



Auditor-General for the Northern Territory
Auditing for Parliament

November 2016

Report to the Legislative Assembly



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**November 2016 Report
to the Legislative Assembly**

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Auditor-General for the Northern Territory
Auditing for Parliament

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

24 November 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 October 2016 and I request that you table the report in the Legislative Assembly.

The findings and high level overview of 26 audits of financial statements for those entities that are required to report as at 30 June are presented within this report.

This report presents the results of compliance audits and reviews 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.

This report presents findings from performance management system audits conducted under section 14 of the *Audit Act*. My opinions on two matters referred under the *Public Information Act* are included within this report.

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 summarises the results of 63 separate audits and other tasks conducted and completed after 17 June 2016 and prior to 4 November 2016 of the following nature:

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

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

Statutory Audits of Financial Statements

Whilst the majority of audit opinions I issued during the period were unmodified opinions, two contained an Emphasis of Matter paragraph, designed to highlight a matter of importance, two were qualified on specific balances and my audit opinion on the Treasurer's Annual Financial Statements was modified in a number of respects. These are summarised below and further information relating to each modification is contained within the body of the report relevant to each audit. An explanation of each type of audit opinion is provided on pages 17 and 18.

Treasurer's Annual Financial Statements – Modified Opinion

I issued a modified opinion on the Treasurer's Annual Financial Statements. Whilst in my opinion, the Treasurer's Annual Financial Statement gives a true and fair view of the financial position of the General Government Sector and Public Financial Corporation Sector as at 30 June 2016 and of the performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the financial reporting requirements of the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*, the qualifications associated with the results and financial position of the Power and Water Corporation and its controlled entity, Indigenous Essential Services, as reported within the Public Non Financial Corporation Sector resulted in me qualifying my opinion in relation to that sector. As a result, I was unable to form an opinion on the truth and fairness of the financial position and performance of the consolidated Non Financial Public Sector and the consolidated Total Public Sector as at 30 June 2016 and for the year then ended.

Auditor-General's Overview cont...

Power and Water Corporation – Qualified Opinion

On 30 September 2016, I issued a qualified audit opinion on the consolidated financial statements of the Power and Water Corporation for the year ended 30 June 2016. The qualifications reported within the audit opinion related to:

- Property, plant and equipment;
- Provision for onerous contract; and
- Income tax and related balances.

Indigenous Essential Services Pty Ltd – Qualified Opinion

On 30 September 2016, I issued a qualified audit opinion on the financial statements of Indigenous Essential Services Pty Ltd for the year ended 30 June 2016. The qualification reported within the audit opinion was directly as a result of issues affecting the property, plant and equipment balances.

Jabiru Town Development Authority – Emphasis of Matter

An emphasis of matter was included in the audit opinion issued on the financial statements for the year ended 30 June 2016 for the Jabiru Town Development Authority.

“Moratorium on loan repayments

The Authority refers to its expectation of the continuation of the indefinite moratorium on the Authority’s future interest and principal repayment of loans due to the Northern Territory Government totalling \$8,804,916. Without this moratorium, there would be significant uncertainty as to whether the Authority would be able to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Legislative changes

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

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

Auditor-General's Overview cont...

NT Build – Emphasis of Matter

The audit opinion on the financial statements of NT Build for the year ended 30 June 2016 was unqualified however an emphasis of matter paragraph was included to draw the attention of users of the financial statements to uncertainties related to the long service leave liability.

Due to the nature of the long service leave liability and the inability to complete the valuation based on long term scheme historical data, the estimate maintains a high level of uncertainty as the series of assumptions made regarding the benefit payments and timing of exit is uncertain. Changes to these assumptions can therefore result in significant differences and lead to material misstatement.

Information Technology Audits

During the period, two information technology systems were conducted. One assessed application, interface, access and change management controls in place specific to the across government accounts receivable function. The second audit followed up on findings arising from an audit of the Integrated Justice Information System conducted in 2010. Both audits found that controls pertaining to these systems required enhancing.

Controls and Compliance Audits

The end of year reviews assess the reasonableness of agency end of financial year reporting and controls over accounting, material financial transactions and, most importantly, the agencies' end of year financial data consolidated into the Treasurer's Annual Financial Statements by the Department of Treasury and Finance. During this reporting period, end of year reviews were conducted at 26 entities. Findings arising from end of year reviews have been reported to the affected agencies to enable them to address control weaknesses as required. Where these findings have been identified as relevant to an agency, future audits will assess the extent to which the finding has been addressed.

Whilst I do not separately report the results of end of year reviews conducted at each agency, I have summarised within this report a number of findings that were consistent at more than one agency within this report.

Auditor-General's Overview cont...

Performance Management System Audits and Other Reviews

This report presents the results of the following performance management systems audits:

- Evaluation of Internal Audit Framework – Departments of: Mines and Energy; Primary Industry and Fisheries; Sport and Recreation; and Land Resource Management. 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.
- Housing Contract Management – Department of Housing. At the time of my review, it was not clear that all the components were working together to form an efficient and reliable performance management system. The performance management system is complex and the Department has been seeking ways to improve the system.
- Independent Public Schools initiative (IPS) – Department of Education. The audit found that the Agency does have a performance management system established to monitor and manage implementation of the IPS initiative however audit observations gave rise to a number of recommendations to enhance the effectiveness of management and monitoring of the IPS initiative.
- Northern Gas Pipeline – whilst the actual review was undertaken at the Department of the Chief Minister, following machinery of government changes the relevant business unit is now located within the Department of Business, Trade and Innovation. The process followed by the Agency to assess whether its objectives were being achieved economically, efficiently and effectively was designed and implemented appropriately.
- Darwin Port – this review specifically considered whether the sale and leasing arrangements pertaining to the Darwin Port had been correctly accounted for within the Treasurer's Annual Financial Statement.

Public Information Act Referrals

There were two *Public Information Act* referrals that I considered during the period. Both related to information produced by the Office of the former Chief Minister.

The Role and Responsibilities of the Auditor-General

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

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

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

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

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

The requirements of the *Audit Act* in relation to auditing the Public Account and other accounts are found in:

- Section 13, which requires the Auditor-General to audit the Public Account and other accounts, with regard to:
 - the character and effectiveness of internal control; and
 - professional standards and practices.
- Section 25, which requires the Auditor-General to issue a report to the Treasurer on the Treasurer's Annual Financial Statement.

The Public Account

The Public Account is defined in the *Financial Management Act* as:

- The Central Holding Authority; and
- Operating accounts of Agencies and Government Business Divisions.

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

Audit of the Treasurer's Annual Financial Statement

Using information about the effectiveness of internal controls identified in the overall control environment review, agency compliance audits and financial statement audits, an audit approach is designed and implemented to verify that balances disclosed in the Treasurer's Annual Financial Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

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

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

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

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

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

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 objectives 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 Agencies or entities completing financial statements 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.

Scheduled Legislative Assembly sitting dates during the 2016 calendar year resulted in me issuing three reports instead of the usual two. These reports were:

- February 2016 – contained commentary on agencies and entities with a 30 June financial year-end being 30 June 2015. The report also contained commentary on the Auditor-General's audit of the Treasurer's Annual Financial Statement.
- June 2016 – contained commentary on agencies and entities with a 31 December 2015 year-end together with the results of information technology audits, compliance audits and audits of performance management systems.
- November 2016 – (this report) contains commentary on agencies and entities with a 30 June financial year-end being 30 June 2016. The report also contains commentary on the Auditor-General's audit of the Treasurer's Annual Financial Statement.

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 five months ended 31 October 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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Board of the Museum and Art Gallery of the Northern Territory

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

Audit Opinion

The audit of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 6 October 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

MAGNT recognised a net deficit of \$131 thousand during the year (2015: net surplus of \$189 thousand).

As with the previous year, MAGNT's main revenues are from grants and subsidies while its expenses were mainly related to employee expenses, property management and supplies and services.

