



Auditor-General for the Northern Territory
Auditing for Parliament

June 2016

Report to the Legislative Assembly



ORDERED TO BE
PRINTED BY THE
LEGISLATIVE ASSEMBLY
OF THE
NORTHERN TERRITORY

ISSN 1323-7128



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Northern Territory Auditor-General's Office
Auditing for Parliament

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

23 June 2016

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits, reviews and assessments conducted during the five months ended 31 May 2016 and I request that you table the report in the Legislative Assembly.

This report presents the results of compliance audits that were performed to assess the adequacy of controls over the administration of public monies and audits of information technology systems that were undertaken to assess whether access to those systems together with controls over data maintained within such systems were adequate.

The findings from data analysis conducted at selected agencies upon transactions generated using fuel cards have been reported within this report.

This report presents findings from performance management system audits; audits conducted under section 14 of the Audit Act; and the results of audits of financial statements for those entities that are required to report on a calendar year basis.

Yours sincerely,

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 48 separate audits and other tasks conducted during the period 1 January 2016 to 31 May 2016. This report summarises the results of the following types of audits and legislated tasks conducted during the period:

- Statutory Audits of Financial Statements;
- Information Technology Audits;
- Controls and Compliance Audits;
- Performance Management Systems Audits; and
- Public Information Act Referrals.

The report presents the results of compliance audits that were performed to assess the adequacy of controls over the administration of public monies. Findings arising from these audits have been reported to the affected agencies to enable them to address control weaknesses as required. Agency compliance audits address a wide range of topics however the audit focus for many of these audits is compliance with the Treasurer's Directions and the *Financial Management Act*. Beyond identifying control weaknesses within selected agencies, these audits also identified numerous instances where the Treasurer's Directions themselves require updating to ensure that appropriate and clear guidance is provided and references are correct. The Department of Treasury and Finance is presently reviewing the suite of Treasurer's Directions and has released a number for comment at the date of writing this report.

Other compliance audits undertaken during this period focussed upon controls surrounding Official Travel.

My Office continued conducting data analysis at selected agencies in relation to transactions incurred using fuel cards. The approach undertaken is to review the data for selected agencies at a high level and then refer anomalous information to each selected agency to enable investigation of individual transactions. The agencies then report back to my Office the outcomes of their investigation together with any planned actions to address the findings. The results of the data analysis are included within this report.

Auditor-General's Overview cont...

The results of Performance Management audits completed prior to 31 May 2016 are included in this report. The effectiveness of systems in place to ensure an effectively functioning internal audit capacity was reviewed at a number of selected agencies.

In November 2015, I commenced an audit of the processes leading to the award of a managing contractor arrangement in relation to the design and construction of the Palmerston Regional Hospital. My report on this audit is intended to provide Members of the Legislative Assembly with an overview of the project to construct the Palmerston Regional Hospital.

At the request of the Public Accounts Committee, I conducted an evaluation of the whole-of-government travel audit process mandated by the Department of the Chief Minister. The purpose of my evaluation was to provide the Public Accounts Committee and the Legislative Assembly more generally with an understanding of the processes undertaken by Northern Territory Government Agencies in response to the directive from the Department of the Chief Minister.

Also included are the results of audits of financial statements for those entities that are required to report on a calendar year basis.

There were a number of interim audit visits undertaken to support the 30 June 2016 financial year audits that are scheduled to be conducted between July 2016 and October 2016 however the results of these visits are usually only reported to management to enable any matters identified to be addressed prior to year end.

There were two *Public Information Act* referrals received for consideration during the period 1 January 2016 to 30 June 2016, my evaluation of the referred matters is still in progress at the time of this report.

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

Auditor-General's Overview cont...

Notwithstanding the legislative requirement for the Auditor-General to report to the Legislative Assembly on at least an annual basis, it has become established practice for the Auditor-General to report twice, in February and August within each calendar year. With no Parliamentary Sittings scheduled during July or August 2016, I have presented this report for tabling in June 2016 in order to:

- balance the workload of the staff of the Office during July and August when the Office is preparing our financial statements and responding to our independent auditors as well as delivering, in conjunction with my Authorised Auditors, the July to December 2016 audit program which has 82 audits listed, most of which commence in mid to late July;
- ensure the results, findings and observations are reported in a timeframe that enables timely and relevant reporting to the Members of the Legislative Assembly.

The earlier tabling date does however mean, that a number of audits scheduled to be commenced and completed in the period January 2016 to June 2016 are either not yet completed or there was insufficient time for agencies to respond to audit findings (as required by the *Audit Act*). I will report on the outcomes of these audits (listed in Appendix 2) in my next report to the Legislative Assembly.

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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 which are then primarily 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 substantiate 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 undertaken 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...

Audit of Performance Management Systems

Legislative Framework

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

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

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

Operational Framework

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

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity's corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;
- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress toward that achievement;

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

- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

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

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 the completion of financial statements within Agencies or entities and resultant delays occur in the associated 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. (As noted earlier, this report, generally tabled in August, is being tabled in June 2016).

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 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 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 Financial Statements 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 separately, 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.

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

Guide to Using this Report cont...

Information Technology Audits

Information technology audits are undertaken as stand-alone audits of key agency or across government systems. Each of the systems selected for audit during the six months ending 30 June 2016 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.

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.

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 on 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. If review of the information suggests a contravention, I issue a preliminary opinion 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 opinion. The reports on referrals are included in my reports to the Legislative Assembly.

Reports on the Results of Audit, Reviews and Assessments

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Batchelor Institute of Indigenous Tertiary Education

Audit findings and analysis of the financial statements for the year ended 31 December 2015

Background

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

Audit Opinion

The audit of the financial statements of the Institute for the year ended 31 December 2015 resulted in an unmodified independent audit opinion. That opinion was issued on 17 May 2016.

Key Findings

Financial analysis

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

Batchelor Institute of Indigenous Tertiary Education cont...

Financial Performance for the year		
	2015	2014
	\$'000	\$'000
Revenue from continuing operations	41,297	41,266
Less expenses from ordinary activities		
Employee expenses	(28,739)	(27,291)
Depreciation	(1,631)	(1,657)
Other	(14,113)	(13,635)
Total expenses from continuous operations	(44,483)	(42,583)
Operating result before income tax expense	(3,186)	(1,317)
Less income tax expense	-	-
Operating result after income tax expense	(3,186)	(1,317)

The Institute reported a deficit of \$3.2 million for the year ended 31 December 2015, in comparison to a deficit of \$1.3 million in the prior year.

Whilst there was a decrease in Australian Government financial assistance predominantly within 'Other Australian Government financial assistance projects' of \$2.1 million and a decrease in consultancy and contract income of \$1.2 million these were offset by an increase in NT Government general purpose funding (\$2.2 million) and special purpose project funding (\$1.3 million).

Expenses increased by \$1.9 million. Of this \$1.9 million increase, \$1.4 million relates to increased employee related costs. This increase is due to both an increased number of casual workers throughout the period and the expected salary increase related to the Enterprise Bargaining Agreement in place at the Institute.

Batchelor Institute of Indigenous Tertiary Education cont...

Financial Position at year end	2015	2014
	\$'000	\$'000
Current assets	18,508	19,685
Less current liabilities	(7,503)	(6,714)
Working capital	11,005	12,971
Add non-current assets	33,060	34,166
Less non-current liabilities	(984)	(870)
Net assets	43,081	46,267
Represented by:		
Reserves	30,393	30,393
Accumulated funds	12,688	15,874
Equity	43,081	46,267

Charles Darwin University

Audit findings and analysis of the financial statements for the year ended 31 December 2015

Background

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

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

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

Audit Opinion

The audit of the financial statements of Charles Darwin University for the year ended 31 December 2015 resulted in an unmodified audit opinion. That opinion was issued on 13 May 2016.

Key Findings

Financial Performance and Financial Position of the University – excluding controlled entities

The financial performance of the University, as measured by its operating result, was a deficit of \$22.1 million (a surplus of \$7.0 million was recorded for 2014). The higher education component of the University achieved a surplus of \$3.1 million for the year, which was offset by a \$25 million deficit on the part of the VET component with Commonwealth Government capital assistance to the VET program decreasing by \$11.5 million.

Charles Darwin University cont...

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

	2015	2014
	\$'000	\$'000
Revenue from ordinary activities		
Financial assistance and grants from the Commonwealth	106,333	125,349
Financial assistance from the Northern Territory Government	63,805	60,203
Other revenue (HECS, fees, interest, etc)	98,714	116,733
Total revenue from ordinary activities	268,852	302,285
Less expenses from ordinary activities		
Employee related costs	(154,034)	(147,703)
Administration, operational and other expenses	(136,966)	(147,568)
Total expenses from ordinary activities	(291,000)	(295,271)
Operating result for the year	(22,148)	7,014

The University reported a net operating deficit of \$22.1 million for the year ended 31 December 2015. The decline of \$29.1 million compared to the prior year was attributed to the decrease in total revenue from continuing operations of \$33.4 million being partially offset by a decrease in total expenses from continuing operations of \$5.3 million.

- Fees and charges increased by \$9.9 million. This is attributed to an increase in overseas student income by \$12.0 million, offset by a decline in domestic student income by \$1.2 million.
- Capital grant income declined by \$11.8 million. In the previous year, the University received \$12.8 million from the Commonwealth Government in relation to the construction of the Trades Training Facility which was recognised as revenue in the 2014 financial year. In the current year, the University received the balance of \$1.1 million.
- Income relating to The Heights Durack project (part of other revenue) declined by \$23.9 million. This was attributed to a decline in the number of lots sold during the year (2015: 60 lots and 2014: 167 lots).

Charles Darwin University cont...

The increase in total expenses from continuing operations of \$4.3 million was attributed to the following major movements:

- Employee-related expenses increased by \$6.3 million compared to the prior year as a result of a 3% increase in salaries and wages across all levels of employees at the University; and
- Expenses relating to the Heights Durack Project (part of other expenses) decreased by \$22.2 million. As noted above, this was attributed to a decline in the number of lots sold during the year (2015: 60 lots and 2014: 167 lots).

Charles Darwin University cont...

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

	2015	2014
	\$'000	\$'000
Current assets	129,806	120,845
Less current liabilities	(70,882)	(44,934)
Working capital	58,924	75,911
Add non-current assets	491,163	497,337
Less non-current liabilities	(4,241)	(6,055)
Net assets	545,846	567,193
Represented by:		
Reserves, restricted and accumulated funds	545,846	567,193
Equity	545,846	567,193

Cash and cash equivalents increased by \$23.9 million. This is attributed to \$22.7 million transferred from Menzies School of Health Research to pool with the University's liquid investments.

Receivables declined by \$14.3 million. This results from a decline in HECS / HELP debtors and debtor accruals (that is, invoices processed in 2016 relating to 2015) amounting to \$2.2 million and \$3.2 million respectively. In addition, the prior year balance included a \$7.6 million receivable from NT Department of Education whereas there is no receivable due from the NT Department of Education as at 31 December 2015.

Other liabilities increased by \$24.7 million as this includes the \$22.7 million transferred from Menzies School of Health Research.

CDU Amenities Limited

Audit findings and analysis of the financial statements for the year ended 31 December 2015

Background

CDU Amenities Limited is a company limited by guarantee with the liability of each member being limited to an amount of \$20. The sole member of the company is Charles Darwin University.

CDU Amenities Limited was formed in March 2007 to coordinate some support activities for students and student organisations.

Audit Opinion

The audit of the financial statements of CDU Amenities Limited for the year ended 31 December 2015 resulted in an unqualified independent audit opinion. That opinion was issued on 21 March 2016.

My audit opinion included the following emphasis of matter paragraph:

"I draw attention to the following matter. CDU Amenities Limited had a deficiency in net assets of \$70,333 at 31 December 2015 (\$48,871 at 31 December 2014) and there is uncertainty whether CDU Amenities Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. As described in Note 2(b) to the financial statements the company is economically dependent upon the receipt of payments from Charles Darwin University. My opinion is not qualified in respect of this matter."

Key Findings

Financial analysis

The Company's total revenue during the year increased to \$557,538 (2014: \$464,014), resulting primarily from the increase in grant revenue received during the year. The grant funding was received for the purpose of meeting the costs of payroll related expenditure.

Total expenditure during the year increased to \$587,000 (2014: \$500,009) due to increased payroll related expenditure and the costs associated with the purchase of minor equipment for the Student Association lounge and some gymnasium equipment. Overall the Company incurred an operating loss for the year of \$29,462 (2014: \$35,995).

CDU Amenities Limited cont...

Going Concern

In addition to incurring an operating loss of \$29,462, the Company has a net deficiency of \$70,333 (2014: \$40,871) at year end. This means that current liabilities exceeded current assets at that date. As such, the Company is dependent on continued financial support for its operations from Charles Darwin University, the parent entity. The parent entity has provided a letter of support to the Company stating that it will provide financial assistance to enable the payment of debts as and when they fall due. The audit report does contain a paragraph emphasising this matter.

As a result of the parent undertaking to extend continued financial support to the Company and, in the absence of any other issues identified as a result of the audit, an unqualified audit opinion is appropriate.

Although support has been provided by the parent entity, the Company should assess the ongoing viability of its future operations. I understand from discussions between those tasked with the managing the Company and my Authorised Auditors, that the financial sustainability of the Company will be re-assessed during the 2016 financial year.

CDU Amenities Limited cont...

Financial Performance for the year		
	2015	2014
	\$'000	\$'000
Revenue from ordinary activities		
CDU grant	259	184
Gym sales and other	271	265
Facility and equipment hire	28	15
Total revenue from ordinary activities	558	464
Less expenses from ordinary activities		
Employee related costs	(422)	(353)
Administration, operational and other expenses	(165)	(147)
Total expenses from ordinary activities	(587)	(500)
Operating result for the year	(29)	(36)

CDU Amenities Limited cont...

Financial Position at year end	2015	2014
	\$'000	\$'000
Current assets	16	47
Less current liabilities	(86)	(88)
Working capital	(70)	(41)
Add non-current assets	-	-
Less non-current liabilities	-	-
Net assets	(70)	(41)
Represented by:		
Accumulated funds	(70)	(41)
Equity	(70)	(41)

Charles Darwin University Foundation

Audit findings and analysis of the financial statements for the year ended 31 December 2015

Background

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

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

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

Audit Opinion

The audit of the financial statements of the Foundation and the Trust for the year ended 31 December 2015 resulted in unmodified independent audit opinions for both entities and these were issued on 21 March 2016.

Key Findings

Financial Analysis:

The Trust's total revenue increased from \$1.7 million in 2014 to \$1.9 million in 2015. The increase of \$0.2 million is mainly due to more donations being received in the current year.

The total expenses of the Trust increased from \$1.3 million in 2014 to \$1.5 million in 2015. This increase was mainly due to an increase in trust donations disbursed during the year when compared to the prior year (2015: \$1.5 million and 2014: \$1.3 million).

The Trust recorded a net surplus of \$0.4 million in 2015.

Charles Darwin University Foundation cont...

Cash donations:

The Trust has determined that it is impractical to establish control over the collection of cash donations received 'over the counter' prior to entry of the donation onto its financial records. My understanding is that the only control regarding cash donations received over the counter is that people generally request a receipt for tax purposes however this is not always the case.

As the evidence available to me regarding revenue from this source was limited, my audit procedures with respect to over the counter cash donations had to be restricted to the amounts recorded in the financial records. However, as the number of individual cash donations made to the Trust is not significant, I feel that it is not necessary to issue a modified audit opinion in relation to completeness of revenue.

Charles Darwin University Foundation cont...

Financial Performance for the year – CDU Foundation – Trust Only		
	2015	2014
	\$'000	\$'000
Revenue from ordinary activities	1,924	1,686
Less expenses from ordinary activities		
Trust donations disbursed	(1,486)	(1,268)
Decrease in market value of investment property	(15)	-
Donations in kind – operational	(7)	(37)
Other	(6)	(6)
Total expenses from ordinary activities	(1,514)	(1,311)
Net operating result for the year	410	375

Charles Darwin University Foundation cont...

Financial Position at year end – CDU Foundation – Trust Only

	2015	2014
	\$'000	\$'000
Current assets	954	4,818
Less current liabilities	(18)	(8)
Working capital	936	4,810
Add non-current assets	4,864	580
Net assets	5,800	5,390
Represented by:		
Investment revaluation reserve	185	186
Retained earnings	5,615	5,204
Total Trust funds	5,800	5,390

Department of the Chief Minister

Evaluation of the Whole-of-Government Travel Audit Process

Scope and Objectives

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.”

The primary objective of the Evaluation of the Whole-of-Government Travel Audit Process was to provide the Legislative Assembly and the Public Accounts Committee with a detailed understanding of the process undertaken by Northern Territory Government agencies in response to the directive from the Department of the Chief Minister to:

- conduct an audit to assess their individual compliance with the NT Government Air Travel Policy (NTGATP) effective from 1 July 2015; and
- identify and assess travel transactions between each agency and Latitude Travel and its subsidiaries for the period between 1 July 2009 and 18 December 2015.

This evaluation was conducted in order to assist the members of the Public Accounts Committee in their evaluation of the robustness of processes designed to deter and detect non-compliance with the NTGATP and anomalous pricing in relation to government travel.

Background

The Department of the Chief Minister issued a memorandum to the Chief Executive Officers of most Northern Territory Government agencies on 18 December 2015 requiring two audits to be conducted. The memorandum included the following requirements:

1. Establishing six monthly audits to ensure compliance with the new travel procedures included in the whole-of-government travel policy that came into effect on 1 July 2015 in accordance with the NT Government acceptance of the recommendations of an earlier Travel Review. All agencies were required to conduct an audit and provide in writing any findings of compliance or non-compliance and identified areas for improvement to the Chief Executive Officer of the Department of the Chief Minister by 31 January 2016.

Department of the Chief Minister cont...

2. Chief Executive Officers were also required to conduct an internal audit in accordance with agency processes of travel booked with Latitude Travel, Winnellie Travel and Latitude 69 to ensure agencies have received value for taxpayer funds on travel transactions with those companies. The outcomes of the audit, including any transaction anomalies, were to be reported in writing to the Chief Executive Officer of the Department of the Chief Minister by 31 January 2016.

A subsequent memorandum, dated 22 January clarified that “the period relevant to the second requirement should extend from 1 July 2009 to 18 December 2015.”

On 4 February 2016, the Public Accounts Committee held a Public Hearing in relation to Latitude Travel. Representatives from the Department of the Chief Minister were requested to explain the processes recently implemented to assess compliance with the travel policies effective from 1 July 2015 and to identify any anomalies in relation to travel booked with Latitude Travel and its subsidiaries for the period between 1 July 2009 and 18 December 2015. A copy of the transcript is available at http://www.nt.gov.au/lant/parliamentary-business/committees/public%20accounts/Transcripts/Latitude_Travel_Public_Hearing_Transcript_4_February_2016.pdf

Subsequent to the Public Hearing, the Public Accounts Committee requested the Auditor-General to assess the scope, conduct and results of each agency’s audit and form an opinion as to whether:

- the systems employed by the agencies would likely yield the same outcomes as an audit conducted by a fully independent party; and
- had achieved the objectives of the memoranda, those being:
 1. demonstrated whole-of-government compliance with the NTGATP effective 1 July 2015;
 2. identification and analysis of all transactions between the NT Government and Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 in order to determine any potential anomalies indicating value for money had not been obtained and where the transaction may be referred to Northern Territory Police for further investigation; and
 3. reporting of the results of both audits to the Chief Executive Officer of the Department of the Chief Minister by 31 January 2016.

Department of the Chief Minister cont...

The results of my evaluation are intended to provide the Public Accounts Committee with assurance that such processes were adequately designed and implemented to enable anomalous travel transactions to be detected and subsequently investigated.

In order for me to assess the scope, conduct and results of the audits and form an opinion as to whether the above objectives had been achieved by 31 January 2016, I requested and was provided the following information from the Department of the Chief Minister:

- A copy of the email and memorandum dated 18 December 2015 from the Department of the Chief Minister to Chief Executive Officers regarding the above subject matter;
- A copy of a subsequent memorandum dated 22 January 2016 from the Department of the Chief Minister to Chief Executive Officers clarifying the requirements as they pertained to Latitude Travel, Winnellie Travel and Latitude 69;
- Copies of all emails, attachments and correspondence from agencies received by the Department of the Chief Minister in response to the memoranda;
- A report listing all travel transactions between the NT Government and Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015.

In order for me to find that the processes undertaken by agencies were sufficiently robust as to yield results consistent with an independently conducted audit, and that the objectives of the memoranda have been met by each agency, I have considered:

- the scope and terms of reference applicable to each internal audit;
- the status of the individual/s tasked with undertaking each internal audit (audit staff within the agency; an outsourced audit service provider or agency staff member);
- the reported findings resulting from each internal audit;
- the individual agency responses to each internal audit finding;
- evidence of review of the scope and reports by the individual agencies' Audit Committees; and
- compliance with the deadline imposed within the memorandum dated 18 December 2015, that being 31 January 2016.

Department of the Chief Minister cont...

Section 13(2) of the *Financial Management Act* provides that Accountable Officers must ensure that appropriate internal control procedures are in place thus the design and implementation of adequate internal controls are the responsibility of the Accountable Officer of each Agency. The Members of the Public Accounts Committee are cognisant that it is not the role of the Northern Territory Auditor-General's Office to conduct internal audits as these represent an internal control. As such, they appreciate that the scope, staff and reporting may vary depending on the risk-based approach undertaken at each Agency. I do note however that the Department of the Chief Minister did circulate to agencies the audit program provided by the consultancy firm tasked with conducting the Travel Review referred to in the initial memorandum.

Key Findings

Agency Focus

My review was conducted in two phases as accountability for responding to the directives issued within the memoranda rested with every Northern Territory Government agency that was sent the memoranda. The evaluation I undertook was designed to assess the robustness of the process undertaken by each agency in responding to the directives issued within the memoranda through:

- gaining an understanding of the expectations of the Chief Executive of the Department of the Chief Minister when issuing the memoranda and evaluating the information presented by all agencies to the Chief Executive of the Department of the Chief Minister in response to the memoranda; and
- seeking further clarification as required from individual agencies as to the processes undertaken within those agencies in order to adequately respond to the directives within the memoranda.

