prisons and public transport facilities.

Forms of PPP

A PPP may take a number of forms including:

Design and Build: where the public sector specifies the asset requirements in terms of its functions and desired outcomes. The private sector partner is responsible for designing and building the asset, managing any related risks, and transferring the asset to the public sector to operate.

Build, Own and Operate: requiring a private sector partner to develop, finance, build, own and operate a facility for a defined period. At the conclusion of that period the risks of ownership associated with the facility remain with the private sector partner.

Build, Own, Operate and Transfer: requiring a private sector partner to develop, finance, build, own and operate a facility for a defined period. At the expiration of that period the facility is transferred to the public sector partner.

Build, Own and Maintain: requiring a private sector partner to build, own and maintain a facility for a specified period. The facility is leased and staffed by the public sector partner.

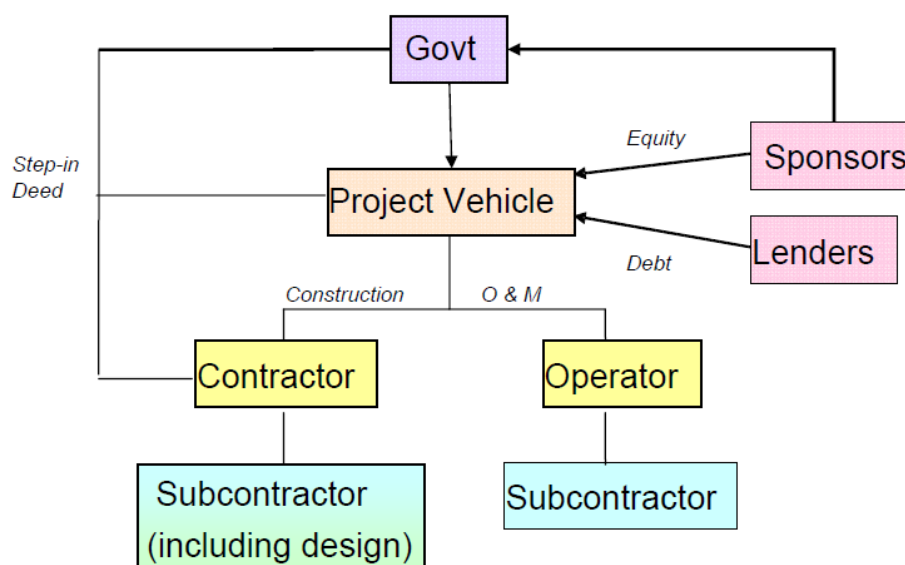
The use of a PPP does not, as a matter of course, offer some low cost means of obtaining public infrastructure. It may provide an opportunity to obtain infrastructure at a cost that is less than might be the case if a government were to construct that infrastructure on its own account, however realisation of such savings may be dependent upon the private sector partners' ability to provide technical and managerial expertise that may not be available in the public sector.

Department of the Chief Minister cont...

What a PPP can offer is an ability to allocate the risks associated with a project between the public and private partners on the basis of which party is best placed to manage the risk in question. At the same time, a PPP can enable a government to reduce its overall capital outlays by having the private sector partner finance a project, but at the expense of being required to meet ongoing financial obligations over some agreed period so that the private sector partner recovers the capital costs associated with construction, together with interest.

A diagram demonstrating the elements and structure of a typical PPP is included below.

Example of a PPP Structure



Source: Infrastructure Australia National Public Private Partnership Guidelines, Volume 1: Procurement Options Analysis, page 8

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As documented on page 1 of the Infrastructure Australia National Public Private (PPP) Guidelines Volume 1:

“Governments have no ideological preference between traditional procurement, PPP or any other procurement approaches. Major infrastructure projects require detailed and careful planning and it is important that a robust, value for money assessment is made when choosing the procurement option.

A business case is commonly used across jurisdictions to support the investment decision. A Procurement Options Analysis as part of a Procurement Strategy, will inform the government’s procurement decision.

The investment and procurement decisions are separate (although from a timing perspective they can occur concurrently or separately). While individual governments will have specific processes, generally there is a staged decision-making process:

- governments will consider the investment decision based on the business case (or scoping study or feasibility study as the case may be); and*
- following the investment decision, Government will consider the procurement method decision based on the Procurement Options Analysis (which may or may not be part of the business case).”*

Further, page 6 of the Infrastructure Australia National Public Private (PPP) Guidelines Volume 1 it states:

“In a typical PPP project, the Government –

- prepares an output-based specification rather than a prescriptive specification;*
- engages a provider to deliver services over a long term, e.g. 20 to 35 years or more;*
- requires the provider to design, finance, construct, maintain and operate the facility. The private party provides ancillary services including cleaning, security, facilities management, catering etc. (or some combination) and takes the risk for those functions;*
- makes no payments to the provider before the facility is commissioned;*
- provides payments over the term of the contract based on services delivered against the achievement of key performance indicators, ensuring the infrastructure is maintained over its lifetime; and*

Department of the Chief Minister cont...

- *eventually takes back ownership of the asset at a specified handover quality/standard.”*

Background to the Project

The vision for a MSB in Darwin Harbour had been discussed for many years as part of concept plans and master planning. With demonstrated interest in the Northern Territory for future oil and gas projects and the existing East Arm Wharf experiencing increasing demand at the time resulting from resources and live export industries, the former Northern Territory Government called for EOI in August 2010 to build; own; operate; and transfer an international standard marine supply base to specifically service the oil and gas industry, adjacent to the East Arm Wharf. The existing wharf consisted of four berths, and the proposals called for a minimum of three berths at the MSB.

The original concept for the MSB, as described in the “Market and Business Case Report” (21 January 2011) by a consulting firm on page 113 was:

“The MSB is to be procured as a BOOT or more precisely a design, build, finance, operate, maintain and transfer (DBFOM in PPP parlance) project in accordance with applicable government procurement policies, codes and guidelines and generally in accordance with the National PPP Guidelines applicable to economic infrastructure projects.

This model for procuring the MSB has many of the elements of a PPP as defined by Infrastructure Australia It does not however fit precisely into the mainstream PPP model advocated by Infrastructure Australia. But, as IA says, there is no preferred or standard model for PPP projects.” [emphasis added]

Description of the Project

The Northern Territory Government called for EOI for the design, construction, operation and maintenance (during the concession period) of a new facility that was to include, per the EOI document, page 13:

- (a) “Multi-user berths, berth pockets, staging areas and channel connections;*
- (b) Hardstand and working areas;*
- (c) Roads, walkways and safety zones;*
- (d) Undercover storage and sheds for construction and maintenance facilities;*
- (e) Open storage areas;*
- (f) Bonded storage areas;*

Department of the Chief Minister cont...

- (g) Mud plant(s);*
- (h) Connections to all utilities;*
- (i) Fuel supply; and*
- (j) Water storage/disposal.”*

The EOI stated that this was to be effected under a Build-Own-Operate-Transfer arrangement, with the concession period being anticipated to be 30 years.

The Concession Agreement states in the recitals that the preferred proponent (“the Company”) was to “*Develop and Operate the MSB*”. The Company was to contract the Builder to design, construct and commission the MSB as stated in the recitals of the Construction Contract:

“A The Company and the Builder were parties of a bidding consortium to Develop and Operate the MSB.

B The Territory has appointed the Company as the preferred proponent to Develop and Operate the MSB.

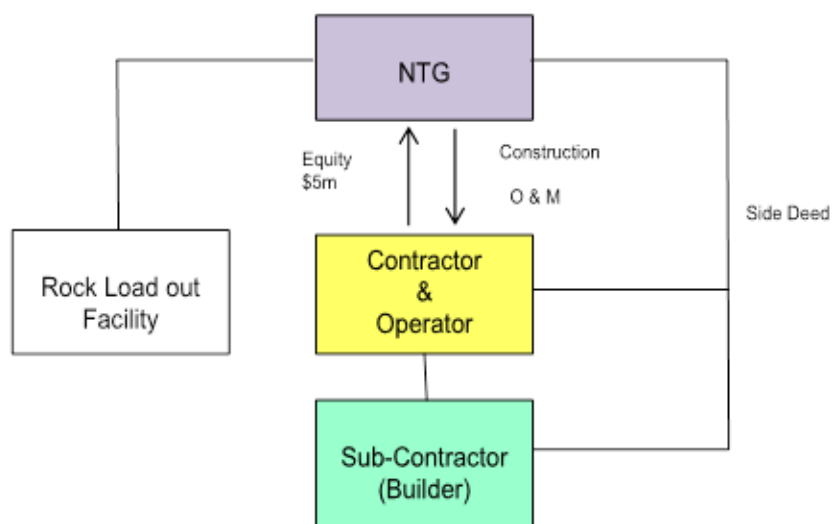
C The Company wishes to engage the Builder to design, construct and commission the MSB.”

What eventuated when all the contracts and the concession agreement were signed off was closer to a design, build, finance, operate, maintain (DBFOM) model, where the ‘finance’ element was insignificant (\$5 million of a contracted value of \$105 million), and the NTG had partial responsibility for managing the ‘build’ element as it became the party issuing instructions directly to the builder.

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Diagrammatical representation of the MSB project

Below is a simple diagrammatical representation of what eventuated with the MSB project to enable comparison to the structure presented in the traditional PPP project in the earlier diagram. The diagrammatical representation below does not necessarily encompass all agreements and arrangements between all parties.



Planning the Project

Initial planning and analysis

The use of a PPP arrangement was considered by the NTG to construct the MSB. The National PPP Policy and Guidelines for the delivery of Public Private Partnerships were established through collaboration between the States, Territory and Commonwealth Governments and are maintained by Infrastructure Australia. Whilst there are national guidelines, the Infrastructure Australia Guidelines Volume 6 include specific requirements established by each jurisdiction.

The Northern Territory Jurisdictional Requirements, included on page 71 states that:

“A key factor affecting the Northern Territory in considering PPPs as a procurement approach is the Territory’s small population base and geographic isolation. These factors potentially result in the requirement to consider a range of different PPP drivers and impacts in the Northern Territory context.”

Department of the Chief Minister cont...

The Northern Territory Jurisdictional Requirements, included on page 73, require that:

“All public infrastructure projects with a capital investment component of at minimum \$50 million are required to be evaluated for a PPP as a potential procurement approach. In undertaking this evaluation, consideration will be given to value for money drivers and market appetite and capacity.”

The MSB was envisaged to have a capital investment component exceeding \$50 million and therefore went to the market on the basis that the project would be a PPP.

The Northern Territory Jurisdictional Requirements specified in the Infrastructure Australia Guidelines, Volume 6, page 73 require that

“Government approves:

- a) the investment decision based on a business case; and*
- b) the procurement model based on the procurement options analysis/strategy.”*

Cost-benefit analysis

A business case including a cost-benefit analysis is crucial when making investment decisions as it supports the decision to proceed from the initial concept stage to project implementation. Most individuals having key roles in the development and evaluation of the project who were interviewed during this review advised that a cost benefit analysis had been undertaken but were unable to locate and provide to me a cost-benefit analysis in a form that fully complied with the Infrastructure Australia Guidelines. A document developed by the NTG, in conjunction with consultants, was provided which was based on the NTG building a MSB and appeared to represent the initial cost-benefit analysis undertaken for this project.

Consultants were engaged to formulate cost estimates for the reference project. Draft documents were provided to me evidencing work undertaken by a consulting firm in 2008 to develop and present a number of scenarios with varying costs depending on the size and stages of projects. It is understood that these initial cost estimates were sourced by DPC in conjunction with the Department of Lands, Planning and the Environment (DLPE) and related to a broader vision for a large scale development of the port area, rather than only the MSB. Another consulting firm prepared several reports during 2009, 2010 and 2011 that researched and reported upon the economic impact, modelling and feasibility of a MSB in Darwin.

Department of the Chief Minister cont...

These reports included:

- a market and pre-feasibility study for a marine supply base at East Arm for the oil and gas industry;
- analysis of the broader economic impacts associated with a new MSB;
- a Market and Business Case Report; and
- a submission to Infrastructure Australia.

Public sector comparator

Development of a PSC is necessary to enable effective comparison of the options available to proceed with a public sector infrastructure project. A PSC assists in determining whether private sector construction presents greater value for money than the government undertaking the same project itself.

The Infrastructure Australia Guidelines, Volume 4: Public Sector Comparator Guidance, page 7, defines the PSC as *“an estimate of the hypothetical, whole-of-life cost of a public sector project if delivered by government. The PSC is developed in accordance with the required output specification, the proposed risk allocation and is based on the most efficient form of government delivery, adjusted for the lifecycle risks of the project. This is referred to as the Reference Project.”*

The Northern Territory Jurisdictional Requirements specified in the Infrastructure Australia Guidelines, Volume 6, page 74, require that *“The public sector comparator is to be approved by government at project approval or, at the latest, prior to the release of the request for proposal document. Any subsequent material changes must also be approved.”*

The documentation provided to me as evidence of a Reference Project constituted the costs to the government to physically build the infrastructure rather than the whole-of-life cost of the MSB adjusted for lifecycle risks of the project. On this basis I concluded that a PSC that fully complied with the Infrastructure Australia Guidelines did not exist.

A Design Brief, also referred to as a Base Case Scenario Model, was developed with the assistance of several consultants. This determined the minimum requirements that were to be sought by the NTG from the market within the RFP. Proponents were then required to explain in their bid how they intended to deliver the minimum requirements and how much the overall project was going to cost. The bids received were then to be evaluated against the Base Case Scenario Model to identify the best outcome for the Northern Territory. Several costing scenarios provided to me demonstrated the estimate to construct a MSB varied from \$120 million to \$315 million.

Department of the Chief Minister cont...

The Concession Agreement documents the aggregate lump sum of Development Costs being \$105 million excluding headworks, which is less than the lowest costing scenario estimate, however given the proponents were required to produce a design themselves within a set of wide parameters, the ability to directly compare the NTG's reference project against each Proponent's submission was not possible.

Procurement Options Analysis

The Northern Territory Jurisdictional Requirements specified in the Infrastructure Australia Guidelines, Volume 6, page 71, require that *"The procurement options analysis is to be undertaken in accordance with the National PPP Guidelines and other Northern Territory Government procurement policies applying from time to time."* A Procurement Options Analysis ensures that the appropriate procurement method is used. I was not provided with evidence that a full procurement options analysis had been undertaken for this project.

Following the receipt of the Proponent's responses, there was no documentation provided to me to demonstrate a re-evaluation of whether undertaking a build, own, operate and transfer (BOOT) arrangement in partnership with the private sector was more economical than the NTG delivering a design and construction project, particularly as it eventuated that the private sector capital contribution was less than 5% of the contract cost.

Management of the Project

In relation to the NTG's overall management of the project, there are aspects from a review perspective, and limited to the scope of this review, that were undertaken well and other aspects that could be improved upon.

The responsible entity

There has been mixed responsibility for the MSB project over its life to date. This is not unusual in the context of major capital projects within the Northern Territory however the change of responsibility between agencies may have contributed to the issues encountered during this review relating to the preparation and retention of documentation and records management. DCM initially had carriage of the concept through to the awarding of the contracts and oversaw the beginnings of construction. Construction responsibility was then transferred to the Department of Infrastructure (DoI). The ultimate 'owner' of the project once practical completion was met, and the entity responsible for managing the operating component of the contracts, at the time of the review was DPC.

Department of the Chief Minister cont...

A consultant played a key role in managing the relationships and contracts on behalf of Dol and DPC during construction and initial operations. The consultant also had responsibility for establishing the Northern Territory's reporting and monitoring framework for the project in conjunction with DPC.

Listed below is a summary of the areas of responsibility during the project and the agency responsible for each element of the project.

Timing	Entity responsible
Initial concept / inception	Darwin Port Corporation
EOI process – inception	Darwin Port Corporation
EOI process – drafting and evaluation	Department of the Chief Minister
RFP process	Department of the Chief Minister
Contract process	Department of the Chief Minister
Construction process – inception	Department of the Chief Minister
Construction process – main body	Department of Infrastructure, in conjunction with Darwin Port Corporation
Operation phase	Darwin Port Corporation
Rock Load Out Facility Agreement – collection of usage fee	Department of Business

NTG has acted as the Project Manager for the duration of the project. Initially this role was undertaken by a consultant to DCM, referred to as the Project Director. During the construction phase, the Project Manager role was held by the Executive Director Major Projects and Assurance Services, Dol.

Governance of the Procurement Process

A Governance Structure for the MSB EOI process was developed and the explanatory memorandum signed off on 11 March 2010 by the then Chief Executive of DCM. Conflicts of interest and confidentiality forms are required to be prepared and signed by all parties including experts, prior to their involvement in the project, following which the forms are to be retained in a specific place to support probity of the process. A number of such forms provided to me were not signed or were not signed until after involvement had already commenced by NTG employees. DPC called for an EOI from Probity Auditors in 2010 in relation to the project.

Going to the market – analysis of responses and decision to proceed

The NTG released an Information Memorandum in August 2010 to the general public that called for interested parties to submit an EOI to build, own, operate and transfer a purpose built international standard marine supply base in Darwin.

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Separate processes were used to secure documentation and access to documentation throughout the period of the MSB project. The EOI was issued through the NTG's Tender System managed by the then named Department of Business and Employment. ACONEX was used as the secure platform for the purposes of the RFP process and was managed by DCM. ACONEX is a purpose built tool with security access logins which provides the ability to restrict the sharing of documentation between individuals with access to the system. Emails are able to be sent from this system and the system stores the emails to enable an audit trail which demonstrates the time each email was sent and the recipient of each email. The system enables proponents to ask questions and enables a response to be sent to the individual proponent or to all proponents as appropriate. There were 34 Addenda issued through the ACONEX system to support the RFP for the MSB.

EOI closed on 27 October 2010 and the Evaluation Panel Findings and Recommendations were finalised thereafter. Of the six EOI received, the Project Steering Committee endorsed the Evaluation Panel's recommendation to shortlist three consortia to the RFP stage. The RFP was released on 7 February 2011. The bid phase was characterised by a series of interactive workshops which provided proponents with the opportunity to present and discuss their concepts and designs, and to seek clarification and feedback from NTG. There were two Requests for Further Responses seeking additional information from two bidders.

The unsigned RFP evaluation report provided to me documented the choice of how the three proponents were reduced to one preferred proponent with whom exclusive negotiations would be held leading to the issue of contracts to construct and operate the MSB. The Evaluation Panel recommended the Company as the preferred bidder.

Sensitivity analysis undertaken demonstrated that the bid from the preferred proponent had the lowest required Northern Territory contribution for each scenario.

I was not provided with final signed versions of the evaluation reports by the Evaluation Panel for either the EOI or RFP process. I was advised that the reports were only in hard copy and would be contained in boxes of documents that were initially unable to be located due to an agency restructure and subsequently restricted due to legal matters pending in relation to the project. These key important original documents had not been scanned and saved in any of the record keeping systems used in relation to the MSB project.

Department of the Chief Minister cont...

Probity of the Procurement Process

Notwithstanding that I was not provided with the final signed versions of the Evaluation Panel's reports for the EOI and RFP process, the process appears to have been robust, with no indication of subjectivity or bias. The evaluation process was overseen by the Probity Auditor and involved discussions with legal, financial and technical advisors. The members of the Evaluation Panel were sourced from a diverse mix of public sector representatives, including DCM, the Department of Treasury and Finance, DPC, Department of Business (DoB) and Department of Justice.

A Probity Plan was developed. It is unclear from the documentation whether I was provided with the final version of the Probity Plan as the footers on various pages within the document provided to me included different dates.

Probity of the EOI process

The Probity Report on the EOI process was issued on 3 December 2010 by the Probity Auditor. The Probity Auditor formed the view *"that there was a good level of compliance with the probity plan and that the Evaluation Panel followed the evaluation procedures described in the evaluation and methodology plan"* and concluded that there was nothing that came to their attention that caused them to believe due probity wasn't carried out.

Probity of the RFP process

The Probity Report on the RFP process was issued on 9 September 2011. The Probity Auditor formed the view *"that there was a good level of compliance with the probity plan and that the Evaluation Panel followed the evaluation procedures as described in the evaluation and methodology plan."*

The role and work undertaken by the Probity Auditor appears to be appropriate for a project of this size and nature. There was nothing identified as a result of my reading of the Probity Auditor's report that indicates any issues arising with the evaluation processes or any non-compliance with Government processes.

Finalising negotiations

The change from the original PPP plan to a hybrid PPP/capital works model for the MSB eventuated for a variety of reasons. Whilst the preferred proponent had been selected to undertake the MSB development and operations, there were several items needing to be addressed prior to financial close.

Department of the Chief Minister cont...

Demand for the MSB was a key element to attract equity investment by the preferred bidder however there was no formal commitment at the time from any third party to use Darwin as their preferred supply base. Uncertainty in relation to demand, together with the economic uncertainty associated with the global financial crisis (GFC), resulted in the private capital investment offered being less than initially modelled, increased pressure on the Northern Territory to guarantee the downside and a higher than anticipated expected return to the private sector.

Under the preferred proponent's original proposal, the Northern Territory was the major capital contributor in a total project investment of \$102.7 million, 76% of which was to be provided by the Northern Territory. Discussions during the negotiation and project agreement phase resulted in the withdrawal of the preferred proponent's equity provider, leading to:

- an increased Northern Territory contribution for the MSB Project;
- the Northern Territory accepting design and construction risk for the MSB as a result of its increased role in the management and supervision of the design and construction; and
- an increased opportunity to sell or lease the MSB once established.

The preferred proponent was asked to contribute \$5 million to the project even though it was now evident the project would not proceed as a PPP. There is no interest payable on the \$5 million equity contribution; however the preferred proponent receives a return on the funds which is internalised in the payment structures relating to the subsequent operation of the MSB. The return is 14%, however is subject to the Operator achieving revenue targets and sufficiency of funds. This rate of return was consistent at the time with a number of social infrastructure projects where availability payments were paid by government and, as such, the rate of return is considered reasonable.