The net result is \$257 thousand lower than the approved budget (i.e. a deficit of \$131 thousand compared to a budgeted surplus of \$126 thousand). This is due primarily to MAGNT receiving only \$598 thousand of a budgeted Treasurer's Advance of \$1.2 million during the year, partially offset by increased income from public exhibitions, donations and research projects and a decrease in expected employee expenses.

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

Going Concern

The financial statements of MAGNT have been prepared on a going concern basis on the assumption that the NT Government will continue to provide funding to MAGNT.

MAGNT has received confirmation that funding for 2016/17 will be provided, however they have not received confirmation for the period beyond 30 June 2017. In the event that funding is not received, it would be unlikely that MAGNT would be able to generate sufficient revenue to meet future expenditure.

The above issues are mitigated by the fact that MAGNT has a strong cash balance of \$2.1 million and net working capital of \$337 thousand as at 30 June 2016 and has been generating positive operating cash flows in the last couple of years. The reserves are currently sufficient to cover the budgeted deficit for 2016/17.

I have recommended that management continue to closely monitor MAGNT's cash flow position and the business model for MAGNT so as to ensure its financial viability in the future.

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

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
Sale of goods and/or services	265	364
Current grants and subsidies	7,945	7,780
Other	291	194
Total income	8,501	8,338
Expenditure		
Employee expenses	(4,024)	(3,830)
Supplies and services	(2,974)	(2,448)
Depreciation and amortisation	(26)	(25)
Property management	(1,583)	(1,492)
Grants and subsidies	(25)	(354)
Total expenditure	(8,632)	(8,149)
Surplus/(deficit)	(131)	189

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

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	2,097	922
Receivables and other current assets	106	373
Less current liabilities	(1,866)	(826)
Working Capital	337	469
Add non-current assets	145	76
Less non-current liabilities	(135)	(162)
Net Assets	347	383
Represented by:		
Accumulated funds	58	189
Capital	289	194
Equity	347	383

Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

The host Agency is the Department of Health.

Audit Opinion

The audit of the Central Australia Health Service for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 27 September 2016.

Key Findings

Performance Overview

Revenue

Total revenue for the Service has increased by approximately \$62.1 million (21%) from the prior year. The increase of \$9.5 million in Current Grants and Subsidies Income was mainly attributed to additional funding from National Health Reform, Highly Specialised Drugs Program, Multiple Schedule Funding Program and new programs for the year which include Prime Minister and Cabinet Remote Alcohol and Other Drugs and the Indigenous Teenage Sexual Health Program.

Adjustments to the cross border charges last year totalling approximately \$14 million resulted in this year's increase in Goods and Services Income. The Northern Territory and Commonwealth Activity Based Funding for the year increased by \$34.3 million and other income of \$3.3 million was from the Alcohol and Other Drugs (AOD) division of the Department of Health (DoH) being transferred to the Service.

Central Australia Health Service cont...

Expenditure

Total expenditure increased this year by approximately \$38.6 million (11.9%) from the prior year. Employee expenses have increased by approximately \$14.4 million due to the transfer of AOD from DoH to the Service. Remaining expenses increased by approximately \$24.2 million mainly driven by increases in supplies and services; depreciation; and grants and subsidies.

Other comprehensive income

In 2015 there was a substantial decrement in asset revaluations of \$44.1 million, however this year's asset revaluations of Remote Health Clinics resulted in an increment of \$11.1 million as reflected in the asset revaluation surplus.

Assets

Total assets increased by approximately \$44.7 million (25%) from the prior year due to increases in cash and deposits, receivables and property, plant and equipment. Cash and deposits increased by \$4 million due to operating budget surpluses. The increase in receivables of \$8 million was mainly driven by the increase of cross border receivables partially offset by the reduction in National Health Reform Funding. The significant increase in property, plant and equipment of \$32.8 million was predominantly due to the transfer of property, plant and equipment from DoH to the Service associated with the AOD division together with the revaluation increase.

Liabilities

Total liabilities as at 30 June 2016 increased by approximately \$7.6 million (11.5%) from the prior year. This increase was mainly attributed to increases in payables of \$5.6 million relating to cross border payables and employee provisions of \$2 million due to the transfer of AOD from DoH.

Equity

Equity for the Service increased by approximately \$37 million (23%) from the prior year mainly attributed to an increase of capital in \$30 million relating to restructurings and timing of Commonwealth funds inflows. Further, the asset revaluation surplus increased by \$11.1 million due to the increment on Remote Health Clinics as a result of the property, plant and equipment revaluations conducted throughout the year. This increase was slightly offset by the deficit of \$4.6 million recognised in accumulated funds.

Central Australia Health Service cont...

Other findings

Whilst no material weaknesses in controls were identified as a result of the audit, a number of observations and recommendations have been communicated to the Service. Key observations are listed below.

- Opportunities exist for the Service to further refine the estimation of cross-border accrued revenue and expenditure.
- Documentation and retention of evidence demonstrating that an independent review of transactions has occurred could be improved.
- Adequate documentary evidence was not available to support the determination of reciprocal grants and the monitoring of related unspent funds.
- Monitoring and accounting for employee entitlements and payments to employees could be improved.

Central Australia Health Service cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Sales of goods and/or services	212,165	162,793
Current grants and subsidies	142,652	133,197
Other	3,319	66
Total income	358,136	296,056
Expenditure		
Employee expenses	(216,825)	(202,399)
Repairs and maintenance	(4,384)	(5,577)
Supplies and services	(115,946)	(95,922)
Depreciation and amortisation	(10,480)	(8,757)
Interest expenses	(38)	(41)
Grants and subsidies	(15,079)	(11,442)
Total expenses from ordinary activities	(362,752)	(324,138)
Surplus/(deficit) before income tax expense	(4,616)	(28,082)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(4,616)	(28,082)

Central Australia Health Service cont...

Financial Position at year end		
	2016	2015
	\$'000	\$'000
Cash and cash equivalents	11,044	6,968
Receivables and other current assets	49,646	41,791
Less current liabilities	(66,542)	(59,620)
Working Capital	(5,852)	(10,861)
Add non-current assets	211,159	178,391
Less non-current liabilities	(7,342)	(6,649)
Net Assets	197,965	160,881
Represented by:		
Accumulated funds	(60,503)	(55,887)
Capital	245,147	214,579
Asset revaluation surplus	13,321	2,189
Equity	197,965	160,881

Central Australia Health Service cont...

The Central Australia Health Service has commented:

The Service acknowledges the audit findings and will continue working with the Department of Health (DoH) System Manager to further improve its systems.

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of the Darwin Waterfront Corporation for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 23 September 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a deficit of \$2.4 million at 30 June 2016 compared to the prior year's deficit of \$4.2 million. The decrease in the deficit resulted from:

- asset expenses decreased by \$1.2 million due to the transfer of the West Bennett Feeder asset to Power and Water Corporation in 2015;
- operating grants and other contributions increased by \$2.2 million primarily reflecting the full year funding received by the Corporation to subsidise the Stokes Hill Wharf and funding for development of Goyder Park, partially offset by an increase in grants and subsidies expenses of \$1.1 million; and
- user charges revenue recorded an increase of \$0.7 million whilst property maintenance expenses increased by \$1 million reflecting the Corporation's management and operation of the Stokes Hill Wharf precinct for a full year compared to six months in the previous year.

The following grants and subsidies were received during the year in order to meet the payments due to the Operator of the Darwin Convention Centre:

- **Territory Availability Payment (TAP)** (2016: \$3.0 million, 2015: \$2.9 million). The TAP is paid quarterly in arrears and covers capital, interest, return on equity (part) and maintenance costs. This payment is subject to permanent financial adjustment for failure to maintain a functioning asset.
- **Territory Operating Payment (TOP)** (2016: \$3.2 million, 2015: \$3.1 million). The TOP is an operational subsidy paid quarterly in advance and is based on the fixed 25 year budget which can only be increased with the Territory's approval.

Darwin Waterfront Corporation cont...