Department of the Chief Minister cont...

Observations arising from my review

The Chief Executive Officers of 22 agencies were requested to undertake the audits and report back to the Chief Executive Officer of the Department of Chief Minister by 31 January 2016. These agencies were:

1. Department of Arts and Museums
2. Department of Attorney-General and Justice
3. Department of Business
4. Department of the Chief Minister
5. Department of Children and Families
6. Department of Corporate and Information Services
7. Department of Correctional Services
8. Department of Education
9. Department of Health
10. Department of Housing
11. Department of Infrastructure
12. Department of Lands, Planning and Environment
13. Department of Land Resource Management
14. Department of Local Government and Community Services
15. Department of Mines and Energy
16. NT Police, Fire and Emergency Services
17. Office of the Commissioner of Public Employment
18. Department of Primary Industry and Fisheries
19. Department of Sport and Recreation
20. Tourism NT
21. Department of Transport
22. Department of Treasury and Finance

Department of the Chief Minister cont...

Despite not receiving the memoranda from the Department of the Chief Minister, six agencies were asked to confirm to the Department of Chief Minister that they had complied with the directions in the memoranda. The six entities classified as agencies but not sent the memoranda were:

1. Aboriginal Areas Protection Authority;
2. Department of the Legislative Assembly;
3. Northern Territory Auditor-General's Office;
4. Northern Territory Electoral Commission;
5. Ombudsman of the NT; and
6. Parks and Wildlife Commission.

Notwithstanding not receiving the initial requests, each of these agencies has responded to the Department of the Chief Minister and provided me with sufficient evidence of the findings from their audit processes upon request. These results have been incorporated in this report.

The memoranda were not sent to Government Business Divisions, Government Owned Corporations or Statutory Bodies.

Exemptions provided from conducting the audit

Two agencies sought an exemption from the Chief Executive of the Department of the Chief Minister for undertaking the six monthly audits of travel transactions on the premise that an external audit of Official Travel was scheduled to be conducted by the Northern Territory Auditor-General's Office between January and June 2016. These exemptions were granted by the Chief Executive of the Department of the Chief Minister. This technically constitutes non-compliance with the memoranda as the agencies were required to report the findings by 31 January 2016 to the Chief Executive of the Department of the Chief Minister at which time the external audits had not commenced. It should be noted that an external audit does not constitute an internal control of the Agency and the internal control framework remains the responsibility of each agencies' Accountable Officer.

Both agencies did investigate all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 in accordance with the memoranda issued by the Department of the Chief Minister and reported the results to the Chief Executive of the Department of the Chief Minister by 31 January 2016.

Department of the Chief Minister cont...

There exist four other agencies who have undertaken both the audits as directed by the Chief Executive of the Department of the Chief Minister notwithstanding they were also subject to an external audit of Official Travel to be conducted by the Northern Territory Auditor-General's Office between January and June 2016. The findings from audits of Official Travel undertaken at selected agencies by my Office will be reported to the Legislative Assembly in due course.

Limited audit scope

A further three agencies limited the scope of their review to only assessing compliance with the specific requirement of the NTGATP to use the corporate travel service provider allocated to their agency from 1 July 2015. Whilst these agencies have assessed the compliance of all transactions during the period 1 July 2015 to 31 December 2015 against this requirement, the NTGATP itself has in excess of 30 requirements. As such, compliance with all but one of the requirements has not been assessed by these three agencies. These agencies may like to consider using the audit template provided by the Department of the Chief Minister to ensure audit procedures are sufficiently comprehensive to provide the Accountable Officer with assurance regarding compliance with the NTGATP. Instances of non-compliance with the specific requirement to use the corporate travel service provider were identified at each of these three agencies. The internal audit procedures undertaken at these three agencies were not, in my view, demonstrated to be sufficiently robust as to enable their Accountable Officers to attest, by 31 January 2016, to compliance with the NTGATP effective 1 July 2015.

Each of these three agencies did investigate all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 and reported the results to the Chief Executive of the Department of the Chief Minister by 31 January 2016 and thus complied with one aspect of the memoranda.

For one further agency, no terms of reference or audit report was provided to me, only a list of findings consistent with those identified within other agencies. I am therefore unable to form an opinion on the robustness of the internal audit process designed to meet the requirements of either audit objective. Whilst the agency advised it had confirmed there was no travel transacted through Latitude Travel, Winnellie Travel and Latitude 69, no time period was provided in relation to the period checked.

Department of the Chief Minister cont...

Risk-based audit approach

Two agencies did not check compliance against each of the requirements in the NTGATP however did test compliance against those requirements where non-compliance was likely to present the greatest financial, legal or reputational risk to the Agency. Examples of the controls tested related to: choice of best value fare; use of designated travel service provider; appropriately authorised delegation; acquittal of travel expenses and the alignment of private travel with official travel purposes. The application of a risk-based audit methodology is a reasonable approach promulgated by professional auditing standard setters. I note also these agencies have planned subsequent audits to address additional aspects of compliance with the NTGATP. I am satisfied that these internal audits were undertaken sufficiently robustly as to enable their Accountable Officers to attest, by 31 January 2016, to compliance with the NTGATP effective 1 July 2015.

These two agencies did investigate all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 and reported the results to the Chief Executive of the Department of the Chief Minister by 31 January 2016 and thus complied with the second aspect of the memoranda.

Extensions provided to agencies conducting the audit

One agency sought and received an extension of the deadline to complete the audit with the comprehensive findings submitted to the Department of the Chief Minister on 12 February 2016. Following my review of the internal audit documentation provided by this agency, I am satisfied that the internal audit was sufficiently complete and undertaken sufficiently robustly as to enable the Accountable Officer to attest, by 31 January 2016, to compliance with the NTGATP effective 1 July 2015.

This agency did investigate all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 and reported the results to the Chief Executive of the Department of the Chief Minister by 31 January 2016 and thus complied with the second aspect of the memoranda.

Department of the Chief Minister cont...

Concession regarding testing period

A further agency already had in place a process for conducting audits of compliance with the NTGATP on a quarterly basis and as such, the audit for the period 1 October 2015 to 31 December 2015 was scheduled to occur in January 2016. Travel transactions during the period from 1 July 2015 to 30 September 2015 had been subjected to audit and the results and findings were provided to the Department of Chief Minister. Given that the recommendation from the consulting firm was “to establish six monthly audits” and the quarterly audit had been conducted on transactions undertaken during the six-month period 1 July 2015 to 31 December 2015, it can be effectively argued that the agency has in fact, complied with the recommendation as testing has occurred within the six month period. Following my review of the internal audit documentation provided by this agency, I am satisfied that the internal audit was sufficiently complete and undertaken sufficiently robustly as to enable the Accountable Officer to attest, by 31 January 2016, to compliance with the NTGATP effective 1 July 2015.

This agency did investigate all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 and reported the results to the Chief Executive of the Department of the Chief Minister by 31 January 2016 and thus complied with the second aspect of the memoranda.

Agency responses received after due date

The memoranda required agencies to report the results of both audits to the Chief Executive Officer of the Department of the Chief Minister by 31 January 2016. Eight agencies, whilst subsequently demonstrating they had complied with both audit objectives, did not report the results by the due date. Of these, three did not receive the memoranda and one had sought an exemption to 12 February 2016 as noted above. All eight agencies reported on or before 12 February 2016.

Compliance with memoranda

Following my review of the internal audit documentation provided by the remaining 14 agencies, I am satisfied that the internal audits of these agencies were sufficiently complete and undertaken sufficiently robustly as to enable their Accountable Officers to attest, by 31 January 2016, to compliance with the NTGATP effective 1 July 2015.

These 14 agencies did investigate all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 and reported the results to the Chief Executive of the Department of the Chief Minister by 31 January 2016 and thus complied with the second aspect of the memoranda.

Department of the Chief Minister cont...

Tabular summary

The following tables present a summary of my observations above regarding my evaluation of compliance with the memoranda issued by the Chief Executive of the Department of the Chief Minister:

Table 1: Agencies responding to the memoranda

Agencies receiving memoranda requiring audit of compliance with NTGATP	22
Agencies not receiving memoranda but reported compliance with both audit requirements	6
Total agencies responding to the memoranda	28

Table 2: Agencies that identified and investigated all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015

Total agencies responding to the memoranda	28
Agencies that provided insufficient information to demonstrate all travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 had been identified and investigated. This agency was also unable to demonstrate compliance with the NTGATP.	(1)
Agencies able to demonstrate compliance with the second audit objective of the memoranda	27

Table 3: Agencies whose internal audits were sufficiently complete and undertaken sufficiently robustly as to enable their Accountable Officers to attest to compliance with the NTGATP effective 1 July 2015

Total agencies responding to the memoranda	28
Agencies exempted from conducting the audit granted by the Department of Chief Minister	(2)
Agencies limited scope therefore inability to demonstrate compliance with the NTGATP. One of these agencies was also unable to demonstrate that all travel transacted between Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 had been identified and investigated.	(4)
Agencies able to demonstrate compliance with the first audit objective of the memoranda	22

Department of the Chief Minister cont...

Table 4: Agencies that could demonstrate they had achieved both audit objectives and reported the results of their audits to the Chief Executive Officer of the Department of the Chief Minister by the due date of 31 January 2016

Total agencies that could demonstrate they had achieved both audit objectives	22
Agency responses demonstrated compliance however confirmation was not received by the Chief Executive Officer of the Department of the Chief Minister by the due date of 31 January 2016 (however received prior to the commencement of my review)	(8)
Agencies able to demonstrate full compliance with the two objectives of the memoranda and response received by Department of the Chief Minister on or before 31 January 2016	14

Resourcing of the Internal Audits

The memoranda issued by the Chief Executive Officer of the Department of the Chief Minister did not specifically direct Chief Executives on the means by which the audits should be undertaken. As such, an internal audit could be conducted by: a member of the operational staff (assuming there is no conflicted role, such as being authorised to book travel); an internal audit resource within the Agency; or through the use of an external professional service provider. Given the timeframe in which the audits were to be undertaken and reported (between 18 December 2015 and 31 January 2016) includes a period where many local professional services firms close for a number of weeks over Christmas, I do not find it surprising that a limited number of agencies elected to outsource the conduct of their audits.

Of the 28 agencies responding to the memoranda, all elected to have operational staff members identify and investigate travel transactions between their agency and Latitude Travel, Winnellie Travel and Latitude 69. I find this acceptable given the necessity for the person undertaking the task at each agency to understand the agency's accounting, travel and records management systems.

Of the 28 agencies responding to the memoranda, two were granted an exemption from auditing their compliance with the NTGATP by the Chief Executive Officer of the Department of the Chief Minister.

Department of the Chief Minister cont...

Four agencies outsourced the compliance audit to a professional services provider.

Six agencies had their compliance audits conducted by a staff member designated with responsibility for internal audit, risk management and/or governance functions. Two of these agencies had limited the scope of the internal audit as discussed earlier.

Sixteen agencies relied upon operational staff members to undertake the audit of compliance with the NTGATP. Whilst reliance on an operational staff member to conduct the audit of compliance with the NTGATP may present an increased risk of inadequate segregation of duties where the staff member is also delegated to book and approve travel, I am satisfied that the review processes put in place at ten of the twelve agencies was sufficient to mitigate this risk. The remaining two agencies are the same agencies that had limited the scope of the internal audit as discussed above.

The following table presents a summary of resourcing of the internal audits of agencies' compliance with the NTGATP:

Table 5: Resourcing of internal audits

Internal audit not conducted (exemption provided)	2
Conducted by an external professional service provider	4
Conducted by an internal audit resource of the Agency (two had limited scope)	6
Conducted by an operational staff member of the Agency (two had limited scope)	16
Total agencies responding to the memoranda	28

Summary of internal audit findings

The conclusion most frequently expressed as a result of each agency's internal audit was that there was a satisfactory level of compliance of official duty travel with the NTGATP with some areas for improvement identified.

The audits conducted at agencies resulted in a number of consistent findings which suggest areas for improvement do exist across government. A number of the findings indicated that no evidence exists to demonstrate compliance however this does not necessarily always mean that non-compliance has occurred.

Department of the Chief Minister cont...

As an example, it is possible that a booking officer did check a number of travel providers and selected the cheapest fare of the day however has failed to retain evidence of this check occurring. In this instance, evidence may constitute a screen-shot of flight options or printed copies of options from a number of service providers.

Another example is where consideration has been given to alternate means of achieving the same outcome intended to result from the travel, such as communicating via teleconference or driving to a destination, however no documentary evidence exists to demonstrate that such consideration occurred.

Agencies need to consider their internal procedures and determine what form of evidence should be retained in order to demonstrate compliance with all of the requirements within the NTGATP.

For the 22 agencies that conducted an internal audit that involved testing more than the booking of travel through the corporate travel service provider, a summary of findings resulting from the internal audits is included below together with the number of agencies that reported the finding. Over 660 individual transactions across those 22 agencies were tested for compliance:

Department of the Chief Minister cont...

Table 6: Summary of internal audit findings

Finding	# Agencies
Agency internal policies, procedures and processes require updating to reflect the NTGATP.	6
Travel was not acquitted within seven working days of completion of travel.	17
Travel was not booked through the corporate travel service provider.	14
The requirements of the NTGATP are not well understood or require clarification.	6
Travel had occurred which was not processed through the TRIPS system.	1
Travel had not received prior approval or approval was provided by an approver with insufficient delegation.	8
Delegations require updating.	1
The best value fare was either not chosen or evidence was not available to demonstrate the choice of best value fare.	8
Private travel was undertaken in conjunction with official travel.	4
Duplication of Movement Requisitions was observed.	1
Travel allowance was paid when travel had not occurred.	1
Instances of non-compliance with delegations were identified.	3
Evidence supporting the travel was not maintained within TRIPS.	9
Travel was booked above economy class without appropriate approval.	1
Advice of international travel was not provided to Protocol NT.	1
Travel allowance was incorrectly paid or unable to be supported by documentary evidence.	2
NTG travellers were unable to access and acquit travel booked in their name.	1

Department of the Chief Minister cont...

Two agencies identified delays in receiving invoices from the corporate travel service providers which then impaired the ability of the traveller or delegate to acquit the travel in the required timeframe and also impacted the agencies' compliance with the 30 day payment policy relevant to creditors.

One agency identified that travel had been booked for a Minister however payment for the travel had appropriately been sought from the Department of the Chief Minister.

The fact that the internal audits have identified consistent issues relating to non-compliance with the NTGATP effective 1 July 2015 supports the assertion that the internal audits have been conducted in a sufficiently robust manner and are designed to identify areas where compliance with the NTGATP effective 1 July 2015 can be enhanced.

It should be noted that these are the first internal audits to be undertaken in response to the commitment for six monthly audits of compliance with the NTGATP effective 1 July 2015. It is therefore not unexpected that a limited number of exceptions would be identified. Given the stated intent that the NT Government will continue to conduct this six monthly audit regime, it is timely for agencies to assess the approach taken during this first round of audits and determine whether the terms and scope of their audit are sufficient. The risks associated with reliance on outsourced service providers and central agencies should be considered in this context. Accountable Officers should also ensure the audits are scheduled within their internal audit plans as required and that adequate consideration is given to resourcing the audit, in terms of capacity and capability.

Identification of transactions with Latitude Travel Pty Ltd and related parties

In relation to my evaluation of the agencies' identification and analysis of all transactions between the NT Government and Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015, I note the following results from the eight agencies where their internal audit processes identified such transactions:

- Analysis undertaken by four agencies resulted in advice to the Chief Executive of the Department of the Chief Minister that the transactions were not anomalous in that the value of the transactions appeared reasonable.
- One agency advised the Chief Executive of the Department of the Chief Minister that it had provided further information to Northern Territory Police that was discovered as a result of the internal audit however the transaction had previously been notified to Northern Territory Police.
- One agency advised the Chief Executive of the Department of the Chief Minister that they had previously provided all documentation relating to the identified transactions to the Northern Territory Police.

Department of the Chief Minister cont...

- One agency advised the Chief Executive of the Department of the Chief Minister that the internal audit had identified a transaction that the agency was investigating further to decide whether to refer the previously unidentified matter to the Northern Territory Police.
- One agency advised the Chief Executive of the Department of the Chief Minister that it had provided documentation arising from its internal audit to Northern Territory Police in relation to one trip that could involve anomalous transactions and the matter had not previously been referred to Northern Territory Police.

Reporting of findings to audit committee equivalents

As a result of this evaluation, I requested additional information and responses to be provided to me by 11 March 2016. As at 11 March, a number of agencies were yet to submit the reports from the internal travel audits to their Audit Committee, or equivalent body, for review. This is not unusual given the 40 day period between 31 January 2016 (when agencies were required to respond to the memoranda) and 11 March 2016 (the date agencies were requested to present further information to me) and the advice that many Audit Committees (or equivalent) meet on a quarterly basis.

Responses to audit findings

A number of the responses and proposed actions documented by the agencies included a desire to see further clarification of policy requirements by central NT Government agencies and for consideration to be provided for some additional functionality to be added to TRIPS, the NT Government travel recording system, to support compliance.

Notwithstanding the appointment in March 2016 of a single travel provider to serve all NT Government agencies, a number of these suggestions remain valid. It may be advantageous to the NT Government for the Department of the Chief Minister to convene a debriefing session with Agencies where processes to further support compliance could be discussed and adopted where appropriate.

Whilst the appointment of a single travel provider may assist in mitigating some previously existing risks, responsibility for compliance with the NTGATP remains with the Accountable Officer of each agency. It is therefore incumbent that each Agency considers what controls are required within the agency itself (in addition to those controls within central and shared agencies and the travel service provider) and how compliance will continue to be monitored under the new arrangements.

Department of the Chief Minister cont...

Conclusion

1. Agencies whose internal audits were sufficiently complete and undertaken sufficiently robustly as to enable their Accountable Officers to attest to compliance with the NTGATP effective 1 July 2015

With the exception of six agencies that either did not undertake an internal audit or were unable to demonstrate a sufficiently comprehensive internal audit had been undertaken in order to attest to compliance with the NTGATP effective 1 July 2015, it is my opinion that 22 (approximately 80%) of the 28 identified agencies have undertaken a risk-based robust internal audit process which supports their confirmation to the Chief Executive of the Department of the Chief Minister that they had demonstrated compliance with the NTGATP effective 1 July 2015 for the period subject to audit.

2. Agencies that identified and investigated all identified travel transacted through Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015

Of the 28 agencies that responded to the Chief Executive Officer of the Department of the Chief Minister, I am of the opinion that the systems employed by 27 agencies (96%) were sufficiently robust as to achieve the objective of the memoranda requiring identification and analysis of all transactions between the NT Government and Latitude Travel, Winnellie Travel and Latitude 69 between 1 July 2009 and 18 December 2015 in order to determine any potential anomalies indicating value for money had not been obtained and where the transaction may be referred to Northern Territory Police for further investigation.

3. Agencies that could demonstrate they had achieved both audit objectives and reported the results of their audits to the Chief Executive Officer of the Department of the Chief Minister by the due date of 31 January 2016

Of the 22 agencies that have undertaken a risk-based robust internal audit process supporting their responses to the Department of the Chief Minister, 14 reported the results of both audits to the Chief Executive Officer of the Department of the Chief Minister by 31 January 2016 in accordance with the memoranda.

Department of the Chief Minister cont...

Acknowledgement

I would like to express my appreciation to the staff of the Department of the Chief Minister and the Chief Executives and their nominated representatives of the listed NT Government agencies for their assistance and timely responses to information requests during the course of this evaluation.

Acknowledgement should also be extended to those individuals undertaking the audits particularly where, as a shared service provider, they have delivered a comprehensive audit process to two or more agencies.

Department of the Chief Minister cont...

The Department of the Chief Minister has commented:

The report's findings are noted, including the recognised efforts of agencies in responding to the six monthly audit program cycle agreed under the original NT Government Travel Review recommendations. The department is appreciative of the timeliness of the evaluation as it will provide a valuable guide for agencies' future travel internal audit activities.

Menzies School of Health Research

Audit findings and analysis of the financial statements for the year ended 31 December 2015

Background

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

Audit Opinion

The audit of the financial statements of Menzies School of Health Research for the year ended 31 December 2015 resulted in an unmodified independent audit opinion, which was issued on 30 March 2016.

Key Findings

Total income has increased by \$6.2 million this financial year. This predominantly relates to an \$8.9 million gain from the disposal of a constructed building in comparison to a \$3.8 million loss on the disposal of a building in 2014. The overall improvement, relating to the disposal of assets (\$12.7 million), is offset by a reduction of \$6.6 million in continuing operations in 2015.

Menzies School of Health Research cont...

Financial Performance for the year ended 31 December 2015

	2015	2014
	\$'000	\$'000
Revenue from continuing operations	45,676	39,501
Less expenses from ordinary activities		
Employee expenses	(22,584)	(23,339)
Administration, operational and other expenses	(15,146)	(14,564)
Total expenses from ordinary activities	(37,730)	(37,903)
Net operating result for the year	7,946	1,598

Menzies School of Health Research cont...

Financial Position as at 31 December 2015

	2015	2014
	\$'000	\$'000
Current assets	29,770	34,487
Less current liabilities	(4,386)	(8,684)
Working capital	25,384	25,803
Add non-current assets	34,651	26,249
Less non-current liabilities	(481)	(307)
Net assets	59,554	51,745
Represented by:		
Reserves	6,077	6,815
Retained earnings	53,477	44,930
Equity	59,554	51,745

Selected Agencies

Agency Compliance Audits

Audit Objectives and Scope

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

Background

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

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

Selected Agencies cont...

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

- Aboriginal Areas Protection Authority;
- Department of Arts and Museums;
- Department of Business;
- Department of Children and Families;
- Department of Corporate and Information Services;
- Department of Correctional Services;
- Department of Education;
- Department of Health;
- Department of Housing;
- Department of Infrastructure;
- Department of Land Resource Management;
- Department of Lands, Planning and the Environment;
- Department of Local Government and Community Services;
- Department of Mines and Energy;
- Department of Primary Industry and Fisheries;
- Department of Sport and Recreation;
- Department of the Attorney-General and Justice
- Department of the Chief Minister;
- Department of the Legislative Assembly;
- Department of Transport;
- Department of Treasury and Finance;
- Northern Territory Police, Fire and Emergency Services;
- Office of the Commissioner for Public Employment;
- Ombudsman's Office;
- Parks and Wildlife Commission of the Northern Territory; and
- Tourism NT.