Under the actual model that proceeded, the Northern Territory supplied 95% of the capital funding.

The initial period intended for the Concession Agreement was 30 years. The final Concession Agreement reflected a change in the period to 15 years, with an option to extend for a further 5 years. I was not provided with the final revised NPV based on this reduced term.

Department of the Chief Minister cont...

The Legal Framework

PPPs typically have a complex legal framework to ensure that all parties are tied and committed to ensure the delivery of the completed infrastructure. The central document in relation to the MSB is the Concession Agreement which sets out the contractual arrangements that apply between the Northern Territory and the Company. There are also a number of side contracts, including the Construction Contract, agreements and an operating lease.

Agreements

The key documents related to the MSB project during the various phases of construction and operation are listed below:

Construction of the MSB Facility:

- Concession agreement
- Construction contract
- Builder Side Deed
- Deed of Appointment of Independent Engineer
- License to facilitate access to and construction of the MSB
- Early works deed

Operation of the MSB Facility:

- Concession agreement
- Operating lease

Other Agreements with an impact on the MSB Facility:

- Rock Load Out Facility Use Agreement

Concession Agreement – This document is between the Company and the Northern Territory for the operation of the facility – from its development through to receiving customers. This agreement was originally signed on 20 February 2012. It was amended on 27 April 2012 and again on 13 June 2014 (the date of practical completion). The Concession Agreement sets the basis for the entire interaction between the Northern Territory and the MSB. This agreement governs and contains clauses that establish the relationship for the remaining contracts, deeds and agreements. It leads to both the Construction Contract and the Operating Lease. This agreement concludes at the end of the Operating Lease period (being 15 years from the practical completion date of 13 June 2014, or, if the option to extend for a further 5 years is exercised, to 12 June 2034).

Department of the Chief Minister cont...

The absence of any substantial third party private equity investment and the role taken by the NTG in instructing the builder suggests the MSB project no longer retained the characteristics of a PPP. The legal contracts were not amended to reflect the final terms of the arrangement and still reflect PPP terms resulting in a contractual structure that is perhaps more complex than required given the final arrangement.

Special purpose entities

No special purpose entities were established to construct the facility.

Responsibility for Risks

The preliminary risk analysis prepared by a consultant entitled "Market and Business Case Report" dated January 2011, page 115, reported:

"A preliminary risk analysis has been conducted for this business case. It aims to identify all material risks associated with the MSB project, including the external and project development risks for the Government, the project risks to be allocated to the developer and operator, and those to be retained by government. Risk mitigation mechanisms are also identified.

A full risk analysis should be undertaken as part of the RFT process. This involves comprehensive risk identification, assessment, allocation and mitigation strategies. This process generates information which is used, among other things, in the construction of the PSC, evaluation of value for money, determination of the payment mechanism, the development of risk management plans and in determining the contractual terms and conditions."

This preliminary risk analysis identified the following types of risks:

- site risk;
- design, construction and commissioning risk;
- sponsor risk;
- market risk;
- financial risk;
- network and interface risk;
- industrial relations risk;
- legislative and government policy risk;
- force majeure risk;

Department of the Chief Minister cont...

- asset ownership risk; and
- tax risk.

In the report, the consultant advised that a full risk analysis should be undertaken as part of the RFP process however I was not provided with evidence of a comprehensive risk analysis being undertaken during either the RFP process or during the contract negotiation stage.

Revisiting the initial risk assessment

One of the attractions of a PPP from the perspective of the public sector is the potential that a PPP offers for the allocation of risk to the party that is best able to manage the risk in question. The difficulty in sourcing financing post the GFC led to the “National PPP Guidelines: Response to the impact of the GFC on PPPs” being drafted in June 2009. The paper recognised the constraint that the GFC presented across Australia, as well as globally in terms of the ability to raise finance. It included the following observations:

- The GFC reduced the liquidity available in financial markets;
- Where debt could be found, the terms for borrowing were drastically reduced (previously 25+ years, now 5 to 7 years);
- Private contributors did not want to accept refinancing risk;
- Investors were moving away from what they viewed as riskier investments, including PPPs that involved them taking on demand risk; and
- Private sector entities that were undertaking PPP projects in the post-GFC period would have to decide whether they would take on those additional risks themselves.

Upon recognising this limitation causing the Northern Territory to bear the majority of risk associated with financing the MSB and demand risk, the adoption of a PPP approach to the contractual arrangements should have been re-assessed and consideration given to directly contracting the design, construction and operation of the planned MSB. I was not provided with evidence that the Northern Territory had re-evaluated the risks associated with the MSB project at this point. The changed circumstances and increased risk should have triggered a re-evaluation of the risks, costs and benefits of the project in order to determine whether it was still beneficial to proceed with the project as envisaged notwithstanding that the decision to proceed may have remained unchanged.

Department of the Chief Minister cont...

A draft paper discussing the 'way forward' produced by the NTG's Financial Advisers provided insight into the options going forward when the third party private equity contribution was no longer going ahead. I was not provided with a final version of this document and hence there exists some uncertainty over its contents. Notwithstanding my concern around the paper being presented as a draft, it presented a succinct summary of the risks and the exposure that the Northern Territory faced. In terms of addressing the specific question of the level of exposure the Northern Territory has to operational and financial risk, the Northern Territory has clauses within the Concession Agreement that limit its exposure to operational risk with most of that risk transferred to the Company; however the Northern Territory has taken 95% of the financial risk given the private equity contribution constituted only \$5 million.

Cost to the Northern Territory

The full cost to the Northern Territory of the MSB is unable to be quantified due to:

1. the agencies responsible not capturing the full cost of the project from initiation to completion; and
2. the cost of the operational aspect of the MSB not being able to be realised until it is determined by a competitive market.

Cost models were produced estimating the revenue streams envisaged to be generated from the MSB but I was not provided with the final versions of the cost models and NPV based upon the final contracted terms. The total cost for the design and construction of the Darwin Marine Supply Base is recorded as \$100.9 million in the Construction Contract Schedule 12 however this excludes the upfront agreed Development Costs, Bank Guarantee and Construction management fee, giving an aggregate lump sum for Development Costs of \$104.53 million for the MSB. The Concession Agreement Schedule 12 sets out the contributions by the parties as:

- Northern Territory \$99.53 million; and
- The Company \$5 million;

giving an aggregate lump sum for Development Costs of \$104.53 million for the MSB. The \$5 million is returnable to the Company, dependent on a number of conditions specified in the legal contracts.

Department of the Chief Minister cont...

The table below presents elements that contribute costs to the Northern Territory as a result of the MSB project and demonstrates that, at the time of this review, some costs remained unknown.

Stage	Value	Details
1. Initial planning, design, modelling, vision, creation of DPC's master plan for the Port, environmental impact, EPA licenses, consultants	Unknown	These costs were not specifically captured in relation to the MSB. Excluded from the costs of the project are the costs of NTG employees that worked on the project.
2. Going to market for the MSB	Unknown	These costs were not specifically captured in relation to the MSB. A Budget allocation of \$1.025 million was transferred from DCM to DoI upon the transfer of the project.
3. Headworks for the MSB	Budgeted at \$6 million	I was advised these costs exclude costs incurred directly by the Power and Water Corporation.
4. Aggregate lump sum of Development Costs being \$105 million	\$105 million	Comprising \$99.53 million from the Northern Territory and \$5 million from ShoreASCO. The \$5 million from ShoreASCO is returnable. The return that ShoreASCO receives on the \$5 million is a cost to the project, and is also unquantifiable. The fixed price contract for the construction of the MSB excluded up front agreed Development Costs, Bank Guarantee and Construction management fee.
5. The operating agreement for the MSB	Unknown	The actual value cannot be determined as it is based on estimated revenue streams and the estimation models are not based upon the final contracted terms.

Department of the Chief Minister cont...

Figures provided in a spreadsheet by DoI reported that the Northern Territory had spent \$115.4 million on the MSB against a budget of \$117 million as at 21 November 2014. As there are no dates included in the spreadsheet, it is difficult to determine when costs started to be recorded. I did not audit this value as it was outside the scope of this review.

Other financial impacts associated with the MSB Project are explained below.

Incentives and Penalties

If the Company did not or was unable to deliver elements of the project (for example practical completion by the sunset date) then the Northern Territory could be allowed to apply the Equity Guarantee and retain the \$5 million Company Contribution.

Dredge spoils and the impact on the cost of the MSB

In the initial project conception documentation I sighted, it appears that one factor contributing to the decision to build the MSB was the potential to minimise the cost of construction within the project if an estimated 15 million cubic tonne of dredge spoils from the Ichthys LNG project could be used instead of hauling in new fill. I was advised during this review that no dredge spoils were used to construct the MSB. The fill used was required to meet a specific grade for the project foundations and was sourced elsewhere. The dredge spoils from construction of the MSB were placed into existing containment ponds to be used for future development projects.

Escalation Clauses

I did not identify any escalation clauses in the Concession Agreement. The contract is a fixed price contract however provides for the contractor to recover certain additional costs in approved circumstances.

Federal Government Funding

There was no Federal funding contributed specifically to the MSB project identified through my review of information.

Funds received from Inpex for the Rock Load Out Facility

The other agreement potentially giving rise to a contribution offsetting the cost associated with the MSB Project is the Rock Load Out Facility Use Agreement. This agreement, signed on 28 March 2012 between the Northern Territory and Inpex, was intended to generate \$15 million for the Northern Territory in return for use of the MSB by Inpex as a Rock Load Out Facility. As the responsibility for conducting business with Inpex was transferred from DCM to DoB under the Administrative Arrangement Orders, the \$15 million user fee attributed to the Rock Load Out facility was received by DoB and not applied to offset the costs of the MSB Project.

Department of the Chief Minister cont...

Total cost of the project, including headworks (Power and Water Corporation) and roads (Department of Transport)

There was a DLPE project which was allocated \$6 million for headworks. I was advised this was not fully expended at the time of completion of the headworks. Construction of the water and sewerage infrastructure was undertaken by DoI and was included in the calculation of costs related to headworks. The cost of electricity upgrades was incurred and borne by the Power and Water Corporation and consequently was not captured within the cost of the project. None of the documentation provided to me for review included costs associated with road infrastructure so I am unable to make further comment in this regard.

Implicit Interest Rate

For a project such as the development of a marine supply base, the choice was between the Northern Territory undertaking the project on its own, borrowing the funds necessary to finance construction, or entering into a PPP with a view to having a private sector partner finance the construction of the facility in return for a periodic fee that covers the agreed construction cost. In the case of the MSB, the market did not want to bear the risk associated with the MSB so the Northern Territory funded the majority of the construction costs. Therefore the exposure to an implicit interest rate is minimal as the borrowings were undertaken at a marginal cost applicable to the Northern Territory Treasury Corporation.

Department of the Chief Minister cont...

MSB Project – Construction and Beyond

Construction phase

This review makes no comment about the construction phase of the project, as this was outside of the scope of this review, other than to include the key dates in the project timeline below. Attachment 5 – Project Schedule to the Concession Agreement was eventually obtained and reported key timeline dates for major stages based on the original contract. These were:

Project Stage	Planned Delivery Date	Actual Delivery Date
Early works – commence	29 September 2011	8 February 2012
Early works – finish	7 April 2012	27 April 2012
Financial Closure	10 February 2012	27 April 2012
Separable portion one – commence	11 February 2012	27 April 2012
Practical completion – separable portion one*	30 September 2013	13 June 2014
Separable portion two – commence**	30 September 2014	Not commenced at the time this review was conducted
Practical completion – separable portion two	23 December 2014	Not commenced at the time this review was conducted

* separable portion one is the main MSB

** separable portion two is described as pavement works once the Rock Load Out Facility has been decommissioned.

The original completion date was 30 September 2013. Whilst practical completion was achieved on 13 June 2014, as at 30 June 2014 the MSB was still recorded as work in progress within Dol's books, awaiting final invoices from suppliers/contractors. The MSB was transferred out of Dol and into DPC's books during the financial year ended 30 June 2015. No financial reporting policies were examined in relation to the MSB as this was outside the scope of this review.

Operational phase

This review makes no comment about the operational phase of the MSB, or DPC's management of the contracts in relation to the MSB once opened for business. This was outside the scope of this review. A summary of the nature of the payment arrangements is below.

Department of the Chief Minister cont...

The Concession Agreement is intended to set the value of payments to the operator commensurate with revenue streams as an inducement to grow the revenue base of the MSB. The Northern Territory is bound by section 14 of the Concession Agreement to make several different payment types. ShoreASCO can maximise its revenues by meeting and exceeding targets. Payment obligations applicable to the Northern Territory include:

- (a) Pre Operating Costs (as defined in Schedule 13 of the Concession Agreement) to be paid during the Development Phase in respect of the Operating Phase;
- (b) Fees for service to be paid during the Operating Phase (each defined in Schedule 13); and
- (c) Payment or reimbursement to the Company of any council rates assessed on the Premises other than late payment penalties.

Payment obligations from the Company/Operator to the Northern Territory include Concession Fees as defined in Schedule 13.

Ownership of the asset

The Northern Territory owns the MSB. The Company has an agreement to operate the MSB facility (Concession Agreement) and has access rights to the facility and the ability to operate from the facility (Operating Lease).

Contingent liabilities

No contingent liabilities relating to the MSB were recorded in DPC's 30 June 2014 financial statements or in the Treasurer's Annual Financial Statement as at 30 June 2014.

The impact on the MSB of private involvement in the Darwin Port

To ensure that DPC wasn't in direct competition with the MSB, and to guarantee the opportunity to generate a market, the legislation governing the operations of the Darwin Port was changed to ensure that the existing rig tenders previously using the main East Arm Wharf are now required to use the MSB. The MSB is able to direct vessels to East Arm Wharf in the event that berths at the MSB are unavailable. If the Darwin Port was to be leased to another operator and thus no longer managed by the Northern Territory through DPC as its agent, the Northern Territory will need to consider the existing operator agreement held with the Company together with any subsequent agreement entered into with a third party to ensure there is no conflict between new and existing contracts and legislation.

Department of the Chief Minister cont...

Documentation and records management

The Northern Territory Jurisdictional Requirements specified in the Infrastructure Australia Guidelines, Volume 6, page 72, requires that *“The Auditor-General will have full and complete access as required to information on any Northern Territory PPP project”*.

Whilst I am of the opinion that no documentation was deliberately withheld from me, the major challenge experienced during this review was access to documentation, in particular key documents that supported decisions made throughout the project. In a number of instances, final versions of consultant reports and signed evaluation panel recommendations were not provided. In addition there were multiple versions of contracts and agreements, some with annexures and associated schedules attached and some incomplete versions provided for review.

Reasons given for the records not being provided included:

- contract officers/consultants not saving or providing final versions of documents to staff tasked with maintaining the records on a secure project related information system;
- no consistent documentation management or recording system being used;
- boxes of documentation initially being unable to be located due to being allocated new TRIM (document management system) references as part of agency restructures; and
- the system used as a repository for documents during the tender process (ACONEX) was not able to be accessed without getting software re-loaded. The data had been backed up to an encrypted USB key.

Department of the Chief Minister cont...

Department of the Chief Minister has commented:

The effects of the global financial crisis impacted upon the project during the bidding and negotiating phase and that the Northern Territory, in common with other jurisdictions, had to respond by modifying the standard PPP approach to issues like risk and equity investment.

With the establishment of the Office of Major Projects, Infrastructure and Investment in the Department of the Chief Minister, the Northern Territory Government is less reliant on external consultants to lead PPP processes and negotiations, and that there is a greater focus on records management.

Desert Knowledge Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

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 2015 resulted in an unmodified independent audit opinion, which was issued on 3 November 2015.

Key Findings

An appropriate level of quality assurance review was not undertaken over the financial statements prior to the commencement of the audit which resulted in various draft financial statements being presented during the course of the audit. Numerous errors, omissions and inconsistencies were identified within each of the versions presented for review.

Financial statements that are incomplete, or contain errors, reduce the relevance and reliability of the financial information contained within and may result in inappropriate decisions being made by the users of the financial statements. There is also the risk that the financial statements may not comply with the Australian Accounting Standards which may lead to a modified opinion being issued.

The submission of multiple drafts of financial statements, and the subsequent repeated reviews by my Authorised Auditors, resulted in additional and unnecessary audit costs being incurred by DKA.

Desert Knowledge Australia cont...

Performance Overview

DKA reported a net deficit of \$593,915 (2014: \$584,263).

- Total revenue decreased by \$788,000 from \$2.6 million in 2014 to \$1.8 million in 2015. During the prior year, grants were received from BHP, Myer Foundation Remote and the Commonwealth of Australia totalling \$572,000 as well as \$56,000 received from other parties. During 2015, DKA received annual grant funding from the Northern Territory Government of \$960,000 with only \$27,000 received in the form of smaller grants.
- Notwithstanding an increase in costs associated with maintaining the Desert Knowledge Precinct of \$422,000, total expenses decreased by \$779,000 compared to the prior year, mainly due to:
 - A decrease in employee expenses of \$597,000 following the departure of six employees including the Chief Executive Officer and Business Manager who had not been replaced at the time of the audit; and
 - A decrease in other expenditure of \$239,000 and a decrease in consulting expenditure of \$252,000 primarily due to programs that were delivered in the prior year not being delivered in the current year.

The statement of financial position shows that net assets decreased by \$593,915 between 30 June 2014 and 30 June 2015 as reflected in:

- Property, plant and equipment increasing by \$218,000 from the prior year due to additions of \$596,000. Of this, \$506,000 was in relation to connecting the Desert Knowledge Precinct to the main sewerage line which was offset by depreciation charges of \$378,000;
- Trade and other receivables increased by \$155,000 compared to the prior year. Of the total receivables of \$227,000 at 30 June 2015, over \$100,000 has been outstanding more than 60 days. Delays in collecting receivables may result in debtors becoming uncollectible;
- Trade and other payables decreased by \$94,000. All outstanding payables are within 30 days.
- Employee benefits have decreased by \$70,000. This was due to the long service leave liabilities decreasing by \$42,000 as a result of paying out the previous Chief Executive Officer who resigned in early July 2014. Annual leave liabilities also decreased by \$28,000 due to the departure of the Chief Executive Officer and a number of employees during the year.

Desert Knowledge Australia cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Other income	507	487
Rent received	227	219
Interest revenue	73	63
Grants – Northern Territory Government	960	960
Grants – other	27	854
Total income	1,794	2,583
Expenditure		
Salaries	(841)	(1,439)
Depreciation and amortisation	(378)	(377)
Board costs	(24)	(56)
Consultants	(29)	(281)
Media/marketing/advertising	(31)	(20)
Motor vehicles	(20)	(33)
Travel	(18)	(97)
Desert Knowledge Precinct	(820)	(398)
Other	(227)	(466)
Total expenditure	(2,388)	(3,167)
Surplus/(deficit)	(594)	(584)

Desert Knowledge Australia cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	1,675	2,419
Receivables and other current assets	227	72
Less current liabilities	(241)	(414)
Working capital	1,661	2,077
Add non-current assets	12,869	13,157
Less non-current liabilities	(2,598)	(2,708)
Net assets	11,932	12,526
Represented by:		
Equity contribution	7,809	7,809
Accumulated surplus	4,123	4,717
Equity	11,932	12,526

Desert Knowledge Australia cont...

Desert Knowledge Australia has commented:

In response to the 'Key Finding' outlined in your report, that "an appropriate level of quality assurance review was not undertaken over the financial statements prior to commencement of the audit..." we would like to provide the following additional information and response:

Due to staff losses at Desert Knowledge Australia (DKA), a significant resource issue was identified at the end of June 2015 leading to the appointment of an external accounting firm, selected from a list recommended by an Auditor-General's authorised auditor. The external accounting firm were to provide financial services including preparation of the end-of-year financial statements commencing in early August 2015. Due to legislative time constraints DKA contacted the Auditor-General's appointed auditor to ask if the audit could commence with an interim draft of the financial statements which DKA and their appointed external accountant would continue to finalise as the audit progressed. The auditor agreed and a draft report was sent by DKA's external account to the auditor for interim reference. The final draft was thoroughly reviewed by DKA prior to the formal submission of the report.

However, we understand the interim draft of the end-of-year financial statements for 2014-15 report had been forwarded to the Auditor-General's office prior to its finalisation and without our knowledge. While we acknowledge that there were several versions of the financial report as it was developed and worked on through the audit process, which was unusual, it was done in full consultation and agreement with the Auditor-General's authorised appointed auditors..

Desert Knowledge Australia cont...

Desert Knowledge Australia has commented (cont...):

In response to the 'Key Finding' outlined in your report, that "The submission of multiple drafts of financial statements, and the subsequent repeated reviews by my Authorised Auditors, resulted in additional and unnecessary audit costs being incurred by DKA." we would like to provide the following additional information and response:

DKA did not receive a breakdown of the audit cost; however, the estimated cost of the audit, as advised by the Auditor-General's office, was \$20,145 plus travel expenses. The final cost of the audit was \$21,100.30 including travel expenses. This would indicate the final audit came in slightly under the estimated cost, when the travel required from Darwin to Alice Springs for two nights stay is incorporated.

We would like it noted that during the audit, DKA engaged with four (4) different auditors, resulting in DKA being asked to collate and send the same information several times after initially providing the requested information to the onsite auditor who had travelled down from Darwin to conduct the original audit checks. Further, the onsite auditor did not appear to have been briefed by the previous auditor on the arrangement between DKA and their external accountant, leading to additional delays. This may have contributed to any additional audit costs.

An auditor also made adjustments to DKA's financial statements near the end of the audit process that were successfully disputed by DKA and resulted in the change being reversed, again another draft and delay.