- **Territory Efficiency Payment (TEP)** (2016: \$0.7 million, 2015: nil). The TEP is an annual bonus payment to the Operator of the Convention Centre where there are demonstrated savings between the actual revenue and expenditure for that operating year and the base business case operating contribution for that year (measured against the subsidy portion of the TOP). The TEP is capped at 35% of the savings where 100% of the key performance measures are met such that the Territory receives 65% of any savings to the operating subsidy.
- **Territory Incentive Payment (TIP)** (2016: \$0.8 million, 2015: \$0.8 million). The TIP is paid annually and is assessed against the base 2005 business case to encourage the Operator to exceed the levels of performance noted in the business case.

The Corporation continues to hold a strong net asset position of \$146.8 million as at 30 June 2016 although it decreased by \$2.2 million compared to the prior year \$149.0 million at 30 June 2015. This was reflected in decreased carrying values of assets attributable to depreciation and amortisation charges of \$4.6 million offset by an increase in cash and cash equivalents of \$0.3 million and a reduced finance lease liability reflecting repayments of \$1.8 million to Darwin Cove Convention Centre.

The Corporation reported net current liabilities of \$4.37 million as at 30 June 2016 which slightly decreased from \$4.51 million at 30 June 2015.

Darwin Waterfront Corporation cont...

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
User charges	2,874	2,175
Operating grants and other contributions	21,281	19,113
Other	491	248
Total income	24,646	21,536
Less expenditure		
Territory availability payments	(3,002)	(2,962)
Territory efficiency payments	(69)	-
Territory incentive payments	(797)	(786)
Territory operating payments	(3,241)	(3,094)
Goyder Park beautification	(845)	-
Agent service arrangements	(1,025)	(982)
Depreciation and amortisation	(4,587)	(5,831)
Employee expenses	(1,080)	(961)
Finance costs	(5,381)	(5,495)
Property maintenance	(3,593)	(2,619)
Other	(3,451)	(3,038)
Total expenditure	(27,071)	(25,768)
Surplus/(deficit) before income tax expense	(2,425)	(4,232)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(2,425)	(4,232)

Darwin Waterfront Corporation cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	1,141	837
Receivables and other current assets	533	426
Less current liabilities	(6,046)	(5,769)
Working Capital	(4,372)	(4,506)
Add non-current assets	228,877	233,277
Less non-current liabilities	(77,732)	(79,771)
Net Assets	146,773	149,000
Represented by:		
Accumulated funds	(27,462)	(25,037)
Capital	174,235	174,037
Equity	146,773	149,000

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 3 October 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Data Centre Services generated a net surplus before tax of \$5.1 million in 2015/16, which was \$1.3 million more than the budget estimate of \$3.8 million.

Total revenue of \$25.3 million (2015: \$28.8 million) decreased from the prior year by \$3.5 million. Total expenses of \$20.1 million (2015: \$22.7 million) decreased from the prior year by \$2.6 million. The decrease in both revenue and expenses resulted from the transfer of the delivery of ePASS and Application services from Data Centre Services to the Department of Corporate and Information Services during the year ended 30 June 2016.

Data Centre Services will pay an income tax equivalent of \$1.5 million and return a dividend of \$1.8 million to the Government for 2015/16.

Data Centre Services continues to hold a strong net asset position. As at 30 June 2016, the net asset position of Data Centre Services was \$21.8 million (2015: \$19.9 million).

Data Centre Services cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Sale of goods and/or services	24,924	28,513
Other	334	328
Total income	25,258	28,841
Less expenditure		
Operational costs	(11,888)	(13,537)
Employee expenses	(6,771)	(7,389)
Depreciation and amortisation	(1,454)	(1,745)
Total expenditure	(20,113)	(22,671)
Surplus before income tax expense	5,145	6,170
Income tax expense	(1,544)	(1,851)
Surplus after income tax expense	3,601	4,319

Data Centre Services cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	16,861	14,959
Receivables and other current assets	5,625	6,842
Less current liabilities	(4,891)	(5,796)
Working Capital	17,595	16,005
Add non-current assets	4,649	4,348
Less non-current liabilities	(464)	(473)
Net Assets	21,780	19,880
Represented by:		
Accumulated funds	20,414	18,614
Capital	1,366	1,266
Equity	21,780	19,880

Department of Corporate and Information Services

Electronic Funds Transfer Accounts Receivable

Background

An audit was recently conducted at the Department of Corporate and Information Services (DCIS) in relation to Electronic Funds Transfer and Accounts Receivable processes.

The following activities were included within the audit:

- Application controls over the Accounts Receivable Module within the Government Accounting System (GAS).
- Interface controls for inbound electronic payment data as they relate to the Accounts Receivable module.
- Access security to the Accounts Receivable module, NAB Transact, including segregation of duties.
- Refund processing controls as they relate to the Accounts Receivable module.
- Reconciliation controls for electronic payments and refunds through the Accounts Receivable module and NAB Transact.
- Change Management controls as they relate to the GAS Accounts Receivable module and related Interfaces.
- Disaster Recover Plan, Backup and Business Continuity Plan over GAS Accounts Receivable module only.

The audit findings are based on a review of documentation and discussions with key personnel at DCIS.

Key Findings

Access security controls related to administrative access, including segregation of duties (SOD) require enhancing.

A formal and consistent process does not exist for the monitoring of powerful and sensitive transactions accessible by super-user/administrative users within a number of systems. A formal and documented SOD matrix does not exist for the systems subject to testing. No documentation was available to demonstrate that SOD requirements have been identified and are being managed either through automated system controls or manual controls.

Department of Corporate and Information Services cont...

Inadequate identification and review of sensitive transactions within the system can result in potentially fraudulent or erroneous activities being undertaken without due scrutiny. Where key SOD control points have not been identified and automated and/or where manual controls are not designed effectively, implemented and enforced, there exists a risk that users or administrators are able to execute fraudulent or erroneous transactions.

I recommended that the Agency perform a detailed walkthrough of key Accounts Receivable processes to identify and formally document powerful/sensitive transactions and SOD requirements. Once complete, the Agency should:

- develop a SOD Matrix to record incompatible access rights;
- review current roles (including administrative) to identify where users have been assigned incompatible access rights and address incompatible roles; and
- consider the relevance and effectiveness of current automated and manual controls.

For identified powerful/sensitive transactions, a regular review of actions against those rights should be undertaken and any suspicious activity investigated. Where possible, administrators should work with a restricted access account, only assuming administrative access when needed. This would greatly reduce monitoring requirements for the Agency. Matrices should also be reviewed annually for any significant changes and controls updated accordingly.

Removal of terminated users' access to systems should be undertaken on a timely basis.

Removal of users' access to the systems subject to audit is not undertaken in a consistent and timely manner when the user leaves the organisation. During the review, a total of six terminated users were found to have active accounts across the systems subject to audit.

Where users' access is not removed in a timely manner when an employee leaves or transfers, the Agency may be at an increased risk of fraud, privacy breaches and breaches of confidentiality.

I have recommended that the Agency ensure that access termination procedures are consistently followed and terminated users' access is removed in a timely manner.

Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP) testing has not occurred.

DRP and BCP documented plans exist for the GAS application, however these have not yet been tested. I recommended that the Agency carry out formal and regular testing of the DRP and the BCP with test results recorded and required changes formally made to the DRP and BCP documents.

Department of Corporate and Information Services cont...

The Department of Corporate and Information Services has commented:

Accounts Receivable transactions are controlled and monitored. To enhance the control framework, DCIS is examining Accounts Receivable access profiles to ensure internal controls are appropriate, document transactions considered sensitive and, where required, strengthen processes with additional measures.

Security controls are in place to minimise the risk of inappropriate access by agency users after ceasing employment. Access to the NT Government computer network is controlled through the ePass system with access removed on cessation of employment. This control is supplemented with mainframe user access being automatically revoked after a period of non-use. The NT Government computer network access of terminated users identified in the audit had already been removed and those people could not access the Accounts Receivable system.