Selected Agencies cont...

Key Findings

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

- lack of compliance with Procurement Directions, and procurement policies;
- lack of compliance with Treasurers' Directions, particularly in relation to controls over telephones, hospitality and travel expenditure;
- deficiencies in controls over fixed assets;
- control weaknesses in relation to the use of corporate credit cards;
- incomplete registers of financial interests, contingencies, guarantees and indemnities;
- lack of internal audit capacity accompanied by weaknesses in internal audit procedures;
- no internal Information and Communications Technology Policies in place at the time of conducting the audit;
- inadequate processes in place to identify reciprocal and non-reciprocal grants;
- effectiveness of the internal audit function could be improved;
- individual payment transactions in excess of \$100,000 were not being notified to the Northern Territory Treasury Corporation in advance of payment;
- deficiencies were observed in relation to the segregation of duties at two agencies where it was noted that the receipting, reconciliation and banking of the funds functions were usually conducted by the same staff member, without independent review;
- source documents were not readily available for audit scrutiny; and
- incomplete Agency Accounting and Property Manuals that did not fully comply with Treasurer's Directions.

During the conduct of the Agency Compliance Audits it was noted that the Treasurer's Directions (TD's) gave little guidance with regard to the definition of hospitality expenditure. This resulted in each agency creating their definition as to what is, and what is not, hospitality expenditure. For example, one Agency included everything except coffee room biscuits as hospitality expenditure whilst another excluded morning and afternoon teas, light working lunches, and food consumed for training courses.

As previously noted, some TD's are outdated (with some of them last being updated in May 1995), however the Department of Treasury and Finance are currently reviewing and updating the TD's with some drafts being released for feedback.

Selected Agencies cont...

The Aboriginal Areas Protection Authority has commented:

The Authority welcomes the audit report and has commenced work to address minimal deficiencies that were identified.

The Department of Arts and Museums has commented:

The Department of Arts and Museums notes accounting and control procedures examined provided reasonable assurance responsibilities will be met if the systems continue to operate in the manner identified in the audit.

The Department welcomes the review by the Department of Treasury and Finance of outdated Treasurers Directions that will address the issue raised during the audit.

The Department of Business has commented:

The Department of Business supports the review of the Treasurers Directions and confirms that individual payment transactions in excess of \$100,000 will be notified to Northern Territory Treasury Corporation.

The Department complies with the whole of government ICT policies; however the Information Management Committee has commenced a program of work to deliver specific Department ICT policies.

Selected Agencies cont...

The Department of Corporate and Information Services has commented:

The audit examination of DCIS accounting and control procedures identified only one of the findings listed, being payment transactions in excess of \$100,000 not individually and separately notified to Northern Territory Treasury Corporation (NTTC). This is a minor issue as other established processes are in place to provide payments information to NTTC and the Treasurer's Directions are being updated to align with these current processes.

DC/S payments are processed via the Electronic Invoice Management System (EIMS) and paid using the Government Accounting System (GAS). A report developed specifically for NTTC identifies payment transactions valued over \$100 000 from EIMS/GAS, which arguably meets the prior notification requirement of Treasurer's Direction C3.2. The audit noted the process described above will comply with the updated Treasurer's Directions, as drafted.

The Department of Education has commented:

The Department of Education acknowledges the single finding raised in the audit report and continues to reinforce with staff members the importance of complying with the process to which the finding relates.

The Department of Housing has commented:

The Department of Housing acknowledges the findings of the Agency Compliance Audit. The Department will improve its controls to support compliance.

Selected Agencies cont...

The Department of Land Resource Management has commented:

The Department of Land Resource Management notes accounting and control procedures examined provided reasonable assurance responsibilities will be met if the systems continue to operate in the manner identified in the audit.

The Department welcomes the review by the Department of Treasury and Finance of outdated Treasurer's Directions that will address the issue raised during the audit.

The Department of Mines and Energy has commented:

The Department of Mines and Energy (DME) notes the Audit Opinion of the Auditor-General in relation to DME's Compliance audit 'that in general the accounting and control procedures examined provide reasonable assurance that the responsibilities of the Accountable Officer, as set out in the Treasurer's Directions and Procurement Regulations and Guidelines, will be met if those systems continue to operate in the manner identified in the audit'.

The Agency continues to reinforce the requirements under the Accounting and Property Manual through written notifications, reminders and in house training.

The Department of the Legislative Assembly has commented:

The compliance audit found that the Department of Legislative Assembly's accounting and control procedures provide reasonable assurance to the Clerk and identified two matters requiring attention. The Department notes the recommendation and will commence a program of work to deliver Information and Communication Technologies policies specific to our requirements taking into account the size of the Department. The review of the Accounting and Property Manual has commenced and implementation is being monitored by the Internal Audit Committee.

Selected Agencies cont...

The Department of Primary Industry and Fisheries has commented:

The Department of Primary Industry and Fisheries (DPIF) notes the Audit Opinion of the Auditor-General in relation to DPIF's Compliance Audit 'that in general the accounting and control procedures examined provide reasonable assurance that the responsibilities of the Accountable Officer, as set out in the Treasurer's Directions and Procurement Regulations and Guidelines, will be met if those systems continue to operate in the manner identified in the audit'.

The Agency continues to reinforce the requirements under the Accounting and Property Manual through written notifications, reminders and in house training.

The Department of Sport and Recreation has commented:

The Department of Sport and Recreation notes accounting and control procedures examined provided reasonable assurance responsibilities will be met if the systems continue to operate in the manner identified in the audit.

The Department welcomes the review by the Department of Treasury and Finance of outdated Treasurers Directions that will address the issue raised during the audit.

The Department of Treasury and Finance has commented:

The Department of Treasury and Finance (DTF) acknowledges the findings of the Agency Compliance Audit and confirms that the Treasurer's Directions are in the process of being reviewed and updated.

Northern Territory Police, Fire and Emergency Services has commented:

The Northern Territory Police, Fire and Emergency Services (NTPFES) acknowledges and is actioning the recommendation to implement a formal process that registers grants that have reciprocal requirements and/or return obligations.

Selected Agencies cont...

Tourism NT has commented:

The primary findings relating to Tourism NT, namely 5 instances of non-compliance with Procurement Directions for low value Tier 1 transactions have been addressed within the agency.

Selected Agencies

Evaluation of Internal Audit Framework

Audit Scope and Objective

The primary objective of the Evaluation of Internal Audit Framework Audit was to assess and test, with reference to a representative number of transactions or other suitable evidence, the adequacy of the systems developed by the Accountable Officer to achieve compliance with their accountability and control requirements and form an opinion on whether the Agency's internal audit function is adequate.

This was undertaken using a performance management systems audit approach.

Background

Agencies are required to comply with the Financial Management Act (FMA), Financial Management Regulations and Treasurer's Directions (TDs). The FMA specifies in section 13(2)(b) that the Accountable Officer must ensure that *"procedures in the Agency are such as will at all times afford a proper internal control."*

An effective internal audit framework can provide the Accountable Officer with objective, independent assurance that the Agency's internal controls and management practices are operating effectively. Through this framework, suggestions for improvements and efficiencies to operations that may be needed can be recommended and implemented.

I assessed whether the following components of the internal audit framework were implemented and operating effectively in relation to the Financial Management Act (FMA), Financial Management Regulations and Treasurer's Directions (TDs):

- Internal audit function;
- Audit committee; and
- Agency's written representation which is signed by the Chief Executive and accompanies the Agency's Annual Report.

Where considered appropriate, I also referred to best practice as areas where an Agency may benefit from enhancing their performance management system in relation to their internal audit framework. Better practice guidance is available from the Australian National Audit Office (ANAO) <https://www.anao.gov.au/pubs/better-practice-guides>. There are two guides available related to an internal audit framework:

- Public Sector Internal Audit: An Investment in Assurance and Business Improvement, September 2012
- Public Sector Audit Committees: Independent Assurance and Advice for Accountable Authorities, March 2015

Selected Agencies cont...

This audit covered the period 1 July 2015 to 29 February 2016.

Audits were performed in six agencies. Two audits were completed in time for inclusion in this report to the Legislative Assembly. The results of the remaining four audits will be included in my next report to the Legislative Assembly. The completed audits were undertaken at the:

- Department of Children and Families (DCF); and
- Department of Treasury and Finance (DTF).

Internal Audit Framework

A process flow diagram demonstrating the basic elements that an agency must have in existence to comply with the FMA and TDs required elements, as described above, is included on page 75. This diagram presents only the essential requirements and does not incorporate better practice guidance, which if an Agency chose to implement, would provide a more holistic internal audit framework.

Each of the requirements from the FMA, TDs and the elements examined when undertaking these audits is explained below. It should be noted that only excerpts of the FMA and TDs are presented below, rather than reproduction of the requirements in their entirety.

Internal audit function

The FMA contains a specific section on internal audit. Section 15 requires:

- “(1) *The Accountable Officer of an Agency shall ensure that the Agency has an adequate internal audit capacity to assist the Accountable Officer in the performance of his or her functions under this Act.*
- (2) *The person in charge of an internal audit of an Agency shall, as soon as practicable after completing the internal audit, report to the Accountable Officer of the Agency the result of the audit.”*

Prescribed detailed accountability requirements are identified in Treasurer’s Direction Part 3, Section 2 Internal Audit.

The key ‘Internal Audit’ criteria defined by the TD’s and the FMA can be broken down to the following sub-elements:

- Internal Audit Function and Capacity
- Internal Audit Charter

Selected Agencies cont...

- Capabilities
- Access
- Internal Audit Plan
- Reporting

The balance of this section provides an overview of each of these sub-elements.

Internal Audit Function and Capacity [FMA Section 15(1)]

The ANAO Better Practice Guide: Public Sector Internal Audit, September 2012, page ii, describes a better practice internal audit function as one that:

- *“Has the confidence and visible support of key stakeholders including the Chief Executive, the Board (where applicable), the Audit Committee and senior management.*
- *Is operationally independent: that is, internal audit is independent from the activities subject to audit.*
- *Has a well-developed strategy that clearly identifies internal audit’s role and responsibilities and contribution to the entity’s broader assurance arrangements.*
- *Has sufficient financial resources and staff and access to contractors when appropriate, with the necessary skills, experience and personal attributes to achieve the contribution expected of internal audit.”*

The structure of the internal audit function established within the selected Agencies and the ability of the internal audit function to deliver effective outcomes were examined.

Internal Audit Charter [TD’s 3.2.3 and 3.2.4]

The TDs require that a charter exists, is supported by the Accountable Officer and that it covers *“the authority, independence, responsibilities and scope of the internal audit function”* (TD 3.2.4). I examined whether there was a current charter in place, which included the required elements and whether it had been approved by the Accountable Officer.

Capability [TD 3.2.5]

This element required an assessment of the resourcing and the parties undertaking internal audits on behalf of the Agency, irrespective of whether they are internal agency personnel or service providers under an outsourced arrangement. I also examined the internal audit plans in place and considered the number and nature of audits undertaken during the audit period.

Selected Agencies cont...

Access [TD 3.2.6]

This element involved discussions with agency personnel and review of internal audit reports to test whether access to information was unencumbered. I also checked whether this element was included as a requirement in the Internal Audit Charter.

Internal Audit Plan [TD 3.2.7]

The TDs require that an “*appropriate program of internal audit*” is developed (TD 3.2.7). I examined the audits included in the Internal Audit Plan and assessed whether the Internal Audit Plan was designed to address risks identified within the Agency’s Strategic Risk Assessment.

Reporting [TD 3.2.8 and FMA Section 15(2)]

This element involved gaining an understanding of how internal audit reports are reported and to whom. It also involved gathering evidence as to what action is taken to ensure recommendations are followed up and implemented appropriately. Evidence in the form of signed completed internal audit reports, audit issue/recommendation logs and minutes of meetings were sighted where possible.

Audit committee

Prescribed detailed accountability requirements are identified in Treasurer’s Direction Part 3, Section 3 Audit Committees.

The ANAO Better Practice Guide: Public Sector Audit Committees, March 2015, page 3, describes the role of Audit Committees:

“Audit Committees have a long standing and important role in the governance framework of public sector entities. They are recognised as a valuable provider of independent assurance and advice to the Accountable Authority on key aspects of an entity’s operations.

Audit Committees do not, however, displace or change the management and accountability arrangements within entities, but enhance the existing governance framework, risk management practices, and control environment, by providing independent assurance and advice.”

Page 27 of the same guide states:

“The distinguishing feature of an Audit Committee is its independence. An Audit Committee is independent of the activities of management and this independence assists in ensuring that an Audit Committee acts in an objective and impartial manner, free from conflicts of interest, inherent bias or undue external influence.”

Selected Agencies cont...

The key 'Audit Committee' criteria defined by the TD's and the FMA can be broken down into the following sub-elements:

- Establishment
- Functions
- Terms of Reference
- Composition
- Membership appointment
- Reporting

The balance of this section provides an overview of each of these sub-elements.

Establishment [TD 3.3.3]

This involved determining whether an Audit Committee had been established and was operating in the Agency during the audit period. This understanding was gained through discussions with Agency staff, members of the Audit Committee and reviewing minutes of the Audit Committee Meetings.

Functions [TD 3.3.4 and 3.3.5]

The TDs contain a list of elements that may be included as functions of the Audit Committee. I compared the listing in the TD against the Terms of Reference for the Audit Committee.

Terms of Reference [TD 3.3.6 and TD 3.3.7]

The TDs suggest that the Accountable Officer formulate a Terms of Reference for the Audit Committee and that it clearly states "*the authority, membership and responsibilities of the committee*" (TD 3.3.6). It recommends the periodic review of the Terms of Reference. I examined whether there was a current Terms of Reference in place, which included the required elements and whether it had been approved by the Accountable Officer. I also considered when the Terms of Reference was last reviewed, and when it was planned to be reviewed in future.

Selected Agencies cont...

Composition [TD 3.3.8 and TD 3.3.9]

The TDs allow discretion as to the size and composition of an Audit Committee, though suggests that three to six members is considered normal. Accountable Officers are charged with appointing members from a cross section of the Agency, and where appropriate, members external to the Agency be considered for appointment. I reviewed the size and composition of the Audit Committee members through documentary evidence, such as minutes of Audit Committee meetings. Better practice proposes that an external member be included as a member of the Audit Committee.

Membership appointment [TD 3.3.10 and TD 3.3.11]

The TDs recommend that members are appointed for specified terms, on a staggered basis. I examined the membership of the Audit Committee members, their terms and changes between members through examination of Audit Committee meeting minutes and other documented supporting evidence retained by the agency. I checked that members were not the Agency's auditors. I am able to attend as an observer, where invited by an Agency.

Reporting [TD 3.3.12]

The TDs require that Audit Committee meetings are minuted and copies are provided to the Accountable Officer. I examined Audit Committee Meeting minutes and correspondence between the Audit Committee and the Accountable Officer.

Agency's written representation

TD R2.1 *Agency Reporting – Agency Financial Statements* at section R2.1.6 requires “as part of the Agency's Annual Report, the Accountable Officer of an Agency is to provide written representation to the relevant Minister consistent with that shown at Appendix B”. There are six statements included in Appendix B. I examined the declarations as published in the Agency's 2014-15 Annual Report and compared it to the requirements of the TD.

There may be other statements included in this declaration as required by other legislation or a decision made by the Accountable Officer to include further statements.

Key Findings

The audit findings identified that the agencies demonstrated compliance with most requirements of the Treasurer's Directions, however there are opportunities to implement some improvements in order to demonstrate that the Agencies have developed and implemented a more robust internal audit framework within their respective Agencies.

Selected Agencies cont...

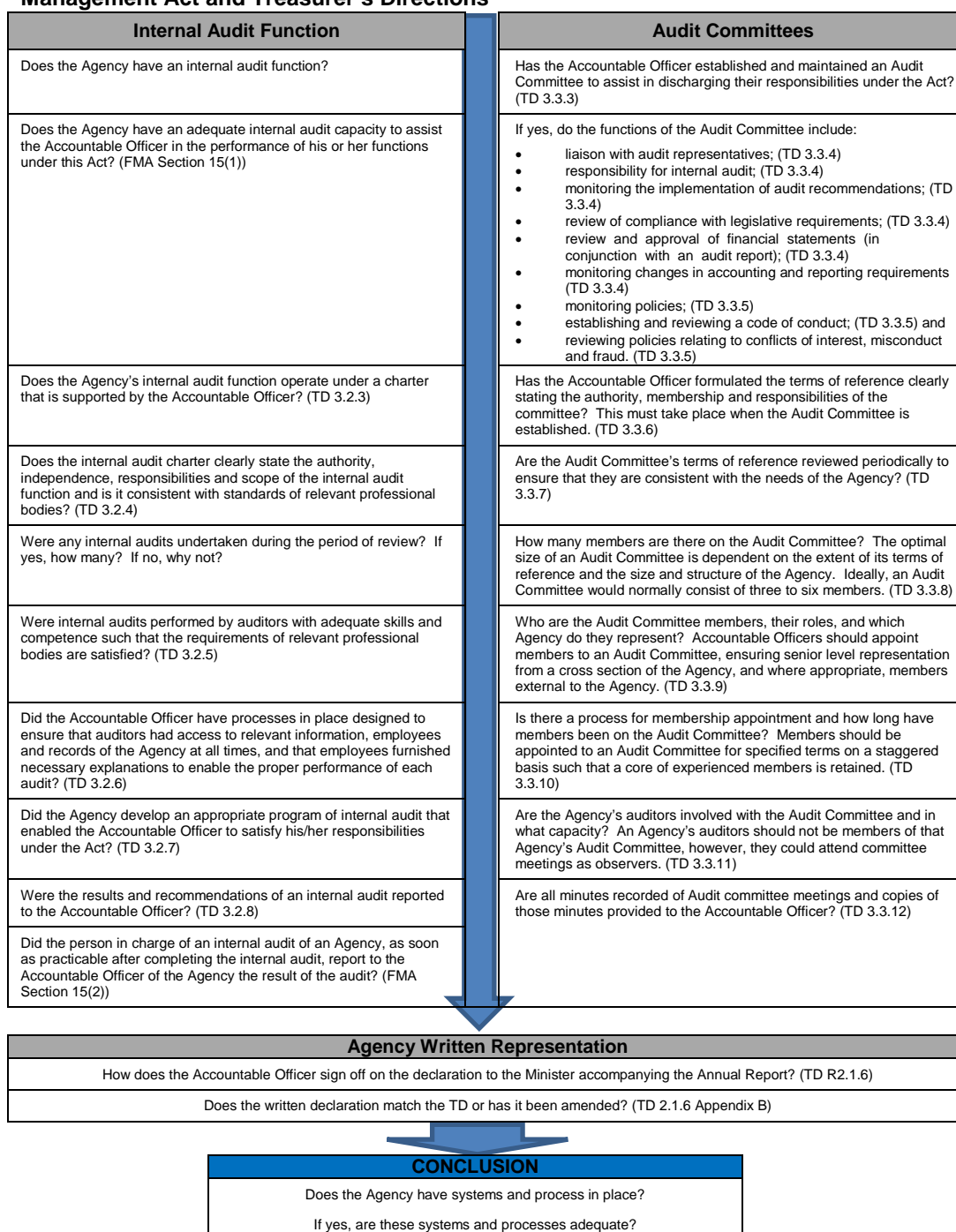
A number of recommendations to enhance the effectiveness of the Agencies' performance management systems in relation to their internal audit framework were raised as a result of these audits including:

- developing or enhancing the Internal Audit Charter;
- obtaining approval of an annual Internal Audit Plan which is aligned to the strategic risks of the agency to ensure risk-based internal audit coverage;
- enhancing the Terms of Reference for the Audit Committee;
- giving consideration to the inclusion of external members on the Audit Committee;
- ensuring the Agency's written representation accompanying the Annual Report covers the requirements of the Treasurer's Directions.

Recommendations also incorporated better practice guidance from the ANAO, where appropriate, to enhance the agency's internal audit framework and the effectiveness of the internal audit function.

Selected Agencies cont...

Evaluation of an Agency's Internal Audit Framework – Compliance with the Financial Management Act and Treasurer's Directions



Selected Agencies cont...

The Department of Treasury and Finance has commented:

The Department of Treasury and Finance will continue to ensure the internal audit function reflects best practice

Selected Agencies

Fuel Cards

Background

The objective of this assessment was to examine transactions for the purchase of fuel, using fuel cards that were undertaken between 1 July 2015 and 31 December 2015 by the following:

- Board of the Museum and Art Gallery of the Northern Territory;
- Department of Business;
- Department of Children and Families;
- Department of Corporate and information Services;
- Department of Housing;
- Department of Transport;
- Department of Treasury and Finance; and
- Power and Water Corporation.

The objective was to identify transactions that displayed unusual characteristics or characteristics that might suggest the existence of fraud, and to provide information about those transactions to the entities' management for review and follow-up. Fuel cards issued to officers of the entities, and pool vehicles were included in the assessment.

Overall Assessment

It should be noted that this assessment did not constitute an audit.

My review of the data related to fuel card purchases highlights the necessity for the entities to be vigilant at all times. Simply reviewing the data may not necessarily identify fraudulent or incorrect transactions. To highlight this – there are legitimate reasons for a driver to undertake two successive purchases of fuel within a few minutes (filling up a primary and secondary fuel tank on a vehicle for example); however, there are opportunities for inappropriate purchases to be made and charged to the fuel cards.

Selected Agencies cont...

Key Findings

The following table outlines the fuel cards identified as being in use at some time during the period 1 July 2015 to 31 December 2015.