DKA has now recruited additional resources including the engagement of a new Office Manager with Chartered Practising Accountant (CPA) credentials who will oversee the arrangement between DKA and the engaged external accounting firm, including supervision of the financial statements preparation and audit.

While it was a challenging year for DKA, with our new processes and resourcing in place, we look forward to a much easier completion of the 2015-16 audit.

Jabiru Town Development Authority

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Jabiru Town Development Authority (the Authority) has overall responsibility under the *Jabiru Town Development Act* for maintenance and development of the town of Jabiru, the issue of sub-leases of land, and for administration, management and control of the town. A 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 initial value of loans provided was \$8.40 million, but by 1986, the amount outstanding had increased to \$8.80 million due to the capitalisation of net unpaid interest. In August 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 2015.

Audit Opinion

The audit of the Jabiru Town Development Authority for the year ended 30 June 2015 resulted in an unqualified independent audit opinion, which was issued on 13 October 2015.

Jabiru Town Development Authority cont...

Key Findings

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

“Moratorium on loan repayments

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 as to whether the Authority would be able to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Legislative changes

On 28 June 2013 the Aboriginal Land Rights and Other Legislation Amendment Act 2013, was passed by Parliament. One of the identified impacts of this legislative change is the potential cessation of the lease over the Town of Jabiru currently held by the Authority. Should this occur the appropriateness of the Authority continuing to report on a going concern basis may be brought into question.”

Performance Overview

The Authority generated a net deficit of \$1.4 million for the year ended 30 June 2015 (2014: \$0.1 million deficit). This increase in the deficit is mainly due to an additional \$1.3 million in repairs and maintenance expenditure for the power, water and sewerage infrastructure within Jabiru.

The Authority has a net liability position as at 30 June 2015 of \$6.5 million (2014: \$5.1 million).

The continued deficits incurred by the Authority also call into question the appropriateness of the Authority continuing to account on a going concern basis, particularly in light of the worsening net liability position.

Jabiru Town Development Authority cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Grants	90	90
Interest	58	67
Sub-lease transfer proceeds	5	1
Total income	153	158
Expenditure		
Administration expenses	(1,463)	(172)
Amortisation of town infrastructure	(63)	(62)
Total expenditure	(1,526)	(234)
Surplus/(deficit)	(1,373)	(76)

Jabiru Town Development Authority cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	2,438	3,302
Receivables and other current assets	62	7
Less current liabilities	(511)	(10)
Working capital	1,989	3,299
Add non-current assets	334	397
Less non-current liabilities	(8,805)	(8,805)
Net assets	(6,482)	(5,109)
Represented by:		
Accumulated deficit	(6,482)	(5,109)
Equity	(6,482)	(5,109)

Jacana Energy

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

Power Retail Corporation trading as Jacana Energy (Jacana) was established pursuant to the *Power Retail Corporation Act 2014* to supply electricity to consumers, buy and sell electricity, and supply services designed to improve the efficiency of electricity supply and the management of demand for electricity.

Audit Opinion

I issued a qualified audit opinion on the Corporation's financial statements for the year ended 30 June 2015 on 22 December 2015 as I was unable to obtain sufficient appropriate audit evidence over the loan from Power Water Corporation of \$21.49 million as disclosed in the total trade and payables balance of \$88.31 million in the Statement of Financial Position as at 30 June 2015.

Key Findings

On 6 May 2014, the Northern Territory Parliament passed a Bill to separate the Power and Water Corporation into three Government Owned Corporations, specifically:

- Power Generation Corporation (trading as "Territory Generation");
- Power Retail Corporation (trading as Jacana Energy); and
- Power and Water Corporation (PWC).

Separation of the financial system occurred during the ANZAC day weekend in April 2015. The transactions relating to Jacana should have been recorded separately within their own financial accounting records (i.e. Jacana's books) from 1 July 2014 despite the system separation occurring some 10 months later.

Due to the requirements of the *Government Owned Corporations Act*, Jacana is required to prepare their financial statements by 31 August and the Auditor-General has one month to audit and report on those financial statements. As a Government Owned Corporation, Jacana must forward the annual report to the shareholding Minister within three months after the end of each financial year. The final financial statements were signed and received by me for audit on 11 December 2015.

Jacana Energy cont...

Given the significant reliance on PWC's systems and the inability to reliably confirm the material loan balances with PWC, Jacana was unable to meet the financial reporting deadline as set in the *Government Owned Corporations Act*, and required the provision of an exemption from the Treasurer. I acknowledge the efforts and assistance of the staff of Jacana in the completion of this audit.

Performance Overview

The financial year ended 30 June 2015 was the Corporation's first trading year. For the 12 months ended 30 June 2015, total revenue was \$512.46 million. This included Community Service Obligations of \$57.84 million. Compared to the budget of \$514.5 million, the decrease of \$2.04 million was due to reduced electricity demand throughout the period.

The revised financial statements reflect overall expenses excluding tax of \$497.5 million which comprise cost of sales of \$481.92 million and operating expenses of \$15.58 million. Compared to the budget of \$498.8 million for the cost of sales and \$15.2 million for operating expenses, the decrease of \$16.88 million in cost of sales is due to the reduced electricity demand mentioned above and over-budgeted generation and network cost from the estimated price change in both generation and network cost.

Overall, the revised net profit after tax for the year is \$10.48 million compared to a budgeted net profit of \$0.3 million.

In respect of the Statement of Financial Position, contributed equity of \$47.67 million was provided on 1 July 2014 upon the establishment of the Corporation. This included an initial cash balance allocation of \$40 million.

The movement from net assets of \$47.67 million at the beginning of the year to \$58.14 million as at 30 June 2015 was achieved as a result of the revised profit of \$10.48 million in the current year.

Key findings arising from the audit can largely be attributed to this being the Corporation's first trading year. Dependence on PWC for the provision of corporate services resulted in the Corporation not maintaining sufficient revenue and revenue related information to justify or substantiate the Corporation's financial performance and position throughout the year requiring substantially more work to be performed following year end. The financial reporting and audit processes were negatively impacted by delays in the receipt of requested documentation during the audit process and journals processed by the outsourced service provider lacked evidence of review and / or supporting documentation. As reported above, the loan balance owing to PWC was unable to be fully substantiated.

Jacana Energy cont...

Financial Performance for the year

	2015
	\$'000
Income	
Sale of goods	452,311
Community service obligations	57,835
Interest revenue	434
Other income	1,884
Total income	512,464
Expenditure	
Energy cost of sales	(481,917)
Employee benefits expenses	(2,483)
External service agreements	(6,788)
Structural separation expenses	(406)
Other expenses	(5,903)
Total expenditure	(497,497)
Surplus before income tax expense	14,967
Income tax expense	(4,489)
Surplus after income tax expense	10,478

Jacana Energy cont...

Financial Position at year end

	2015
	\$'000
Cash and cash equivalents	61,220
Receivables and other current assets	101,856
Less current liabilities	(107,906)
Working capital	55,170
Add non-current assets	3,053
Less non-current liabilities	(79)
Net assets	58,144
Represented by:	
Retained earnings	10,478
Contributed equity	47,666
Equity	58,144

Jacana Energy cont...

Jacana Energy has commented:

While we have been able to deliver a very favourable profit for the year, the lack of accurate financial information prior to financial separation in April 2015 presented significant difficulties. In particular Jacana Energy identified uncertainty in relation to the composition of an intercompany loan with Power and Water Corporation, which is a direct result of delays in achieving separation, specifically financial separation.

Jacana Energy's cash balance at the end of June was \$61.22 million. This included an initial cash balance allocation of \$40 million from the Department of Treasury and Finance on incorporation. This cash balance is offset by a loan from Power Water Corporation of \$21.49 million which resulted from separation of the two entities. Unfortunately with financial separation not occurring until April 2015, some ten months after structural separation, and while \$12.79 million of this balance has been verified, uncertainty exists as to the composition of the remaining \$8.70 million. Endeavours to address and reconcile these uncertainties were the cause of delays in presenting Jacana Energy's accounts.

Throughout the process of structural and financial separation, Jacana Energy's accounting and finance services were provided by Power and Water Corporation under a Transitional Services Agreement. The integrated nature of key systems, such as the retail management system and the financial management system, and the complexity and volume of financial transactions made it particularly challenging for Jacana Energy to get accurate and reliable financial information. Because of the level of systems integration and the absence of separate balance sheets for the three Government Owned Corporations until April 2015, Jacana Energy was very reliant on PWC and could not have developed and maintained its own financial systems. Every attempt was made to validate financial information provided by Power Water Corporation and the accuracy and reliability of this information improved significantly over the year. Issues with the unverified portion of the intercompany loan relate to the earlier part of 2014-15, before financial separation.

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Land Development Corporation (the Corporation) was declared a Government Business Division on 11 October 2011. The Corporation was established to develop and manage land for use by new and existing industries in the Territory, for use for residential developments and for associated activities and for related purposes.

Audit Opinion

The audit of Land Development Corporation for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 25 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a surplus of \$26.1 million compared to the prior year's surplus of \$12.5 million. The increase in the surplus from the 2014 year resulted from recognition of land holdings at East Arm and Wickham Point acquired for nil consideration but valued at \$18.4 million and an additional \$7.4 million in revenue from land sales. These increases were partially offset by reductions in development grants of \$3.9 million; increased cost of land sold amounting to \$9.9 million; and operational expenditure which increased by \$0.6 million. Income tax expense was \$0.4 million less than in the prior year. The income from the assets acquired for nil consideration and development grants are not subject to taxation thereby explaining why income tax expense reduced by \$0.4 million notwithstanding the increased net surplus. Taxation was thus applied to an adjusted surplus of \$9.8 million at a rate of 30%.

The Corporation's main operational costs are: property maintenance of \$0.4 million (2014: \$1.2 million, the majority of this related to the Tiwi land project), property management of \$0.7 million (2014: \$0.6 million), and marketing and promotion of \$0.3 million (2014: \$0.2 million). The Corporation incurred an increase in employee expenses of \$0.6 million to \$2.1 million (2014: \$1.5 million) which correlates with the increase in employees to 20 employees at 30 June 2015 (2014: 13 employees).

The Corporation held a net asset position of \$138.8 million as at 30 June 2015, compared to \$116.2 million at 30 June 2014. The Corporation had a secure liquidity position with \$38.1 million in cash and a portfolio of land with a value of \$30.3 million in current land inventory and a value of \$109.0 million held as non-current land inventory.

Land Development Corporation cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Revenue from land sales	27,241	19,822
Royalties, rents and dividends	4,889	4,467
Development grants	855	4,738
Other	788	504
Asset acquired for nil consideration	18,350	-
Total income	52,123	29,531
Cost of land sold	(16,581)	(6,721)
Depreciation and amortisation	(338)	(201)
Employee expenses	(2,130)	(1,488)
Interest	(1,332)	(1,536)
Operational costs	(2,693)	(3,820)
Total expenditure	(23,074)	(13,766)
Surplus/(deficit) before income tax expense	29,049	15,765
Income tax expense	(2,953)	(3,308)
Surplus/(deficit) after income tax expense	26,096	12,457

Land Development Corporation cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	38,057	22,442
Receivables and other current assets	30,878	23,581
Less current liabilities	(31,158)	(12,122)
Working capital	37,777	33,901
Add non-current assets	116,130	102,342
Less non-current liabilities	(15,082)	(20,069)
Net assets	138,825	116,174
Represented by:		
Capital	54,095	54,095
Reserves	1,864	1,864
Accumulated funds	82,866	60,215
Equity	138,825	116,174

Legislative Assembly Members' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Legislative Assembly Members' Superannuation (LAMS) scheme is established by the *Legislative Assembly Members' Superannuation Fund Act* and provides superannuation benefits for eligible members of the Northern Territory Legislative Assembly. The LAMS scheme commenced operation on 23 September 1979 and was closed to new members on 9 May 2005. Since that date, parliamentarians elected to the Legislative Assembly for the first time have the superannuation guarantee paid to their nominated complying superannuation fund.

Amendments to the *Superannuation Act* passed during 2010 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 2015 resulted in an unmodified independent audit opinion, which was issued on 30 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The overall net assets of the Fund were \$68.5 million which represents 89% of the value of vested benefits as at 30 June 2015 (2014: 84%). Vested benefits are benefits not conditional upon continued membership of the scheme and include benefits that members are entitled to receive had they terminated their membership of the scheme at the reporting date. Vested benefits represent the present value of benefits payable in respect of former members and the benefits payable to current members on voluntary withdrawal from scheme membership at that date. The increase from 84% to 89% indicates that the shortfall in net assets is reducing. Were all members to exit the scheme simultaneously at reporting date, the Northern Territory Government would have been required to fund the shortfall of \$8.1 million (2014: \$12.3 million).

The net assets of the fund increased by \$4.6 million primarily due to the market value of investments improving by \$4.5 million.

Legislative Assembly Members' Superannuation Fund cont...

Territory contributions of \$2 million are consistent with the scheme actuary's recommendation as assessed at each triennial assessment. The next triennial independent actuarial assessment is due to be conducted as at 30 June 2016. Management has indicated that any outward cash flow in excess of the Territory contribution each year will be funded by investment redemption.

As at 30 June 2015, there were 41 members of the scheme comprising two contributing members and 39 members receiving or entitled to receive a pension. There were 41 members as at 30 June 2014, of whom three were contributing.

Legislative Assembly Members' Superannuation Fund cont...

Abridged Statement of Changes in Net Assets

	2015	2014
	\$'000	\$'000
Income		
Interest and distributions	1,856	1,334
Changes in net market value of investments	4,596	7,216
Member contributions	44	68
Member surcharge contributions	60	71
Territory contributions	2,000	2,000
Total income	8,556	10,689
Expenditure		
Benefits paid	(3,979)	(3,438)
Superannuation contribution surcharge	(7)	(5)
Other expenses	(7)	(7)
Total expenses	(3,993)	(3,450)
Revenue less expenses before income tax	4,563	7,239
Less income tax benefit/(expense)	7	(24)
Change in net assets	4,570	7,215

Legislative Assembly Members' Superannuation Fund cont...

Abridged Statement of Net Assets

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	633	202
Investments	67,804	63,859
Tax asset	50	-
Total assets	68,487	64,061
Less liabilities	(103)	(247)
Net assets	68,384	63,814
 Vested benefits	 76,465	 76,062
Net assets as a percentage of vested benefits	89%	84%

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

Legislative Assembly Members' Superannuation Fund cont...

Legislative Assembly Members' Superannuation Fund has commented:

Thank you for your letter dated 22 January 2016, which included a summary of your findings related to the Legislative Assembly members' Superannuation Fund to be tabled in the February 2016 report to the Legislative Assembly. I appreciate the opportunity to comment, however there is nothing more I need to add at this time.

Motor Accidents (Compensation) Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

As noted in my August 2015 report to the Legislative Assembly, the insurance business (excluding the Motor Accidents Compensation Fund) of the Territory Insurance Office (TIO) was sold to Allianz and the banking business sold to People's Choice Credit Union effective 1 January 2015.

By virtue of the *Motor Accidents (Compensation) Commission Act 2014* the same corporate entity continues after 31 December 2014 under the name of the Motor Accidents (Compensation) Commission (the Commission).

The Commission's functions are to administer the Motor Accidents (Compensation) scheme, manage the Motor Accidents (Compensation) Fund, promote road safety, and perform any other function conferred on it under an Act. Administration of the Motor Accidents (Compensation) Fund is outsourced to Allianz in accordance with a management agreement.

All liabilities of the Commission in relation to the Motor Accidents Compensation business are guaranteed by the Territory.

Audit Opinion

The audit of the Motor Accidents (Compensation) Commission for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 2 October 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Financial reporting impacts of the sale of the TIO

The sale of the banking and insurance businesses have had the following financial impacts for the 2015 financial year. The Commission is required to report the income and expenditure related to the insurance and banking businesses held by the former TIO for the six months from 1 July 2014 to 31 December 2014.

The results for TIO Insurance and Banking reflect the operation of those businesses for six months this financial year, in comparison to the full year last year.

Motor Accidents (Compensation) Commission cont...

Transactions pertaining to the sale of the insurance and banking businesses including any profit or loss on sale are captured in the Northern Territory Government Public Account and reported in the Treasurer's Annual Financial Statements.

Performance Overview

The Commission also reports the income and expenditure directly attributable to the Motor Accidents (Compensation) Scheme for the full year to 30 June 2015 together with the assets and liabilities as at that date. The results for the consolidated entity are thus not easily comparable between years. Comparison of the results of the Motor Accidents (Compensation) Fund, whose composition remains unchanged between the 2014 and 2015 financial years, show the comprehensive income (surplus) was \$19 million for the year ended 30 June 2015, a decrease of approximately \$3 million from 2014. Significant movements were observed in:

- Net claims expense reduced by \$29 million from \$109 million in 2014 to \$80 million in 2015;
- The Motor Accidents (Compensation) Fund realised \$19 million upon disposal of investments compared to \$8 million in the 2014 financial year
- Other investment income increased by \$9 million from \$16 million in 2014 to \$25 million in 2015; offset by
- The market value of financial assets decreased by \$7 million in 2015 compared to an increase in value of \$44 million in 2014 (a difference of \$51 million).

The net assets of the Commission as at 30 June 2015 are \$148 million compared to the net assets of TIO as at 30 June 2014 which were \$407 million. This represents a decrease of \$259 million which can be explained as reflecting:

- Net profit of \$19 million from the MAC Fund (incoming);
- Net loss of \$6 million from TIO's insurance and banking business from 1 July 2014 to 31 December 2014 (outgoing);
- A return of contributed equity and transfer of assets to the Northern Territory Government totalling \$132 million (outgoing); and
- A dividend paid to the Northern Territory Government of \$140 million (outgoing).

Motor Accidents (Compensation) Commission cont...

Prudential Review

The Treasurer has previously issued a Determination (the TIO Determination) pursuant to section 7 of the *Territory Insurance Office Act*. By virtue of section 42 of the *Motor Accidents (Compensation) Commission Act* the TIO Determination applies to the Commission and requires the Commission to comply with prudential standards issued by the Australian Prudential Regulatory Authority (APRA). Thus while the Commission may lie outside the jurisdiction of APRA, the effect of the Treasurer's Determination is to subject the Commission to the same level of prudential regulation that applies to other insurers.

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 the insurance functions of the Commission during the year ended 30 June 2015 to assess the extent to which the Commission met the requirements of the APRA prudential standards.

Following the review I issued a qualified review report to the Commissioner of the Motor Accidents (Compensation) Commission. As the Management Agreement, and other governance arrangements were not finalised until sometime after settlement of the sale of TIO's insurance and banking businesses, my review identified a number of controls that required implementation or enhancement in order to provide assurance that the Commission has effectively discharged its prudential requirements following the significant changes to the entity from 1 January 2015.

Motor Accidents (Compensation) Commission cont...

Financial Performance for the year

	TIO Insurance & Banking		MAC Fund		Consolidated	
	2015	2014	2015	2014	2015	2014
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Underwriting result						
Net premium revenue	42	78	68	71	110	149
Net claims expense	(37)	(48)	(80)	(109)	(117)	(157)
Acquisition costs	(4)	(7)	-	-	(4)	(7)
Underwriting result	1	23	(12)	(38)	(11)	(15)
Non-underwriting revenues and expenses						
Investment revenue						
Interest receivable	22	39	11	8	33	47
Change in value of investments	6	5	(7)	44	(1)	49
Gain on disposal of investments	2	1	19	8	21	9
Other investment income	-	5	25	16	25	21
Total investment revenue	30	50	48	76	78	126
Other revenue and expenses						
Other revenue #	3	7	-	-	3	7
Borrowing costs	(13)	(21)	-	-	(13)	(21)
Other costs and depreciation#	(29)	(33)	(17)	(16)	(46)	(49)
Total other revenue and expenses	(39)	(47)	(17)	(16)	(56)	(63)
Non-underwriting result	(9)	3	31	60	22	63
Profit/(loss) before tax	(8)	26	19	22	11	48
Tax and other comprehensive income	2	(8)	-	-	2	(8)
Comprehensive income after tax	(6)	18	19	22	13	40

includes inter-business unit charges

Note: Totals may not add due to rounding.

Motor Accidents (Compensation) Commission cont...

Financial Position at year end

	TIO Insurance & Banking		MAC Fund		Consolidated	
	2015	2014	2015	2014	2015	2014
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Assets						
Cash and cash equivalents	-	29	13	21	13	50
Trade and other receivables *	-	62	3	3	3	65
Other financial assets	-	272	508	580	508	852
Loans	-	584	-	-	-	584
Reinsurance and other recoveries	-	30	62	29	62	59
Property, plant and equipment	-	3	-	44	-	47
Deferred reinsurance expense	-	19	-	-	-	19
Deferred acquisition costs	-	6	-	-	-	6
Deferred tax assets	-	4	-	-	-	4
Investment property	-	-	43	-	43	-
Total assets *	-	1,009	629	677	629	1,686
Liabilities						
Outstanding claims liability	-	(124)	(442)	(369)	(442)	(493)
Trade and other payables *	-	(26)	(6)	(4)	(6)	(30)
Deposits	-	(556)	-	-	-	(556)
Borrowings	-	(50)	-	-	-	(50)
Other financial liabilities	-	-	-	(2)	-	(2)
Tax liabilities	-	(7)	-	-	-	(7)
Provisions	-	(6)	-	-	-	(6)
Unearned premium liability	-	(75)	(33)	(32)	(33)	(107)
Securitisation liabilities	-	(28)	-	-	-	(28)
Total liabilities *	-	(872)	(481)	(407)	(481)	(1,279)
Net assets	-	137	148	270	148	407

* includes inter-business unit's debtor/creditors

Motor Accidents (Compensation) Commission cont...