Removal of user access is the responsibility of line agencies and DCIS issues a reminder to agencies to check their access requirements twice each year. This reminder process has been extended to cover the banking system module.

Testing of business continuity plans is scheduled to occur in 2017 as part of the DCIS strategic audit plan.

Department of Education

Independent Public Schools Governance

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.”*

This audit concentrated on the performance management systems and processes related to Independent Public Schools Governance as included in the 2014/15 Budget Paper 3.

Given the ongoing implementation and development of the Independent Public Schools initiative, I also looked at the performance management system and processes related to performance measurement in 2015/16.

Background

An Agency must be able to determine whether it is meeting its objectives and how economical, efficient and effective the Agency's operations are. This audit focused on the evaluation of the performance management systems and processes the agency had in place to manage the arrangements associated with the introduction of the Independent Public School (IPS) initiative in the Northern Territory in 2015, as included in the 2014/15 Budget Paper 3. Given the ongoing implementation and development of the IPS initiative, I also looked at the performance management system and processes related to performance measurement in 2015/16.

This audit complements other audits conducted pursuant to the *Audit Act* that focus on compliance and controls to provide a more holistic view of how an agency operates and the manner in which it is delivering upon its stated outcomes.

Under the IPS initiative, the Australian Government announced it would invest \$1.61 million to help establish the Northern Territory's first IPSs and increase local decision making in all government schools.

The IPS initiative is part of the school autonomy program. There are two major elements to increasing school autonomy in the Northern Territory:

- Global School Budgets; and
- IPS.

Department of Education cont...

Global School Budgets were introduced in 2015 and provide all government schools with a one-line global budget, which affords schools the flexibility to allocate these resources based on the services specifically needed within their school community. This allows schools to target resources where they are most needed.

The IPS initiative program represents a joint initiative by the Northern Territory and Australian governments intended to provide communities with a greater influence in the way schools are administered and education programs delivered.

In the Northern Territory, six IPSs began operating in 2015:

- Braitling Primary School;
- Darwin High School;
- Larrakeyah Primary School;
- Leanyer Primary School;
- Palmerston Senior College; and
- Wulagi Primary School.

An additional seven schools began operating as IPSs from 2016:

- Bakewell Primary School;
- Casuarina Street Primary School;
- Casuarina Senior College;
- Darwin Middle School;
- Durack Primary School;
- Gunbalanya School; and
- Taminmin College.

The reporting for this audit is included in two parts. One aspect focuses on the IPS initiative framework and covers:

- What is an Independent Public School?
- Project Agreement for Independent Schools Initiative
- Becoming and staying an Independent Public School
 - Application Process
 - Selection Process
 - Independent Assessment

Department of Education cont...

- Requirements of an IPS

The second aspect focusses on the role of the Department of Education (the Agency):

- Agency monitoring and reporting on IPS
 - Strategic Plan
 - Business Plan
 - Performance Targets
 - Annual Reporting

I have assessed the systems and processes that the Agency had in place to manage the six IPSs which began operating in 2015, and in particular focused on the *“agency monitoring and reporting on IPS”* aspects mentioned above.

The fieldwork supporting this audit was conducted between 11 April 2016 and 29 April 2016.

Conclusion

The audit found that the Agency does have a performance management system established to monitor and manage implementation of the IPS initiative. Audit observations gave rise to the following recommendations to enhance the effectiveness of management and monitoring of the IPS initiative.

Recommendations

- It is recommended that the financial threshold below which the IPS is permitted to manage an infrastructure project be determined and communicated by the Agency.
- It is recommended that the Agency perform a review of the terminology applied in the Finance Business Plan and the School Autonomy Business Plan to provide clarity to users and ensure consistency.
- It is recommended that performance measures included in the Finance and School Autonomy Business Plans be reviewed to ensure they are sufficiently specific and prescriptive to enable effective monitoring by the Agency.
- In order to align responsibilities of each IPS with the Agency’s performance expectations, it is recommended that the format and content of the formal agreement be finalised by the Agency, circulated to all new and existing IPSs and signed as soon as practicable.
- It is recommended that achievable and relevant key performance indicators for IPSs be developed and communicated by the Agency.

Department of Education cont...

- Triggers for revocation of IPS status should be determined and communicated to all current and potential IPSs to ensure schools understand the responsibilities associated with becoming an IPS.
- In order to provide a performance update on the initiative and to justify the associated funding provided for the program, the Agency could consider including a narrative update on the initiative in the next annual report.

Independent Public School initiative framework

What is an Independent Public School?

IPSs are government schools which are authorised to exercise greater levels of autonomy in a number of areas. The IPS initiative is one aspect of the Northern Territory Government's (NTG's) school autonomy reforms, along with the Global School Budget (GSB) initiative.

The objectives of the overall school autonomy initiatives in the Northern Territory, stated in the *School Autonomy Monitoring & Evaluation Framework 2016-2018* are "to improve school performance by:

1. *providing schools with greater decision making authority in respect to the management of their operations, particularly in relation to:*
 - *the management and allocation of resources; and*
 - *staff selection, management and development.*
2. *facilitating greater engagement between the school and community and greater accountability of school performance to the community it serves;*
3. *minimising bureaucracy and red tape through adaptive and efficient corporate, regional and school support services that are responsive to the intent of school autonomy and support schools to exercise their autonomy to the degree chosen by each individual school community."*

IPSs are still part of the public education system. Although IPSs can exercise greater levels of autonomy around staffing, management of school facilities, budgets and other operations, IPSs still have to adhere to industrial and legislative requirements. They do, however, operate under different accountability and governance structures to other schools.

Department of Education cont...

Project Agreement for Independent Schools Initiative

The *Project Agreement for Independent Schools Initiative* signed between the Northern Territory of Australia and the Commonwealth of Australia in June 2014 provided funding of \$1.6 million to the Territory in order to deliver the following key objectives of the initiative:

- a focus on local governance;
- increased accountability to the local community;
- local management of school facilities;
- increased delegation over staffing for school principals; and
- the use of streamlined or one-line budgets.

These are explained in more detail below.

Focus on local governance

IPSs are to be governed by a school board rather than a school council. The board is to include representation from school stakeholders, similar to the traditional school council, however must also have representation from the wider local community, including local business or industry representatives.

The board is responsible for setting the strategic direction of the school and the school reports to the Agency Chief Executive. A non-IPS is governed by a school council with involvement and oversight by a Regional Director within the Agency.

Increased accountability to the local community

An IPS is to operate within a differentiated and streamlined accountability structure that is outcome focused and provides enhanced information to the school community about a school's performance. Enhancements in the information provided include details regarding resource allocation, systems, initiatives/programs and performance, which are communicated to the local community through the school's strategic plan.

Local management of school facilities

An IPS is able to take on greater responsibility with regard to managing infrastructure projects under an established threshold being undertaken within their school. The value of the threshold had not been determined at the time of the audit.

Department of Education cont...

Increased delegation to school principals in relation to staffing

An IPS is to have increased flexibility in recruitment and workforce management. This allows IPSs to make local decisions around the staffing profile of the school, determine workforce profile and privately advertise positions.

The use of streamlined or one-line budgets

This aspect was rolled out across all schools in the Northern Territory as part of the Global Schools Budget initiative; however was a key element to providing IPSs with greater autonomy to manage their operations.

Becoming and staying an Independent Public School

Application Process

The selection process begins with advertisements placed by the Agency inviting schools to lodge an expression of interest to become an IPS. In the past, this process has been launched as part of the keynote speech by the Chief Executive of the Agency during the leadership conference for Northern Territory principals held between Term 1 and Term 2. Interested schools can then contact the Agency for further information. During the process to select the second intake of IPSs, interested principals contacted present IPS principals and Agency representatives for advice on the process. If requested, an Agency representative or an IPS principal can provide a presentation explaining the process to the interested school's council. Following this presentation, the school can submit a formal expression of interest to the Agency. A prospectus is then sent out to provide the school with further information and details of the eligibility criteria.