Department	Fuel Cards
Board of the Museum and Art Gallery of the Northern Territory	7
Department of Business	89
Department of Children and Families	133
Department of Corporate and information Services	36
Department of Housing	102
Department of Transport	48
Department of Treasury and Finance	19
Power and Water Corporation	497

Vehicles Unable to be Analysed

Board of the Museum and Art Gallery of the Northern Territory

The Board of the Museum and Art Gallery of the Northern Territory had seven Puma fuel cards allocated to vehicles in use at some time during the period 1 July 2015 and 31 December 2015. There were 41 transactions recorded against the seven Puma fuel cards.

Of the seven Puma fuel cards, two had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer readings related to those purchases, therefore no further analysis was undertaken. For one other Puma fuel card an analysis of the data was not appropriate as the fuel card was allocated to a heavy duty boat. There were two fuel purchases recorded for the boat.

Selected Agencies cont...

Department of Business

The Department of Business had 89 Puma fuel cards allocated to vehicles in use at some time during the period 1 July 2015 and 31 December 2015. There were 829 transactions recorded against the 89 Puma fuel cards.

Of the 89 Puma fuel cards, six had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken. For one other Puma fuel card there was insufficient data to permit a reasonable analysis to be performed because correct odometers were not provided for the last four purchases.

Department of Children and Families

The Department of Children and Families had 133 Puma fuel cards allocated to vehicles in use at some time during the period 1 July 2015 and 31 December 2015. There were 1,583 transactions recorded against the 133 Puma fuel cards.

Of the 133 Puma fuel cards, eight had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading therefore no further analysis was undertaken.

For six other Puma fuel cards there was insufficient data to permit a reasonable analysis to be performed because correct odometer readings were not provided with sufficient regularity.

There was one multi vehicle card where the kilometres travelled per day cannot be ascertained.

Thus there were 118 cards where an analysis of the distance travelled per day could be completed.

Department of Corporate and information Services

The Department of Corporate and information Services had 36 Puma fuel cards allocated to vehicles in use at some time during the period 1 July 2015 and 31 December 2015. There were 393 transactions recorded against the 36 Puma fuel cards.

Of the 36 Puma fuel cards, one had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to that purchase, therefore no further analysis was undertaken. All other Puma cards had sufficient data to permit a reasonable analysis to be performed.

Selected Agencies cont...

Department of Housing

The Department of Housing had 102 Puma fuel cards allocated to the Department in use at some time during the period 1 July 2015 and 31 December 2015. There were 1,064 transactions recorded against the 102 Puma fuel cards.

Of the 102 Puma fuel cards, six had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to five of those Puma fuel Cards those purchases, therefore no further analysis was undertaken. No odometer was provided for the sixth vehicle recording only one transaction.

For four Puma fuel cards there was insufficient data to permit a reasonable analysis to be performed. For one of these cards no registration number was provided on the Puma records and three odometers were missing from a total of five transactions.

For the remaining three Puma fuel cards that were unable to be fully analysed it appears that the cards have been moved between vehicles. This is further detailed in 'unusual transactions' below

Department of Transport

The Department of Transport had 48 Puma fuel cards in use at some time during the period 1 July 2015 and 31 December 2015. There were 831 transactions recorded against the 48 Puma fuel cards.

Of the 48 Puma fuel cards, three had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken. There were five Puma fuel cards allocated for multi-vehicle use, and two other Puma fuel cards where there was insufficient data to permit a reasonable analysis to be performed because sufficient correct odometers were not provided.

Department of Treasury and Finance

The Department of Treasury and Finance had 19 Puma fuel cards allocated to vehicles in use at some time during the period 1 July 2015 and 31 December 2015. There were 158 transactions recorded against the 89 Puma fuel cards.

Of the 19 Puma fuel cards, two had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken.

Selected Agencies cont...

Power and Water Corporation

Power and Water Corporation had 497 Puma fuel cards allocated to vehicles in use at some time during the period 1 July 2015 and 31 December 2015. There were 7,145 transactions recorded against the 497 Puma fuel cards.

Of the 497 Puma fuel cards, 21 had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to 19 of those purchases, therefore no further analysis was undertaken.

For four other Puma fuel cards there was insufficient data to permit a reasonable analysis to be performed because correct odometer readings were not provided with sufficient regularity.

There were 15 auxiliary cards – that is, cards relating to generators and other vehicles or purchases where an odometer reading would not be expected. There were also five multi-vehicle cards where the kilometres travelled per day cannot be ascertained.

Thus there were 482 cards where an analysis could be undertaken in relation to the provision of odometer readings.

Unusual Transactions

Board of the Museum and Art Gallery of the Northern Territory

In relation to the 41 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There was one instance where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). Purchases of this size appear unusual in the context of motor vehicle usage. The purchase was identified as five litres of unleaded fuel and has since been identified as a test purchase transacted with a new Puma card to ensure that the card had been activated.
- There were no transactions highlighted as being particularly unusual (either individually or as part of a pattern of transactions).
- There were no recorded fuel purchases that appear to be significantly higher than the reported fuel capacity of the vehicle.

Selected Agencies cont...

Department of Business

In relation to the 829 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were 15 instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). Purchases of this size appear unusual in the context of motor vehicle usage;
- One Department of Business vehicle had two purchases on the same day with only 183 kilometres travelled. Both purchases were recorded at 'suspense merchant'.

Date	Location	Docket number	Odometer	Quantity
26 November	Suspense Merchant	767374	447 km	28.37 litres
26 November	Suspense Merchant	767380	630 km	20.72 litres

- One Department of Business vehicle had inconsistent sequential odometer readings.

Date	Location	Docket number	Odometer	Quantity
16 October	Wycliffe Well	8805	9,673 km	16.99 litres
16 October	Wycliffe Well	8812	9,653 km	10.93 litres

- One Department of Business had two purchases with the same odometer and docket number.

Date	Location	Docket number	Odometer	Quantity
17 August	BP Ludmilla	2505	17,766 km	1.09 litres
17 August	BP Ludmilla	2505	17,766 km	50.15 litres

- There were no recorded fuel purchases that appear to be significantly higher than the reported fuel capacity of the vehicle.

Selected Agencies cont...

Department of Children and Families

In relation to the 1,583 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were 20 instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). Many of these purchases may be reasonably explained as 'top ups' of pool vehicles, however purchases of less than five litres are unlikely to be 'top ups'. Purchases of this size appear unusual in the context of motor vehicle usage.
- Four cards had inconsistent odometer readings that appear to be due to vehicles swapping the fuel cards, and occasionally incorrect readings being recorded.
- There was one recorded fuel purchase that appeared to be significantly higher than the reported fuel capacity of the vehicle.

Department of Corporate and Information Services

In relation to the 393 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were three instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). Purchases of this size appear unusual in the context of motor vehicle usage.
- There were no transactions highlighted as being particularly unusual (either individually or as part of a pattern of transactions).
- There were no recorded fuel purchases that appear to be significantly higher than the reported fuel capacity of the vehicle.

Selected Agencies cont...

Department of Housing

In relation to the 1,064 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were 18 instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). Purchases of this size appear unusual in the context of motor vehicle usage.
- One cardholder regularly rounds the odometer readings.
- Three cards had inconsistent odometer readings that appears to be due to vehicles swapping the fuel cards, and occasionally incorrect readings being recorded.
- The registration number originally allocated to one card was changed to 21 October 2015. The Puma card used to purchase fuel still reflects the old registration number.
- There were no recorded fuel purchases that appear to be significantly higher than the reported fuel capacity of the vehicle.

Department of Transport

In relation to the 831 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were 40 instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). Purchases of this size appear unusual in the context of motor vehicle usage, however three Puma fuel cards are allocated to METAL motor cycle training in Alice Springs and Darwin. 18 purchases of less than 15 litres were recorded against the card in Alice Springs, and 16 purchases were recorded against the two cards in Darwin. As these cards have been identified as being used by the METAL motor cycle training program the amounts are consistent with operational requirements. However, odometers were rarely provided for any purchase recorded against these cards. Whilst it may be reasonable not to record an odometer for these purchases, as many motor bikes refill on the one card, the potential for fraudulent purchases to occur should be considered.

Selected Agencies cont...

- There were no transactions highlighted as being particularly unusual (either individually or as part of a pattern of transactions).
- There was only one fuel purchase that appeared to be significantly higher than the reported fuel capacity of the vehicle.

Department of Treasury and Finance

In relation to the 158 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were no instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube').
- There were no transactions highlighted as being particularly unusual (either individually or as part of a pattern of transactions).
- There were no recorded fuel purchases that appear to be significantly higher than the reported fuel capacity of the vehicle.

Power and Water Corporation

In relation to the 7,145 individual transactions recorded against the fuel cards:

- There were no instances where it appeared that incorrect fuel was purchased.
- There were 54 instances where less than 15 litres of fuel were recorded as having being purchased (excluding items identified as 'surcharge' and 'lube'). 12 of these purchases relate to auxiliary cards and therefore do not appear unreasonable. Thus there were 42 other small purchases. Many of these purchases may be reasonably explained as 'top ups' of pool vehicles, however purchases of less than five litres are unlikely to be 'top ups'. Purchases of this size appear unusual in the context of motor vehicle usage.
- The following transactions are highlighted as being particularly unusual (either individually or as part of a pattern of transactions).

Selected Agencies cont...

- One card had the following series of transactions indicative of regular rounding of the odometer to the nearest hundred.

Date	Location	Docket number	Odometer	Quantity
25 August	BP Casuarina	24175	24,500 km	26.01 litres
28 August	United Smith St	19154	27,300 km	133.91 litres
9 September	United Bagot Road	4463	25,000 km	43.97 litres
13 September	Puma Truck City	41016	25,100 km	36.16 litres
14 September	Puma Jingili	19872	25,200 km	100.02 litres

- Another cardholder consistently rounds the odometer to the nearest hundred. A sample of these transactions is provided below.

Date	Location	Docket number	Odometer	Quantity
25 July	Coles Express Alice Springs Gap Rd	7630	22,000 km	51.44 litres
27 July	Alice City BP	66631	22,200 km	13.15 litres
28 July	Wycliffe Well Holiday Park	8230	22,600 km	39.64 litres
29 July	Wauchope Hotel	1413	22,800 km	28.38 litres

- One card recorded two significant purchases of oil.

Date	Location	Docket number	Odometer	\$
17 July	Coles Express Alice Springs	4620	28,950 km	\$28.00
7 September	Coles Express Alice Springs	5450	36,250 km	\$14.95

Selected Agencies cont...

- A further cardholder regularly rounds the odometer to the nearest hundred kilometres. A sample of these transactions is provided below.

Date	Location	Docket number	Odometer	Quantity
2 July	Puma Coolalinga	13532	55,300 km	80.16 litres
6 July	Puma Coolalinga	13759	53,200 km	80.02 litres
8 July	Puma Coolalinga	13932	56,900 km	63.84 litres
12 July	Caltex Berrimah	840420	57,000 km	101.73 litres
13 July	BP Palms	33303	56,000 km	46.94 litres

- The following vehicles, recorded as attached to particular Puma Cards, were not recorded within NT Fleet data, or the NT Rego app.
- Power and Water staff indicated that one card is allocated to a vehicle on lease from interstate. The vehicle is recorded in the NT from 4 December 2015 until at least 29 March 2016. PWC's attention was drawn to the "*Residential Requirements for Interstate Drive Yourself Vehicles*" issued by the Department of Transport which states "*An interstate drive yourself hire vehicle which has been in the NT for three months or more, is not classed as a 'visiting motor vehicle' under the Motor Vehicles Act and may be deemed UNREGISTERED, if NT registration has not been obtained, even if the vehicle is registered in another State or Territory.*" Whilst this particular vehicle is not a 'hire car', in the normal sense of the term, the legality of the registration for this vehicle should be confirmed.

Selected Agencies cont...

- Three cards were identified where fuel purchases were recorded against the car to which the card was originally allocated, notwithstanding a change to the card's allocated registration number.
 - The vehicle with the registration number recorded as attached to the first card was changed on 1 May 2015. The Puma card used to purchase fuel still reflected the old registration number until 18 November 2015.
 - The vehicle with the registration number recorded as attached to the second card was changed on 2 September 2015. The Puma card used to purchase fuel still reflects the old registration number until 1 April 2016.
 - The vehicle with the registration number recorded as attached to the third card was sold on 17 November 2014. Purchases were recorded against this fuel card until 11 August 2015.

Missing or Incorrect Odometer Readings

Odometer readings are required to be recorded when purchasing fuel in accordance with the NT Fleet Driver Handbook. There were a significant number of anomalous transactions recorded by the Agencies as outlined below:

Department	Anomalous transactions	Population	% of anomalous transactions at Agency level
Board of the Museum and Art Gallery of the Northern Territory	12	41	31%
Department of Business	98	829	12%
Department of Children and Families	391	1,583	25%
Department of Corporate and information Services	36	393	9%
Department of Housing	124	1,064	12%
Department of Transport	138	831	17%
Department of Treasury and Finance	20	158	13%
Power and Water Corporation	702	7,145	10%

Selected Agencies cont...

Anomalous information included:

- missing odometer readings possibly due to:
 - the driver failing to provide an odometer reading;
 - the console operator not recording the odometer reading provided;
 - the accounts department of the fuel supplier not providing the odometer reading on the invoice; or
 - the fuel card not allowing the odometer reading to be recorded.
- incorrect odometer readings, for example a reading that was lower than the previous reading or is obviously incorrect (e.g. a reading in excess of 100,000 kilometres). This may be due to:
 - the driver misreading the odometer;
 - the driver guessing the reading;
 - the console operator mishearing the reading; or
 - the console operator mistyping the reading.

Acceptable error rate

In analysing the transaction errors I consider an error rate of less than 5% to be reasonable. I also consider an error rate between 6% and 25% to be reasonable when taking into account the probability of some console operator error occurring, however I would recommend that the users of the fuel cards for these vehicles be reminded of the need to provide accurate odometer readings to the fuel supplier.

Board of the Museum and Art Gallery of the Northern Territory

Excluding the Puma card allocated to the boat, two Puma cards (33%) had what appeared to be correct odometer readings for more than 95% of the transactions.

One Puma card (17%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining three Puma cards (50%), anomalous transactions were identified on more than 26% of the transactions.

Selected Agencies cont...

Department of Business

47 Puma cards (53%) had what appeared to be correct odometer readings for more than 95% of the transactions.

31 Puma cards (35%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining 11 (12%) Puma cards, anomalous transactions were identified on more than 26% of the transactions.

Department of Children and Families

35 Puma cards (26%) had what appeared to be correct odometer readings for more than 95% of the transactions.

59 Puma cards (44%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining 39 Puma cards (29%), anomalous transactions were identified on more than 26% of the transactions.

Department of Corporate and information Services

17 Puma cards (47%) had what appeared to be correct odometer readings for more than 95% of the transactions.

18 Puma cards (50%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining Puma card (3%), anomalous transactions were identified on more than 26% of the transactions.

Department of Housing

52 Puma cards (51%) had what appeared to be correct odometer readings for more than 95% of the transactions.

39 Puma cards (38%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining 11 Puma cards (11%), anomalous transactions were identified on more than 26% of the transactions.

Selected Agencies cont...

Department of Transport

18 Puma cards (37%) had what appeared to be correct odometer readings for more than 95% of the transactions.

20 Puma cards (42%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining 10 Puma cards (21%), anomalous transactions were identified on more than 26% of the transactions.

Department of Treasury and Finance

Eight Puma cards (42%) had what appeared to be correct odometer readings for more than 95% of the transactions.

Eight Puma cards (42%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

For the remaining three Puma cards (16%), anomalous transactions were identified on more than 26% of the transactions.

Power and Water Corporation

There were 482 cards in use at Power and Water Corporation where an analysis could be undertaken in relation to the provision of odometer readings.

200 Puma cards (42%) had what appeared to be correct odometer readings for more than 95% of the transactions.

227 Puma cards (47%) had missing or incorrect odometer readings for between 6 and 25% of the transactions.

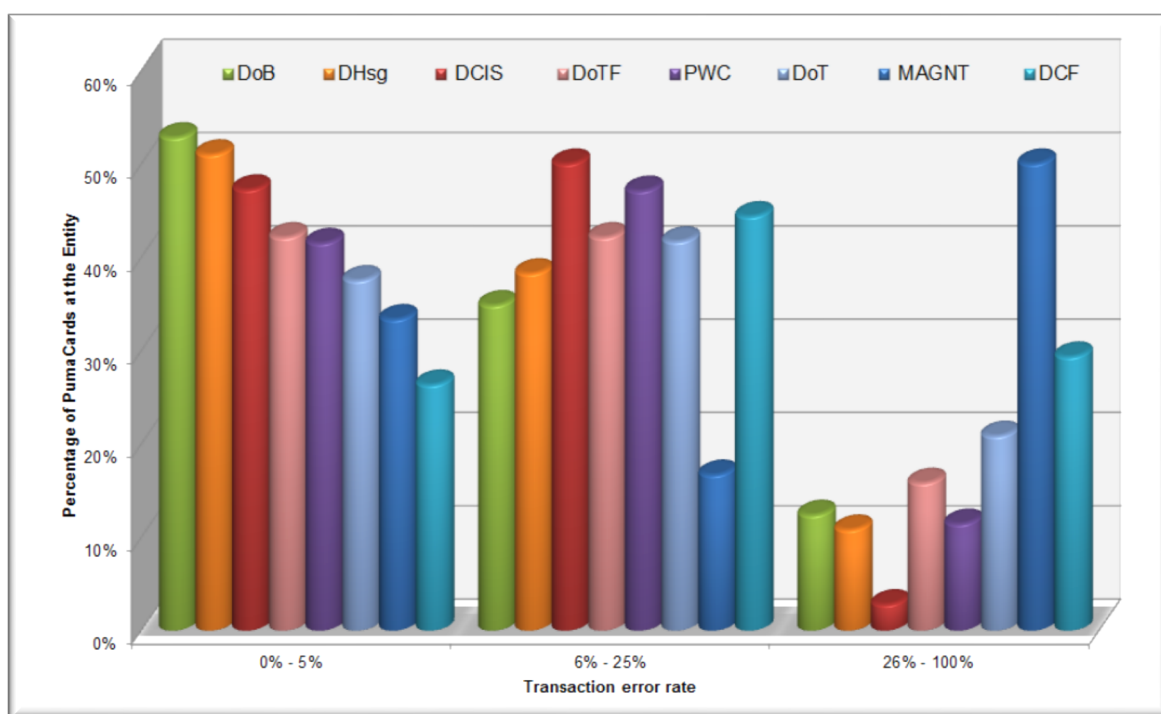
For the remaining 55 Puma cards (11%), anomalous transactions were identified on more than 26% of the transactions.

Selected Agencies cont...

Missing or Incorrect Odometer Readings

The graph below summarises the distribution of missing or incorrect odometer readings for the selected entities.

It should be noted that the goal is to have a higher percentage of vehicles in the 0% to 5% transaction error and fewer in the 6% and above transaction error categories.



Selected Agencies cont...

The Board of the Museum and Art Gallery of the Northern Territory has commented:

MAGNT has noted the report findings and introduced more stringent oversight of fuel accounts to ensure that odometer readings are being captured.

The Department of Business has commented:

The Department of Business has sent a reminder to all staff on the importance of recording accurate odometer readings when purchasing fuel and booking pool vehicles in the VBS.

The Department of Corporate and information Services has commented:

The assessment findings for DCIS identified 91% of fuel transactions were compliant and there were no purchases of incorrect fuel, amounts greater than vehicle capacity, or unusual transactions. Further internal review of the 36 anomalous transactions found the transaction errors were mostly due to odometer readings with a missing or incorrect digit related to driver or console operator error or the console system failing to record all keypad strokes. Staff have been reminded of their responsibilities detailed in the NT Fleet Driver Handbook.

The Department of Housing has commented:

The Department of Housing is reviewing all anomalies highlighted in the Fuel Cards Analytics activity. If there are any specific concerns after additional information is reviewed, they will be addressed. The Department will revise its controls to improve analysis.

Selected Agencies cont...

The Department of Transport has commented:

We note the findings and are taking steps to address any issues raised.

The Department of Treasury and Finance has commented:

The Department of Treasury and Finance investigated the anomalous information identified with the review and determined that the missing and incorrectly recorded odometer readings was mostly due to console operator error. All custodians have been reminded of the importance of giving the correct odometer reading.

Selected Agencies

Official Travel

Audit Objectives and Scope

The audit objective was to determine whether the travel entitlements paid by the Agency during the period 1 July 2015 to 31 December 2015 complied with the requirements of:

- Treasurer's Direction A6.3;
- the Department's "Official Duty Travel Procedure";
- the NTG Air Travel Policy (NTGTP); and
- Determination Number 1 of 2015 (and By-law 30), issued under the *Public Sector Employment and Management Act*.

Background

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

- Department of Education;
- Department of Housing;
- Department of the Chief Minister;
- Northern Territory Police, Fire and Emergency Services; and
- Tourism NT.

The audit covers the payment of entitlements relating to travel undertaken during the period 1 July 2015 to 31 December 2015. It included travel by any employee of the Agency.

Selected Agencies cont...

Key Findings

Department of Education

Audit procedures were undertaken on a sample of 63 transactions, selected from a population of 4,207 transactions between 1 July 2015 and 31 December 2015. The population from which the sample was selected included transactions relating to the Department of Education.

The following non-compliance issues in relation to official travel were noted:

- Five instances were identified where travel was approved after the official travel booking date.
- Two instances were identified where the recorded approval date occurred after the actual travel date.
- 10 instances were identified where the Travel Request Information Processing System (TRIPS) movement requisitions did not contain full and accurate records detailing the date and timing of the event being attended.
- 15 instances were identified where the movement requisition was not acquitted within the required seven working days period.
- Nine instances were identified where the approver did not withhold approval of further official travel for travellers that had not acquitted previous travel.
- 10 instances were identified where supporting documentation could not be provided to verify that the traveller and/or delegates considered alternatives to air travel. It is possible that consideration has been given to alternate means of achieving the same outcome intended to result from the travel, such as communicating via teleconference or driving to a destination, however no documentary evidence exists to demonstrate that such consideration occurred.

Selected Agencies cont...

Department of Housing

Audit procedures were undertaken on a sample of 44 transactions, selected from a population of 308 transactions between 1 July 2015 and 31 December 2015. The population from which the sample was selected included transactions relating to the Department of Housing.