Motor Accidents (Compensation) Commission has commented:

As a transitional arrangement, the Motor Accidents (Compensation) Commission is subject to prudential guidelines that were developed for the Territory Insurance Office's commercial operations. These prudential guidelines are not suitable for the Commission and are currently being revised. It is expected that the revised prudential regulations will apply from 1 July 2016. The review conducted by the Auditor-General will provide valuable input into the development of more appropriate prudential standards for the Commission.

Nitmiluk (Katherine Gorge) National Park Board

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

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 rights 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] and 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 2015 resulted in an unmodified independent audit opinion, which was issued on 16 November 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

There was no increase in admission prices this year however there was an increase in revenue of approximately \$16,000. This is due to an increase in the number of visitors which was attributed to the region being accessible for a longer period of time with the decreased monsoonal activity during the year ended 30 June 2015.

Total other income from ordinary activities increased by \$23,000 in 2015 due to the increase in services received free of charge from other government agencies (that is, recharged from the Parks and Wildlife Commission of the Northern Territory, the Department of Corporate and Information Services and the Department of Land Resource Management). This increase was offset in full by increased operational costs provided by those government agencies.

Consistent with prior years, all income is distributed, either as rent to the Parks and Wildlife Commission or as payments to the Northern Land Council for distribution to Traditional Owners.

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

Financial Performance for the year

	2015	2014
	\$,000	\$'000
Income		
Park income	843	827
Less payments to Traditional Owners	(541)	(509)
Less payments to the Parks and Wildlife Commission of the Northern Territory	(302)	(318)
Northern Territory Government funding sundry income	95	72
Total income	95	72
Expenditure		
Operational costs	(95)	(72)
Total expenditure	(95)	(72)
Surplus/(deficit)	-	-

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

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	-	-
Receivables and other current assets	299	150
Less current liabilities	299	(150)
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 2015

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 Northern Territory Government and Public Authorities Employees' Superannuation Fund (the Fund) was established with the commencement of the scheme in 1986. The Fund is credited with:

- payments or contributions received from eligible employees;
- income derived from investments of the Fund;
- profits made from realisation of investments of the Fund;
- employers' shares of benefits that are payable (immediately before the benefit is paid); and
- money borrowed for the purposes of the Fund.

Amendments to the Act, in 2010, established the Trustee Board (which replaced the Superannuation Investment Board). The Trustee 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 2015 resulted in an unmodified independent audit opinion, which was issued on 30 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Due to continued stable market conditions during the year ended 30 June 2015, all of the Fund's investment options experienced positive results as displayed in the table below. The results however were lower for all investment options when compared to the 2014 results. For all superannuation options, the five-year average return exceeded target, therefore all investment options have met their return objectives as established by the Board.

Investment Option	2015 %	2014 %	5-year average	Target 2015
Superannuation				
Managed Cash	2.03	2.16	2.98	2.84
Conservative	6.40	7.57	6.5	4.34
Cautious	8.56	10.33	8.11	4.84
Growth (default)	10.79	14.04	9.83	5.34
Assertive	11.79	15.57	10.51	5.84
Aggressive	12.92	17.82	11.42	6.34

Source: NTGPASS Annual Report, page 12

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

Investment Option	2015 %	2014 %	5-year average	Target 2015
Pension				
Managed Cash	2.52	2.64		
Conservative	6.65	8.99		
Cautious	8.18	12.15		
Growth (default)	10.05	16.02		
Assertive	10.57	17.57		
Aggressive	11.22	19.62		

Source: NTGPASS Annual Report, page 12

The fund experienced a decreased net asset position with a negative change in net assets of \$58 million compared to a positive change in net assets of \$111 million in 2014.

Factors contributing to the \$169 million difference in result are:

- the increase in net market value of investments was \$97 million compared to \$118 million in the prior year;
- member contributions of \$27 million were \$34 million less than in 2014;
- Territory contributions vary depending on exits from the Fund and were \$7 million less than in 2014;
- the \$85 million successor fund transfer of the NTGPASS Pension product to AustralianSuper on 1 February 2015;
- benefits expense was \$112 million higher than the previous year due to increased number of members receiving benefits, 1,279 in 2015 (835 in 2014).

Net assets as a percentage of vested benefits were 51% as at 30 June 2015 (2014: 52%). Had all members exited the Fund on 30 June 2015, the Northern Territory Government would have had a financial obligation of \$889,266 million. The most recent actuarial review of the scheme was undertaken as at 30 June 2013 making the triennial review required to next be undertaken at 30 June 2016.

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

Abridged Statement of Changes in Net Assets

	2015	2014
	\$'000	\$'000
Income		
Interest and distributions from investments	109	237
Movement in net market value of investments	97,232	118,332
Member contributions	27,404	61,478
Member surcharge payments received	263	393
Territory contributions	74,193	81,323
Transfers and rollovers	80,061	78,642
Total income	279,262	340,405
Expenses		
Benefits expense	(331,188)	(218,505)
Other expenses	(877)	(502)
Total expenses	(332,065)	(219,007)
Revenue less expenses before income tax	(52,803)	121,398
Less income tax expense	(5,577)	(10,431)
Change in net assets	(58,380)	110,967

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

Abridged Statement of Net Assets

	2015	2014
	\$'000	\$'000
Cash at bank and other assets	15,590	19,601
Investments	947,932	1,008,282
Total assets	963,522	1,027,883
Less liabilities	(33,658)	(39,639)
Net assets	929,864	988,244
Vested benefits	1,819,130	1,898,870
Net assets as a percentage of vested benefits	51%	52%

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

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

Northern Territory Government and Public Authorities Employees' Superannuation Fund has commented:

Thank you for your letter dated 22 January 2016, which included a summary of your findings related to the Northern Territory Government and Public Authorities Employees' Superannuation Fund to be tabled in the February 2016 report to the Legislative Assembly. I appreciate the opportunity to comment, however there is nothing more I need to add at this time.

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

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 2015 resulted in an unmodified independent audit opinion, which was issued on 25 November 2015.

Key Findings

The audit did not identify any material weaknesses in controls although two recommendations were made in relation to enhancing accounting practices within the Northern Territory Legal Aid Commission.

Performance Overview

The Commission reported a current year surplus of \$513,443. This represents an improvement of \$652,000 from the prior year deficit of \$139,247. Income increased by \$1.2 million. Grants from the Northern Territory Government increased by \$1.3 million and Commonwealth grant revenue increased by \$75,000 however grants from other sources decreased by \$276,886. Recovered costs increased by \$92,162.

Expenditure increased by approximately \$552,000 of which \$539,564 (98%) resulted from increased employee expenditure.

Northern Territory Legal Aid Commission cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Grants – Northern Territory Government	6,495	5,226
Grants – Commonwealth	4,676	4,601
Grants – other	381	657
Rendering of services	360	240
Other	116	100
Total income	12,028	10,824
Expenditure		
Administration	(1,272)	(1,228)
Employee expenses	(6,929)	(6,389)
Legal	(1,902)	(2,032)
Depreciation and amortisation	(201)	(185)
Other	(1,211)	(1,129)
Total expenditure	(11,515)	(10,963)
Surplus/(deficit)	513	(139)
Net gain on revaluation of non-current assets	-	-
Total comprehensive surplus/(deficit)	513	(139)

Northern Territory Legal Aid Commission cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	2,294	1,385
Receivables and other current assets	812	943
Less current liabilities	(1,564)	(1,445)
Net current assets	1,542	883
Add non-current assets	973	1,087
Less non-current liabilities	(372)	(341)
Net assets	2,143	1,629
Represented by:		
Reserves	1,067	1,276
Retained earnings	1,076	353
Equity	2,143	1,629

Northern Territory Major Events Company Pty Ltd

Audit findings and analysis of the financial statements for the year ended 30 June 2015

Background

The Northern Territory Government established the Northern Territory Major Events Company Pty Ltd (the Company) with the objective of attracting major events to the Northern Territory and promoting and coordinating events such as the Darwin round of the V8 Supercar Championship; Bass in the Grass; and Finke Desert Race.

Audit Opinion

The audit of Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 28 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The total income for the Company increased slightly to \$9.71 million compared to \$9.58 million in the prior year. The increase is predominantly due to the Borella Ride, Red CentreNATS and Territory Day events which were new events co-ordinated by the Company in 2015. Whilst a small amount of grant funding in 2014 was related to the Borella Ride (\$65,000), these three events received grant funding of \$1.9 million in 2015. Decreased ticket sales for the V8 Supercar Championship and the Australian Superbike Championships resulted in other income decreasing by approximately \$683,000 contributing to the overall decrease in other income of \$698,000.

Expenditure was consistent with the prior year, the most notable change was an increase in employee expenses of \$261,000 (20%) due to an additional 10 casual employees throughout the year, an increase in Board remuneration of \$58,000 and \$38,000 paid to a former staff member on a temporary contract.

Overall the net result was a surplus of \$148,000 for the year ended 30 June 2015, compared to the prior year surplus of \$193,000.

Northern Territory Major Events Company Pty Ltd cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Government grants	5,970	5,147
Other	3,739	4,437
Total income	9,709	9,584
Expenditure		
Employee expenses	(1,511)	(1,250)
Depreciation	(23)	(23)
Other	(8,027)	(8,118)
Total expenditure	(9,561)	(9,391)
Surplus before income tax expense	148	193
Income tax expense	-	-
Surplus after income tax expense	148	193
Dividends	-	-
Net surplus	148	193

Northern Territory Major Events Company Pty Ltd cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	3,044	2,709
Receivables and other current assets	552	752
Less current liabilities	(2,947)	(2,946)
Net current assets	649	515
Add non current assets	59	45
Less non current liabilities	-	-
Net assets	708	560
Represented by:		
Retained profits	708	560
Equity	708	560

Northern Territory Police Supplementary Benefit Scheme

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

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.

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 2015 there were 53 members (64 in 2014) and 181 pensioners (173 in 2014).

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

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 30 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Net assets of the Scheme decreased by \$199,084 to \$2,512,575 (2014: \$2,711,659) due to:

- a decrease in income generated from movements in the net market value of investments, \$284,000 in 2015 compared to \$376,000 in 2014; and
- a significant increase in benefit payments as more members claimed entitlements – in 2015 benefit payments netted \$568,000 compared to \$288,000 in 2014.

Vested benefits, being benefits that are not conditional upon continued membership of the scheme were valued at \$73 million as at 30 June 2015 (2014: \$66 million). This would have represented the amount payable by the Northern Territory Government had all members ceased membership on that date. Net assets of the fund at the same date were \$2.513 million. The increase in vested benefits is primarily the result of the change in the discount rate.

The triennial actuarial review was conducted as at 30 June 2015 and the actuarial calculations are reflected in the financial statements.

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Changes in Net Assets

	2015	2014
	\$'000	\$'000
Income		
Interest	2	2
Movement in net market value of investments	284	376
Contribution revenue	86	89
Total income	372	467
Expenses		
Benefits		
Refunds of accumulated contributions	104	(120)
Payment of accumulated contributions to the Territory	(672)	(168)
Superannuation contribution surcharge	(1)	(1)
Other expenses	(2)	(2)
Total expenses	(571)	(291)
Revenue less expenses before income tax	(199)	176
Income tax expense	-	-
Change in net assets	(199)	176

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Net Assets

	2015	2014
	\$'000	\$'000
Cash at bank and other assets	84	64
Investments	2,672	3,029
Total assets	2,756	3,093
Less liabilities	(243)	(381)
Net assets	2,513	2,712
 Vested benefits	 73,000	 66,285
Net assets as a percentage of vested benefits	3.4%	4.1%

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

Northern Territory Police Supplementary Benefit Scheme cont...

Northern Territory Police Supplementary Benefit Scheme has commented:

Thank you for your letter dated 22 January 2016, which included a summary of your findings related to the Northern Territory Police Supplementary Benefits Scheme to be tabled in the February 2016 report to the Legislative Assembly. I appreciate the opportunity to comment, however there is nothing more I need to add at this time.

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Northern Territory Treasury Corporation (the Corporation) is constituted under the *Northern Territory Treasury Corporation Act* (the 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 2015 resulted in an unmodified independent audit opinion, which was issued on 29 September 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

For the year ended 30 June 2015, the Corporation made a profit before tax of \$36.1 million, which is relatively consistent with the prior year profit before income tax of \$33.0 million. The slightly higher profit position reflects decreased interest income which was more than offset by decreased interest expense.

The net asset position remained unchanged at \$21.6 million as the net attributable income for the year of \$25.3 million was fully provided as a dividend to the Northern Territory Government.

Northern Territory Treasury Corporation cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Interest	276,405	289,050
Other	844	822
Total income	277,249	289,872
Expenditure		
Interest	(238,841)	(254,574)
Administration	(2,279)	(2,324)
Total expenditure	(241,120)	(256,898)
Surplus/(deficit) before income tax expense	36,129	32,974
Income tax expense	(10,839)	(9,892)
Surplus/(deficit) after income tax expense	25,290	23,082

Northern Territory Treasury Corporation cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Total assets	4,648,108	5,283,013
Less total liabilities	(4,626,478)	(5,261,383)
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 2015

Background

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

Audit Opinion

I issued a qualified independent audit opinion on the financial statements of NT Build for the year ended 30 June 2015 on 15 October 2015 as I was unable to satisfy myself as to the completeness of the income 'Contributions from levy payers' recorded in the Statement of Comprehensive Income at \$2.42 million.

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 2015 was qualified in relation to income attributed to 'Contributions from levy payers' 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 \$2,424,691 disclosed as 'Contributions from levy payers' in the statement of comprehensive income."

The rate of the levy has varied since the establishment of the scheme however is currently 0.1% on eligible construction projects above a threshold of \$1,000,000 that have commenced from 7 April 2014. The previous threshold for projects was \$200,000. Projects valued above \$1,000,000 are more likely to be readily identifiable, thus reducing the risk that leviable projects will commence and not be detected in future years.

NT Build cont...

As a two tier levy system applies where a project costs in excess of \$1 billion, the levy applied to the excess is established by the Minister for each individual project. The Minister's determination of the levy must take into consideration actuarial advice as to the appropriate levy rate for the specific project with the actuarial report to be tabled in the Legislative Assembly in accordance with the Act.

Performance Overview

Due to the nature of the long service leave liability and the inability to complete the valuation based on long term scheme historical data, the estimate maintains a high level of uncertainty. It is noted that in particular the liability is moderately sensitive to the assumption that 30% of inactive members will reactivate. If only 20% of inactive members reactivate the liability would be about \$2.1 million (5%) lower. Furthermore, the series of assumptions made regarding the benefit payments and timing of exit is uncertain and specific sensitivities include:

- decreasing withdrawal rates for active members by 25% would increase the liability by \$2.4 million;
- decreasing withdrawal rates for inactive members by 25% would increase the liability by \$0.4 million;
- an increase or decrease in service benefit payment by 25% would change the liability by 1%.

Changes to these assumptions can therefore result in significant differences and lead to material misstatement.

NT Build reported a deficit of \$0.3 million compared to prior year's surplus of \$2.6 million. The decreased surplus is attributed to:

- A decrease in revenue of \$0.7 million due the decrease in contributions from levy payers of \$1.5 million and a minor decrease in other income which was partially offset by an increase in investment income for the year of \$1.0 million.
- Total expenses of \$10.4 million (2014: \$8.2 million). The increase in expenses of \$2.2 million is mainly due to a combined increase in the long service leave expense and the long service leave benefits payments of \$2.6 million. This was partially offset by the decrease in other expenses.

NT Build continues to hold a strong net asset position of \$35.26 million (2014: \$35.6 million).

NT Build cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Contributions from levy payers	2,425	3,894
Other	7,592	6,862
Total income	10,017	10,756
Expenditure		
Employee expenses	(837)	(796)
Occupancy costs	(101)	(97)
Depreciation and amortisation	(3)	(3)
Fees and allowances	(34)	(49)
Long service leave benefit payments	(2,135)	(1,138)
Long service scheme expense	(6,907)	(5,648)
Other	(336)	(446)
Total expenditure	(10,353)	(8,177)
Surplus/(deficit)	(336)	2,579

NT Build cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	6,049	11,633
Receivables and other current assets	74,753	62,720
Less current liabilities	(4,304)	(1,669)
Working capital	76,498	72,684
Add non-current assets	2	5
Less non-current liabilities	(41,241)	(37,094)
Net assets	35,259	35,595
Represented by:		
Implementation funding	297	297
Accumulated surplus	34,962	35,298
Equity	35,259	35,595

NT Build cont...

NT Build has commented:

The NT Build Board notes that, while the audit did not identify any material weaknesses in controls, a qualified audit opinion in relation to income attributed to 'Contributions from levy payers' has been issued.

Consistent with comments provided in previous years, the Board accepts that due to the current building approval regime some uncertainty exists 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.

Notwithstanding the above, the Board remains confident that a high level of compliance is being achieved. Although some level of uncertainty may always exist, the Board believes this level does not meet the materiality test and would clearly not be more than 5% of Revenue.

The effect of the changes to the levy rate and leviable project threshold value introduced in April 2014 certainly introduces materiality as mentioned above. Any incidence of noncompliance of projects valued at more than the \$1 million threshold, are becoming more unlikely, as projects of such value and size tend to be more visible.

While the continuance of the qualification is disappointing the Board remains hopeful that it may be removed in future periods on the basis of materiality.

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

NT Fleet is a Government Business Division that is responsible for the management of the Northern Territory Government's motor vehicle fleet with the exception of vehicles controlled by 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 2015 resulted in an unmodified independent audit opinion, which was issued on 1 October 2015.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet reported a surplus before tax and dividends of \$11.1 million consistent with the budget estimate and the prior year's surplus of \$11.2 million.

Total revenue of \$41.8 million (2014: \$42.3 million) decreased from the prior year by \$0.5 million due to decreased lease revenue resulting from less demand for vehicles. The change in policy to extend the lease terms has resulted in the assets being depreciated over a longer period whilst continuing to earn leasing income. This may also result in an impact on residual values and gains/losses upon asset disposal. Consequently trend analysis between past and future years may yield inconsistent results.

Total expenses of \$30.7 million (2014: \$31.2 million) decreased slightly from the prior year by \$0.5 million due to the lower annual depreciation resulting from the extended vehicle lease terms.

The surplus after income tax is consistent with the prior year at \$7.8 million.

Dividends of approximately \$3.9 million were returned to the Northern Territory Government resulting in a movement in net assets of \$3.9 million as reflected primarily in increased cash balances.

NT Fleet cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Revenue from vehicle lease rentals	37,698	38,742
Gain on disposal of assets	3,319	2,964
Other revenues	784	643
Total income	41,801	42,349
Expenditure		
Operational costs	(11,656)	(11,785)
Employee expenses	(2,747)	(2,610)
Depreciation and amortisation	(16,304)	(16,767)
Total expenditure	(30,707)	(31,162)
Surplus before income tax expense	11,094	11,187
Income tax expense	(3,328)	(3,356)
Surplus after income tax expense	7,766	7,831

NT Fleet cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	27,601	24,143
Receivables and other current assets	3,486	2,548
Less current liabilities	(11,057)	(8,886)
Working capital	20,030	17,805
Add non-current assets	89,272	87,637
Less non-current liabilities	(122)	(164)
Net assets	109,180	105,278
Represented by:		
Accumulated funds	108,658	104,775
Capital	522	503
Equity	109,180	105,278

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

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 2015 resulted in a modified independent audit opinion, which was issued on 28 September 2015.

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

“Shared Equity Investments

As reported in note 2(dd) within the financial report, NT Home Ownership will be reviewing its accounting treatment of shared equity investments during the 2016 financial year to ensure compliance with contemporary accounting practices.”

Key Findings

Home Ownership holds a financial interest of up to 50% in client properties. The investment is currently recorded as shared equity investments and accounted for in accordance with Australian Accounting Standard AASB 140 *Investment Properties* on the basis that the properties are held for capital appreciation.

In recent years my predecessor and I have questioned the accounting treatment of these investments and requested that NT Home Ownership formally consider the appropriateness of its accounting treatment with reference to Australian Accounting Standards.

On the commencement of the final visit to complete the audit of the 2015 financial statements in August of this year it was evident that this matter may be better addressed by the engagement of professional advice external to the Northern Territory Government.

As a result I have included an emphasis of matter paragraph in my Audit Report for the year ended 30 June 2015.

The net deficit for the 2015 financial year was \$5.0 million compared to a prior year net surplus of \$0.6 million. Declining property prices saw cumulative losses on revaluation and disposals of investments of \$2.6 million. Conversely, in the prior year, NT Home Ownership recognised total gains on sales and revaluation of investments of \$4.1 million. Additional Community Service obligations of \$1.5 million offset some of the losses leading to a decrease in net assets of \$5.0 million.

NT Home Ownership cont...

Financial Performance for the year

	2015	2014
	\$,000	\$,000
Income		
Other income	7	6
Interest revenue	10,814	12,583
Community Service Obligations	2,137	677
Gain on sale of investments	-	126
Gain on revaluation of investments	-	3,983
Total income	12,958	17,375
Expenditure		
Employee expenses	(166)	(234)
Administration fees	(2,312)	(2,251)
Borrowing costs	(12,292)	(13,736)
Loss on revaluation of investments	(2,199)	-
Loss on disposal of investments	(397)	-
Other expenses	(631)	(522)
Total expenditure	(17,997)	(16,743)
Surplus/(deficit) before income tax expense	(5,039)	632
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(5,039)	632

NT Home Ownership cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	35,895	10,816
Receivables and other current assets	2,709	3,268
Less current liabilities	(39,325)	(8,839)
Working capital	(721)	5,245
Add non-current assets	243,729	285,988
Less non-current liabilities	(208,793)	(251,979)
Net assets	34,215	39,254
Represented by:		
Accumulated surplus	11,470	16,509
Contributed equity	22,745	22,745
Equity	34,215	39,254

NT Home Ownership cont...