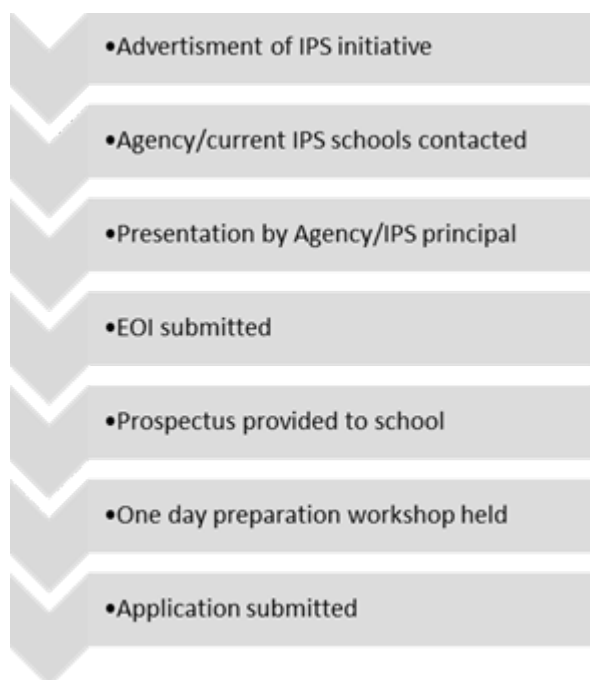
The Agency then holds a one day preparation workshop, known as the 'development day', delivered by current IPS principals, Agency representatives, the Agency Chief Executive and other presenters. On the same day, some self-assessment sessions are held to further assist the schools with their preparation. For the first intake of schools, Western Australian IPS principals presented at this workshop as Western Australia was one of the first Australian jurisdictions to implement the IPS initiative.

Following the workshop, interested schools submit a 750 word application to the Agency, and also attach an index of supporting documentation to illustrate the school's readiness to become an IPS.

Department of Education cont...

A diagram showing this process is included in figure 1, below.

Figure 1 – Application Process



Selection Process

There is a selection panel formed each year to assess applications that are submitted by potential IPSs. The panel members can change but generally included on the panel are: an Agency representative; a finance specialist; a corporate governance specialist; and a corporate services specialist. Other members are also included as required to ensure a strong mix of expertise throughout the selection process.

The selection criteria that the IPS selection board focused on for the initial intake were:

1. benefits to school community;
2. local support; and
3. capacity.

The panel focus on '*benefits to school community*' subsequently changed to '*vision and innovation*' for the second intake of IPSs. During the second intake, innovation was thought to be a more important factor for consideration and required the applicants to consider their marketing edge with regard to initiatives and attraction of children to government IPSs. With regard to the '*vision and innovation*' criteria, the panel members consider what innovative programs and/or projects the school will undertake as an IPS. The panel members also consider what difference will be seen in student outcomes as a result of these programs.

Department of Education cont...

With regard to the '*local support*' criteria, the panel members consider whether there is broad support from staff members and the school community for the school to become an IPS. Although having strong advocacy in the local community is considered important, 100% support is not considered a feasible measure.

With regard to the '*capacity*' criteria, the panel members assess the applicant school's current preparedness to operate with more autonomy.

During each selection process, the panel meet to discuss and evaluate the stronger and weaker aspects of each application. Each panel member provides commentary based upon their specific area of expertise. Following this, each school formally presents their application to the panel. Each presentation is usually limited to around 30 minutes, and broadly covers the reasons for applying to become an IPS; school's capability to operate as an IPS; and what the school intends to achieve in the first five years of operation as an IPS. Most schools generally have the presentation facilitated by the chair of the current school council and the principal, however past presentations have taken different forms. Some schools present verbal presentations by the current council chair and principal, other schools have involved school children in some aspects of the presentation and other schools have involved local community elders in the presentation.

Referees are interviewed by the Agency, following which the panel makes a recommendation to the Chief Executive in relation to the application. Following the formal decision by the Chief Executive, the school is notified whether the application has been successful or not, and an assessment document is also returned to each principal. For unsuccessful schools, the selection panel ensure that areas of improvement/focus are communicated to the school to enable the school to address the matters should they decide to reapply in a subsequent intake.

There have been a number of schools in the first and second intake processes that were unsuccessful in their application to become an IPS for a variety of reasons. Some schools did not have the capacity (specifically the governance or finance capacity) to become an IPS, other schools did not demonstrate enough innovation, and in some cases, the schools did not have support from their council to become an IPS. Two of the schools that applied in 2014 for the 2015 commencement were not granted IPS status. Two schools that applied for the 2016 commencement were also unsuccessful in being granted IPS status (including one school that had also submitted an unsuccessful application in the prior year).

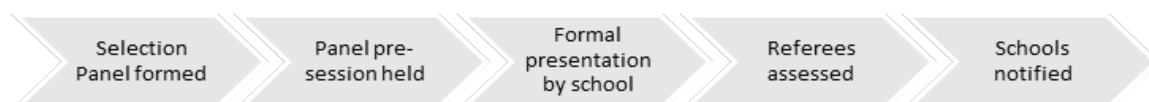
There was no formal agreement signed between each successful IPS and the Agency at the time of the audit fieldwork. The pro forma agreement had been drafted however was undergoing internal review and consultation.

Notwithstanding the agreement was still being finalised, a letter had been issued from the Agency, signed by the Chief Executive, to advise those schools that were successful in their application to become an IPS.

Department of Education cont...

A diagram showing this process is included in figure 2 below.

Figure 2 – Selection Process



Independent Assessment

There is a biennial independent assessment scheduled to be undertaken on the first six IPSs during Term 3 of 2016, by which time they will have been in operation for close to two years. This review is to be conducted by a review team appointed by the Chief Executive consisting of representatives both internal and external to the Agency. The results are to be reported directly to the Chief Executive in the first instance, and ultimately to the IPSs.

The team will undertake the review using Agency school review tools which are aligned with the Australian Council for Educational Research Teaching and Learning School Improvement Framework. This review is to examine the success of the schools operating under the IPS initiative, including examination of the implementation of IPS initiatives/projects as well as the effectiveness and efficiency of the board. The IPSs that commenced in 2016 will have a similar review in the subsequent year.

In addition to this formal external review process, IPSs are to conduct a self-review each year that a full review isn't completed by the Agency.

Requirements of an IPS

There is not a checklist of requirements provided to each school of elements that must be established in order to be recognised as an effectively operating IPS. There is a prospectus circulated which outlines the following elements as operational requirements of an IPS:

1. Teaching and Learning

IPSs are required to adhere to the same legislative and curriculum standards as all schools in the Northern Territory and work under the direction of the Northern Territory Board of Studies. However, IPSs have flexibility in the way that they offer their teaching and learning program and the opportunity to offer approved alternative curriculum frameworks.

2. Workforce

All Northern Territory Government schools operate under a global school budget with the ability for principals to determine the staffing mix that best suits their student's needs.

Department of Education cont...

In addition, IPSs:

- have the option to directly advertise and manage recruitment;
- have increased flexibility in recruitment and selection of staff; and
- have greater authority under human resource delegations that reflect their position in the organisational reporting structure.

All government schools, including IPSs, are also required to operate within the requirements of the *Northern Territory Public Sector Teacher and Educator 2014–2017 Enterprise Agreement* and the *Public Sector Employment and Management Act*, including those relating to redeployment of displaced staff.

3. *Financial Management*

IPSs need to meet the same audit and compliance requirements as non-IPSs and operate under a global school budget consistent with non-IPSs.

4. *Local Governance*

The governance structures at IPSs vary from those in other schools. They are governed by a school board which includes external representation (i.e. local business/industry or specialist professional expertise). Boards as the school representative body for IPS are defined in the *Education Act 2015* (as effective from January 2015).