The following non-compliance issues in relation to official travel were noted:

- Four instances where the movement requisition was approved after the travel had been taken.
- 15 instances were identified where the movement requisition was not acquitted within the required seven working days period.
- 44 instances were identified where supporting documentation could not be provided to verify that the traveller and/or delegates considered alternatives to air travel. It is possible that consideration has been given to alternate means of achieving the same outcome intended to result from the travel, such as communicating via teleconference or driving to a destination, however no documentary evidence exists to demonstrate that such consideration occurred.
- 35 instances were identified where the Travel Request Information Processing System (TRIPS) movement requisitions did not contain full and accurate records detailing the date and timing of the event being attended. In each of the samples identified, my Authorised Auditors were unable to ensure that the travel dates were consistent with the event being attended because supporting documentation had not been retained to enable this test to be validated.
- Insufficient documentary evidence exists to demonstrate the service provider's quote represented the best value fare available. It is possible that a traveller/travel booker did check a number of travel providers and selected the cheapest fare of the day however has failed to retain documentary evidence of this check occurring.

Selected Agencies cont...

Department of the Chief Minister

Audit procedures were undertaken on a sample of 74 transactions, selected from a population of 722 transactions between 1 July 2015 and 31 December 2015. The population from which the sample was selected included transactions relating to the Department of the Chief Minister and the Office of the Chief Minister.

The following non-compliance issues in relation to official travel were noted:

- 11 instances were identified where travel was approved after the official travel booking date.
- Three instances were identified where the recorded approval date occurred after the actual travel date.
- 46 instances were identified where the Travel Request Information Processing System (TRIPS) movement requisitions did not contain full and accurate records detailing the date and timing of the event being attended. In each of the samples identified, my Authorised Auditors were unable to ensure that the travel dates were consistent with the event being attended because supporting documentation had not been retained to enable this test to be validated.
- 73 instances were identified where documentation validating travel service provider's quote of the best value fare was not recorded. It is possible that a traveller/travel booker did check a number of travel providers and selected the cheapest fare of the day however has failed to retain documentary evidence of this check occurring.
- 38 instances were identified where the movement requisition was not acquitted within the required seven working days period. It should be noted that, of the 38 samples not acquitted within seven working days of the travellers return, there were 11 instances where the acquittal was finalised within seven working days of the receipt of the invoice and two instances where the invoices had not yet been received at the time of the audit and therefore the acquittal was not yet finalised.
- 74 instances were identified where supporting documentation could not be provided to verify that the traveller and/or delegates considered alternatives to air travel. It is possible that consideration has been given to alternate means of achieving the same outcome intended to result from the travel, such as communicating via teleconference or driving to a destination, however no documentary evidence exists to demonstrate that such consideration occurred.

Selected Agencies cont...

Northern Territory Police, Fire and Emergency Services

Audit procedures were undertaken on a sample of 30 transactions, selected from a population of 2,363 transactions between 1 July 2015 and 31 December 2015. The population from which the sample was selected included transactions relating to the Northern Territory Police, Fire and Emergency Services.

The following non-compliance issues in relation to official travel were noted:

- There were four instances where official travel was not approved prior to the start of travel.
- Three instances (from the sample of 30 transactions) were identified where official travel had not been acquitted within seven working days of returning to the workplace – with one being acquitted after 15 days of returning to the workplace.
- At the time of the audit, nine expenses for fares and/or accommodation did not have supporting documents or invoices.

Tourism NT

Audit procedures were undertaken on a total sample of 58 transactions, selected from a population of 1,029 transactions between 1 July 2015 and 31 December 2015. The population from which the sample was selected included transactions relating to Tourism NT only.

The following non-compliance issues in relation to official travel were noted:

- Approval to combine official travel with private travel has not been approved by the Chief Executive Officer or appropriately delegated approver on five occasions.
- There was one instance where official travel was not approved prior to the start of travel.
- There were two instances where official travel was paid before the approval of the official travel.
- 11 instances (from the sample of 58 transactions) were identified where official travel had not been acquitted within seven working days of returning to the workplace – with some being acquitted after more than 30 days of returning to the workplace and some which were yet to be acquitted at the time of the audit.

Selected Agencies cont...

- For the transactions tested, there was no supporting documentation provided to verify that the traveller and/or delegates considered alternatives to air travel. It is possible that consideration has been given to alternate means of achieving the same outcome intended to result from the travel, such as communicating via teleconference or driving to a destination, however no documentary evidence exists to demonstrate that such consideration occurred.
- It was also noted that no supporting documentation was provided to verify that the travellers and/or travel bookers compared online prices of the corporate travel provider and the airline. It is possible that a traveller/travel booker did check a number of travel providers and selected the cheapest fare of the day however has failed to retain documentary evidence of this check occurring.

Selected Agencies cont...

The Department of Education has commented:

The Department of Education acknowledges the findings raised in the report. The department has reinforced its travel policies and promoted obligations with travellers and travel bookers across the department to maximise compliance. A continuous communication strategy has been implemented to provide users with timely advice to increase awareness of relevant policies and systems.

The Department of Housing has commented:

The Department of Housing acknowledges the findings of the Travel Audit. Some policy requirements are difficult to achieve and some requirements are not currently measureable. We will highlight these areas to the Department of the Chief Minister. The Department will improve its controls to support compliance.

The Department of the Chief Minister has commented:

The report's findings are noted and the department provides support to agency staff on the requirements of the travel policy. In addition the Department of Corporate Information Services (DCIS) Whole of Government Contracts Unit is working with QBT to improve existing systems and processes to support the whole of government travel policy.

Northern Territory Police, Fire and Emergency Services has commented:

The Northern Territory Police, Fire and Emergency Services (NTPFES) acknowledge the key findings of the Agency Official Travel Audit and have implemented the audit's key recommendations. The NTPFES continues to audit these functions internally and provide education to employees where non-compliance issues are identified.

Selected Agencies cont...

Tourism NT has commented:

The primary findings relating to Tourism NT, namely 3 instances of non-compliance with the approval process of official travel have been addressed within the agency.

Selected Agencies

Palmerston Regional Hospital

Audit Scope and Objective

The audit was undertaken with the objective to provide the Legislative Assembly with an overview of the project to construct the Palmerston Regional Hospital (PRH) up to the appointment of the Managing Contractor, as evidenced by the signed contract, and an assurance that the processes leading to the awarding of contracts associated with construction and contract management of the PRH were undertaken in accordance with the procurement framework including:

- *Procurement Act*;
- Procurement Regulations;
- Procurement Code;
- Procurement Directions; and
- Procurement Best Practice Guidelines, including supporting Fact Sheets if required.

Initially, I intended this audit to encompass activity undertaken in relation to the PRH to the date of awarding the Managing Contractor tender, generally considered to be the date that the Notice of Acceptance was issued. The Managing Contractor Contract was signed by all parties on 2 December 2015. As a result, I chose to extend the scope to that date in order to evaluate the risks borne by the parties with reference to agreed contractual documents.

Audit Opinion

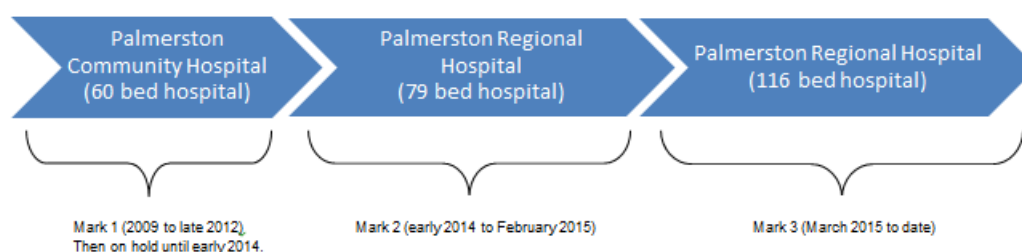
Whilst there were some areas for improvement identified during the audit, I found the overall processes leading to the award of contracts to the successful tenderers associated with the construction and contract management of the Palmerston Regional Hospital were undertaken in compliance with the procurement framework mentioned above. This opinion does not extend to the trade packages contracted under the Managing Contractor arrangement which are outside the scope of this audit.

Given the evolving nature of the project to date, there remains a risk that the comprehensive whole-of-life cost of the PRH may not be accurate or complete therefore robust monitoring, management and reporting of changes to scope and functionality of the PRH, together with movements in associated costs is critical.

Selected Agencies cont...

Report Outline

From the commitment in 2009 to build a new Top End Hospital by 2025, to the current construction of the Palmerston Regional Hospital (PRH) in 2016, many events, decisions and changes have occurred. The diagram illustrated below is to provide the context of the report herein:



In order to provide the Legislative Assembly with an understanding of arrangements for the construction project, including the associated project management of the PRH, the relevant sections of the report are:

- **Overview – Palmerston Regional Hospital**
This section provides a high level summary of the PRH and the key services it will provide.
- **The Development of the Palmerston Regional Hospital**
This section details the key events and decisions that have contributed to the evolution from a 60 bed Palmerston Community Hospital in Mark 1 to the current 116 bed PRH in Mark 3.
- **Overview of the Managing Contractor Arrangement**
This section details a typical Managing Contractor arrangement and the current Managing Contractor arrangement for the PRH.

In conjunction with the above, the audit was conducted in order to gain assurance that the processes governing tendering, the assessment of tenders and the award of contracts are transparent and in accordance with the guidelines approved by the Treasurer. This aspect of the audit is examined in the following sections of the report:

- **Management of the Project**
An overview of the management structure and responsibility for the project is provided in this section including the composition of the current Project Steering Committee, Project Leadership Team and Project Management Team.

Selected Agencies cont...

- ***Investment Planning***

This section outlines the initial stages that led to the investment decision to construct the PRH and the considerations undertaken at the time.

- ***Finance Cost and Funding Arrangements***

This section reflects the financial information relating to the construction of the PRH and the funding arrangement with the Commonwealth Government within Mark 1, Mark 2 and Mark 3.

- ***Governance of the Procurement Process***

With a focus on probity audits conducted during the procurement process, this section highlights the results of the probity process of the invitation for Expressions of Interest for the development and operation of the PRH and the tender assessment leading to the appointment of the Managing Contractor.

- ***Procurement and Delivery of Palmerston Regional Hospital***

This section describes the process and options considered leading to the decision to adopt the procurement model of a 'Design then Construct' model in Mark 1, 'Design Build, Operate, Maintain' model in Mark 2 and the 'Managing Contractor Design and Construct' model in Mark 3.

- ***Risk Management***

This section presents an overview of the risk assessment undertaken and the risks identified by Department of Infrastructure and Department of Health.

Appendices A, B, C and D provide summaries of the key timeframes and information about the PRH.

The fieldwork for this audit was undertaken between October 2015 and March 2016.

Key Findings and Recommendations

The PRH is a major project undertaken by the Northern Territory Government. From the time of project initiation, many changes to the PRH have occurred. In summary these changes include:

- changes to the site location;
- changes to the procurement options to deliver the PRH;
- changes to the clinical health scope;
- changes to the building design; and
- changes to the cost to build the PRH and its cost components.

Selected Agencies cont...

Whilst there is no indication or suggestion that the Managing Contractor Design and Construct model was not an appropriate choice, my audit has resulted in a number of recommendations which may, if adopted, result in improved project planning, risk assessment and management and Agency collaboration for future across government major projects. The findings and recommendations in part reflect the nature of delivering a complex project across government and emphasise the need to have all key stakeholders involved from the commencement of project planning.

Recommendations resulting from this audit are summarised below:

- In order to adequately inform decision-makers, planning for future major projects should be undertaken that includes:
 - identifying the service need and possible options to meet the desired outcome;
 - defining criteria for project success;
 - analysing the costs, risks, benefits of various options;
 - comprehensively assessing the whole-of-life financial effect of the project options; and
 - comprehensively determining future operational costs that are documented and submitted to the ultimate decision-makers involved in the budgetary process.
- Following from the above, a comprehensive business case should be developed for future major projects. The business case should document the advantages, disadvantages, costs, benefits, risks and consequences of each available option.
- Planning should involve the early identification and involvement of key departments that are expected to have responsibility throughout the project.
- Key performance indicators should be established for use in the planning, evaluation and delivery of all future major projects.
- Procedures should be put in place to facilitate compliance with Northern Territory and National Guidelines as they relate to the evaluation of public infrastructure projects in the context of a Public Private Partnership.

Selected Agencies cont...

- Consideration should be given to the development of procedures and processes relating to the provision of information to key decision-makers. Such processes should require the retention of documentation which evidences the rationale for key decisions, including decisions that subsequently change the approach to delivering the project. Documentary evidence should be maintained of stakeholder acceptance of changes to the planned project outputs and outcomes.
- Governance processes should be established which ensure sufficient appropriate documentary evidence is retained to demonstrate that all project costs, not only the construction costs, are reported to, and reviewed regularly by, the Project Steering Committee to enable monitoring of progress towards achieving the project objectives and ensure budgetary impacts can be effectively evaluated.
- Systems and/or processes should be established to ensure risks, including Agency and shared risks, relating to across government projects are identified, monitored and reviewed on a continuous basis.
- A robust evaluation of the design, implementation and effectiveness of Agency procurement controls should be undertaken on a regular basis in order to ensure the existing controls effectively mitigate risks associated with procurement such as achieving value for money, ensuring transparency and equity surrounds the procurement process and that the security of procurement activity is maintained.

Acknowledgment

The assistance of the staff at the Department of Health, Department of Infrastructure and the Office of Major Projects, Infrastructure and Investment within the Department of the Chief Minister in the completion of this audit was appreciated.

Overview – Palmerston Regional Hospital

The plan to construct the Palmerston Regional Hospital (also referred to as “the project” or “the Hospital” or “PRH”) was based upon meeting the requirements of projected future population growth in the greater Darwin region. The greater Darwin region had a combined population of 136,245 people in 2013, with approximately 53,000 residents in the Palmerston region. This represented a significant proportion of the greater Darwin region population and underpinned the need to develop the PRH. The PRH was planned to cater for the growing needs of the Palmerston and surrounding regions, while at the same time complementing and working in conjunction with the existing Royal Darwin Hospital (RDH).

Selected Agencies cont...

According to the “Palmerston Regional Hospital Plan” (8 October 2015), prepared by Department of Infrastructure (Dol):

“Under the proposed model of care, PRH will work as a component of an integrated and networked group of hospitals across the Top End Health Service. RDH will remain the primary tertiary facility of the NT and PRH will operate as a networked Level 3 general hospital.”

The site for the hospital is Section 4231 Hundred of Bagot, at the corner of the Stuart Highway and the future Glyde Point Road, Holtze and is contained to 15 hectares of the total 45 hectare site. The chosen site provides additional land area to allow for future growth of the PRH.

At the time of undertaking audit fieldwork, it was envisaged that the works for the PRH would be completed on 15 March 2018 and the PRH would become operational in the third quarter of 2018. From the “Construction Update” flyer dated April 2016, the construction of the PRH remains planned to be completed in March 2018 after which the Department of Health will commence the fit out and commissioning of medical equipment. The PRH is now intended to be open to the public in May 2018. At the time of the fieldwork, the budget funding of the PRH was publicised as \$150 million being financially delivered by the Northern Territory and the Commonwealth Governments.

At the time of reporting, the approved capital cost was \$170 million; with an additional budget allocation of \$30 million made for fittings, furniture, ICT and medical equipment as announced by the Chief Minister and the Minister for Infrastructure in a Media Release on 23 May 2016.

At the time of fieldwork, the PRH was planned to include the following range of key services at the time of opening:

- an initial 100-bed in-patient facility;
- a 16 bay Emergency Department which is envisaged to be operational 24/7;
- day procedure;
- general medical and specialist services including cardiology, diabetes and infectious diseases;
- surgical services including elective surgical and routine diagnostic services and treatment;
- cancer services (integrated with the Alan Walker Cancer Centre at RDH);
- maternal and child health including antenatal and postnatal care;

Selected Agencies cont...

- ambulatory health care services including hospital outpatient facilities and services;
- ambulance bay;
- administration offices;
- engineering services and energy plant; and
- site services, access, car parking and associated work.

As part of the development of the project, the Territory identified the following as critical issues:

- the design life of the building must be a minimum 50 years;
- the design life of the building before first refurbishment of surfaces and built-in furniture must be 10 years; and
- the facility must be constructed to Importance Level 4 requirements (meaning a building essential to post-disaster recovery or hazardous materials facilities per the Building Codes of Australia) and comply with the Australasian Health Facility Guidelines.

The PRH is considered to be an Importance Level 4 building providing Level 3 clinical services where:

- the care provided will be for the management of low complexity and low risk cases;
- the hospital will provide a full complement of core clinical services; and
- clinical support services such as pathology and pharmacy will be provided to support the core clinical services.

Selected Agencies cont...

The project is jointly coordinated by the following Departments:

Table 1: Project responsibilities

Department	Responsibility in relation to the project
Department of Health (DoH)	Design input and ultimate operator of the hospital. Milestone reporting to the Commonwealth Government.
Department of Infrastructure (DoI)	Project manager for the construction of the hospital.
Department of the Chief Minister – Office of Major Projects (DCM OMP)	Communications and inter-departmental coordination. Chair of the Project Steering Committee. Ministerial liaison as required. Monitoring of progress. Clarification of project expectations.
Department of Treasury and Finance (DTF)	Financial arrangements with Commonwealth Government.
Department of Health (Commonwealth Government)	Monitoring and assessing achievement against payment milestones for the construction of the PRH. Providing financial contribution to the NT.

The Development of the Palmerston Regional Hospital

Mark 1 (2009 to late 2012)

The commitment to establish a hospital in Palmerston was reflected in the Territory 2030 Strategic Plan published in 2009 which identified building a new Top End Hospital by 2025 as one of its actions. At this point in time, the hospital was called the “Palmerston Community Hospital” (also referred to as Mark 1 in this report).

The capital funding of the Palmerston Community Hospital was announced on 4 May 2011 at \$110 million which comprised \$40 million from the Northern Territory Government and \$70 million from the Commonwealth Government through the Health and Hospitals Fund. The site identified at that time was Lot 8408 Temple Terrace, Farrar (adjacent to the present Palmerston Health Precinct and Palmerston GP Super Clinic). This new purpose built facility was envisaged to have service provision areas comprising an inpatient area with the flexibility for up to 60 beds; 24/7 emergency care clinic comprising short stay observation and urgent treatment bays; and specialist ambulatory services. The gross construction floor area was planned to be 14,345 square metres.

Selected Agencies cont...

The planning of the hospital such as the clinical service plan, functional brief, project plan, business plan, architectural design and site identification of the Palmerston Community Hospital occurred from mid-2011. The procurement option selected to proceed with the project was the use of a Design and then Construct methodology. Early site work packages were to go to tender by the end of 2011 and works were to commence in March/April 2012.

In August 2011, the following four construction delivery models were evaluated for undertaking the construction of the Palmerston Community Hospital:

- Managing Contractor – two stage design and construction management with Negotiated Guaranteed Construction Sum (fixed budget);
- Design then Construct;
- Design, Document and Construct; and
- Early Contractor Involvement.

As a result of the delivery option analysis, the then Department of Construction and Infrastructure (DCI) recommended the project be delivered using either a Managing Contractor methodology or Design then Construct methodology. The use of a Design then Construct methodology was approved in August 2011.

The various construction models considered throughout the life of this PRH project are explained within the section of this report entitled “Procurement and Delivery of the Palmerston Regional Hospital”.

A tender for architectural consultancy was advertised for a period of 4 weeks and closed on 26 October 2011. Seventeen offers were received with the successful tenderer being awarded the contract for a tendered value of \$5,001,699 inclusive of GST.

By the time of the Northern Territory election in August 2012, 100% design development, full plans and construction tender documentation had been completed however the project was put on hold.

Between August and October 2012, the then Department of Lands and Planning (DLP) was requested by the Northern Territory Government to undertake site assessments on four sites, including the existing site (Lot 8408, Temple Terrace, Farrar). The following table indicates the considerations undertaken by DLP and its recommendations:

Selected Agencies cont...

Table 2: Hospital locations considered

Site Location	Size	Ownership Status	Land Capability
1. Lot 8408. Existing proposed site and Lot 9, next to Palmerston Super Clinic (on the corner of Roystonea Avenue and Temple Terrace)	Approximately 20 hectares usable in the long term	Freehold Crown	Drainage line through the site. Some upgrading of existing water and sewerage infrastructure required pending investigation.
2. Section 4231 Hundred of Bagot, Stuart Highway	Approximately 45 hectares	Freehold Crown	Large and relatively unconstrained site. No utilities or public infrastructure.
3. Part Lot 4250 Johnston/Zuccoli (corner Roystonea and Lambrick Avenues)	Net 14 hectares	Freehold Crown	Site is constrained by Mitchell Creek to the east. Some upgrading of existing water and sewerage infrastructure required pending investigation.
4. Lot 4200, Town of Palmerston (Elrundie Drive)	7 hectares	Freehold – privately owned	Design constrained by the need to integrate with existing facilities. Development of major hospital on site might adversely impact on established residential land uses.

In the analysis of the four sites, DLP considered only two to be potentially suitable, these being Lot 8408 and Section 4231. The other two were considered less suitable for a range of reasons, some of which are documented in Table 2 above.

In relation to Lot 8408, DLP noted that the City of Palmerston had raised concerns about traffic management issues. DLP also noted that \$4.65 million had already been spent on Lot 8408, with sunk costs estimated at \$2.5 million.

As for Section 4231, it was noted that the land was unconstrained and had the potential to be expanded to 45 hectares if required. Once access infrastructure was built, it was envisaged that it would be an ideal location for both Palmerston and the Greater Darwin regional locations to access. A cost of between \$25 million and \$30 million was flagged by Power and Water Corporation and the Department of Transport as the cost of headworks.

Selected Agencies cont...

On 29 April 2013, approval was given for the detailed planning for the Palmerston Hospital to commence with Section 4231 Hundred of Bagot as the new site for the hospital development. A 15 hectare portion of the 45 hectare site would enable development of a hospital that may include additional services provided by private providers, greater service and amenities for the hospital and future proof expansion in later stages. This marked Palmerston Community Hospital transitioning to “Palmerston Regional Hospital” (PRH and referred to as Palmerston Hospital collectively for both Palmerston Community Hospital and Palmerston Regional Hospital).