NT Home Ownership has commented:

NT Home Ownership is consulting with the Department of Treasury and Finance to obtain the external advice recommended by the Auditor-General.

NT Superannuation Office

SuperB Review

Background

The Superb System (SuperB) is the NT Superannuation Office (NTSO)'s superannuation administration system. A review of SuperB was undertaken during September and October 2015. The following activities were considered during the review:

- the design of information technology controls in the areas of change management controls, logical access, backup and recovery, problem management and job scheduling;
- the operational effectiveness of the change management controls;
- the operational effectiveness of the logical access controls with respect to the management of the new, terminated and privileged (application and database) users and user authentication;
- permissions assigned to users including information technology and non-information technology staff with privileged access within the system;
- the operational effectiveness of the completeness and accuracy controls for data received via key interfaces; and
- existence of documentation supporting the system.

Key findings are based on a review of documentation and discussions with a number of personnel at NTSO.

Key Findings

Nothing came to my attention during the course of this review to suggest that the general computer controls applicable to Bravura's SuperB system were not implemented and effective however opportunities for improvement were identified.

Change Management Monitoring

There are two different ways to make a change to SuperB:

- changes to the source code – which are documented and tracked through the Bravura Solutions JIRA ticketing system.
- changes to configurations within the application – which are made by the NTSO Systems Team, and are manually tracked and documented in a network folder.

The volume of changes for SuperB each year is low (less than ten) and the NTSO Systems Team that supports the application consists of two people.

NT Superannuation Office cont...

During the course of the review it became apparent that both source code and configuration changes to SuperB are not effectively monitored by management. Therefore an inappropriate change, whether accidental or intentional, could be made to the system and remain undetected.

Access Management Review

SuperB has less than 30 users with access managed by the NTSO Systems Team.

The user provisioning and de-provisioning processes are informal. A request to add, modify, or remove a SuperB user is sent from the NTSO Director of Operations, or an NTSO Line Manager, via email to the NTSO Systems Team. This evidence is stored manually in a shared network folder. My Authorised Auditors were unable to obtain a system generated list of new or disabled users from SuperB and were unable, due to system limitations, to get a system generated list of new employees, or employees that have left NTSO. Therefore they were unable to test the operating effectiveness of the user provisioning and de-provisioning processes.

With regard to periodic user assessment, a security review is performed by the NTSO Systems Team on a monthly basis however Inadequate segregation of duties exists as the staff member performing the review also has system administrator access to the application (i.e. access to add, modify, and delete users).

The lack of change monitoring alone arises largely due to the inability to obtain system-generated lists of changes which can impact management's ability to have confidence around the change management process, particularly when combined with ineffective segregation of duties.

NT Superannuation Office cont...

NT Superannuation Office has commented:

We acknowledge the issues raised in the findings in relation to the periodic user assessment, segregation of duties and change monitoring. The Superannuation Office has already introduced a new process and procedure in relation to user assessment and the segregation of duties and is in the process of acquiring an additional SuperB audit module to provide management with the ability to track system configuration changes.

Surveyors Board of the Northern Territory of Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Surveyors Board of the Northern Territory of Australia (the Board) was formed under the *Licensed Surveyors Act* (the Act).

The Board consists of the Surveyor-General and four members and, under the Act, is required to prepare a report on its operations within six months immediately following the end of the financial year. However, the *Financial Management Act* applies as if the Board were a Government Business Division thus the report must be prepared within two months following the end of the financial year.

Audit Opinion

The audit of the Surveyors Board of the Northern Territory of Australia for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 17 December 2015.

Key Findings

The Board's accounting and control procedures were found to be generally satisfactory. However as there are areas where the Board's accounting records and/or procedures could be improved.

Delay in commencement of audit

The initial set of draft financial statements provided for audit was received on 6 November 2015. According to the *Financial Management Act* section 10(1), the Surveyors Board of the Northern Territory of Australia is required to prepare their financial statements within two months immediately following the end of financial year. On this basis, the financial statements should have been prepared by 31 August 2015.

I have recommended that the Board review, and if necessary seek amendments to, the financial reporting and audit requirements of the *Licensed Surveyors Act* so as to ensure that the requirements imposed by the Act are consistent with the requirements of other similar statutory bodies.

Surveyors Board of the Northern Territory of Australia cont...

Bank reconciliation errors

During the initial review of the balance sheet disclosures a small number of transactions were identified as being incorrectly recorded.

These transactions have not yet been transacted through the Board's trust account from the Agency's ledger. As such, the balances are not payable or receivable and should be disclosed as reconciling items on the Board's bank reconciliation at 30 June 2015.

In addition to these errors, the opening balances of the bank account did not agree to reconciled 2014 balance.

When brought to the attention of management, the errors were subsequently corrected. I recommended that the Board and Agency representatives investigate these long outstanding reconciling items and take appropriate action to have them correctly recorded in the Board's trust account.

Performance Overview

The Board reported a \$2,262 surplus for the year ended 30 June 2015 compared to a surplus of \$7,012 for the year ended 30 June 2014, a difference of \$4,750. The most significant change was services received free of charge decreasing by \$7,087, from \$34,265 to \$27,178, the majority of which relates to audit fees that are no longer provided free of charge. This was offset by a decrease of \$2,758 in the cost of general supplies and services.

Surveyors Board of the Northern Territory of Australia cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Income from fees	15	15
Services received free of charge	27	34
Total income	42	49
Expenditure		
Employee expenses	(27)	(26)
Audit expenses	(7)	(8)
Supplies and services	(5)	(7)
Membership fees	(1)	(1)
Total expenditure	(40)	(42)
Surplus	2	7

Surveyors Board of the Northern Territory of Australia cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	70	59
Receivables and other current assets	-	-
Less current liabilities	(8)	-
Working capital	62	59
Add non-current assets	-	-
Less non-current liabilities	-	-
Net assets	62	59
Represented by:		
Retained profits	62	59
Equity	62	59

Surveyors Board of the Northern Territory of Australia cont...

Surveyors Board of the Northern Territory of Australia has commented:**1. Delay in commencement of audit**

The delay was caused by the transition of the management of the Surveyors Board from the Department of Lands, Planning and the Environment to the Department of Business.

Some complex transactions were required to complete this process and caused the delay.

The Board agrees with the recommendation to seek amendments to the financial reporting and audit requirements of the Licensed Surveyors Act to ensure that the requirements imposed by the Act are consistent with the requirements of other similar statutory bodies and will be taking appropriate action.

2. Bank reconciliation errors

The Board has noted the comments and implemented appropriate processes to ensure the errors are not repeated.

3. Performance overview

It is acknowledged that the significant change in financial performance for the year ended 30 June 2015 relates to the Auditor-General now recovering costs for audit fees.

The cost of the auditor fees is in excess of 50% of the total revenue received by the Board annually. This will have the effect of depleting the trust account balance in a short period of time and strengthens the case for the Licensed Surveyors Act to be revised and modernised in terms of financial statements and reporting to bring the Board in line with other statutory bodies of a similar size and nature.

Territory Generation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

Power Generation Corporation trading as Territory Generation (Territory Generation) was established pursuant to the *Power Generation Corporation Act 2014* primarily to generate, acquire and supply electricity, and to acquire, transport and supply energy sources from which electricity may be generated.

Audit Opinion

The audit of Territory Generation for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 2 November 2015.

Key Findings

On 6 May 2014, the Northern Territory Parliament passed a Bill to separate the Power and Water Corporation into three Government Owned Corporations, specifically:

- Power Generation Corporation (trading as Territory Generation);
- Power Retail Corporation (trading as Jacana Energy); and
- Power and Water Corporation (PWC).

Separation of the financial system occurred during the ANZAC day weekend in April 2015. The transactions relating to Territory Generation should have been recorded separately within their own financial accounting records (i.e. Territory Generation's books) from 1 July 2014 despite the system separation occurring some 10 months later.

Due to the requirements of the *Government Owned Corporations Act*, Territory Generation is required to prepare their financial statements by 31 August and the Auditor-General has one month to audit and report on those financial statements. As a Government Owned Corporation, Territory Generation must forward the annual report to the shareholding Minister within three months after the end of each financial year.

Given the significant reliance on PWC's systems and the inability to reliably confirm the material loan balances with PWC, Territory Generation was unable to meet the financial reporting deadline as set in the *Government Owned Corporations Act*, and required the provision of an exemption from the Treasurer. I acknowledge the efforts and assistance of the staff of Territory Generation in the completion of this audit.

Territory Generation cont...

Performance Overview

The financial year ended 30 June 2015 was Territory Generation's first trading year. For the 12 months ended 30 June 2015, out of the total revenue of \$351 million, \$343 million is from the sale of electricity to retail distribution companies. Compared to the budget of \$346 million, the decrease was due to reduced electricity demand throughout the period against budget.

Operating costs of \$300 million were consistent with budget and were mainly associated with the purchase of gas supplies. Capital expenditure was \$18 million representing a reduction of \$1 million from the budget. The major capital expenditure costs were associated with the Channel Island Power Station and Katherine Power Station life extension works and the development of a new Enterprise Resource Planning software package.

Overall, the net profit after tax for the year was \$36 million consistent with the budget.

The balance sheet recognises, upon the establishment of the Corporation, the contributed equity from the Northern Territory Government as at 1 July 2014 of \$184 million. This includes the property, plant and equipment value of \$340 million offset by borrowings of \$180 million.

The movement from net assets of \$184 million at the beginning of the year to \$220 million as at 30 June 2015 was achieved as a result of the profit of \$36 million in the current year.

Territory Generation cont...

Financial Performance for the year

	2015
	\$'000
Revenue	
Sales revenue	
Electricity sales	342,789
Gas sales	3,079
Interest revenue	552
Other revenue	4,495
Total income	350,915
Expenditure	
Cost of energy	(197,910)
Employee benefits expense	(20,499)
Depreciation and amortisation	(24,031)
Finance costs	(10,260)
Other expense	(47,184)
Total expenditure	(299,884)
Profit before income tax expense	51,031
Income tax expense	(15,042)
Profit after income tax expense	35,989

Territory Generation cont...

Financial Position at year end

	2015
	\$'000
Cash and cash equivalents	22,769
Receivables and other current assets	96,083
Less current liabilities	(52,598)
Working capital	66,254
Add non-current assets	344,160
Less non-current liabilities	(190,832)
Net assets	219,582
Represented by:	
Retained earnings	35,989
Contributed equity	183,593
Equity	219,582

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

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

The host Agency is the Parks and Wildlife Commission of the Northern Territory.

Audit Opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 13 October 2015.

Key Findings

Whilst my audit did not identify any material weaknesses in controls it is notable that Territory Wildlife Parks has recorded financial deficits since its inception and that it continues to rely upon financial support in the form of Community Service Obligations (CSO) to enable it to manage its cash flow requirements. Information in the following table was sourced from the published Annual Reports of the Parks and Wildlife Commission of the Northern Territory and predecessor agencies.

	Net Deficit	CSO Income	Deficit Excluding CSO's	Visitor Numbers
	\$,000	\$,000	\$,000	
2004/05	(1,123)	7,445	(8,568)	162,424
2005/06	(2,080)	7,817	(9,897)	156,323
2006/07	(1,700)	7,834	(9,534)	161,660
2007/08	(2,063)	7,915	(9,978)	151,675
2008/09	(1,990)	7,915	(9,905)	143,775
2009/10	(3,063)	7,915	(10,978)	140,854
2010/11	(2,970)	7,915	(10,885)	129,933
2011/12	(2,294)	9,418	(11,712)	116,954
2012/13	(1,854)	7,915	(9,769)	104,177
2013/14	(2,128)	7,842	(9,970)	115,877
2014/15	(3,118)	7,842	(10,960)	126,153

Territory Wildlife Parks cont...

Financial Performance for the year

	2015	2014
	\$,000	\$'000
Income		
Community Service Obligations	7,842	7,842
Sales of goods and services	2,612	2,564
Other revenues	39	28
Total income	10,493	10,434
Expenditure		
Employee expenses	(6,652)	(6,057)
Depreciation and amortisation	(1,983)	(1,802)
Other expenses	(4,976)	(4,703)
Total expenditure	(13,611)	(12,562)
Deficit before income tax expense	(3,118)	(2,128)

Territory Wildlife Parks cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Current assets	504	527
Less current liabilities	(1,319)	(1,334)
Working capital	(815)	(807)
Add non-current assets	35,050	35,897
Less non-current liabilities	-	-
Net assets	34,235	35,090
Represented by:		
Accumulated losses	(21,308)	(18,190)
Contributed equity	24,014	21,751
Asset revaluation reserve	31,529	31,529
Equity	34,235	35,090

The negative working capital represented in the Financial Position indicates that, without continued support from the Northern Territory Government, Territory Wildlife Parks does not have sufficient available funds to meet its financial obligations as they fall due. It is also an indicator of the potential for financial failure.

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

The Top End Health Service (the Service) was established as a health service pursuant to the National Health Reform Agreement and the *Hospital Services Act 2014*. The Treasurer has deemed the Service to be a Government Business Division for the purposes of the *Financial Management Act*.

The Service comprises the Royal Darwin, Gove and Katherine hospitals, primary health care, aged care and mental health and is funded predominantly by national health reform payments paid through the Department of Health.

Audit Opinion

The audit of the Top End Health Service for the year ended 30 June 2015 resulted in an unmodified independent audit opinion, which was issued on 16 October 2015.

Key Findings

The Service revalued hospital land and buildings this financial year recording a decrement of \$48.4 million as outlined below:

Particulars	Amounts		Revaluation increase / (decrease) \$
	pre-revaluation \$	after revaluation \$	
Land			
Royal Darwin Hospital	13,497,000	18,000,000	4,503,000
Katherine Hospital	200,000	350,000	150,000
Building			
Royal Darwin Hospital	326,290,448	253,970,800	(72,319,648)
Katherine Hospital	24,216,768	24,300,400	83,632
Gove District Hospital	8,786,475	27,975,000	19,188,525
Net revaluation (decrease):			(48,394,491)

Top End Health Service cont...

The Service achieved a surplus of \$2.9 million for the year ended 30 June 2015 compared to a deficit of \$19 million in the prior year. The \$21.9 million improvement resulted from:

- increased sales of goods and services by \$31.2 million primarily activity based funding including cross-border revenues due from other jurisdictions; and
- grant income increased by \$15.1 million and other revenue by \$18 million largely attributable to the delivery of Commonwealth programmes; offset to some extent by:
 - increased employee expenditure of \$24.8 million. Of this, \$13.2 million was attributed to increased staff numbers, allowances increased by \$5 million, termination payments increased by \$3.3 million and labour hire costs increased by \$3.1 million;
 - increased repairs and maintenance expenditure of \$11.6 million;
 - increased grant and subsidy expenditure of \$2.1 million; and
 - increased depreciation and amortisation costs.

It should be noted that, at the time of the audit, the allocation of personnel between the Department of Health, Top End Health Service and Central Australia Health Service was yet to be coded fully within the payroll system. Audit analysis therefore had to be undertaken at the overall health portfolio level which showed an increase from 6,065 personnel in 2014 to 6,323 personnel in 2015.

The downward movement of \$34.8 million in equity represents the reduction of \$48 million in asset values recorded in the asset revaluation reserve, partially offset by the \$2.9 million surplus and a capital injection of \$10.7 million.

Top End Health Service cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Income		
Sales of goods and/or services	335,171	303,970
Current grants and subsidies	399,111	384,008
Other	20,250	2,274
Total income	754,532	690,252
Expenditure		
Employee expenses	(429,395)	(404,624)
Repairs and maintenance	(25,158)	(13,596)
Supplies and services	(252,727)	(252,365)
Depreciation and amortisation	(25,045)	(21,487)
Interest expense	(189)	(163)
Current grants and subsidies	(19,107)	(17,049)
Total expenditure	(751,621)	(709,284)
Surplus/(deficit) before income tax expense	2,911	(19,032)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	2,911	(19,032)

Top End Health Service cont...

Financial Position at year end

	2015	2014
	\$'000	\$'000
Cash and cash equivalents	29,470	17,771
Receivables and other current assets	51,790	58,894
Less current liabilities	(106,276)	(101,610)
Working capital	(25,016)	(24,945)
Add non-current assets	477,368	511,874
Less non-current liabilities	(18,730)	(18,492)
Net assets	433,622	468,437
Represented by:		
Accumulated funds	(22,940)	(25,806)
Asset revaluation surplus	151,880	200,275
Capital	304,682	293,968
Equity	433,622	468,437

Top End Health Service cont...

Top End Health Service has commented:

Top End Health Service's performance in both revenue generation and expenditure control showed a result that had minor variations from planned targets. Expenditure across the agency was well managed coming within 1.2% of the annual budget target.

While, the agency met the requirements of Treasurers Direction A2.4 by performing revaluations of land and building assets every five years, it is acknowledged that improvements could be made to in the fair value and impairment assessment processes. To improve the process the agency will:

- 1. Establish a five year rolling plan for the revaluation of land and buildings*
- 2. Establish an annual impairment testing process undertaken by the Department of Health's Infrastructure Unit*
- 3. Explore avenues to apply indexation to land and buildings annually to reduce the impact of future revaluations.*

Personnel increases in 2015 were largely a result of additional services and increased activity, funded through a combination of Territory and Australian Government funding.

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2015

Background

This Report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2015. TAFS forms part of the Treasurer's Annual Financial Report (TAFR).

The Northern Territory Government's budget and the TAFS have been prepared based on the reporting standards of the Australian Bureau of Statistics Government Financial Statistics (GFS) accrual based Uniform Presentation Framework. This financial reporting framework is promulgated by the *Fiscal Integrity and Transparency Act* which requires the Northern Territory Government to report on a basis consistent with external reporting standards.

The TAFR provides information about the financial performance, financial position and cash flows of the Northern Territory Government with the principal objectives of providing informative, comprehensive and clear information on financial outcomes. The Members of the Legislative Assembly represent the Northern Territory community in scrutinising this performance information and have the opportunity to directly question the Government about its financial stewardship and management.

The Legislative Assembly, through the *Financial Management Act* (FMA) and the *Fiscal Integrity and Transparency Act* (FITA), requires the Treasurer to account for the Government's stewardship of the financial resources made available to it each year through the budget allocations in the *Appropriation Act*. Section 9 of the FMA sets out broad areas to be reported upon yet allows the Treasurer discretion in how those matters will be reported.

Reporting by Sectors and by Whole of Government (Total Public Sector)

A key aspect of the GFS is the identification of different sectors, recognising that Territory and State Government operations cover a wide range of activities. Three sectors (which are then consolidated into two additional sectors) of government activity are reported as demonstrated by the following diagram.

Treasurer's Annual Financial Statement cont...

TAFS Composition:

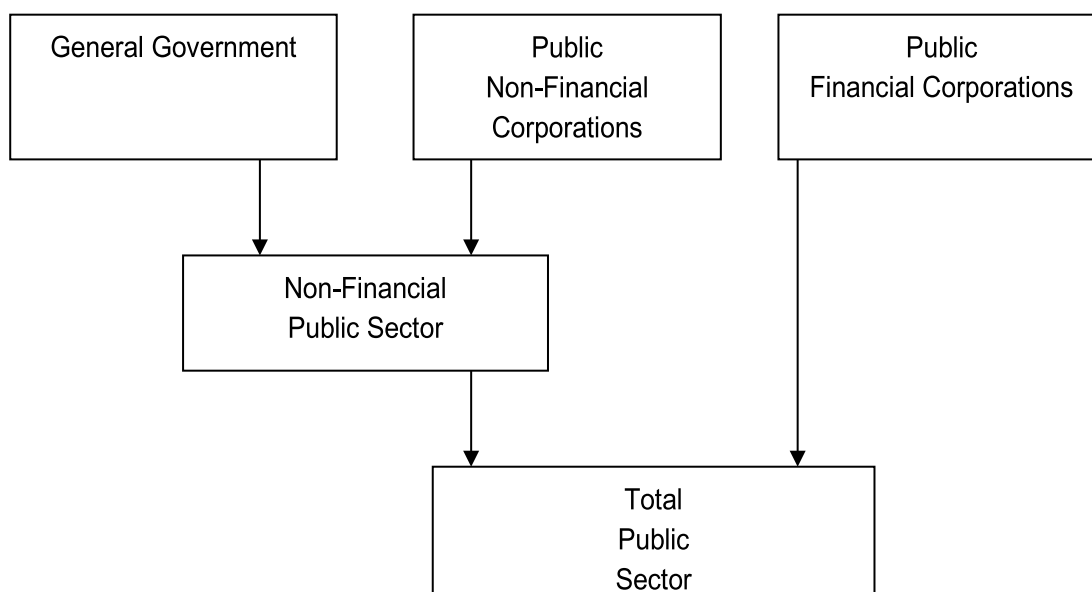


Table 1 outlines the key reporting elements of the Northern Territory.

Table 1 – Northern Territory Government reporting entity

General Government Sector	Public Non-Financial Corporations	Public Financial Corporations
<p><i>Includes:</i></p> <p>All government departments;</p> <p>Other administrative units such as the NT Police, Fire and Emergency Services and the Office of the Commissioner for Public Employment; and</p> <p>Other entities that provide services that are mainly non-market in nature, for the collective consumption by other Agencies or by the community.</p> <p>From 1 January 2015, this sector also includes the results of the Motor Accidents (Compensation) Commission.</p>	<p><i>Comprises:</i></p> <p>Power and Water Corporation and its subsidiary Indigenous Essential Services Pty Ltd;</p> <p>Power Retail Corporation (trading as Jacana Energy);</p> <p>Power Generation Corporation (trading as Territory Generation);</p> <p>Darwin Bus Service;</p> <p>Darwin Port Corporation; and</p> <p>Land Development Corporation.</p>	<p><i>Comprises:</i></p> <p>Northern Territory Treasury Corporation</p> <p>Territory Insurance Office (to 31 December 2014)</p>

Treasurer's Annual Financial Statement cont...