The intent of the IPS initiative is that the IPS board:

- works with the principal to set strategic direction for the school and oversee implementation of the associated business plan;
- endorses the Delivery and Performance Agreement;
- endorses and regularly reviews the school's budget;
- reviews school performance through regular consideration of reports and data on student achievement and school business operations;
- leads processes to determine satisfaction levels of parents, staff and students with results reported in the school's annual report;
- formally endorses the school's annual report;
- participates in the selection process for the principal when a vacancy arises;
- participates in the school review process and assists to identify ways to address issues raised; and

Department of Education cont...

- will transition their school council to a board within the first 12 to 18 months operating as an IPS. The board will continue to meet the membership requirements as specified in the *Education Act* regulations such as the requirement for parents to comprise 50 per cent of the board.

5. Accountability

An IPS must demonstrate a strong focus on school improvement and accountability and align school activities to the strategic direction of the Northern Territory Government and the Department of Education. A differentiated accountability structure reflects the IPS's organisational reporting lines, and provides enhanced information to the school community about an IPS's performance. This is incorporated into the agency's Accountability and Performance Improvement Framework.

An IPS could have its IPS status revoked if the Agency deemed it necessary however the Agency considers future revocation unlikely and has not yet established "triggers" for revoking IPS status.

Schools operating as IPSs are provided with the same regional support structures within the Agency as schools that do not have IPS status. Within the Agency, there is a Regional Director who monitors the performance of, and provides support to, each school. The Regional Director ensures the Agency is aware of performance indicators such as significant increases in absenteeism, decreases in student enrolment or high staff turnover which may indicate issues performing as an IPS. In addition to this oversight mechanism, 'report back' meetings are held with the Chief Executive, (as discussed later in this report), that concentrate the Agency on board performance and progress of initiatives. Should the Chief Executive have concerns about the performance of the IPS, he or she may choose to intervene or direct the Regional Director or an external party to conduct a school review. Depending on the nature of any findings arising from such a review, a remediation strategy would be developed by the Agency rather than immediate revocation of the IPS status of the school. This risk is believed by the Agency to be further mitigated by the intensive selection process associated with 'readiness' to be an IPS.

Agency monitoring and reporting on IPS

The following sections examine the Agency's monitoring and reporting of schools holding IPS status.

Strategic Plan

Budget Paper 3 2014/15 (BP3 2014/15) highlights the following objective in relation to IPSs as part of the "Strong Society" government's strategic focus:

"Increasing autonomy and local decision making to enable schools and school councils to manage and allocate their resources to best meet student requirements and education outcomes"

Department of Education cont...

The 'Budget Highlights' section of BP3 2014/15 also commits to \$5 million of funding to transition towards greater autonomy and local decision making for schools through global school budgets and IPSs.

The Agency's strategic plan for 2013-2015 committed to implementing and monitoring greater school autonomy through a 'global schools' funding model and IPSs to provide greater local control in decision making. This was outlined in the plan through *"Goal 4 Responsive Services and Systems Key Actions for 2015"*.

The strategic plan for 2016-2018 also committed to expanding the roll out of the IPS model to 15 schools. This was outlined in the plan through *"Goal 4 Coherent and Capable Organisation Key Action"*.

Agency staff members responsible for the IPS initiative and current IPS principals were involved in a consultative manner in the workshops and sessions held to inform both strategic plans. The staff and principals gave feedback and input specifically on IPS related goals and issues to ensure their appropriate inclusion in the Agency's Strategic Plans.

It is evident that the strategic plans for 2013-2015 and 2016-2018 both reflect the BP3 2014/15 strategic goal of *"increasing autonomy and local decision making"* through the Agency's commitment to increasing the number of IPSs in the Northern Territory.

Business Plans

The Agency has a School Autonomy group that is responsible for oversight of the global school budget and IPS initiatives. This group, for administrative purposes, resides within the Finance group of the Agency.

A business planning document applicable to the 2015/16 financial year was prepared by the School Autonomy function within the Agency, who oversees both the GSB initiative and the IPS initiative. This business plan relates to both the GSB and IPS initiatives, and covers the following key aspects:

- Goals (aligned to the five goals in the Agency Strategic Plan);
- Deliverables 2016 (key actions and other priority activities);
- Performance measures and targets (how the Agency measures progress of the initiatives and what the Agency is intending to achieve);
- Actions for 2016 (what the team actually does);
- Lead (person responsible from the school autonomy team).

The deliverables for the IPS initiative are all linked to Goal 4 from the Agency Strategic Plan – *Coherent and Capable Organisation*.

Department of Education cont...

In addition to the Agency's Strategic Plan, there is also an overarching Finance Business Plan which incorporates the School Autonomy team's business plan document (outlined above) at a more broad level. This plan covers the same five aspects as the School Autonomy business document. Similarly, this document aligns with the overall Agency strategic plan.

For IPS planning and monitoring purposes, the School Autonomy team use their own designated planning document which is more detailed and prescriptive about the targets than the Finance Business Plan.

The business plans at both the School Autonomy level and the Finance level have performance targets and actions outlined within them in relation to IPS deliverables. Although the data covered in the School Autonomy business plan and the Finance business plan is largely the same, there are some minor inconsistencies in what is being labelled a 'deliverable', a 'performance measure and target' and an 'action'.

There are a number of high level program performance measures outlined in both documents to assist with monitoring of the success of the initiative. The audit identified that a small number of the performance measures at this level could be more specific thus making them more measurable.

With regard to alignment of the business plan with the strategic plan, the actions above mirror the Agency Strategic Plan's objectives to *"implement and monitor greater school autonomy through a global schools funding model and independent public schools to provide greater local control in decision making"* and *"expand the roll out of the Independent Public Schools model to 15 schools"*.

Performance Targets

Performance Measures – overall IPS initiative

The Agency has developed the *"School Autonomy Monitoring and Evaluation Framework"*. This framework details Agency and school objectives associated with ongoing monitoring and evaluation of school autonomy, specifically to:

- *"monitor and evaluate overall implementation of the initiative's key elements;*
- *assess the extent to which the initiative is on track to meet objectives; and*
- *identify possible improvements to support future implementation in schools."*

Department of Education cont...

The Agency has incorporated the following performance measures within the School Autonomy Business Plan to align with the above strategic objectives:

- At least seven schools formally express an interest in applying for IPS status (for 2017 intake).
- Between two and seven schools successful in their IPS application (for 2017 intake).
- First tranche IPS boards established.
- IPS strategic plans publicly available.
- School boards reporting on their performance and operations to the Chief Executive.
- Reporting mechanism developed for IPS principals to report back to the system on school performance.
- Quality governance materials available for on-going use by IPS and non-IPS.

The Agency anticipates around 20 schools could ultimately be operating as IPS within the Northern Territory. A report released by McKinsey in 2010, *How the world's most improved school systems keep getting better*, examined 20 school systems in action around the world, and outlined key factors of successful systems around the globe. McKinsey's research indicates that schools at different steps on the improvement journey require different interventions from the system to support school improvement. For schools progressing from 'good to great' and 'great to excellent', this includes providing a higher level of local decision making authority and system sponsored support for local innovation. Applying to become an IPS is a school community decision and schools need to demonstrate the capacity, local support and vision for innovative projects to be selected. For these reasons, the Agency anticipates that approximately 20 schools will operate under the current IPS model in the Territory. This number would enable the Chief Executive to work sufficiently closely with the IPSs in resolving issues and running initiatives. The availability of and access to the Chief Executive is considered one of the important aspects affecting the monitoring of the current IPSs. Were the initiative to be expanded to all 151 government schools in the Northern Territory, the Chief Executive and the Agency would not have the capacity to maintain the same level of involvement for each IPS.

Although not every school will be granted IPS status in the Northern Territory, it is intended by the Agency that non-IPSs schools will be inspired by the initiatives undertaken within IPSs and begin to implement similar initiatives. The Agency is already seeing evidence of other non-IPSs being inspired by the IPS initiatives. For example, one IPS at primary school level has implemented a playgroup led by an early childhood specialist teacher to assist local children to work on readiness skills before starting preschool and primary school. Another non-IPS has subsequently implemented the same program.