On 23 August 2013, the Chief Minister announced that a larger site had been selected for the PRH, consistent with expected future demands from the Palmerston and greater Darwin region, with commencement of construction (headworks) planned for late 2014 and the project due for completion by 2018.

Upon the change of Government at the Commonwealth level in September 2013, the Northern Territory Government was asked to consider delivery of the Palmerston Hospital as a Public Private Partnership.

Mark 2 (early 2014 to February 2015)

Following reassessment of possible construction delivery models, on 14 February 2014, DoH advised that a full service public private partnership (PPP) would increase the time required to deliver the project due to increased contractual complexity however DoH would facilitate the development of an Expression of Interest (EOI) process to explore a full service PPP approach for the PRH and enable market testing for a health provider led consortia. Draft EOI documentation was to be developed, supported by a more detailed options analysis, and be provided to Cabinet for consideration.

Around the same time, the Government released publicly the following outline of timeframes for the delivery of the hospital:

- June 2014– Site and traffic work commences.
- July 2014 – EOI process commences.
- Mid 2015 – EOI process concludes and contracts signed.
- Mid 2015 – Detailed planning and design and civil works commence.
- 2016 – Main building works commence.

Selected Agencies cont...

Financial consultants were engaged by DoH to conduct a detailed procurement options analysis including financial analysis so as to determine the viability of a PPP. That process utilised the Clinical Service Profile developed previously in 2011 to determine projected hospital activity that could be delivered at the PRH. As a result of this analysis, the following procurement models were recommended by the financial consultants:

- Design, Build and Maintain (DBM) model for the PRH where DoH prefers the public sector to operate the hospital and retain clinical operations in-house; and
- Design, Build, Operate and Maintain (DBOM) model for the PRH where DoH prefers to test the private sector market and transfer the clinical operations to a private operator.

In early November 2014, the procurement of the PRH under an operator led Design, Build, Operate and Maintain (DBOM model) was agreed. At this point, the hospital was planned to become a 79 bed facility, an increase of 19 beds from the original 60.

Generally, a DBOM model would result in a private sector operator being contracted to deliver a new hospital, maintain it and operate the clinical services. The financial consultant's report listed the key benefits of this proposed model as:

- transfers cost and time risks of construction and operations;
- encourages design innovation to given service brief;
- transfers risk of asset condition over time;
- drives upfront consideration of maintenance requirements;
- encourages focus on optimising the mix of upfront expenditure and through life expenditure; and
- allows innovation and efficiencies by one party being responsible for both design and operations.

The financial consultant's report noted that the model required further work on specification of services/model of care and payment mechanism to give effect to the risk transfer.

On 21 November 2014, an invitation for EOI was released which closed on 16 January 2015, drawing seven responses. The evaluation panel found only one response to be compliant. Given the lack of competitive responses and the now reduced delivery timeframe, an alternative option under consideration was to revert to a Managing Contractor Design and Construct (MC D&C) model following which, the government could consider post-construction operation by DoH or a private operator.

Selected Agencies cont...

In February 2015, procurement was to proceed on the basis of a MC D&C with options for private operation of the PRH post-construction to be subsequently investigated.

Mark 3 (March 2015 to date)

From March 2015, the intent was to commission the PRH as a publicly operated facility with the Northern Territory Government being the operator.

At this point in time, the PRH had evolved from 60 beds in 2011 and 79 beds in November 2014 to a 116 bed Level 3 clinical services Hospital with a Level 3 / 4 Emergency Department. Construction was planned to commence in mid-October 2015 with completion planned by 15 March 2018. The PRH was to be operational in the third quarter of 2018. The capital funding for the PRH was publicised at \$150 million. This comprised \$110 million from the Commonwealth Government and \$40 million from the Northern Territory Government. In March 2015, DTF estimated that \$13 million had already been expended to date and the remaining budget from 1 July 2015 would be approximately \$137 million.

In April 2015, Dol engaged a design team of external consultants comprising:

- Health facility planners as the Principal Consultant/Architect;
- Building Services Engineer;
- Structural and Civil Engineer; and
- Landscape Consultant.

The designers developed preliminary concept plans for inclusion in the Request for Tender for the Managing Contractor which was released to the market on 5 May 2015. The preliminary concept designs were based on the schedules of accommodation (recommended square metre area) released as part of the invitation for EOI documentation under the initial private operator led DBOM model and were indicative of a 79 bed project. The preliminary concept design (referred to as the original design is described in more detail below) was developed based on construction within the \$150 million funding envelope.

The functional brief for the PRH was finalised in June 2015 based on the approved clinical services scope at that time. Dol continued to revise the previously developed concept designs to reflect the ward configuration and larger floor areas recommended in the functional brief. On 22 July 2015, the Notice of Acceptance was issued. The target date for completion of construction of the PRH, at the time of awarding the contract, was 15 March 2018. The responsibility for design was contractually novated to the Managing Contractor on 2 December 2015.

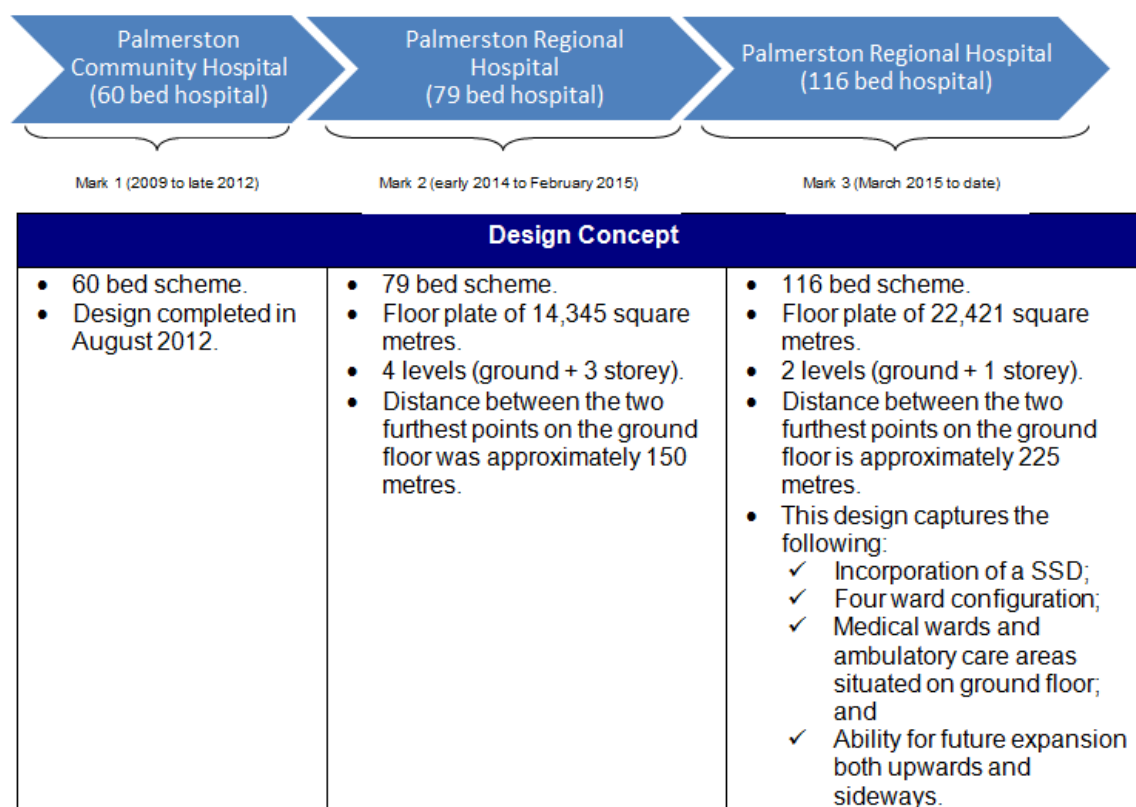
Selected Agencies cont...

Refer to Appendix A for the timeline of key milestones/events of the Palmerston Hospital.

Hospital Design

The design concept of Palmerston Hospital evolved over time and is summarised in the diagram/table below:

Figure 1: Design Concept of Palmerston Hospital



The original design for Mark 3 was based on the design of Mark 2, with a floor plate and ward configuration that was consistent with the schedules of accommodation contained in the invitation for EOI document under the initial PPP model, being a 79 bed design. DoI advised that this design was based on extensive on-the-ground RDH and DoH clinician engagement throughout 2012 and was in accordance with the design requirements of the Australasian Health Facility Guidelines and hospital accreditation standards.

Selected Agencies cont...

This Mark 3 design did not initially include a Sterile Service Department (SSD) or the revised larger ward configuration outlined in the functional brief of March 2015 or the functional brief of June 2015. It was based on the original Mark 1 design with added bed capacity. Given that the Mark 1 model was not premised upon the contemporary prediction of volumes of elective surgery and birthing, the design did not include a SSD. The design did, however, identify an area for a SSD as a future expansion option to be undertaken as and when required. The original design was for a floor plate of 14,345 square metres with estimated construction costs of \$150 million and was to be built over four levels (ground + three storeys). The distance between the two furthest points on the ground floor was approximately 150 metres.

Meetings held between the DoH and DoI design teams on 18 May 2015 determined that the hospital design needed to capture the following requirements:

- incorporation of a SSD;
- four ward configuration;
- medical wards and ambulatory care areas situated on ground floor; and
- ability for future expansion both upwards and sideways.

Two new design options were developed to accommodate the requirements. The selected design option was not released as an addendum to the Request For Tender for the Managing Contractor Contract which was released to the market on 5 May 2015 and closed on 10 June 2015 as the design included in the tender package was provided as an example only in order for proponents to estimate the magnitude of work required of the Managing Contractor. Below is the description of the selected option.

Selected Design Option

The chosen design option (ground + one storey) for Mark 3, approved in May 2015, situated the Emergency Department, both medical wards and ambulatory care areas on the ground floor. Kitchen and back of house services were contained in a separate ground level building closely connected to the main hospital building by a service tunnel although I understand this aspect of the design has subsequently changed.

This option had a floor plate of 22,421 square metres and an initial estimated construction cost of \$165.5 million thus requiring \$15.5 million capital works funding in addition to the funding of \$150 million required to construct the original design. In re-developing the costing however, DoI advised savings of \$4.5 million could be achieved thus construction of the project could be delivered with an additional \$11 million resulting in a total construction cost of \$161 million.

Selected Agencies cont...

The requirement to contiguously situate the medical wards and ambulatory care areas has resulted in a larger footprint for the PRH. This also meant longer walking distances for hospital staff when accessing various areas within the hospital (the distance between the two furthest points on the ground is 225 metres compared to 150 metres in the previous design). The chosen design results in all activity areas being accommodated in a two level building. A challenge identified in finalising the design is that, whilst the greater distance results in an inefficient design from a construction and services delivery perspective, potentially resulting in increased whole-of-life operating costs, it provides direct line of sight for staff and in an emergency, allows staff to respond more quickly.

It is worth clarifying that the \$150 million capital works funding and subsequently approved additional funding of \$11 million (combined \$161 million) does not include funding for group 2 and 3 fixtures, furnishings and equipment (FF&E), major medical equipment and Information Communication Technology (ICT) requirements for the PRH. These were to be costed in more detail and approval for funding was to be sought through a separate submission to Cabinet. FF&E is further defined within this report in the section entitled "Construction Cost and Funding Agreements".

Overview of the Managing Contractor arrangement

Mark 3 (March 2015 to date)

Managing Contractor arrangement

The Managing Contractor arrangement is conventionally used for the construction of large complex buildings, with this relationship-style delivery model based on collaborative principles, involving a head contractor being engaged as a Managing Contractor. In normal circumstances, the Managing Contractor is involved in managing the development of the design, coordinating the production of construction documentation, entering into contracts and managing the delivery of works on behalf of the project owner. The Managing Contractor is responsible for awarding Reimbursable Work contracts to the subcontractors used in the delivery of works.

In the case of the PRH project there is a variation to the typical Managing Contractor arrangement in that the following steps have to be undertaken by the Managing Contractor:

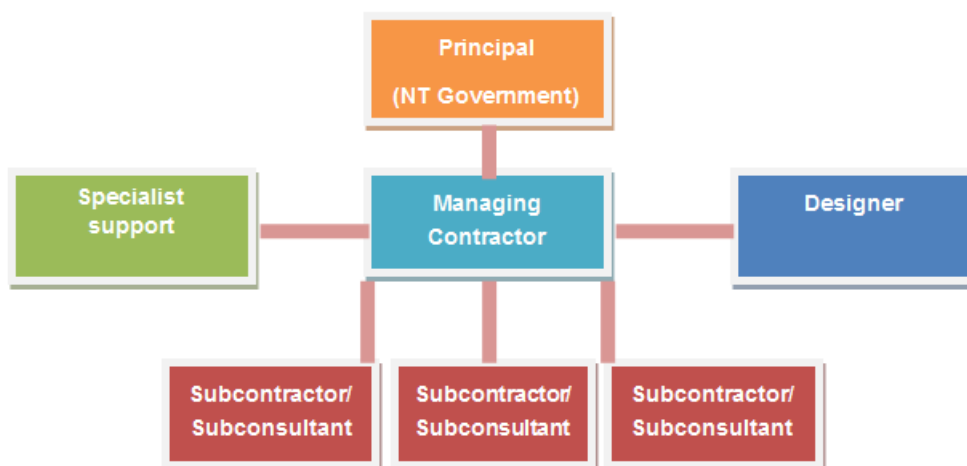
- the division of Reimbursable Works into packages for the purposes of facilitating the calling of tenders for Subcontractors. The packages have to be approved by DoI;
- advertising and assessment of tenders including short listing of the preferred tenderer. DoI will have the final say on the acceptance of the preferred tenderer. DoI has the right to disapprove the preferred tenderer selected by the Managing Contractor; and

Selected Agencies cont...

- entering into contracts with the approved tenderers.

The model also involves the Managing Contractor being paid a fee in consideration of the Managing Contractor performing the Managing Contractor's work in accordance with a Milestone Fee Payment Schedule. The Milestone Fee Payment Schedule forms part of the Cost Plan and includes reimbursed Reimbursable Costs paid to Subcontractors (including consultants). If the Milestone Fee is adjusted under the Contract, then the Milestone Fee Payment Schedule will be adjusted on a pro rata basis either as agreed by the Contractor and DoI; or if not agreed, as reasonably determined by DoI.

Figure 2: Structure of a typical Managing Contractor arrangement



Source: Building and Construction Procurement Guide Principles and Options page 26 from <http://www.apcc.gov.au/ALLAPCC/Building%20and%20Construction%20Procurement%20Guide.pdf>

The Managing Contractor delivery method is intended to increase the collaboration between the project owner and the Managing Contractor. The Managing Contractor arrangement is expected to maximise the scope of work delivered for the available funds, through the use of the Managing Contractor's experience and proven construction methodology. The methodology involves two phases comprising the planning phase (incorporating design) and a subsequent delivery phase. Under such an arrangement, the Managing Contractor is required to manage the project to achieve timely completion within a defined cost limit, but does not have fixed price obligations. That is, the target cost does not function as a lump sum cap. Whilst the initial target cost was determined and included in the responses from tendering parties based on a superseded design, the inclusion of the design was intended to communicate the size and complexity of the project.

Selected Agencies cont...

In the planning phase, the Managing Contractor is to commence early works, prepare planning phase design documentation, programs, cost plan and project plans to the satisfaction of the Territory. This work normally originates from a preliminary Project Brief. The Managing Contractor works with the Territory to achieve the conditions of the Planning Phase Agreement by the date for completion of the Planning Phase Agreement and generally perform other activities constituted in the planning phase.

Once the Territory is satisfied with the design, development, programming and cost planning undertaken by the Managing Contractor, the contract is to proceed to the Delivery Phase at which time the Managing Contractor will complete the design of the works and commence, construct, commission, complete and hand over the works.

The Managing Contractor is contracted to bear the risk of, and indemnify the Territory against, any loss or damage (outside force majeure) to the Works or Works Package, Plant, Equipment and Work and unfixed goods and materials until a Notice of Completion is issued for the Works or Works Package. The Managing Contractor bears the risk between the date of the Notice of Completion until the conclusion of the Defects Liability Period.

With the novation of the Territory's contract with the design consultants, the Managing Contractor has agreed that they will bear, and continue to bear, the full liability and responsibility for the design and construction of the Works in accordance with the contract and that this will not impact the Managing Contractor's obligations during the Defects Liability Period.

A Managing Contractor arrangement may or may not incorporate a Guaranteed Contract Sum (GCS) negotiated at the end of the planning stage. A GCS is intended, when used, to cap the construction cost risk for the project owners and may encourage savings ultimately shared between the Managing Contractor and project owner. The determination of a GCS needs to be undertaken when the design is sufficiently complete in order to enable accurate estimation of costs and therefore the inclusion of a GCS may lead to delays in negotiations with the successful proponent. A GCS was not an element of the PRH Managing Contractor Design and Construct tender process because it was believed it would negatively affect overall quality and project control.

The advantages and disadvantages for using a Managing Contractor, as reported by the Australian Procurement and Construction Council are presented in Appendix D.

Selected Agencies cont...

Risk Allocation

In a Managing Contractor delivery method, the Managing Contractor assumes the responsibilities for the designers, and therefore bears the design risk including design development and documentation process risk.

The Managing Contractor has to construct the works according to the approved design and specifications and also warrant the quality of the works. Time risk, in relation to construction time, is also assumed by the Managing Contractor.

Under the Managing Contractor arrangement for the PRH, the Territory bears the full construction cost risk.

Managing Contractor's Fees

The Procurement Outcome Approval document indicated that the winning tenderer made a Managing Contractor Fee Offer of \$17,085,254 inclusive of GST. The tender response reflected an estimated Reimbursable Offer of \$99,514,746 inclusive of GST. This resulted in a combined offer of \$116.6 million inclusive of GST. This figure was relayed in the Notice of Acceptance (NOA) letter to the Managing Contractor dated 22 July 2015.

When the Managing Contractor Contract (MCC) was signed on 2 December 2015, the Contractor Fee was included in Annexure A as a lump sum of \$17,798,771.20 inclusive of GST. The initial target cost remained the same as that included in the tender response of \$116.6 million inclusive of GST. The Managing Contractor's fee had increased by \$713,517 inclusive of GST between the time of issuing the NOA and the signing of the MCC. This was attributed to the revised design during planning phase. Within the MCC, the Reimbursable Construction Costs had been adjusted downward by an equal value.

Management of the Project

Mark 1 (2009 to late 2012)

There were mixed responsibilities for the project from the time it originated up to the point when the Managing Contractor was appointed. During the Mark 1 phase, the project responsibilities were jointly undertaken by DoH and DoI (then called the Department of Construction and Infrastructure). The awarding of the contract for the design architects was undertaken by DoI. The ultimate owner of the project upon completion and responsibility for operating the hospital was intended to be DoH. DoI was to be tasked with the project management of the construction phase of the project.

Selected Agencies cont...

Mark 2 (early 2014 to February 2015)

In Mark 2 (the PPP version) of the project, DoH had sole carriage of the concept through to the stage where expressions of interests were received.

The project governance structure established included a Project Development Board, Project Delivery Group, Palmerston Regional Hospital Project Team and Project Working Group.

The Project Development Board was responsible for the streamlined delivery and procurement of the project, to provide advice in respect to project investment decisions including variations required that were outside the planned scope of the project and provide approval to key strategic actions and milestones. Membership of the Project Development Board included the Accountable Officers of DoH, DCM, Department of the Attorney-General and Justice (AG&J) and DTF.

The Project Delivery Group was responsible for providing strategic, cross-agency guidance and advice to ensure the project was delivered in accordance with the agreed scope, time, cost and quality parameters, and agreed project benefits. It provided support and direction to the Project Working Groups, liaising with Advisers and other Northern Territory Agencies and provided information and documentation for approval to the Project Development Board. Membership of the Project Delivery Group included senior officers of DoH, DCM, AG&J and DTF.

The DoH Project Team provided direction to and managed the Project Working Groups and liaised with other Northern Territory Agencies and Advisors for the purpose of document collation, tracking and reporting. The Project Team consisted of Project and Communications Advisors, Project Officers and Administrative Staff. The Senior Project Manager was responsible for the Project Team and was the contact point for all project representatives including the Project Owner, Project Sponsor, Project Executive Director. There was no prescribed membership of this group.

DoH Project Working Groups were created to undertake clearly defined projects and tasks, provide specialised expertise and advice and to submit detailed reports and recommendations to the Project Delivery Group as required. Sub-groups of the Project Working Groups included, but were not limited to, Procurement, Clinical Services Planning and the Top End Clinical Services Framework working group.

Other Northern Territory Government Departments, consultants and other stakeholders were involved for the provision of probity, clinical planning, legal and financial services as required during Mark 2.

Selected Agencies cont...

Mark 3 (March 2015 to date)

Upon moving to Mark 3 (the current version of the project), a Cross Government Project Steering Committee (PSC), Project Leadership Team and Project Management Team were established to provide a governance framework for the project.

The PSC was established to oversee the delivery and commissioning of the new hospital. The membership of the steering committee comprises the Accountable Officers of: DCM; DoH; DTF; DoI; AG&J; and DLPE. The PSC's main role is to consider, resolve or make recommendations to the government on project related issues that cannot be resolved within the lower levels of project governance and management.