In summary the three sectors and their consolidation are defined as:

General Government Sector (GGS) – all budget dependent Agencies providing services free of charge or at prices at below their cost of production or service cost. Therefore, they are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. For this reason, this sector tends to be the focus of fiscal targets – for example the deficit or surplus.

Public Non-Financial Corporations (PNFCs) – trading enterprises mainly engaged in the production of goods and services of a non-financial nature for sale in the market place at prices that aim to recover all or most of the costs involved.

Non-financial Public Sector (NFPS) – the sector formed through a consolidation of the general government and public non-financial corporation sub-sectors. This sector provides the focus for the determination of net debt.

Public Financial Corporations (PFCs) – public enterprises mainly engaged in acquiring financial assets and incurring liabilities in the financial market on their own account.

Total Public Sector – comprises the consolidation of the Non-Financial Public Sector and the Public Financial Corporations and represents the “whole of Territory financial statements”.

Entities not consolidated into any of the above sectors

The Total Public Sector consolidated financial statements comprise all agencies, Government Business Divisions, Government Owned Corporations, the former TIO and other entities controlled by the Northern Territory Government. The following are excluded from the consolidation on the basis that they are not controlled by the Northern Territory Government:

- Charles Darwin University (formerly Northern Territory University) and its associated entities
- Menzies School of Health Research
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board

Treasurer's Annual Financial Statement cont...

- Nitmiluk (Katherine Gorge) National Park Board
- Surveyors Board of the NT
- Northern Territory Grants Commission
- Northern Territory Government and Public Authorities Employees' Superannuation Fund
- Legislative Assembly Members' Superannuation Trust
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local Government/Regional Councils

These entities have not been consolidated into the TAFS on the basis that they are not controlled by the Northern Territory Government or their net assets are not available to the Northern Territory Government (for example the superannuation funds). The TAFS does however include the unfunded superannuation liabilities.

In addition, with the exception of payroll costs and land and buildings, the TAFS excluded revenues, costs, assets and liabilities of Territory schools.

The compilation of the TAFS is a complex process that is undertaken by the Department of Treasury and Finance. It requires the consolidation of the financial statements of each entity that is deemed to be controlled by the Northern Territory, with the General Government and Public Non-Financial Corporation sectors being consolidated to form the Non-Financial Public Sector. The Non-Financial Public Sector is then consolidated with the Public Financial Corporation Sector to form the Total Public Sector. During the consolidation process all intra-entity balances for each sector are eliminated so that each set of statements reflects the results of transactions with the other sectors, or in the case of the Total Public Sector, with the "outside world".

Treasurer's Annual Financial Statement cont...

Financial statements prepared in accordance with GFS requirements include measures of financial performance and position.

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.

Fiscal Balance – a measure of financial performance sometimes referred to as Net Lending/Borrowing 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. A net lending (or fiscal surplus) balance indicates that a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit position) indicates that a government's level of investment is greater than its level of savings.

Net Worth – a measure of financial position calculated as total financial and non-financial assets 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 calculated as 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.

Net Financial Liabilities – a measure that is broader than net debt as it includes significant liabilities, other than borrowings. Significant liabilities include accrued employee liabilities such as superannuation and long service leave entitlements. This measure is used only in the case of the General Government Sector.

Treasurer's Annual Financial Statement cont...

Audit Opinion

My audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2015 resulted in a modified independent audit opinion, which was issued on 30 October 2015. My audit opinion on the Financial Report was provided in three parts:

- Auditor's Opinion – Public Non-Financial Corporation Sector;
- Auditor's Opinion – General Government Sector and Public Financial Corporation Sector; and
- Auditor's Opinion – Non-Financial Public Sector and Total Public Sector.

Disclaimer of Opinion – Public Non-Financial Corporation Sector

I was unable to form an opinion on the Public Non-financial Corporation Sector because of the significance of the matters described below. I was not able to obtain sufficient appropriate audit evidence in relation to the financial information attributable to the Power and Water Corporation to provide a basis for an audit opinion on the balance sheet as at 30 June 2015, the comprehensive operating statement, the statement of changes in equity and the cash flow statement for the year then ended for the Public Non-Financial Corporation Sector.

Inability to form an opinion – Power and Water Corporation

At the time of signing my audit opinion on the TAFS, I had not received financial statements for Power and Water Corporation and its controlled entities that were sufficiently complete to enable me to form an audit opinion on the financial statements of Power and Water Corporation, its controlled entity Indigenous Essential Services Pty Ltd or the consolidated group.

Inadequate books and records maintained – Power and Water Corporation

In February 2014, legislation was introduced in the Northern Territory Parliament to restructure Power and Water Corporation into three separate corporations being the Power Retail Corporation (Jacana Energy), Power Generation Corporation (Territory Generation) and Power and Water Corporation (retaining residual functions). The restructure was effective from 1 July 2014, however the core financial applications and underlying infrastructure were not reconfigured until 27 April 2015. This has resulted in numerous errors and unresolved issues in relation to the recording of revenue; trade and other receivables; expenses; trade and other payables; property, plant and equipment; intercompany balances; goods and services tax; and the allocation of transactions

Treasurer's Annual Financial Statement cont...

between the three entities. I was unable to confirm or verify these financial statement items by alternative means.

As a result I was unable to determine whether any adjustments to the records of Power and Water Corporation might have been required in respect of these balances, and the corresponding elements making up the comprehensive operating statement, the balance sheet, statement of changes in equity and the cash flow statement for the Public Non-Financial Corporation Sector.

Property, plant and equipment valuation – Power and Water Corporation

At the time of my audit opinion on the TAFS, the Power and Water Corporation changed its accounting policy effective 1 July 2014 in relation to the measurement of its property, plant and equipment from historical cost to fair value. The Power and Water Corporation commissioned independent valuations to provide a fair value which resulted in the value of property, plant and equipment reported in the balance sheet increasing by \$2,063,769,000 to \$3,992,140,000. The valuations were performed using depreciated optimised replacement cost and have not considered the Power and Water Corporation's ability to generate economic benefits by using the assets or by selling them to another market participant. In addition, the financial records used to derive the fair value at 1 July 2014 were complex and contained numerous errors, both individually and cumulatively material, with some of these errors remaining unresolved as at the date of this audit report.

As a result of the above, I was unable to satisfy myself that the amount reported in the balance sheet as at 30 June 2015 attributable to the Power and Water Corporation accurately represented the fair value of property, plant and equipment and that the amounts for depreciation and asset impairment attributable to the Power and Water Corporation were accurately reported in the comprehensive operating statement for the year ended 30 June 2015 for the Public Non-Financial Corporation Sector.

Auditor's Opinion – General Government Sector and Public Financial Corporation Sector

In my opinion, the Treasurer's Annual Financial Report gives a true and fair view of the financial position of the General Government Sector and Public Financial Corporation Sector as at 30 June 2015 and of their performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the financial reporting requirements of the Financial Management Act and the Fiscal Integrity and Transparency Act.

Treasurer's Annual Financial Statement cont...

Qualified Audit Opinion – Non-Financial Public Sector and Total Public Sector

In my opinion, except for the effects of the matters described in the Basis for Disclaimer of Opinion set out in my audit opinion and reported above, the Treasurer's Annual Financial Report gives a true and fair view of the financial position of the Non-Financial Public Sector and Total Public Sector as at 30 June 2015 and of the performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the financial reporting requirements of the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*.

Discussion

In simple terms, my inability to form an opinion as to whether the reported Non-Financial Public Corporation Sector results were true and fair prevents me being able to determine what impact that sector has on the truth and fairness of the consolidated results of the Non-Financial Public Sector and Total Public Sector as at 30 June 2015.

There are a number of audits conducted within the various Agencies that contribute to the overall audit opinion provided on the TAFS and a number of entities received modified audit opinions as reported in my overview to this report. The financial impacts giving rise to those modified opinions were not financially material to the TAFS individually or as a whole and therefore, were not considered sufficiently significant to be reported within my audit opinion on the TAFS.

The purpose and structure of my audit report on the TAFS

My audit report on the TAFS was signed on 30 October 2015 and is set out on page 15 of the TAFR. The purpose of an audit report on a financial report is to enhance the credibility of the financial information presented in relation to an entity's financial performance, financial position and cash flows and, where relevant, advise readers of problems in the financial report. The audit report is structured to clearly define the financial report being audited, the person(s) responsible for preparing the financial report, explain the scope of the audit and present the auditor's opinion on the financial report.

Treasurer's Annual Financial Statement cont...

The extent or scope of the audit

The first paragraph of my audit report details the elements of the TAFS upon which I am forming an opinion. The second paragraph explains that the Treasurer is responsible for preparing and presenting the TAFS and the information it contains is in accordance with the requirements of the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*. Section 9 of the *Financial Management Act* allows the Treasurer to prescribe the form of the TAFS, including the accounting policies to be used, and these are detailed in the Reporting Framework.

In the next paragraph of the audit report, the nature and extent of the audit work is described. I indicate that my audit was conducted in accordance with Australian Auditing Standards, which include a requirement that I consider whether the TAFS complies with Accounting Standards and other mandatory professional reporting requirements in Australia. The Auditing Standards applied provide professional guidance that is required to be followed to ensure the appropriateness and quality of the audit work and the reliability of the audit opinion.

My audit report indicates that the audit procedures are performed to provide reasonable assurance as to whether the TAFS is free of material misstatement and is prepared from proper accounts and records and, in all material respects, is presented fairly. The audit provides a high, but not absolute, level of assurance. Absolute assurance in auditing is not attainable because of such factors as the use of judgements and estimates in the preparation of financial reports, the use of testing and sampling for gathering and evaluating evidence, the inherent limitations of systems of internal control and the fact that much of the evidence available to auditors is persuasive rather than conclusive in nature.

An audit is not designed to detect all errors in the vast number of transactions that make up a financial report, but the audit procedures are designed to ensure that the aggregate of any errors detected do not exceed a level above which the users of financial reports would have their judgement affected by that level of error.

Treasurer's Annual Financial Statement cont...

I explain in my audit report that judgements are made evaluating the reasonableness of significant accounting estimates included in the TAFS. Many of the significant amounts detailed in the TAFS, such as the valuation of certain assets, outstanding insurance claims liabilities and the calculation of unfunded superannuation and other employee liabilities are based on estimates made by public sector entities. In order to determine whether misstatements exist in these estimates, a review of the validity of the assumptions and the completeness of the underlying data supporting the estimates is undertaken.

Impact of materiality and audit procedures on the audit opinion

The aggregate of all misstatements in a financial report is considered material if, in light of the surrounding circumstances, it is probable that the misstatements would change or influence the decision of a person who was relying on that financial report and who had reasonable knowledge of the Northern Territory public sector and its activities. Where I am unable to determine the impact, if any, on a user's decision making, however believe the impact on the financial report may be materially pervasive to the report, I am required to disclaim the opinion.

Australian Auditing Standards require that the audit work "provides assurance" that any misstatements aggregating to more than a predetermined level of materiality will be revealed in the audit opinion. Before commencing the audit, a judgement is made based on the Government's total revenues, expenditures, assets and liabilities as to what dollar magnitude (materiality) of misstatements in the financial report would influence the decisions of users about the allocation of scarce resources or the discharge of accountability. The dollar amount is then used as a basis for determining the nature, extent and timing of the audit work required. Materiality also involves a qualitative aspect involving judgements as to the nature of any errors and whether any omissions or misstatements have the potential to adversely affect decisions of users.

In planning the audit, risk is accepted that the audit procedures may fail to detect whether the financial report is materially misstated. This minimal risk is accepted because of the judgements involved in determining the nature, timing and extent of audit procedures, evaluating the evidence obtained and also to enable the audit to be conducted cost effectively.

Treasurer's Annual Financial Statement cont...

However, in order to reduce this risk to an acceptable level, detailed audit procedures are performed. These procedures include, for example, understanding the business of government, obtaining an understanding of and evaluating the internal control structure and, where considered necessary, testing significant internal controls and samples of transactions and account balances, performing tests of the reasonableness of amounts and confirming year end balances with third parties.

What the audit opinion does not provide

The audit opinion is not designed to consider whether the resources used by the Northern Territory Government were applied efficiently, economically or effectively nor is my work designed to provide assurance that all the transactions of the Northern Territory Government are in compliance with laws and regulations, except for those that impact on the information presented in the TAFS.

My audit of the public account

My audit of the Public Account assists considerably in forming a view on the TAFS. However, Members are reminded that I do not separately audit the financial statements of Agencies.

Key Findings

Performance overview

With the exception of Indigenous Essential Services Pty Ltd and the Power Water Corporation, from whom final financial statements had not been received for audit at the date of writing this report, my comments and findings on each individual entity within the Public Non-Financial Corporation Sector and the Public Financial Corporation Sector are reported separately within this report. It should be noted that any subsequent adjustment to the balances reported as attributable to the Public Non-Financial Corporation Sector may have a material impact on the reported results within the TAFS.

The comments that follow are largely confined to the General Government sector. The sector is arguably the most important sector of government. It is that sector that is funded largely through taxation and on that basis alone deserves to be considered, 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...

The financial performance of the General Government Sector, as measured by Net Operating Balance, improved during the year ended 30 June 2015 when compared with the prior year. The Net Operating Balance for the year ended 30 June 2015 was \$887.3 million, an increase of \$768.2 million when compared to the surplus of \$119.1 million reported for the year ended 30 June 2014. Every category of revenue increased in the year ended 30 June 2015 when compared to the prior year, with total revenue increasing by \$1,115.6 million (21.7 per cent). Revenue sources contributing the largest increases were taxation revenue (an increase of \$148.6 million); current grants from the Commonwealth (an increase of \$502.8 million); dividend and income tax revenue (an increase of \$127.2 million) and other revenue (an increase of \$296.4 million).

Individually significant items contributing to the increased revenue were a special dividend received from the former Territory Insurance Office of \$140 million; the \$265 million profit on the sale of the Territory Insurance Office recognised within other revenue and an increase in GST revenue of \$397 million reflecting a growth in the GST pool and a balancing adjustment related to the prior year.

Expenses increased from the prior year by \$347.4 million, the increase was however to a far lesser extent than revenue. The largest components of expense growth were grants and subsidies (an increase of \$146.1 million); employee expenses (an increase of \$86.8 million); and other operating expenses (an increase of \$68.9 million).

The Fiscal Balance result also improved, from a deficit of \$90.9 million for the year ended 30 June 2014 to a surplus for the year ended 30 June 2015 of \$295.7 million. This improvement of \$386.6 million would not have been realised in the absence of the sale of the former Territory Insurance Office. Revenue from the sale, including the special dividend and sales proceeds, together with related stamp duty, totalled \$411.0 million. In the absence of the sale related transactions, the Fiscal Balance would have been a deficit of \$115.3 million (\$24.4 million worse than the prior year). The Net Operating Balance would have been a lesser surplus of \$476.3 million however still an improvement of \$357.2 million from the year ended 30 June 2014.

The financial position of the General Government Sector, as measured by Net Debt, improved by \$677.3 million for the year reflecting, the following significant changes:

- an increase of \$822.5 million in investments, loans and placements;

Treasurer's Annual Financial Statement cont...

- an increase in investments in other public sector entities of \$984.5 million; offset by
- an increase in borrowings of \$632.3 million.

Whilst the value of property, plant and equipment held within the General Government Sector increased by \$2,337.4 million, much of this increase is reflected in increased reserves within equity.

Net Financial Worth improved by \$1,010.7 million when compared with the position at 30 June 2014 however was still negative \$2,469.0 million demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities decreased by \$26.2 million for the year reflecting the change in Net Financial Worth of \$1,010.7 million then adjusted by the \$984.5 million decrease in the value of investments in other public sector entities.

The overall financial condition of the General Government Sector can thus be said to be improving as the operating result has improved and net debt has reduced. Whilst this is a positive outcome, net debt remains high and the interest expense during 2015 was 17% higher than the previous year. Any future increases to interest rates will see increased interest expense if the current level of net debt is maintained.

The sale of the insurance and banking businesses of the former Territory Insurance Office has resulted in a reduction in exposure to long tail classes of insurance such as workers' compensation insurance and a reduction in the financial risk to the Northern Territory Government associated with widespread catastrophic events however the risks associated with motor vehicle third party (through the Motor Accidents (Compensation) Commission) remain.

The marked increase in provisions for current and non-current outstanding claims at a General Government Sector level reflects the change in reporting of the Motor Accidents (Compensation) Fund (which is now reported in General Government Sector but was previously reported in the Public Financial Corporation Sector in 2014).

Treasurer's Annual Financial Statement cont...

General Government Sector – Components of Financial Position

	Balance at 30 June 2015	Movement for 2014-15	Balance at 30 June 2014
	\$'million	\$'million	\$'million
Cash and deposits	610.4	(40.7)	651.1
Advances paid	174.9	(28.7)	203.6
Investments, loans and placements	2,368.0	822.5	1,545.5
Deposits held	(249.1)	543.3	(792.4)
Advances received	(326.3)	13.2	(339.5)
Borrowings	(3,711.2)	(632.3)	(3,078.9)
Net debt	(1,133.3)	677.3	(1,810.6)
Other non-equity financial assets	309.4	80.0	229.4
Equity assets	3,710.2	984.5	2,725.7
Superannuation liabilities	(3,837.1)	(204.1)	(3,633.0)
Other employee entitlements and provisions	(618.9)	(29.3)	(589.6)
Other non-equity liabilities	(899.3)	(497.7)	(401.6)
Net financial worth	(2,469.0)	1,010.7	(3,479.7)
Less: Equity assets	(3,710.2)	(984.5)	(2,725.7)
Net financial liabilities	(6,179.2)	26.2	(6,205.4)
Net carrying amounts of non-financial assets	13,612.4	2,380.1	11,232.3
Equity assets	3,710.2	984.5	2,725.7
Net worth	11,143.4	3,390.8	7,752.6

Treasurer's Annual Financial Statement cont...

General Government Sector – Components of Financial Performance

	2015	2014
	\$'million	\$'million
Taxation revenue	714.9	566.3
Grants	4,394.1	3,891.2
Sales of goods and services	334.7	306.6
Interest income	88.8	76.4
Dividend and income tax equivalent income	206.3	79.1
Other	528.4	232.0
Total revenues	6,267.2	5,151.6
Employee expenses	(2,034.1)	(1,947.3)
Other operating expenses	(1,273.0)	(1,204.1)
Depreciation	(313.6)	(298.9)
Superannuation expense	(332.3)	(336.2)
Interest expenses	(246.0)	(210.5)
Other property expenses	(2.1)	(2.8)
Grants and subsidies	(1,178.8)	(1,032.7)
Total expenses	(5,379.9)	(5,032.5)
Net operating balance	887.3	119.1
Other economic flows	20.1	(43.9)
Operating result	907.4	75.2

Net operating balance	887.3	119.1
Less net acquisition of non financial assets	(591.6)	(210.0)
Fiscal balance	295.7	(90.9)

Treasurer's Annual Financial Statement cont...

General Government Sector – Abridged Statement of Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity as at 30 June
	\$'million	\$'million	\$'million
2014-15			
Accumulated funds	552.5	907.5	1,460.0
Transfers from reserves	-	728.4	728.4
Other movements directly to equity	-	(198.4)	(198.4)
Total accumulated funds	552.5	1,437.5	1,990.0
Reserves			
Asset revaluation surplus	4,760.1	1,412.8	6,172.9
Asset realisation surplus	335.5	(335.5)	-
Investments in public sector entities revaluation surplus	2,103.7	876.2	2,979.8
Other reserves	0.8	(0.2)	0.6
Total reserves	7,200.1	1,953.3	9,153.4
Total equity at end of financial year	7,752.6	3,390.8	11,143.4
2013-14			
Accumulated funds	584.5	75.2	659.7
Transfers from reserves	-	0.7	0.7
Other movements directly to equity	-	(107.9)	(107.9)
Total accumulated funds	584.6	(32.0)	552.5
Reserves			
Asset revaluation surplus	4,719.6	40.5	4,760.1
Asset realisation surplus	335.5	-	335.5
Investments in public sector entities revaluation surplus	2,227.8	(124.1)	2,103.8
Other reserves	0.8	-	0.8
Total reserves	7,283.7	(83.6)	7,200.1
Total equity at end of financial year	7,868.3	(115.6)	7,752.6

Treasurer's Annual Financial Statement cont...

Total Public Sector – Components of Financial Position

	Balance at 30 June 2015	Movement for 2014-15	Balance at 30 June 2014
	\$'million	\$'million	\$'million
Cash and deposits	610.4	(214.4)	824.8
Advances paid	174.9	(28.7)	203.6
Investments, loans and placements	2,368.0	(493.5)	2,861.5
Deposits held	(78.0)	541.9	(619.9)
Advances received	(231.3)	5.3	(236.6)
Borrowings	(4,978.0)	183.0	(5,161.0)
Net debt	(2,134.0)	(6.4)	(2,127.6)
Other non-equity financial assets	379.4	(40.6)	420.0
Equity assets	-	-	-
Superannuation liabilities	(3,837.1)	(204.1)	(3,633.0)
Other employee entitlements and provisions	(669.5)	(23.3)	(646.2)
Other non-equity liabilities	(1,051.2)	103.8	(1,155.0)
Net financial worth	(7,312.4)	(170.6)	(7,141.8)
Less: Equity assets	-	-	-
Net financial liabilities	(7,312.4)	(170.6)	(7,141.8)
Net carrying amounts of non-financial assets	18,455.8	3,561.4	14,894.4
Equity assets	-	-	-
Net worth	11,143.4	3,390.8	7,752.6

Treasurer's Annual Financial Statement cont...