Department of Education cont...

Performance measures – individual IPSs

Once a school becomes an IPS, there are no separate, or additional, performance measures from those performance measures used to measure any other school. The performance expectations the Agency currently places on IPSs are the same as those placed on non-IPSs such as those relating to NAPLAN results, attendance rates and enrolment rates.

All schools are measured against other similar schools, rather than a comparison based upon IPS status. Similar schools are compared to one another based on the socio-educational backgrounds of its students. This comparison utilises the Index of Community Socio-Educational Advantage (ICSEA). ICSEA values are based on a number of factors which include parents' occupations, parents' education, geographical location and proportion of indigenous students.

The only additional deliverable that the Agency places upon IPSs is through a 'report back' process undertaken once per semester where the school principal is required to report to a group including all other IPS principals and the Chief Executive about the progress of their school. At these 'report backs' the principal gives details to their peer group and the Chief Executive about what they have achieved with the funding provided and what initiatives are completed and underway. This 'report back' involves outcome based reporting by the principal and also involves reporting on grant funds spent to date.

The Agency's aim is for every student and school to be successful. The Agency expects every school to be on an improvement journey. It is expected that the additional flexibility and authority provided to an IPS will create an environment of innovation focussed on improving student learning outcomes that will affect students enrolled in an IPS, but also lead the wider school system to reform and improve, benefitting all students. In the short term, success will be measured through lead indicators regarding student, staff and parental engagement, leading to improvements in student learning outcomes in later years. Of the 13 current IPSs, ten have higher enrolments on average in Term 1 2016 compared to the same time in 2015.

The overall intention behind the initiative is the creation of an improved school system. The McKinsey report described the critical factors of an improvement journey for a school from a 'Poor to Fair' school to a 'Fair to Good', 'Good to Great' and finally to a 'Great to Excellent' school. The Agency believes the focus should not simply on moving 'Poor to Fair' schools to 'Fair to Good', rather the Agency should be inspiring schools to improve performance.

The IPS initiative is aiming to move a number of schools to the 'Great to Excellent' category as per the McKinsey report, through:

“System sponsored experimentation / innovation across schools:

- Providing additional funding for innovation*
- Sharing innovation from front line to all schools.”*

Department of Education cont...

Annual Reporting

Due to the volume of initiatives undertaken at the Agency each year, individual initiatives are not reported upon specifically in the annual report and therefore IPS financial results are not reported in the agency's annual report. The results reported upon within the annual report are the Agency's results as a whole. However, each school produces its own annual report where more granular reporting on initiatives and achievements are reported.

Although the financial information in the Agency's annual report is not itemised by initiative, there are often narratives included to provide a performance update on certain individual initiatives. The initiatives reported upon vary between reporting years. The Agency does not plan to include financial information to an initiative level within the annual report. There had not yet been a narrative update provided in relation to the IPS initiative within the annual report at the time of the audit.

Any narrative information to be included in the annual report at an initiative level is reviewed and verified by the Chief Financial Officer and the Deputy Chief Executive Organisational Services prior to inclusion. If an IPS narrative were to be included in the future, this would be developed by the Director of School Autonomy and any commentary about a particular school's initiative would be verified by the school principal.

Department of Housing

Contract Management of Housing Stock

Scope and Objectives

In accordance with section 15 of the *Audit Act*, *“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.”*

2014/15 Budget Paper 3 contained the strategic issue of *“Implementing strategic policy and planning decisions regarding housing assets and effective housing asset management through local contracts”*.

The primary objective of the Contract Management – Housing Stock audit was to assess the performance management system in place at the former Department of Housing (“Department”) that enabled it to manage its housing stock.

The scope included urban and regional locations, including town camps, and included contracts for:

- Repairs and maintenance;
- Minor new works; and
- Capital works.

Homelands were excluded from the scope of this audit.

This audit covered the period 1 July 2014 to 31 March 2016. The audit approach included a review of the Department’s existing policies and guidelines in relation to the management of Housing Stock. A series of meetings was also held with key management personnel involved in the management of:

- the Department’s housing stock;
- the Department’s contracts for repairs and maintenance, minor new works and capital works; and
- the Department’s asset management systems.

Department of Housing cont...

After obtaining an understanding of the Department's processes and procedures, "walk throughs" of the various processes were conducted to confirm that Department practices reflected the understanding obtained.

Conclusion

The Department has various components of a performance management system in place to manage its housing stock. From my review, it was not clear that all the components were working together to form an efficient and reliable performance management system.

It was clear that the performance management system is complex and the Department has been seeking ways to improve the system. New initiatives are also planned which will help in linking the various components together to form an overall framework for the Department.

Key Findings

The complexities and challenges faced by the Department in managing the delivery of social housing programs are acknowledged. These complexities and challenges have led to the Department's current approach to contract management in respect of housing assets, which varies between geographical areas, divisional lines of responsibility and type of housing stock.

Whilst recognising the improvements in both processes and property availability that have occurred over recent years, findings from the audit have demonstrated that the Department may benefit from the development of a holistic contract management framework that encapsulates all aspects of contract management in respect to contracts relating to the repair, maintenance, refurbishment and building of all urban and regional housing (whether owned or leased).

A number of observations and recommendations have resulted from my audit, the implementation of which would be facilitated by the existence of an agency level contract management framework. Of these recommendations, those providing highest return to the Department, if implemented, relate to:

- amalgamating the information contained within the three different asset related information systems or, at minimum, reconciling like information contained within the three systems on a regular basis;
- introducing policies, processes and procedures within the Department designed to ensure consistency when managing all contracts throughout the Department relevant to the delivery of housing services;
- revisiting the required key performance indicators applicable to all contractors and ensuring they are both "fit for purpose" and appropriately and consistently enforced;

Department of Housing cont...

- introducing “compliance with Departmental policies and procedures” as a performance criteria for the annual evaluation of the performance of Departmental employees;
- investigating the reasons for delayed recording of property inspection and contractor performance results and taking steps to address those reasons;
- investigating all properties classified as “pending” and determining the probability of them being returned to stock or written off (in which case, the ultimate decision makers should be presented with the results of the investigation and a recommended course of action); and
- implementing a process to verify the accuracy of the information submitted to senior management for decision making purposes.

Report Outline

The results and observations from the audit are reported in the following sections:

- Background
- Housing Stock
 - Housing Stock Types and Supply
 - Housing Stock Ownership and Management
 - Housing Stock Tenancy Agreements
 - Housing Stock Information Systems
 - Condition of Housing Stock
- Department of Housing Contracts
 - Repairs and Maintenance Contracts
 - Capital Contracts
 - Contract Implementation and Management
 - Turnaround Time for Unoccupied Property
 - Unoccupied Dwellings
 - Turnaround Time

Department of Housing cont...