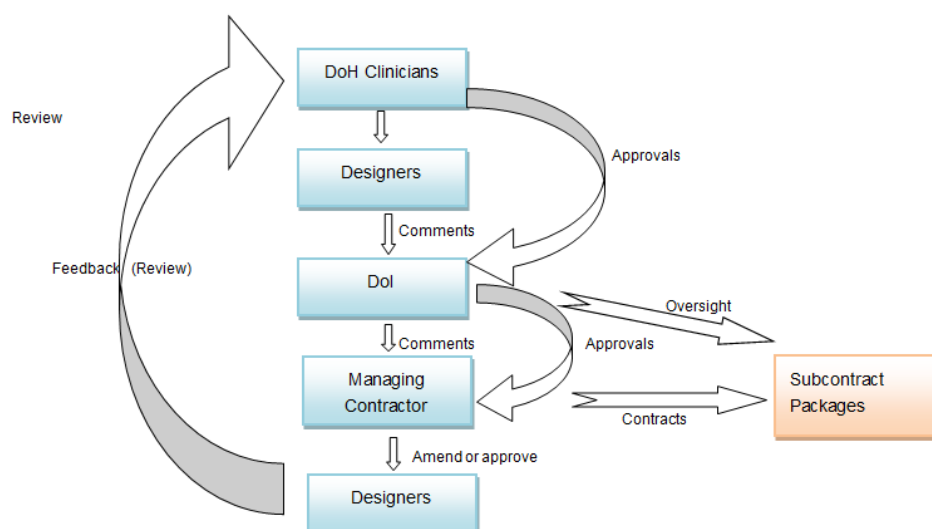
The Project Leadership Team was established with an overall charter to provide guidance and leadership to the parties with the respect to the Project. The team comprises DoI, DoH and three Managing Contractor Representatives,

The Project Management Team was set up with an overall charter to manage and guide the project. In its role, the team provides leadership and guidance, monitoring and management of works and is responsible for establishing effective management structures for the overall success of the project. The team comprises DoI, DoH and two Managing Contractor Representatives.

A DoH Design Input team exists to provide input to the development of the detailed design documentation of the project so as to ensure that the future model of care and service delivery is achieved. The team comprised external consultants with clinical and hospital planning expertise together with DoH representatives.

Selected Agencies cont...

Figure 3: Flowchart of the design workflow



Investment planning

Mark 1 (2009 to late 2012)

The grant application form lodged with the Health and Hospitals Fund (HHF) in 2010 included the following information outlining the case for the need of a hospital in Palmerston:

- Socio demographics characteristics;
- Health Facility Model at the epicentre of population growth in Palmerston incorporating 24/7 Emergency Care, Inpatient Facility and Ambulatory Care Centre;
- Model Design and Benefits; and
- Implementation Plan and Risk Management Strategy.

In the details of projected demand, the grant application indicated the following:

- Projected rehabilitation bed numbers to meet benchmark in 2021 for the Top End would be 45 compared to the current beds of 18. This indicated a deficit of 27 beds.
- Projected geriatric evaluation management bed numbers to meet benchmark in 2021 for the Top End would be 28 compared to the current beds of 0. This indicated a deficit of 28 beds.
- Projected palliative care bed numbers to meet benchmark in 2021 for the Top End would be 14 compared to the current beds of 12. This indicated a deficit of 2 beds.

Selected Agencies cont...

This demand projection to 2021 indicated that there would be a deficit of 57 beds in the Top End Hospital system. At the time of the application, the exact scope of the project had not been clearly defined as an analysis had not yet been undertaken against the population needs of the Palmerston area with consideration of the broader Greater Darwin region's clinical demands.

The total project cost for the Palmerston Community Hospital (Mark 1) was projected as \$110 million including an allowance of \$7.0 million for FF&E (Table 4). At the time of the audit fieldwork, this allowance was no longer included in the construction funding envelope. The gross construction floor area including the car park was estimated to be 14,345 square metres.

In the application to HHF, DoH sought funding of \$110 million. There was no mention of any contribution by the NT Government. HHF funding awarded was \$70 million. The NT Government agreed to contribute \$40 million.

Subsequent to this, there was an additional \$40 million which was granted by the Commonwealth Government through the 2013-14 Mid-Year Economic and Fiscal Outlook. This resulted in total project funding available of \$150 million. At this time the project output still referred to configuration, gross construction floor area and bed numbers consistent with the original funding proposal.

The projected running costs of the envisaged hospital had not been determined at the time that the announcement of the construction of the hospital was made.

Cost benefit analysis

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. A number of individuals consulted and/or interviewed during this review advised that a cost benefit analysis had been undertaken in Mark 1 but were unable to locate and provide the cost benefit analysis. A paper entitled Cost Benefit Analysis Policy Essentials, released by the Business Council of Australia and Deloitte Access Economics) states that a Comprehensive Cost Benefit Analysis would involve, at a minimum:

- establishing the base case;
- defining the policy options to be evaluated and compared against the base case and other options;
- determining and presenting the estimates and assumptions for external factors affecting the policy outcomes;

Selected Agencies cont...

- defining and estimating the costs of a policy proposal;
- defining and estimating the benefits of a policy proposal; and
- drawing a conclusion/recommending a course of action.

Investment and procurement decisions are separate although from a timing perspective they can occur concurrently or separately. In this instance, the decision to invest in the building of a Palmerston Hospital and the decision as to the procurement approach occurred separately. The consideration of the procurement options during the investment planning stage and cost benefit analysis could arguably be beneficial to the NT Government when considering future major projects as undertaking the two exercises concurrently would likely provide a more comprehensive and informed basis regarding the investment and alternatives which could possibly result in time and cost savings during project implementation.

Refer to the "Procurement and Delivery of the Palmerston Regional Hospital" section of this report for further details.

Construction Cost and Funding Agreements

This section of the report lists the financial information obtained during the audit according to the respective timeline of the project.

Mark 1 (2009 to late 2012)

The comparative cumulative delivery estimated cash flows (construction cost only) of the Palmerston Hospital for each of procurement delivery method as assessed in August 2011 were:

Table 3: Comparative delivery cash flows for each procurement delivery method

Procurement Delivery Method	2011/12 \$	2012/13 \$	2013/14 \$	2014/15 \$	2015/16 \$
Managing Contractor	0	30M	67.5M	95M	0
Design Document and Construct	0	17M	60M	92.5M	95M
Early Contractor Involvement	0	12M	46M	77M	95M
Design then Construct	0	8.4M	50.9M	84.9M	95M

The project budget of \$110 million had been allocated to the Palmerston Community Hospital project from the Commonwealth and Northern Territory Governments based on a 2010 submission to the HHF. A preliminary cost plan was developed as detailed in the table below, however further detailed cost planning was only to be undertaken once the project had been more clearly defined, in particular at the Concept and Functional briefing stages.

Selected Agencies cont...

Table 4: Indicative cash flow and project cost plan

Details	Total
Construction funds for 60 bed hospital	\$80,000,000
PWC fees and charges	\$120,000
FF&E	\$7,000,000
Building contingency	\$7,880,000
Consultant and fees	\$15,000,000
Total excluding GST	\$110,000,000

Mark 2 (early 2014 to February 2015)

A consultant's report in September 2014 noted the capital cost of the PRH, as estimated by an independent quantity surveyor in 2014, was \$193.9 million in nominal terms. Of this total, \$143.7 million was attributed to construction costs with a further \$50.2 million allocated to project and commissioning costs. The second cost element included one-off HR costs comprising staff recruitment, orientation, development of policies/procedures etc. (based on expected one-off costs from comparable facilities).

Mark 3 (March 2015 to date)

A detailed cost allocation of the \$150 million funding envelope against components of construction was not available at the time of the audit fieldwork. The following details were noted from discussions with various Agency representatives and from costing information provided:

1. Headwork costs of approximately \$30 million for the water, power, sewer to site and the access road to the hospital are not included in the approved construction budget of \$150 million. The car park for the hospital was included.
2. Managing Contractor's fees in respect of the construction of the building of the hospital were included in the approved construction budget of \$150 million.
3. In May 2015, Groups 2 and 3 FF&E were to be separately funded from the budgeted building cost. FF&E Groups, as categorised by the Australasian Health Facility Guidelines Part F – Project Implementation dated 16-Dec-10, page 1086, are explained below:

Group 1 Contracted installation: "Items supplied and fixed by the contractor. These are included in the construction contract."

Selected Agencies cont...

Group 2 Builder installation: “Items supplied by the client and fixed by the contractor. These include items that are transferred but require installation by the contractor, or where the client chooses to buy a piece of equipment and give it to the Managing Contractor for installation.” Examples include integrated theatre equipment, washer disinfectant, steriliser, ceiling mounted lights and dispensers.

Group 3 Client installation: “Items supplied and installed by the client. These include all moveable items that can easily be transferred or installed by staff and major items of electro-medical equipment that are purchased, installed and commissioned by a third party.” Examples include imaging equipment, medical analysing equipment, fixed and loose kitchen equipment, trolleys and office equipment.

Examples provided were at the time of the fieldwork and remain subject to changes as the project evolves and requirements crystallise.

Health and Hospitals Fund Agreement

The latest agreement provided by DoH was signed on 4 June 2014 by the Ministers for Health of both the Northern Territory and the Commonwealth Governments.

The outputs of the Agreement included the following, in relation to the construction of the PRH:

- Approximately 14,345 square metres building plate;
- Up to 60 acute and sub-acute beds;
- A 24/7 emergency department;
- A specialist ambulatory care unit; and
- Paediatric and elective surgery services.

The Commonwealth's role, as defined in the Agreement, is to monitor and assess achievements against payment milestones for the construction of the project in accordance with the project milestones specified in the Project Plan so as to ensure that outputs are delivered within agreed timeframes. The Commonwealth would also provide financial contributions to the project when the builder was contracted.

The Northern Territory Government is responsible for contracting a builder, providing a financial contribution, developing a Project Plan and delivering the project outputs as set out in the Project Plan. In addition, the Northern Territory Government is to report on the delivery of outputs set out in the Project Milestones, Reporting and Payments.

Selected Agencies cont...

The Project Plan for the project needs to be agreed by senior Commonwealth and Northern Territory officials. The Project Plan is expected to be a flexible document that may be varied over time to accommodate changed circumstances.

The table below summarises, at the time of the audit fieldwork, the Payment Milestones, reporting obligations and payments for the project documented within the agreement:

Table 5: Summary of payment milestones, reporting obligations and payments of the HHF agreement

Output	Milestone	Date due	Relevant Report due	Payment
Construction of the Palmerston Hospital, Northern Territory (consistent with the requirements specified at clause 8).	Project Plan developed in accordance with clauses 12-14	Apr-12	Apr-12	\$1.0m* (Received 28/06/12)
	Site services commence	Jul-14	Nov-14	\$20.0m* # (Received 07/10/14)
	Commence construction	May-15	May-15	\$35.0m* (Received 07/10/15)
	Completion of base building	Apr-16	May-16	\$20.0m#
	Internal fit-out commenced	May-16		\$26.0m
	Completion of construction	Mar-18	May-18	\$5.0m
	Practical completion of the project and a Final bi-annual Report	May-18		\$3.0m
Total				\$110.0m

Source: Project Agreement for the Health and Hospitals Fund – 2010 Regional Priority Round Project in Palmerston; an agreement between the Commonwealth of Australia and the Northern Territory of Australia; Signed on 4 June 2014; page 5
Table 1: Payment milestones, reporting and payment summary.

* Payments made

Additional funding not appropriated through the Health and Hospitals Fund.

I was advised at the time of audit fieldwork that the Project Milestones are being renegotiated to better suit the project delivery process in accordance with the latest project plan.

Selected Agencies cont...

The agreement stipulates that the Northern Territory will not be required to refund the Commonwealth if the actual cost of the project was less than the agreed estimated cost of the project. The Northern Territory would bear all risk should the costs of the project exceed the agreed estimated costs.

Summary of Project Cost

The table below highlights the key financial information relative to each approved design of the PRH for comparative purposes:

Table 6: Summary of key financial information

Key information	Mark 1 (Table 4)	Mark 2	Mark 3
Total funding publicised	\$110,000,000	\$110,000,000	\$150,000,000
Construction Cost	\$95,000,000	\$111,800,000	Not defined
Total Project Cost (includes construction cost)	\$110,000,000	\$193,950,000	\$165,500,000*

* Note the estimated total build cost of \$165,500,000 as at May 2015 excluded Group 2 and 3 FF&E and the ICT backbone. These costs are to be met by DoH. The cost of headworks is also excluded.

Governance of the Procurement Process

Mark 1 (2009 to late 2012)

A Probity Auditor was appointed on 13 September 2011 and the Probity Report was issued on 7 December 2011. The key findings included:

- Probity Plan for the project contained key elements consistent with requirements set out in the relevant directions;
- Good level of compliance with the Probity Plan following its adoption;
- The Assessment Panel followed the evaluation procedures as described in the Tender Evaluation and Assessment Plan; and
- No conflict of interest issues were raised.

Mark 2 (early 2014 to February 2015)

DoH appointed Probity Advisors on 7 March 2014. On 21 November 2014, DoH released an invitation for EOI for the development and operation of the PRH.

A Probity Plan was developed by DoH in December 2014. The Probity Plan set out the minimum probity requirements for the procurement process. The Probity Plan was to be used as the basis for the Probity Advisor's assessment of the integrity of the procurement process but the assessment would not necessarily be limited to matters in the Probity Plan.

Selected Agencies cont...

The closing date for the submission of EOI was 16 January 2015 with seven EOIs received. The process for the assessment of the EOIs by the evaluation panel was completed with the Evaluation Panel's recommendations being signed off on 28 January 2015.

The Probity Advisors issued their Probity Report on 27 February 2015 on the evaluation of the EOIs and formed the view that there was a satisfactory level of compliance with the EOI Evaluation Plan and Probity Plan.

Mark 3 (March 2015 to date)

A Governance Structure for the PRH Request For Tender (RFT) Managing Contractor Contract process was developed and the explanatory memorandum signed on 24 April 2015. Conflicts of interest and confidentiality forms were prepared and signed by all parties prior to their involvement in the tender evaluation, following which the forms were retained in a specific place to support probity of the process.

Going to the market – analysis of responses

The Northern Territory Government released an Information Memorandum in May 2015 to the general public that called for interested parties to submit an RFT in relation to the PRH. An industry briefing for the Managing Contractor contract was facilitated by DoI in May 2015. The RFT was issued through the Northern Territory Government's Tender System managed by the then named Department of Business and Employment.

The RFT closed on 10 June 2015 and the assessment of tender responses commenced on 16 June 2015 at Highway House, Palmerston. The entire tender assessment panel met with the designated Probity Auditor for a tender assessment panel meeting on 3 July 2015. The official appointment of the Probity Auditor was on 13 July 2015.

The evaluation process between 3 July 2015 and 16 July 2015 was overseen by the Probity Auditor and involved discussions with legal, financial and technical advisors. The members of the Assessment Panel were sourced from a diverse mix of public sector representatives, including DCM, DTF, DoH and DoI.

The Procurement Outcome Approval was finalised on 16 July 2015 and the report provided to me documented the process of how the six tenderers were reduced to one preferred tenderer with whom exclusive negotiations would be held leading to the issuing of contracts to manage the construction of the PRH. The Assessment Panel recommended the preferred tenderer.

Selected Agencies cont...

I was provided with final signed versions of the assessment reports by the Assessment Panel for the RFT process. As communicated to the market in the RFT, responses were evaluated on the criteria of Price (30%), Past Performance (25%), Local Development (20%), Capacity (15%) and Timeliness (10%). The value of the Managing Contractor Fee was subject to evaluation. I have been informed that the value attributed to reimbursable costs was not a determining factor in the assessment of the tenders due to the nature of the design and construct arrangements associated with the Managing Contractor model.

Probity of the RFT process

The Probity Report on the RFT process was issued on 16 July 2015. The Probity Auditor identified the following limitations in relation to the tender process in the Probity Report:

- *“The appointment of Probity Adviser was not noted in the Request for Tender document”;*
- *“A Probity Plan was not prepared for this procurement”;*
- *“The scoring of price criteria based on Managing Contractor fee submitted by each tenderer. It was evident that the fees submitted did not cover the same cost items and some cost items included by tenderers in their fee were included by other tenderers in their reimbursable costs. This creates a risk that tenderers are not being evaluated on the same basis”; and*
- *“The Department did not issue a Future Tender Opportunity for this Tier 5 procurement. This is a breach of Northern Territory Government Procurement Direction PO3 Procurement Planning.”*

Notwithstanding allocation of the electronic tender documents to a designated drive, the Probity Auditor identified some areas for improvement in relation to the security of tender related documents.

I acknowledge DoI has processes in place to review RFTs prior to release and in this instance a legal services firm was engaged to provide probity advisory services during the preparation of the RFT documents. There was, however, no independent review of the RFT undertaken by a Probity Auditor prior to the RFT being released to the market as the Probity Auditor had not been appointed at that date. This represents non-compliance with the Northern Territory Government's Procurement Best Practice Guidelines.

Selected Agencies cont...

Procurement testing

A number of procurement activities were selected for testing as part of the audit to obtain assurance that the processes leading to the awarding of contracts to the successful tenderer/s associated with the construction and contract management of the PRH were in accordance with the Northern Territory Government's procurement framework.

Exceptions were noted during my review of the procurement processes. The key areas identified as requiring improvement surrounding the procurement planning processes are:

- Future Tender Opportunities were not prepared and issued as required by the Procurement Directions;
- Consultancy work was awarded prior to the procurement process being finalised; and
- Requisitions were completed after the formal engagement of clinical consultants.

Procurement and Delivery of the Palmerston Regional Hospital

The procurement models considered at Mark 1 (2009 to late 2012)

The four construction delivery options that were considered at Mark 1 are described in the table below:

Table 7: Procurement models considered for the PRH as defined by the Australasian Procurement and Construction Council Inc

Procurement Model	Description
Managing Contractor	<p>A delivery model which involves a head or 'managing' contractor being appointed by the project owner to provide advisory and management services; create work packages; source and enter into contracts with designers and subcontractors; and coordinate, supervise and potentially directly undertake some elements of the work pertaining to a specific construction project.</p> <p>The model is best used when:</p> <ul style="list-style-type: none"> • The scope is uncertain, many project risks are unknown, project management is complex, innovation is likely to be required, and early expert assistance would be advantageous with continuity throughout the delivery of the project. • Project delivery timeframes are constrained. • Stakeholder interfaces are complex and require specialist handling. • Project owner resources to oversee the design and construction works are limited.

Selected Agencies cont...

Table 7: Procurement models considered for the PRH as defined by the Australasian Procurement and Construction Council Inc (continued)

Procurement Model	Description
Design then Construct	<p>A delivery model (which includes variants such as novated design and construct, and design development and construct) under which a project owner selects a single contractor to deliver both the design services and construction works for a specific project. Following completion of the construction works, the project owner assumes responsibility for the ongoing maintenance and/or operation of the asset, except in cases where such responsibilities are appended to the Design then Construct model under such variants as design, construct and maintain; design, construct and operate; or design, construct, maintain and operate.</p> <p>The model is best used when:</p> <ul style="list-style-type: none"> • There is need for a high degree of cost certainty at the time of award. • The project requirements are well-defined at the time of going to tender and comprehensive design, quality and finishes standards are available. • Alternative and innovative design solutions are desirable, but the project owner does not want to assume all of the design risk. • There is a desire for the administrative efficiency of a single point of accountability and improved integration of the design with construction, along with improved constructability outcomes.
Design, Document and Construct	A variant of the Design then Construct model defined above.

Selected Agencies cont...

Table 7: Procurement models considered for the PRH as defined by the Australasian Procurement and Construction Council Inc (continued)

Procurement Model	Description
Early Contractor Involvement (ECI)	<p>A two-stage relationship-style delivery model, generally structured to resemble a project alliance model during the first stage and a D&C model during the second. This delivery model is specifically designed to achieve good relationship, cost and constructability outcomes by fostering the involvement of construction contractors during the preliminary (design and development) stages of project delivery. Project owners should consider this model in circumstances where:</p> <ul style="list-style-type: none"> • The project risks are somewhat unknown, and some degree of innovation is likely to be required. • Project delivery timeframes are constrained. • They are interested in using a relationship model rather than a more adversarial model, but where there are insufficient resources to fully resource an alliance. • There is identified value in participating in a collaborative Stage 1 arrangement to drive innovative outcomes and provide for knowledge transfer. • There is a need to obtain certainty of price and demonstrate transparency of price. • There are uncertain or complex interfaces, and flexibility on scheduling and delivery are required.

Source: Building and Construction Procurement Guide Principles and Option,
<http://www.apcc.gov.au/ALLAPCC/Building%20and%20Construction%20Procurement%20Guide.pdf>

The procurement models considered at Mark 2 (early 2014 to February 2015)

As reported earlier, the development of the EOI process commenced in February 2014 in relation to a PPP approach for the construction of the PRH. The EOI was to be supported by a more detailed options analysis.

DoH engaged an engineering consultant to assist in identifying the appropriate procurement method for delivery of the PRH in early 2014. The resultant report titled presented the following six procurement models available for the delivery of the PRH:

Selected Agencies cont...

Table 8: Procurement models and description considered from a briefing report dated May 2014

Procurement Model	Description
Public Build, Own and Operate	The PRH Project would be undertaken by NT Government and the design and construction roles would be tendered separately to the private sector.
Design and Construct ('D&C')	The design and construction of the PRH Project assets would be combined into one procurement process which would be tendered to one private sector party.
Design, Build, Maintain ('DBM')	The private sector would be contracted to design, construct and maintain the facilities, with the public sector retaining operating responsibility.
Design, Build, Maintain and Operate ('DBMO') *	The private sector would operate the facilities in addition to the provision of design, construction and maintenance roles.
Design, Build, Fund, Maintain ('DBFM')	The private sector would be contracted to provide financing in addition to the design, construction and maintenance of the infrastructure.
Design, Build, Fund, Operate ('DBFO')	The private sector would be contracted to provide financing in addition to the design, construction, maintenance and operations of the infrastructure.

*Also referred to as Design, Build, Operate and Maintain ("DBOM")

The consultant recommended a DBMO model to be conducted via an EOI approach. The second and third preferences were the DBFM and DBM respectively.

The consultant's Procurement Option Analysis was considered by DoH and DTF to provide insufficient detail and needed to be further developed to include additional information to indicate the likely risks/benefits of the options in the PRH context.

A second Procurement Option Analysis was performed by a financial consultant, which focused on the procurement models of D&C, DBM and DBOM. The financial consultant's recommended procurement option was either the DBM or DBOM model rather than the D&C model. As stated in the report, the choice between the DBM and DBOM option depended on DoH's policy position with respect to testing the market for private sector health operators to run the PRH and to accept the risks that a DBOM model created for the project timetable. If the DoH policy position was to retain clinical operations in the public sector then the DBM model would be the recommended option.