Total Public Sector – Components of Financial Performance

	2015	2014
	\$'million	\$'million
Taxation revenue	704.6	556.2
Grants	4,398.5	3,890.8
Sales of goods and services	1,149.9	1,189.0
Interest income	154.9	123.8
Dividend and income tax equivalent income	-	-
Other	592.7	318.9
Total revenues	7,000.6	6,078.7
Employee expenses	(2,165.6)	(2,075.0)
Other operating expenses	(1,837.2)	(1,783.1)
Depreciation	(569.2)	(599.9)
Superannuation expense	(341.8)	(347.9)
Interest expenses	(293.9)	(282.9)
Other property expenses	(3.6)	(5.6)
Grants and subsidies	(997.8)	(878.8)
Total expenses	(6,209.1)	(5,973.2)
Net operating balance	791.5	105.5
Other economic flows	(244.6)	(138.8)
Operating result	546.9	(33.3)

Net operating balance	791.5	105.5
Less net acquisition of non financial assets	(611.2)	(153.6)
Fiscal balance	180.3	(48.1)

Treasurer's Annual Financial Statement cont...

Total Public Sector – Abridged Statement of Changes in Equity

	Equity at 1 July	Comprehensi ve Result	Equity as at 30 June
	\$'million	\$'million	\$'million
2014-15			
Accumulated funds	1,468.6	546.9	2,015.5
Transfers from reserves	-	1,034.1	1,034.1
Other movements directly to equity	-	(198.6)	(198.6)
Total accumulated funds	1,468.6	1,382.4	2,851.0
Reserves			
Asset revaluation surplus	5,933.5	2,358.3	8,291.8
Asset realisation surplus	335.5	(335.5)	-
Other reserves	15.0	(14.4)	0.6
Total reserves	6,284.0	2,008.4	8,292.4
Total equity at end of financial year	7,752.6	3,390.8	11,143.4
2013-14			
Accumulated funds	1,612.6	(33.2)	1,579.4
Transfers from reserves	-	(2.6)	(2.6)
Other movements directly to equity	-	(108.2)	(108.2)
Total accumulated funds	1,612.6	(144.0)	1,468.6
Reserves			
Asset revaluation surplus	5,904.0	29.5	5,933.5
Asset realisation surplus	335.5	-	335.5
Other reserves	16.1	(1.1)	15.0
Total reserves	6,255.6	28.4	6,284.0
Total equity at end of financial year	7,868.2	(115.6)	7,752.6

Treasurer's Annual Financial Statement cont...

Department of Treasury and Finance has commented:

Page 191 of the Auditor-General's report asserts that a fiscal surplus would not have been realised if the sale of the Territory Insurance Office did not occur. While this is technically correct, delayed commissioning of the Darwin Correctional Facility had a material impact on the 2014-15 result adding around \$520 million to the fiscal balance. In the absence of these two material transactions the fiscal balance would have been a surplus of around \$405 million.

Page 192 of the Report further notes that borrowings increased by \$632.3 million and interest expense increased by 17 per cent when compared to the prior year. The increase is primarily due to the recognition of the finance lease associated with the handover of the Darwin Correctional Facility rather than new borrowings undertaken by the Territory Government.

To put this into perspective the prison contributed:

- *\$520 million of the \$632.3 million increase in borrowings; and*
- *\$32 million of the \$35.5 million increase in interest expense.*

If you ignore the effect of the finance lease, interest expense increased by just 1.6 per cent, or \$3.5 million.

Overall, the 2014-15 financial results are significantly improved when compared to 2013-14 and either meet or continue to head towards meeting the Territory Government's fiscal objectives.

Selected Agencies – Stella Maris

Background

The Legislative Assembly established the Inquiry into Stella Maris on 5 December 2013. Mr John Lawler AM APM was appointed as the Inquiry Commissioner by the Administrator of the Northern Territory under section 4A(1) of the *Inquiries Act*.

Under this appointment Mr Lawler was commissioned to conduct a thorough investigation into the granting of a lease over the Stella Maris site to Unions NT, by the then Minister for Lands and Planning.

The Inquiry was intended to achieve the following three outcomes:

- to assess the performance of those individuals and groups involved in the purported decision to grant the site exclusively to Unions NT, and make appropriate recommendations;
- to provide advice on how to improve government structures, processes and policies to ensure that what occurred with the site is unlikely to occur again; and
- to provide advice on resolving the current impasses between Unions NT and the government regarding the future use of the site.

The Inquiry commenced on 6 January 2014, initially focusing on the circumstances surrounding the granting of the lease to Unions NT by the then Minister for Lands and Planning on or about 3 August 2012. During the information gathering phase of the Inquiry it was established that events dating back to 2007 held particular relevance to the Inquiry and the scope was widened.

During the process of the Inquiry, Mr Lawler critically analysed the conduct of numerous individuals, departments and organisations involved with the lease granting process.

In his report, 'Inquiry into Stella Maris – 2014' released on 26 May 2014, Mr Lawler presented 21 recommendations in relation to the identified outcomes. Of these 21 recommendations, the government agreed to the implementation of 18. Recommendations 7, 18 and 19 were not accepted.

The only Inquiry recommendation excluded from my review was recommendation 6, which recommended the referral to the Privileges Committee of possible breaches of the *Northern Territory of Australia Legislative Assembly (Members' Code of Conduct and Ethical Standards) Act 2008*.

Excluding those four recommendations, I have examined the implementation of the remaining 17 recommendations.

Selected Agencies – Stella Maris cont...

The final recommendation provided that “...the Auditor-General conducts a performance management system audit, in consultation with the Inquiry Commissioner, on the effectiveness of and progress made in implementing the recommendations of this Inquiry that are accepted by government...”

This review was conducted in accordance with Section 15 of the *Audit Act* which provides that “the Auditor-General may conduct an audit of 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.”

The objective of an audit conducted under Section 15 includes “determining whether the performance management systems of the 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.”

Observations

The approach undertaken in performing this review was to initially obtain an understanding of the Inquiry recommendations and the endorsed Government responses. Only those recommendations specific to government procedure and processes are subject to review, as commentary on policy initiatives is outside the scope of the *Audit Act* under which the performance management system audit was being conducted.

The review then established the processes undertaken to implement the recommendations and confirmed the progress status through examination of documentation; discussions with departmental representatives; observation and testing of systems and processes.

On this basis, the effectiveness of, and progress made, in the implementation of 17 of the 18 recommendations accepted by government was undertaken.

Agency Focus

The review was conducted in two parts:

- to assess the progress that the Department of Lands, Planning and the Environment (DLPE) had made in implementing the recommendations that were accepted and actionable by the DLPE; and
- to assess the progress that the Department of the Chief Minister (DCM) had made in implementing the recommendations that were accepted but not actionable by the DLPE.

Selected Agencies – Stella Maris cont...

DLPE Recommendations – current status

DLPE was responsible for the implementation of 10 of the Inquiry's recommendations. The current status of the DLPE recommendation implementation process is that five recommendations have been fully implemented with a further five in progress at the time of the review. The items identified as 'in progress' are either dependent on the consideration and results of Cabinet Submissions or are on-going in nature.

DCM Recommendations – current status

With the exception of recommendation 21, DCM was responsible for the implementation of the remaining recommendations accepted by government, leaving DCM with 6 in total.

The findings of my review are that all but one recommendation for which DCM had responsibility have been fully and appropriately implemented. The remaining item relates to recommended changes to the *Inquiries Act*. A Cabinet Submission has been drafted and is awaiting government consideration.

The specific status of each recommendation is detailed in the following table:

Inquiry Recommendation		Agency Assessed Status	Review Comments
1.	I recommend that the Northern Territory Government (the government), as a result of this report, immediately request Unions NT to relinquish any interest it may claim in the proposed Crown lease of Lot 5260 Town of Darwin (1 McMinn St), commonly known as the Stella Maris site (the site) and invite Unions NT to join a future expression of interest process.	DLPE Complete	Agency assessed status confirmed as correct. Written communication to effect the recommendation has been issued by the Northern Territory Government. No response has been received from Unions NT.

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
2.	Whether or not Unions NT chooses to relinquish any interest it may claim in the site, and noting that no Crown lease is registered to Unions NT for the site at the Land Titles Office, I recommend that the site be reopened as soon as practicable to a formal expression of interest process under the provisions of s. 12(2) of the <i>Crown Lands Act</i> , for low-scale community or commercial use for a Crown lease term of at least 35 years. The community access imperatives should be specified in the Department of Lands, Planning and the Environment (the department) design objectives.	DLPE In progress	Agency assessed status confirmed as correct. Expressions of Interest closed on 17 October 2014 with the National Trust (NT) identified as preferred proponent.
3.	I recommend that consideration be given to a partnership arrangement with the City of Darwin, with a view to including in the formal expression of interest process (as per Recommendation 2), part of Lot 6597 (approximately 317 square metres) which would enhance community access and overall utility of the site.	DLPE Complete	Agency assessed status confirmed as correct. The Expression of Interest process included part of Lot 6597 following agreement from the City of Darwin to include a clause relating to Lot 6597 in the proposal.
4.	I recommend that the 'Travellers Walk', part of Lot 6597, be retained as a separate and important part of Darwin's history.	DLPE Complete	Agency assessed status confirmed as correct. The Agency has limited influence over this Lot of land as the legal owner of the land is 'Darwin City Council' (now City of Darwin).

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
5.	I recommend the department's Chief Executive Officer (CEO) establish a broad-based panel, including community representatives, to assess the expressions of interest as outlined in Recommendation 2. I recommend that the CEO forward the panel's recommendation on the preferred lessee to the Minister for Lands, Planning and the Environment. The panel's recommendation and the reasons for the Minister's decision on the successful lessee should be advised through a public announcement at the time the decision is made.	DLPE Complete	Agency assessed status confirmed as correct however the member representation on the established panel could not be considered 'broad-based'. 75% of the panel's members are Northern Territory Government employees. It is acknowledged these employees represented different government agencies and the initially appointed panel member from the City of Darwin was excluded following the disclosure of a conflict of interest. However, this results in only one non-government panel member which appears insufficient. The panel established to assess responses to the Expressions of Interest comprised representatives from the NT Council of Social Services; Department of the Chief Minister; Department of Treasury and Finance; and the Department of Lands, Planning and the Environment. The Minister's decision in relation to the panel's recommendation was publically announced.

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
8.	I recommend that the community land grant and direct sale of Crown land business processes be included under the Crown Lands Regulations (NT).	DLPE In progress	Agency assessed status confirmed as correct. A Cabinet Submission has been drafted and is awaiting Government consideration.
9.	I recommend that only the applicant should be able to make an application for a community land grant, or direct sale of Crown land and that a minister or minister's office should have no role in the application process.	DLPE Complete	Agency assessed status confirmed as correct. Changes to the application process have been developed but are yet to be implemented. The proposed changes have yet to be reflected in a key Agency document being 'Direct Sale and Community Grant of Crown Land Business Process', which was last revised in November 2014.

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
10.	I recommend that with any future Cabinet decision, made in conjunction with a community land grant of direct sale of Crown land, that the Cabinet decision should be the starting point in ensuring the full departmental business process is followed, as reflected in the Crown Lands Regulations (NT) (as amended in accordance with Recommendation 8).	DLPE In progress	Agency assessed status confirmed as correct. Internal processes and templates have been developed to support adoption of this recommendation however implementation is dependent upon Government consideration and action in response to the proposed policy submitted to Cabinet (as mentioned in the above response to Inquiry Recommendation 8).
11.	I recommend that the department prepares a Cabinet Submission updating the Northern Territory Land Sale Policy.	DLPE Complete	The status of this recommendation should be listed as 'in progress', as although the Cabinet Submission has been drafted, it is awaiting consideration and thus the Northern Territory Land Sale Policy has not been updated.

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
12.	I recommend that the <i>Inquiries Act (NT)</i> be reviewed and amended to allow for the seizure of documents and to provide a penalty for breaches of s.8(4) of the Act.	DCM In progress	Agency assessed status confirmed as correct. A Cabinet Submission has been drafted and provided for consideration by Government. Government endorsement is required prior to any Amendment Bill being drafted.
13.	I recommend that a Cabinet Handbook, similar to the Commonwealth Cabinet Handbook, be prepared as an aide memoir for Cabinet ministers and to assist with briefing of new ministers in relation to their Cabinet responsibilities.	DCM Complete	Agency assessed status confirmed as correct. The February 2015 Cabinet Handbook has been completed and is publically available.
14.	I also recommend that the Cabinet Handbook contain an updated Ministerial Code of Conduct. This handbook should be made public and tabled in the Legislative Assembly of the Northern Territory.	DCM Complete	Agency assessed status confirmed as correct. The February 2015 Cabinet Handbook contains a Ministerial Code of Conduct and is publically available.
15.	I recommend that the Cabinet Handbook contain specific guidance for the Cabinet Secretary on what must be recorded to ensure the proper maintenance of the official Cabinet records.	DCM Complete	Agency assessed status confirmed as correct. The February 2015 Cabinet Handbook contains Guidelines for Cabinet Secretaries and is publically available.

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
16.	I recommend the Cabinet Office conduct an internal review on the caretaker conventions in light of fixed-term elections. The focus of the review should be the transparency of Cabinet decisions that are to be implemented during the caretaker period.	DCM Complete	Agency assessed status confirmed as correct. The review has been undertaken however no changes have been implemented in relation to caretaker conventions. The findings from the review have not been released publically.
17.	I recommend that the Northern Territory Commissioner for Public Employment regularly promulgate clear advice to agency CEOs on how to manage the interface between ministerial advisors and departmental officers.	DCM Complete	Agency assessed status confirmed as correct. An initial email was communicated by the Commissioner for Public Employment to all agency Chief Executive Officers to ensure staff are aware of the restrictions on the interface of ministerial advisors and NT Public Sector employees, As the recommendation relates to “regularly promulgating clear advice”, it may be appropriate for the Commissioner for Public Employment to establish a timeline to ensure regular communication in this regard.

Selected Agencies – Stella Maris cont...

Inquiry Recommendation		Agency Assessed Status	Review Comments
20.	I recommend the department fully implement the necessary business improvements as set out in Appendix H (of the report [sic]).	DLPE In progress	Agency assessed status confirmed as correct. Further detail on the progress of the business improvement implementation continues on the subsequent pages of this report.
21.	I recommend that, with extra support, the Auditor-General conducts a performance management system audit, in consultation with the Inquiry Commissioner, on the effectiveness of and progress made in implementing the recommendations of this Inquiry that are accepted by government. I recommend that the Auditor-General presents a report to the Speaker for tabling in the Legislative Assembly by 26 October 2015.	NTAGO In progress	Will be finalised upon the tabling of this report to the Legislative Assembly, this being the first report to the Legislative Assembly since undertaking the assessment.

Selected Agencies – Stella Maris cont...

Recommendation 20 encompassed a range of improvements, the status of which I assessed below [Appendix H, referred to above].

Recommendation 20 Stella Maris Inquiry – Appendix H Improvements to community land grants process		Agency Assessed Status	Review Comments
1	Establish an organisational structure in the department to create a secretariat and Policy Unit.	Complete.	Agency assessed status confirmed as correct. The current structure is as recommended.
2	Instigate Regular Policy Workshops	Established	Agency assessed status confirmed as correct. The establishment of regular policy workshops has occurred.
3	Developed and implemented an Apex Project Management database.	Completed	Agency assessed status confirmed as correct. The Apex Project Management database has been developed and implemented.
4	Review the checklist for land grants (Direct Sales and Community Land Grants) and ensure alignment with the business process.	Completed	Agency assessed status confirmed as correct. Should subsequent policy changes eventuate, the Agency will need to review and may need to update the checklist.

Selected Agencies – Stella Maris cont...

Recommendation 20 Stella Maris Inquiry – Appendix H Improvements to community land grants process		Agency Assessed Status	Review Comments
5	Ensure the business process and checklist for land grants contain hold points for the delegate of the Minister to sign off the stages of the application.	Completed	Agency assessed status confirmed as correct. As noted in my comments to Inquiry Recommendation 9 within the body of this letter, these changes have yet to be reflected in the Agency's 'Direct Sale and Community Grant of Crown Land Business Process' document. Whilst the existing business processes have been updated, implementation of the changes is dependent upon Government approval of the proposed policy.
6	Review Induction Program and Induction Checklist to ensure that staff are aware of legislation, policy and business processes that relate to the grant of Crown Land.	Completed	Agency assessed status confirmed as correct. Should subsequent policy changes eventuate, the Agency will need to review and may need to update the checklist.
7	Review central information technology drive and ensure land grant policies are current and up to date.	Completed	Agency assessed status confirmed as correct. Should subsequent policy changes eventuate, the Agency will need to review and may need to update the central information technology drive.

Selected Agencies – Stella Maris cont...

Recommendation 20 Stella Maris Inquiry – Appendix H Improvements to community land grants process		Agency Assessed Status	Review Comments
8	Develop an online application system for the grant of Crown land.	Completed	Agency assessed status confirmed as correct. Should subsequent policy changes eventuate, the online application system and supporting processes and documents will require reviewing and may need updating.
9	Review the business process (land grants) to ensure that where a decision of Cabinet is made regarding the land grant that transparency in the process is maintained.	Completed	Agency assessed status confirmed as correct. As noted in the comments within the body of this letter in relation to Inquiry Recommendation 9, these changes have yet to be reflected in the Agency's 'Direct Sale and Community Grant of Crown Land Business Process' document. Whilst the existing business processes have been updated, implementation of the changes is dependent upon Government approval of the proposed policy.

Selected Agencies – Stella Maris cont...

Recommendation 20 Stella Maris Inquiry – Appendix H Improvements to community land grants process		Agency Assessed Status	Review Comments
10	a] Review the Direct Sale and Community Land Grant Policy and Brochures and provide advice to Government on policy improvements for consideration. b] Refine Application Fee Policy.	Commenced	Agency assessed status confirmed as correct. Whilst the existing business processes have been updated, implementation of the changes is dependent upon Government approval of the proposed policy.
11	Develop and train staff.	Ongoing	Agency assessed status confirmed as correct. Training and development of staff will continue as an ongoing process.
12	Review all policies associated with the administration of the <i>Crown Lands Act</i> and recommend amendments where required.	Commenced	Agency assessed status confirmed as correct. A review of existing policies associated with the <i>Crown Lands Act</i> has been undertaken and recommendations drafted. Review of new and amended documents will be ongoing as required.

Selected Agencies – Stella Maris cont...

Recommendation 20 Stella Maris Inquiry – Appendix H Improvements to community land grants process		Agency Assessed Status	Review Comments
13	Identify any policy gaps associated with the administration of the <i>Crown Lands Act</i> and make recommendations to Government on new policies to be implemented.	Commenced	Agency assessed status confirmed as correct. A review of existing policies associated with <i>the Crown Lands Act</i> has been undertaken and recommendations drafted. Review of new and amended documents will be ongoing as required.
14	Provide Land Grant Project Reporting.	Completed	Agency assessed status confirmed as correct. Quarterly reports are now generated and provided to the Minister.
15	Review Delegations.	Completed	Agency assessed status confirmed as correct. The Land Administration delegations have recently been updated, however these changes have yet to be reflected on the Agency's intranet pending appropriate authorisation of the revised delegations.
16	Review records management.	Ongoing	Agency assessed status confirmed as correct. The review of records management is continuous and aligned with appropriate in-house training.

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

Background

The *Public Information Act* (the Act), which came into effect in 2010, seeks to achieve a transparent and accountable mechanism for the review of public information produced by public authorities. A public authority is defined in section 5 of the Act and that definition is broad, capturing any:

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

Excluded from the definition are holders or occupiers of:

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

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

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

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

The Act does place a limit on the scope of what might be considered to be public information in that section 4(2) provides that a “*public authority gives information to the public when it makes the information available to the public generally (rather than any particular members of the public) through any medium*”.

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

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

Referral of a Complaint to the Auditor-General – On Track

On 9 September 2015, a Member of the Legislative Assembly referred to the Auditor-General, advertisements with the theme “On Track” which were intended to present the achievements of the public sector. The referrer expressed a belief that the slogan “On Track” was linked to the Country Liberal Party, and therefore a breach of the *Public Information Act*.

Review of Allegation

The allegation was specifically in reference to contravention of section 6(2) of the *Public Information Act*, and more specifically section 6(4) which states: “Without limiting subsection (2)(a), the content of the public information promotes particular party political interests if the information includes an image or message that may reasonably be regarded as promoting (whether expressly or implicitly) a particular political party or any of its members.”

The “On Track” advertising campaign had been conducted in print media, television and radio broadcast advertisements and a dedicated website with the address <https://ontrack.nt.gov.au> and therefore I formed the view that the information was available to the public generally. Further, as the advertising campaign was funded by the Department of the Chief Minister, the referred matter was therefore within the bounds of the *Public Information Act*.

Interviews held with representatives of the Department of the Chief Minister and review of supporting documentary evidence provided to me by the Department of the Chief Minister supports my opinion that the process undertaken to communicate the achievements delivered by the public sector was initiated by the Department of the Chief Minister. I examined the process undertaken to produce the advertising campaign and the results are described below:

- In order to respond to concerns that the achievements of the Northern Territory public sector were not being communicated in a manner that would generate general business confidence, it was determined that a consistent marketing approach across government was required and should be coordinated in a manner that would support each individual agency’s endeavours to publicise their achievements.

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

- In order to develop a consistent marketing theme, and because the advertising was anticipated to cost in excess of \$15,000, the Department of the Chief Minister developed an advertising campaign brief for release to three independent private entities for quotation. The advertising campaign brief was designed to centre on a consistent theme around “story telling” with imagery aligned to selected achievements of the public sector.
- The successful respondent presented a marketing theme “The Territory has a Great Story to tell” and the slogan “Great Story”. The respondent was then asked to present an alternative theme which could be taken to a number of focus groups to see if the “Great Story” theme would resonate with the general public. The comparator theme was “On Track.”
- Members of the focus groups were independently selected by a third party Consultancy and Market Research Firm.
- Focus group members felt that the theme “Great Story” may be interpreted by the public as being a fabricated account of the truth rather than a factual account of achievements. The focus group members expressed a view that “On Track” seemed more assertive and more likely to be associated with facts and actual delivery against targets. Members of the focus group also liked the NT emphasis in the theme ONTRACK. As a result of the feedback from the focus groups, the “On Track” theme was selected for development into a sustained six week advertising campaign.

Review of information publically available from the Country Liberals webpage website identified that, whilst not communicated as a slogan per se, the phrase “on track” has been consistently used by Country Liberals members in media releases and other publicly available and reported information. The phrase “on track” can also be linked to the Country Liberals 2012 election campaign.

Notwithstanding that I consider the process undertaken by the Department of the Chief Minister in developing the advertising campaign was undertaken in a robust, independent and apolitical manner, the public information provided as a result of the advertising campaign, delivered under the slogan “On Track”, includes a message that may reasonably be regarded as promoting, whether expressly or implicitly, a particular political party or any of its members.

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

I am therefore of the opinion that the referred matter constitutes a breach of section 6(2)(a) of the *Public Information Act*.

Conclusion

I am of the opinion that the referred matter constitutes a contravention of Section 6(2)(a) of the *Public Information Act*, in that the content of the information may be regarded as promoting political party interests (whether express or implied).

Recommendation

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

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

In accordance with Section 8 (3), I recommended that the Department of the Chief Minister, as the public authority producing the public information, consider:

- withdrawing all public information associated with the referred advertising campaign containing the phrase “On Track”;
- removing or changing the “On Track” website / web address so it no longer refers to “On Track”; and
- making the following change to all aspects of the existing advertising campaign:
 - remove the phrase “On Track” from all public information associated with the advertising campaign.

I am satisfied with the response provided by the Department of the Chief Minister.

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

The Department of the Chief Minister has commented:

Thank you for providing a copy of your preliminary decision in the matter of the “On Track” public information campaign referred to you for investigation, and your advice that the Department of the Chief Minister undertook the development of the campaign in a robust, independent and apolitical way.

With regard to your preliminary finding that the campaign contravenes the Public Information Act, I respectfully disagree.

The phrase “On Track” is widely used and is a well-respected part of the Australian vernacular. The advertising material, including the phrase “On Track”, was tested with focus groups before the campaign commenced and again midway through the campaign to identify whether there was any need for refinement. The testing of government marketing campaigns is a best practise approach to ensure government communications are evidence-based and an appropriate use of public money.

At no time in any of the four focus groups was it raised by any of the participants that the phrase reminded them of a particular political party or political slogan. Had any of the focus group participants indicated that the phrase “On Track” was familiar or reminded them of a political campaign, the campaign would not have proceeded using that phrase as it would have been counter-productive to the goals of the campaign.

I have requested the Department redo the community soundings and if there is any implied connection to political campaigning I will immediately cease using the Tag Line.

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

Referral of a Complaint to the Auditor-General – Glenti

On 18 September 2015 a Member of the Legislative Assembly referred to the Auditor-General an advertisement entitled “Territory Labor – Proudly Supporting the 2015 Glenti Festival” which was a full page advertisement included on page 7 of the 2015 Glenti Festival magazine, an insert to the 5 June 2015 edition of the NT News.

The referrer noted that they were *“led to believe that this advertising was commissioned through the Office of the Leader of the Opposition and by the Labor party – but paid using Northern Territory Taxpayer funds”* thereby intimating that the advertisement, paid for by using money or other property of the Territory, may be in breach of the *Public Information Act*.

Review of Allegation

After examining the content of the advertisement and making enquiries with the Department of the Legislative Assembly, Department of the Chief Minister and the Office of the Opposition Leader I formed the view that the advertisement did not come under the provisions of the *Public Information Act*.

The test of whether or not the *Public Information Act* applies is found in section 4(1) which states:

- “(1) **Public information** is information given by a public authority to the public by using money or other property of the Territory, other than:
- (a) *information given to members of the electorate of an Assembly member 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; and*
 - (b) *a media release of an Assembly member (whether or not in his or her capacity as an Assembly member); and*
 - (c) *information prescribed by regulation.”*

The Department of the Legislative Assembly had no record of payment for the advertisement.

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

The Communications and Marketing Bureau at the Department of the Chief Minister were requested to book an advertisement, however, were never supplied with a signed booking confirmation, and were subsequently advised that the advertisement would be booked directly with the NT News. The Communications and Marketing Bureau did not develop the artwork for the advertisement.

The Office of the Opposition leader confirmed that the advertisement was paid for by the individuals in the advertisement.

Based on the above enquiries, the advertisement has not been paid for using taxpayer funds, therefore this referral is outside the bounds of the *Public Information Act* and no further investigation was required to be undertaken.

Conclusion

Following from the above I concluded that the advertisement is outside the provisions of the *Public Information Act*, accordingly the provisions of the Act were not contravened.

Recommendation

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

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

Given my conclusion that the advertisement is outside the *Public Information Act*, I made no recommendations in relation to this advertisement.

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

Referral of a Complaint to the Auditor-General – ICE Advertisement

Two allegations were lodged with my office on Monday 21 September 2015 regarding contraventions of the provisions of the *Public Information Act* (the Act). I am required by the Act to review any allegation made and report my findings to either the Speaker or to the Legislative Assembly as part of one of my periodic reports to the Legislative Assembly.

The referred matter consisted of a single advertisement that was printed in the NT News on Friday 18 September and Monday 21 September 2015. The allegation was that the advertisement contravened the provisions of section (6)(2)(a) and section 6(2)(b) of the Act on the grounds that the information within the advertisement was misleading, factually incorrect and promoting particular party interests.

Review of Allegation

The referred matter consisted of a single advertisement that was printed in the NT News on Friday 18 September and Monday 21 September 2015.

The advertisement was headed with the Northern Territory Government crest with the words “Ice Drug Laws” in bold black capital letters with the word “Blocked” in red capital letters superimposed diagonally across the words Ice Drug Laws. The advertisement stated “*This week, the NT Government proposed legislation to give police more power to stop and search ICE traffickers on our major highways. This law was BLOCKED in Parliament.*”. This was then followed by a list of “*Government Members who voted in favour*” and a list of other Members of the Legislative Assembly headed by the inscription “*BLOCKED BY:*”.

Parliamentary sittings were held on Tuesday 15, Wednesday 16 and Thursday 17 September. On Wednesday 16 September, the Attorney General presented a bill entitled the Misuse of Drugs Amendment Bill (Serial 136). An extract from Hansard is presented below.

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

"MISUSE OF DRUGS AMENDMENT BILL (Serial 136)

Bill presented and read a first time.

Mr ELFERINK (Attorney-General and Justice): *Madam Speaker, before I move that the bill be read a second time I will, for the sake of honourable members, outline what I intend to do. The bill will be read the second time. I presume that somebody from the opposition will seek to adjourn debate. Immediately thereafter I will move the urgency motion so we can debate that straight after the bill is on the floor of the House, otherwise we would be debating an urgency motion for a bill that is not on the record.*

To that end, I move that the bill be now read a second time.

...

The additional powers contained in this bill are game-changers in the fight against the drug supply inside and into the Northern Territory. The government's message is this, if you do not transport dangerous drugs, you will have nothing to worry about. You will be stopped for a short period of time in the authorised area and then you can continue your journey. If you do transport drugs, you can run the gauntlet but you can be stopped at random by police within an authorised area. Police can search you and your vehicle, and there is a high probability you will be caught.

I commend this bill to honourable members and table a copy of the explanatory statement.

Debate adjourned

...

SUSPENSION OF STANDING ORDERS

Pass Bill through all Stages – Misuse of Dangerous Drugs Amendment Bill

Mr ELFERINK (Attorney-General and Justice): *Madam Speaker, I move that so much of standing orders be suspended as would prevent the Misuse of Dangerous Drugs Amendment Bill, Serial 136, passing through all stages during these sittings."*

To summarise, the Hansard evidences:

1. **A bill to amend the Misuse of Drugs Act was presented, read and read for the second time.**
2. **The Attorney-General then moved a motion to suspend standing orders.** This was so that the bill could be debated the following day as a matter of urgency with the government intending to have the bill approved within the September sittings with the legislation to come into operation shortly thereafter.

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

3. **The motion to suspend standing orders was not supported by non-government MLAs.** These members expressed reluctance to adopt legislation without the established period for consultation and review in order to be informed by interested parties and by the findings from the Select Committee on Ice due to be reported in the next sittings of Parliament, scheduled for November 2015.
4. **There was no motion put to pass the bill to amend the Misuse of Drugs Act.**

Parliamentary Information Bulletin No. 13 – Consideration of Bills states *“At the conclusion of the second reading speech, it is usual for debate to be adjourned for at least 30 days. The purpose of this is to prevent surprise and to ensure each bill is able to be considered by all Members as well as any interested members of the public before it is debated to conclusion.”* <http://www.nt.gov.au/lant/about-parliament/information-papers/information-papers.shtml>

The ice drug laws were not blocked as communicated in the advertisement with the following two consecutive sentences *“This week, the NT Government proposed legislation to give police more power to stop and search ICE traffickers on our major highways. This law was BLOCKED in Parliament”*. The Misuse of Drugs Amendment Bill had not progressed to the point where it was being debated therefore it is my opinion that the advertisement includes statements that are misleading and factually inaccurate and consequently the advertisement is a contravention of section 6(2)(b) of the *Public Information Act*.

In a meeting with me, the Director of Communications within the Office of the Chief Minister opined that the advertisement was not misleading because:

- The word blocked does not mean “rejected” – therefore the advertisement is not factually incorrect.
- The formatting of the names of the MLA’s listed under “voted in favour” and “blocked by” is not promoting party policy, it is merely formatting the names listed in the Parliamentary transcript as “ayes/noes”.
- The use of the Parliamentary Crest, rather than applying the Crest and title of the Chief Minister, was a mistake arising from the urgency in which the advertisement was prepared and published.

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

Synonyms for the word “blocked”, using an electronic thesaurus, include: *“obstructed; impeded; hindered; jammed; prevented; opposed; stopped; blockaded; barred; checked; deterred; frustrated; and thwarted.”* Synonyms for the word “rejected” using an electronic thesaurus, include: *“disallowed, forbidden, banned, excluded, vetoed, prohibited, precluded, overruled”*. Notwithstanding the use of the word, the statement that *“This law was blocked in Parliament”* is factually incorrect as there was no law blocked in Parliament.

Whilst I acknowledge the opinion of the Director of Communications that the formatting of the advertisement does not make the content misleading, it is my view that the formatting of most advertisements is designed and presented in a manner intended to influence the reader.

One letter to the editor of the NT News on 23 September 2015 stated that the advertisements *“clearly imply that Country Liberal MLAs are concerned about the ice epidemic in the NT whereas independent and Labor MLAs are not.”* This view, represented by a member of the public, demonstrates that the article was regarded, at least by some, as promoting party political interests.

Conclusion

I have considered the content of the referrals received and made appropriate enquiries. As a result I have concluded that the referred material represents a contravention of the provisions of sections 6(2)(a); section 6(2)(b); and 6(2)(c) of the Act as discussed below.

Section 6(2)(a)

In my opinion, the advertisement placed by the Office of the Chief Minister could conceivably be interpreted by the public as meaning that the legislation intended to minimise harm from the drug known as “Ice” had not passed through the Legislative Assembly as a result of the actions of non-government Members of the Legislative Assembly. I am therefore of the opinion that the advertisement has contravened section 6(2)(a) of the *Public Information Act* in that it promotes party political interests. Further guidance as to what content may be seen as promoting party political interests is provided in Section 6(4) which states: *“Without limiting subsection (2)(a), the content of the public information promotes particular party political interests if the information includes an image or message that may reasonably be regarded as promoting (whether expressly or implicitly) a particular political party or any of its members.”*

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

Section 6(2)(b)

The ice drug laws were not blocked as communicated in the advertised content “*This week, the NT Government proposed legislation to give police more power to stop and search ICE traffickers on our major highways. This law was BLOCKED in Parliament*”. The Misuse of Drugs Amendment Bill had not progressed to the point where it was being debated therefore it is my opinion that the advertisement includes statements that are misleading and factually inaccurate and consequently the advertisement is a contravention of section 6(2)(b) of the Act.

Section 6(2)(c)

The list of Legislative Assembly Members listed under the heading “*Government Members who voted in favour*” represents the names of the Legislative Assembly Members who voted for an urgency motion to be supported in order that the Misuse of Drugs Amendment Bill could be debated. The content and format of the advertisement suggests that the listed Legislative Assembly Members voted in favour of a piece of legislation relating to the drug known as “Ice”. The list of Legislative Assembly Members listed under the heading “*Blocked by:*” represents the names of the Legislative Assembly Members who negated the urgency motion proposed in order that the Misuse of Drugs Amendment Bill could be debated. The Misuse of Drugs Amendment Bill was not debated in Parliament and therefore it was not voted for or against by any Legislative Assembly Members. The advertisement does not provide a reference to the Parliamentary transcript of Wednesday 16 September 2015 in order to enable a reader to determine for themselves if the public information provided in the advertisement was factually correct and therefore, it is also my opinion that the advertisement is a contravention of section 6(2)(c) of the Act in that the advertisement does not clearly distinguish a statement of facts from a statement of comments.

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

Recommendation

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

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

In accordance with Section 8 (3), I make no recommendation in relation to withdrawing or changing the public information given the nature of the advertisement means it cannot be withdrawn or changed once made public.

In accordance with Section 7(2)(b) of the Act however, I do recommend that the Office of the Chief Minister implement appropriate quality assurance processes and take any action considered necessary in order to prevent further instances where factually inaccurate and misleading information is given using money or property of the Territory. Staff of the Office of the Chief Minister may benefit from receiving training in relation to the requirements of the Act.

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

The Office of the Chief Minister has commented:

Your preliminary decision is noted as is your recommendation to implement appropriate quality assurance processes and to take action considered necessary in order to prevent further instances.

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Appendices

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Appendix 1: Audit Opinion Reports Issued Since 30 June 2015

Financial Statements for the year ended 30 June 2015

	Date 2014-15 Financial Statements tabled in the Legislative Assembly	Date of Audit Report Year ended 30 June 2015	Date of Audit Report Year ended 30 June 2014
Board of the Museum and Art Gallery of the Northern Territory	Not yet tabled	9 December 15	N/A
Central Australia Health Service	19 November 15	16 October 15	9 October 14
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	6 November 15	31 October 14
Common Funds of the Public Trustee	Not yet tabled	30 November 15	10 December 14
Darwin Bus Service	Not required	25 September 15	1 October 14
Darwin Port Corporation	3 December 15	17 September 15	2 October 14
Darwin Waterfront Corporation	17 November 15	25 September 15	7 October 14
Data Centre Services	19 November 15	1 October 15	1 October 14
Desert Knowledge Australia	19 November 15	3 November 15	17 November 14
Indigenous Essential Services Pty Ltd	Not required	Not yet completed	29 September 14
Jabiru Town Development Authority	Not required	13 October 15	18 November 14
Land Development Corporation	3 December 15	25 September 15	3 October 14
Legislative Assembly Members' Superannuation Fund	19 November 15	30 September 15	30 September 14
Motor Accidents (Compensation) Commission	19 November 15	2 October 15	N/A

Not yet completed – as at 31 January 2016

Not yet tabled – as at 31 January 2016

Not required – Financial statements are not required to be tabled

N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 30 June 2015 cont...

Financial Statements for the year ended 30 June 2015

	Date 2014-15 Financial Statements tabled in the Legislative Assembly	Date of Audit Report Year ended 30 June 2015	Date of Audit Report Year ended 30 June 2014
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	16 November 15	9 December 14
Northern Territory Government and Public Authorities Employees' Superannuation Fund	19 November 15	30 September 15	30 September 14
Northern Territory Grants Commission	2 December 15	23 October 15	17 October 14
Northern Territory Legal Aid Commission	Not yet tabled	25 November 15	31 October 14
Northern Territory Major Events Company Pty Ltd	Not required	29 September 15	7 October 14
Northern Territory Police Supplementary Benefit Scheme	Not required	30 September 15	30 September 14
Northern Territory Treasury Corporation	19 November 15	29 September 15	29 September 14
NT Build	19 November 15	15 October 15	7 October 14
NT Fleet	19 November 15	1 October 15	2 October 14
NT Home Ownership	3 December 15	28 September 15	16 October 14
Power and Water Corporation	Not yet tabled	Not yet completed	29 September 14
Power Generation Corporation (Territory Generation)	3 December 15	2 November 15	N/A
Power Retail Corporation (Jacana Energy)	Not yet tabled	22 December 15	N/A

Not yet completed – as at 31 January 2016

Not yet tabled – as at 31 January 2016

Not required – Financial statements are not required to be tabled

N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 30 June 2015 cont...

Financial Statements for the year ended 30 June 2015

	Date 2014-15 Financial Statements tabled in the Legislative Assembly	Date of Audit Report Year ended 30 June 2015	Date of Audit Report Year ended 30 June 2014
Surveyors Board of the Northern Territory of Australia	Not yet tabled	17 December 15	24 October 14
Territory Wildlife Parks	3 December 15	13 October 15	10 October 14
Top End Health Service	19 November 15	16 October 15	9 October 14
Treasurer's Annual Financial Statement	18 November 15	30 October 15	14 October 14

Not yet completed – as at 31 January 2016

Not yet tabled – as at 31 January 2016

Not required – Financial statements are not required to be tabled

N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 30 June 2015 cont...

Acquittals or Other Returns – for the year ended 30 June 2015

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2015	Date of Audit Report Year ended 30 June 2014
Charles Darwin University Higher Education Research Data collection (re-stated)	30 June 15	10 August 15	N/A
<i>Interstate Road Transport Act 1985</i>	31 December 15	6 November 15	27 November 14
Local Government Financial Assistance	Not specified	23 October 15	30 September 14
Health Pool Funding Acquittal	30 September 15	7 September 15	12 September 14
<i>Nation Building Program (National Land Transport Act) 2009 and National Land Transport Act (2014)::</i>			
Nation Building Program	31 December 15	7 December 15	12 December 14
Road Safety (Black Spot)	31 December 15	27 November 15	2 December 14
Roads to Recovery	31 October 15	6 November 15	31 October 14
Natural Disaster Relief and Recovery Arrangements	31 March 16	15 January 16	N/A
Motor Accidents (Compensation) Commission Annual Return	31 October 15	29 October 15	N/A
Not yet completed – as at 31 January 2016			
Not specified – No deadline specified			
N/A – Not applicable			

Appendix 2: Status of Audits which were Identified to be Conducted in the Six Months to 31 December 2015

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 and other tasks were identified in Appendix 3 of the August 2015 report as being scheduled for the period:

Department of Business

Perform an assessment of general computer controls
(Financial Assistance Management, Receipting and Tracking
systems)

Refer page 52

Department of Corporate and Information Services

Effectiveness of general computer controls and key financial
controls – myPaysheets

Refer page 58

Whole of Government – Cyber Preparedness

Refer page 55

Department of Correctional Services

Pronto – General computer controls

Refer page 61

Department of Education

Evaluation of selected aspects of the Agency's Performance
Management System – Independent Public Schools
Governance

Deferred to take
place in the six
months ending June
2016

Northern Territory Superannuation Office

SuperB – Assessment of general computer controls

Refer page 160

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Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2016

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

Department of Children and Families

Evaluation of Internal Audit Framework

Department of Education

Independent Public Schools Governance

Official Travel

Department of Housing

Official Travel

Department of Land Resource Management

Evaluation of Internal Audit Framework

Department of Mines and Energy

Evaluation of Internal Audit Framework

Department of Primary Industry and Fisheries

Evaluation of Internal Audit Framework

Department of Sport and Recreation

Evaluation of Internal Audit Framework

Department of the Attorney-General and Justice

Integrated Justice Information System

Department of the Chief Minister

Official Travel

Department of Treasury and Finance

Evaluation of Internal Audit Framework

Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2016 cont...

Northern Territory Police Fire and Emergency Services

Official Travel

Selected Agencies

Fraud Assessment Framework

Tourism NT

Official Travel

Appendix 4: Abbreviations

AASB	Australian Accounting Standards Board
APRA	Australian Prudential Regulatory Authority
BOOT	Build, own, operate and transfer
CSO	Community Service Obligations
CSS	Commonwealth Superannuation Scheme
DCIS	Department of Corporate and Information Services
DCM	Department of the Chief Minister
DCS	Data Centre Services
DKA	Desert Knowledge Australia
DoI	Department of Infrastructure
DLPE	Department of Lands, Planning and the Environment
DPC	Darwin Port Corporation
DPO	Darwin Port Operations Pty Ltd
EOI	Expressions of Interest
FAMS	Financial Assistance Management System
FITA	<i>Fiscal Integrity and Transparency Act</i>
FMA	<i>Financial Management Act</i>
GAS	Government Accounting System
GFC	Global Financial Crisis
GFS	Government Financial Statistics
ICT	Information and Communication Technology
LAMS	Legislative Assembly Members' Superannuation
MAGNT	The Museum and Art Gallery of the Northern Territory
MSB	Darwin Marine Supply Base
NTG	Northern Territory Government

Appendix 4: Abbreviations cont...

NTSO	NT Superannuation Office
PPP	Public Private Partnership
PSC	Public sector comparator
PWC	Power and Water Corporation
RFP	Request for Procurement
RTS	Receipting and tracking information system
TAFR	Treasurer's Annual Financial Report
TAFS	Treasurer's Annual Financial Statement
TAP	Territory Availability Payment
TEP	Territory Efficiency Payment
TIO	Territory Insurance Office
TIP	Territory Incentive Payment
TOP	Territory Operating Payment

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