The financial consultant's report highlighted that DBOM was a type of PPP model in which typically the public sector finances capital expenditure. A conventional PPP model relies on the private sector to finance capital expenditure. For this project, a PPP model was considered unsuitable as the project was to be primarily funded by government.

Selected Agencies cont...

The procurement models considered at Mark 3 (March 2015 to date)

The Managing Contractor Design and Construct model was then selected based on advice provided by DoI. The Managing Contractor Design and Construct process was considered when it was identified that there was a lack of competitive responses to the EOI for the DBOM process. No evidence was provided to me to indicate any additional Procurement Option Analysis were considered beyond the detailed consideration already undertaken to support Mark 1 and Mark 2.

The selected procurement model for delivery of the project

From the initial planning of a Palmerston Community Hospital to the current delivery of the PRH three procurement models were selected during the process as detailed below:

Table 9: Procurement models selected over the period.

Procurement model selected and actioned	Timing/Key Date	Project reference	Comments
Design then Construct	2011 - 2012	Palmerston Community Hospital (Mark 1)	Architectural consultancy and design development on the smaller site for the 60 bed hospital.
Design, Build, Operate, Maintain	November 2014 to January 2015	Palmerston Regional Hospital (Mark 2)	PPP 79 bed hospital
Managing Contractor Design and Construct	March 2015	Palmerston Regional Hospital (Mark 3)	Adoption of a Managing Contractor model with DoH to provide the public hospital services. 116 bed hospital

Risk Management

Mark 1 (2009 to late 2012)

I am not aware that a comprehensive preliminary risk analysis was undertaken to accompany the business case for this project. A reference to a risk assessment which was available at the start of the process was included in the funding application for the Health and Hospitals Fund. The risks identified at that point were primarily related to construction risks. It should be noted that at the time of preparing that risk assessment, the exact scope of the project had not yet been clearly defined.

Selected Agencies cont...

Mark 2 (early 2014 to February 2015)

In Mark 2 (the PPP version) of the project, DoH had sole carriage of the concept through to the stage where expressions of interests were received. A Risk Management Plan was developed in May 2014.

Mark 3 (March 2015 to date)

Once the project moved through to Mark 3, the main Agencies involved directly in the project, DoI and DoH, developed individual risk registers as a way of managing the risk profile of the design and delivery of the PRH. Each Agency created their own risk register, detailing the risk details and assigning the risks to respective owners. The risk register prepared by DoI focuses on construction risks. DoH's risk register had two major risk categories being commissioning risks and operational risks.

Risks were identified and documented by DoI and DoH at the Agency level and risks are discussed within PSG meetings. There was not, however, at the time of audit fieldwork, a complete risk register that identified across government risks, risks considered in relation to the overall outcome of the PRH and specific risks relating to the process of collaboration.

Selected Agencies cont...

Appendix A

Timeline of key milestones/events for the Project

Time	Key Milestone/Event	Procurement Approach
2009 / 2010	<u>Commitment to build a new Top End Hospital</u> <ul style="list-style-type: none"> Election commitments from both major parties. 	Design then Construct
Late 2010 to Mid 2011	<u>Proposal and approval of the Palmerston Community Hospital</u> <ul style="list-style-type: none"> Proposal for a 60 bed hospital. Planning for the hospital (for example business plan, clinical service plan, functional brief) commenced. \$110 million was awarded for the capital build of the hospital. 	
Late 2010 to Mid 2011	<u>Design planning</u> <ul style="list-style-type: none"> Approval to tender for architectural consultancy of the Palmerston Community Hospital. Design completed in August 2012. 	
Late 2011 to Mid 2012	<u>Initial hospital site identified and approved</u> <ul style="list-style-type: none"> Lot 8408 next to Palmerston Health Precinct and GP Super Clinic (corner Roystonea Ave and Temple Terrace) was the site identified and approved for the hospital project. Hospital planning continued. 	
August 2012	<u>Change of government</u> <ul style="list-style-type: none"> EOI for the construction of Palmerston Hospital was released to the market on 26 July 2012 and closed on 29 August 2012. Full plans and construction tender documents were completed. Plans for Palmerston Hospital were put on hold. 	
Nov 2012	<u>New site investigation and assessment</u> <ul style="list-style-type: none"> 4 sites including the current site were assessed by the Department of Lands and Planning for the hospital location. 	
April 2013	<u>Approval provided for the planning for Palmerston Regional Hospital</u> <ul style="list-style-type: none"> Approval provided for the development of a hospital that may include additional services provided by private providers, greater service and amenities for the hospital and future proof expansion in later stages. 	

Selected Agencies cont...

Appendix A cont...

Timeline of key milestones/events for the Project cont...

Time	Key Milestone/Event	Procurement Approach
August 2013	<u>Announcement of new site</u> <ul style="list-style-type: none"> Chief Minister announced that a new and larger site had been selected for the PRH, consistent with expected future demand from the Palmerston region. The selected site was Section 4231 Hundred of Bagot, Stuart Highway. <u>Change in Commonwealth Government</u> <ul style="list-style-type: none"> Commonwealth indicated a preference for the Palmerston Hospital as a PPP. 	
Feb 2014	<u>Development of an Expression of Interest process for a PPP approach for the PRH.</u> <ul style="list-style-type: none"> Draft EOI documentation developed to be supported by a more detailed options analysis. 	Public, Private Partnership (PPP)
May 2014	<u>Procurement Option Analysis – Part 1</u> <ul style="list-style-type: none"> Options analysis developed by external consultants. 	
June 2014	<u>Additional \$40 million funding</u> <ul style="list-style-type: none"> From \$110 million for the capital build of the hospital the additional \$40 million funding from the Commonwealth Government resulted in increasing the approved capital building funding for the hospital to \$150 million. 	
July to August 2014	<u>Market Sounding Activities</u> <ul style="list-style-type: none"> Advertisement for market sounding. Market sounding was undertaken to inform the development of a procurement option analysis, consistent with the National Private Public Partnership Guidelines. Market sounding highlighted that there was significant interest in the private delivery of public hospital services, with limited interest in the delivery of private beds. There was a view expressed that private services could be delivered in co-location with public services. In addition, there was interest in niche private services to fill existing service gaps, including mental health, aged care, and rehabilitation services. 	
Sept 2014	<u>Procurement Option Analysis – Part 2</u> <ul style="list-style-type: none"> Finalised by external consultants. 	

Selected Agencies cont...

Appendix A cont...

Timeline of key milestones/events for the Project cont...

Time	Key Milestone/Event	Procurement Approach
Nov 2014 to Jan 2015	<u>Procurement Option</u> <ul style="list-style-type: none"> Approval of the Design, Build, Operate and Maintain (DBOM) model for the delivery of the PRH. EOI documentation developed in conjunction with outsourced financial and legal consultants. EOI advertised on 21 November 2014 and closed 16 January 2015. Assessment of EOI and panel decision was made on 22 January 2015 that there was only one compliant and suitable respondent. Recommended progressing the issuing of a structured RFP to the one qualifying proponent on 27 February 2015. 	Public, Private Partnership (PPP)
Feb 2015	<u>Adoption of a revised procurement model</u> <ul style="list-style-type: none"> As a result of the limited response to the EOI, DCM OMP recommended the following options be considered: <ol style="list-style-type: none"> (1) Negotiation with the compliant respondent. (2) Having the project revert to a Managing Contract Design and Construct. (3) Moving the project to a Design and Construct model. The Managing Contractor Design and Construct process was selected and operations could be undertaken by DoH or a private operator post construction. 	
March 2015	<u>Revised procurement model</u> <ul style="list-style-type: none"> DCM tasked with coordination responsibility for communications and engagement across all relevant agencies to ensure information transparency and monitoring of project timeframes. Concept brief finalised based on PRH Mark 3, and updated for revised activity projections and changed scope. Retained the same planning principles. 	Managing Contractor Design and Construct
April 2015	<u>Ministerial endorsement of site and size of the PRH</u> <ul style="list-style-type: none"> Ministerial endorsement of site and size of the PRH was received. 	

Selected Agencies cont...

Appendix A cont...

Timeline of key milestones/events for the Project cont...

Time	Key Milestone/Event	Procurement Approach
May 2015	<u>PRH design scope and additional funding</u> <ul style="list-style-type: none"> Dol advised Cabinet of the preferred PRH concept design and additional funding requirement of up to \$11 million to deliver the PRH under the preferred design. Dol also advised that a submission seeking additional funds for one-off ICT, major medical equipment and FF&E costs, ongoing operational costs and ongoing life-cycle maintenance costs, would be forthcoming. 	Managing Contractor Design and Construct
June 2015	<u>Procurement process leading to the tender for the Managing Contractor</u> <ul style="list-style-type: none"> A select tender process for the development of scope and concept layout for tendering of Managing Contract documentation was undertaken and approved on 9 March 2015. A select tender process for the RFT of Architectural Services for the PRH was released on 27 March 2015, closed on 10 April 2015 and approved on 16 April 2015. Release of the RFT for the Managing Contractor opened on 5 May 2015. RFT for the Managing Contractor closed on 10 June 2015. Tender assessments commenced 16 June 2015. 	
July 2015	<u>Managing Contractor Contract awarded</u> <ul style="list-style-type: none"> The Procurement Outcome Approval was finalised on 16 July 2015. Notice of Acceptance to the awarded Managing Contractor was dated 22 July 2015. 	
December 2015	<u>Managing Contractor Contract signed</u> <ul style="list-style-type: none"> The agreed Managing Contractor Contract was signed by all parties on 2 December 2015. 	

Project phase/reference:	<div> <div></div> <div>Mark 1</div> </div>	<div> <div></div> <div>Mark 2</div> </div>	<div> <div></div> <div>Mark 3</div> </div>
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Selected Agencies cont...

Appendix B

Summary of key information relating to PRH



Key information	Mark 1	Mark 2	Mark 3
Summary of key financial information			
Total funding publicised	\$110,000,000	\$110,000,000	\$150,000,000
Construction Cost	\$95,000,000	\$111,800,000	Not defined
Total Project Cost (includes construction cost)*	\$110,000,000	\$193,950,000	\$165,500,000
Design related information			
Location of hospital	Lot 8408 next to Palmerston Health Precinct and GP Super Clinic (corner Roystonea Ave and Temple Terrace).	Section 4231 Hundred of Bagot, Stuart Highway.	Section 4231 Hundred of Bagot, Stuart Highway.
Design concept	<ul style="list-style-type: none"> 60 bed scheme. Design completed in August 2012. 	<ul style="list-style-type: none"> 79 bed scheme. Floor plate of 14,345 square metres. 4 levels (ground + 3 storey). Distance between the two furthest points on the ground floor was approximately 150 metres. 	<ul style="list-style-type: none"> 116 bed scheme. Floor plate of 22,421 square metres. 2 levels (ground + 1 storey). Distance between the two furthest points on the ground floor is approximately 225 metres. This design captures the following: <ul style="list-style-type: none"> Incorporation of a SSD; <ul style="list-style-type: none"> ✓ Four ward configuration; ✓ Medical wards and ambulatory care areas situated on ground floor; and ✓ Ability for future expansion both upwards and sideways.
Estimated Construction Cost	Construction within the \$110 million funding envelope.	Construction within the \$150 million funding envelope.	Construction within the \$161 million funding envelope.
Approved Construction Model	Design and Construct	Public Private Partnership	Managing Contractor

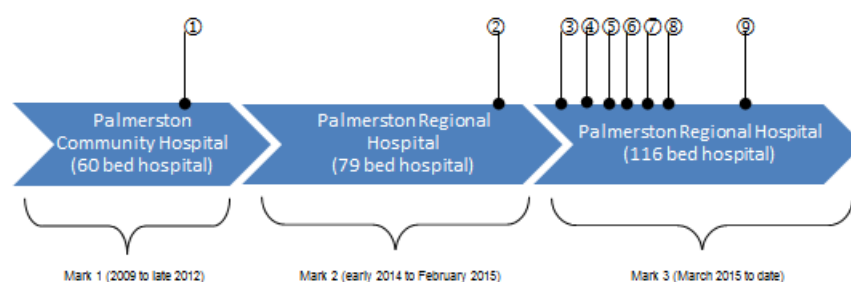
* Note the estimated total build cost of \$165,500,000 excludes Group 2 and 3 FF&E and the ICT backbone. These costs are to be met by DoH. The cost of headworks is also excluded.

Selected Agencies cont...

Appendix C

PRH design development and related procurement activity

Timeline of key procurement activities relating to the design development of PRH.



Legend:	Description
①	<ul style="list-style-type: none"> Public Tender on the Architectural Consultancy of Palmerston Community Hospital in September 2011. A 60 bed hospital located on Lot 8408 next to Palmerston Health Precinct and GP Super Clinic (corner Roystonea Ave and Temple Terrace). Design completed in August 2012. EOI for the construction of Palmerston Hospital was out to the market on 26 July 2012 and closed on 29 August 2012.
②	<ul style="list-style-type: none"> EOI advertised on 21 November 2014 and closed 16 January 2015 This was based on the design of a 79 bed scheme, 4 level building with a floor plate of 14,345 square metres. Assessment of EOI and panel decision was made on 22 January 2015. There was only one compliant and suitable respondent.
③	<ul style="list-style-type: none"> Select Tender for the Scope Development for the Managing Contractor Contract This was based on the design of a 79 bed scheme, 4 level building with a floor plate of 14,345 square metres. Tender awarded on 17 March 2015 and work completed on 24 April 2015.
④	<ul style="list-style-type: none"> Select Tender for the Architectural Consultancy of PRH. This was based on the design of a 79 bed scheme, 4 level building with a floor plate of 14,345 square metres. Tender awarded on 20 April 2015.
⑤	<ul style="list-style-type: none"> RFT for the Managing Contractor Contract released to market on 5 May 2015. The concept design in the RFT was based on the design of a 79 bed scheme, 4 level building with a floor plate of 14,345 square metres.
⑥	<ul style="list-style-type: none"> The PSC approved the change of design for PRH to be a 116 bed scheme, 2 level building with a floor plate of 22,421 square metres on 18 May 2015.
⑦	<ul style="list-style-type: none"> RFT for the Managing Contractor Contract closed on 10 June 2015. No addendum was issued in respect to the change of design.
⑧	<ul style="list-style-type: none"> Managing contractor awarded 22 July 2015.
⑨	<ul style="list-style-type: none"> Managing Contractor Contract signed on 2 December 2015 which reflected the revised design resulting in a change to the Managing Contractor Fees and Reimbursable Construction Costs.

Selected Agencies cont...

Appendix D

Advantages and Disadvantages of the Managing Contractor Model

The advantages and disadvantages for using a Managing Contractor, as reported by the Australian Procurement and Construction Council are listed in the following table:

Advantages	Disadvantages
<ul style="list-style-type: none"> A reduced level of management effort and oversight is required from the project owner. 	<ul style="list-style-type: none"> The model is fairly specialised, so bids may be limited in some jurisdictions.
<ul style="list-style-type: none"> The scope of the works can be managed to meet the project owner's budget. 	<ul style="list-style-type: none"> It is sometimes difficult for project owners to set accurate cost targets with limited design details, where such targets are required early on in the delivery process.
<ul style="list-style-type: none"> Use of the model can help promote a more team-oriented approach to project delivery. 	<ul style="list-style-type: none"> The Guaranteed Contract Sum (GCS) is negotiated at the end of Stage 1, which may make it more difficult to verify value-for-money. <i>(see Note below)</i>
<ul style="list-style-type: none"> The project owner and key stakeholders can provide input into the design with less cost and risk than in many other models. 	<ul style="list-style-type: none"> The negotiation of the GCS can be protracted, leading to possible project delays. <i>(see Note below)</i>
<ul style="list-style-type: none"> There is a high potential for efficiencies through continuity of the Managing Contractor and constructability reviews of the design. 	<ul style="list-style-type: none"> If the GCS is not acceptable, then the project will be delayed if the project owner has to tender the delivery of the project. <i>(see Note below)</i>
<ul style="list-style-type: none"> There is an ability to flexibly stage the delivery of the works, including undertaking early works on site, prior to the final design and documentation being completed. 	
<ul style="list-style-type: none"> There are opportunities for the project owner to oversee the Managing Contractor's tendering processes to confirm value-for-money and verify actual subcontractor costs. 	
<ul style="list-style-type: none"> The Managing Contractor's pricing is usually subject to an open book approach. 	
<ul style="list-style-type: none"> Use of a Guaranteed Contract Sum (GCS) helps to cap the construction cost risk for project owners. <i>(see Note below)</i> 	
<ul style="list-style-type: none"> There is a possibility of shared savings resulting from the actual construction cost coming in lower than the GCS and other incentives regimes. <i>(see Note below)</i> 	

Source: Building and Construction Procurement Guide Principles and Options page 27 from <http://www.apcc.gov.au/ALLAPCC/Building%20and%20Construction%20Procurement%20Guide.pdf>

Note: In respect to the Guaranteed Contract Sum mentioned in the above table, in the case of the PRH project, there is no Guaranteed Contract Sum.

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

There have been two matters referred since my February 2016 Report to the Legislative Assembly, my assessment of these matters is ongoing at the time of this report.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 31 December 2015

Financial Statements for the year ended 31 December 2015

	Date 2015 Financial Statements tabled to Legislative Assembly	Date of Audit report Year ended 31 December 2015	Date of Audit report Year ended 31 December 2014
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	17 May 16	30 June 15
CDU Amenities Limited	Not required	21 March 16	22 April 15
Charles Darwin University	Not yet tabled	13 May 16	29 May 15
Charles Darwin University Foundation (a company limited by guarantee)	Not required	18 March 16	29 April 15
Charles Darwin University Foundation Trust	Not required	18 March 16	29 April 15
Indigenous Essential Services Pty Ltd	Not required	Not yet completed	29 September 14
Menzies School of Health Research	Not required	30 March 16	27 April 15
Power and Water Corporation	Not yet tabled	Not yet completed	29 September 14
Not required – Financial statements are not required to be tabled			
Not yet tabled – as at 17 June 2016			
Not yet completed – as at 17 June 2016			

Appendix 1: Audit Opinion Reports Issued Since 31 December 2015 cont...

Acquittals or other returns – for the year ended 31 December 2015

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 31 December 2015	Date of Audit Report Year ended 31 December 2014
Charles Darwin University Higher Education Research Data collection	30 June 16	10 June 16	17 June 15

Appendix 2: Status of Audits and Reviews which were Identified to be Conducted in the Six Months to 30 June 2016

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 reviews, were identified in Appendix 3 of my August 2015 Report to the Legislative Assembly as being scheduled for the period:

Department of Children and Families

Evaluation of Internal Audit Framework	Refer page 68
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Department of Education

Independent Public Schools Governance	Not yet completed
Official Travel	Refer page 95

Department of Housing

Official Travel	Refer page 95
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Department of Land Resource Management

Evaluation of Internal Audit Framework	Not yet completed
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Department of Mines and Energy

Evaluation of Internal Audit Framework	Not yet completed
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Department of Primary Industry and Fisheries

Evaluation of Internal Audit Framework	Not yet completed
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Department of Sport and Recreation

Evaluation of Internal Audit Framework	Not yet completed
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Department of the Attorney-General and Justice

Integrated Justice Information System	Not yet completed
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Department of the Chief Minister

Official Travel	Refer page 95
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Department of Treasury and Finance

Evaluation of Internal Audit Framework	Refer page 68
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Appendix 2: Status of Audits and Reviews which were Identified to be Conducted in the Six Months to 30 June 2016 cont...

Northern Territory Police, Fire and Emergency Services

Official Travel

Refer page 95

Selected Agencies

Fraud Assessment Framework

Not yet completed

Tourism NT

Official Travel

Refer page 95

Appendix 3: Proposed Audit Activity in the Six Months Ending 31 December 2016

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

Department of Correctional Services

Contract Management – Darwin Correctional Centre

Department of Health

Contract Management – St John Ambulance, Careflight, Disability Services

Department of Infrastructure

Tiger Brennan Drive

Department of Corporate and Information Services

General Computer Controls – EFT Accounts

Department of Education

General Computer Controls – Student Administration Management System

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Appendix 4: Agencies not Audited relating to the year ended 30 June 2016

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

For activities relating to the financial year ended 30 June 2016, no audits were, or are intended to be, conducted at the Northern Territory Electoral Commission.

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

The annual financial statements of the Office of the Auditor-General are subject to independent audit in accordance with section 27 of the *Audit Act*. The audit of the financial statements is scheduled to commence in late August 2016.

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Appendix 5: Abbreviations

AG&J	Department of the Attorney-General and Justice
D&C	Design and Construct
DBFM	Design, Build, Fund, Maintain
DBFO	Design, Build, Fund, Operate
DBM	Design, Build, Maintain
DBMO	Design, Build, Maintain and Operate
DBOM	Design, Build, Operate, Maintain
DCI	Department of Construction and Infrastructure
DCM	Department of the Chief Minister
DCM OMP	Department of the Chief Minister – Office of Major Projects
DLP	Department of Lands and Planning
DLPE	Department of Lands, Planning and the Environment
DoH	Department of Health
Dol	Department of Infrastructure
DTF	Department of Treasury and Finance
ECI	Early Contractor Involvement
EOI	Expression of Interest
FF&E	Fixtures, Furnishings and Equipment
FMA	<i>Financial Management Act</i>
FTO	Future Tender Opportunity
GCS	Guaranteed Contract Sum
GST	Goods and Services Tax
HHF	Health and Hospitals Fund
ICT	Information Communication Technology
MC D&C	Managing Contractor Design and Construct
MCC	Managing Contractor Contract
NOA	Notice of Acceptance

Appendix 5: Abbreviations cont...

NTGATP	NT Government Air Travel Policy
PPP	Public Private Partnership
PRH	Palmerston Regional Hospital
PSC	Project Steering Committee
RDH	Royal Darwin Hospital
RFP	Request For Proposal
RFT	Request For Tender
SSD	Sterile Service Department
TD	Treasurer's Direction
TRIPS	Travel Request Information Processing System
VET	Vocational Education and Training

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