Background

The Department is the primary provider of social housing in the Northern Territory. The Northern Territory (NT) Department of Housing's role is to provide an affordable and accessible housing system by supporting eligible NT residents with options that are appropriate to their housing needs.¹ The Department of Housing's website describes the department's primary role as: "to deliver social housing programs through:

- *public housing*
- *supported accommodation*
- *home ownership.*" (<http://www.housing.nt.gov.au/about-us>)

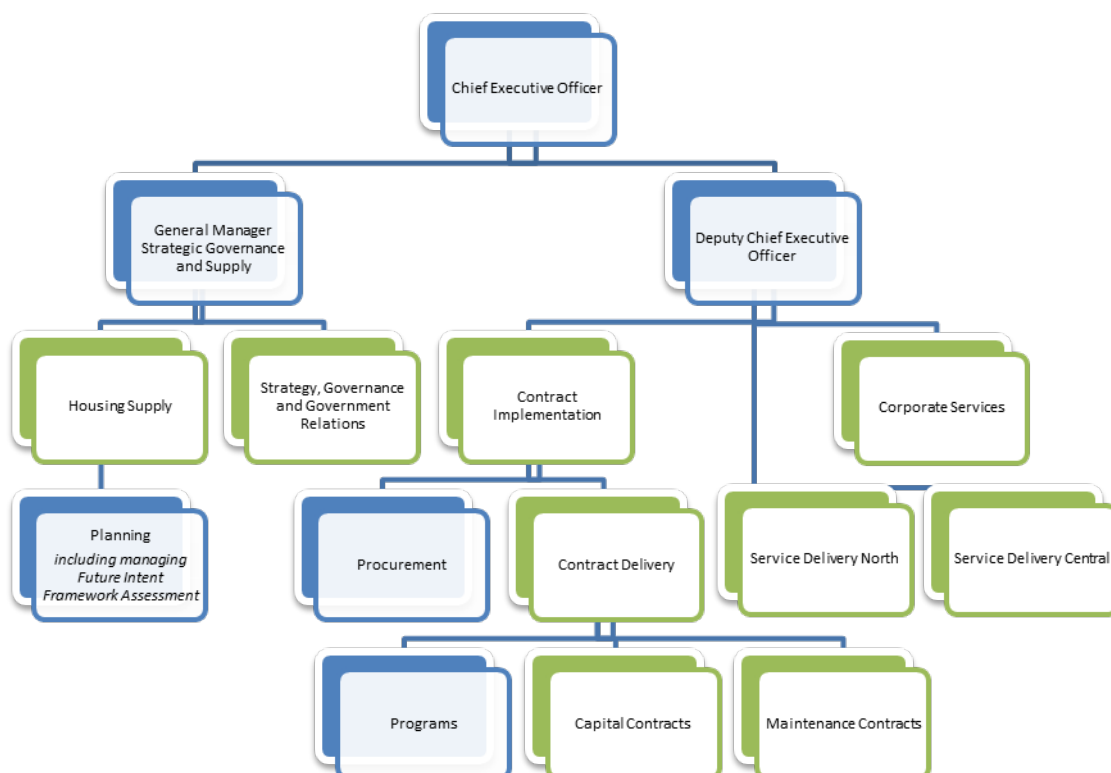
The key business areas of the department at the time of the audit were: public housing; supported accommodation; remote indigenous housing; seniors' housing; affordable housing; home ownership; industry housing and government employee housing.

The audit focused primarily on Housing Supply, Housing Strategy and Contract Implementation which form part of the organisational structural elements highlighted in green in figure 1.

¹ <https://housing.nt.gov.au/about-us>

Department of Housing cont...

Figure 1 - Department of Housing Organisational Chart extract – Contract Management



Department of Housing

A focus of the Housing Strategy section of the Department is to deliver safe, accessible and affordable housing to Territorians over the next five years.²

The Department recently released one new strategy document with two focus areas which were found on the Department's website:

"The strategies have been informed by the extensive community consultation that was conducted as part of the housing review launched in June 2015:

- *Housing Action NT*
- *Remote Housing Strategy*
- *Urban Housing Strategy"*³

² <https://housing.nt.gov.au/reviews-and-consultations/housing-strategy>

³ <https://housing.nt.gov.au/reviews-and-consultations/housing-strategy>

Department of Housing cont...

During the year, a consulting firm was contracted by the Department to perform a current state analysis of the housing portfolio which highlighted key issues and provided recommendations for addressing those issues.

Strategy, Governance and Government Relations - Division

The purpose of the Strategy, Governance and Government Relations Division is to influence, inform and shape the strategic direction of the Department through collaborative partnerships, innovative contemporary policy and robust performance monitoring frameworks. Functions include strategic planning and policy, government relations, performance monitoring and reporting.

The division's core business includes shaping the strategic direction of the Department by leading, developing and implementing innovative, contemporary and compliant policy; building strong and sustainable relationships, cooperative partnerships and networks across the Department, all levels of government, peak bodies and service providers. The Department's vision encapsulates ensuring that the Department is recognised and respected as a key partner in homelessness, social housing, affordable housing and home ownership; leading negotiations and ongoing communication across stakeholder networks to facilitate improved strategic planning, program development and program delivery. Through good governance, the Department aims to identify business improvement opportunities and deliver innovative business intelligence and integrated reporting solutions that improve decision making and service delivery performance.

Housing Supply Division

The Housing Supply division of the Department is involved in the decision making regarding housing acquisitions; disposals; and repairs and maintenance. During the period under audit, the decision making process was enhanced with a program called Future Intent Framework Assessment (FIFA) which more efficiently and strategically assesses whether the dwellings should be recycled, retained or redeveloped. FIFA is explained in more detail later in this report.

This Division also manages initiatives such as Real Housing for Growth, which involves head leasing of affordable housing.

Contract Implementation Division

The Contract Implementation division of the Department is focused on managing the Department's various capital and maintenance contracts. There are up to 200 contracts in place at any one time. The Department outsources the repairs and maintenance and capital works to various contractors across the Northern Territory through competitive tender processes. A single supplier is contracted in each urban area for responsive maintenance whilst a panel of suppliers is contracted for each remote area and for urban vacate works.

Department of Housing cont...

Housing Stock

As at 30 June 2015, the Department of Housing managed: Urban stock; Remote stock (including Town Camps); Government Employee Housing; Industry Housing; Emergency Accommodation; and Affordable Housing. From 1 July 2015, two new categories of dwellings were added to the Department's portfolio: Community Housing and Social Housing Head Leasing.

The Department's 2014/15 Annual Report (page 7), reported that the Department manages more than 11,928 dwellings across the Territory allocated across the following categories:

- Remote public housing dwellings (including town camp dwellings)
- Urban public housing dwellings
- Government employee housing (GEH) dwellings
- Industry housing dwellings
- Emergency accommodation
- Affordable rental housing dwellings

The breakdown by category, excluding the two recently added categories, is highlighted in the following charts.

Figure 2 - Department of Housing dwellings by program at 30 June 2015⁴

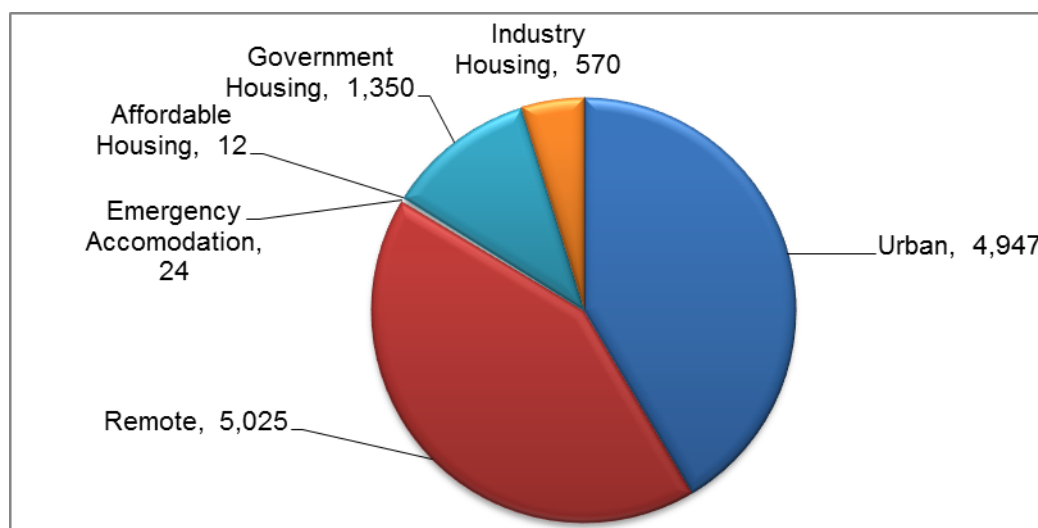


Figure 2 shows that the majority of the properties managed by the Department constitute urban and remote public housing dwellings. These two categories of properties are allocated by location and region in figures 3 and 4 below.

⁴ Department of Housing – Annual Report 2014-15 (page 7)

Department of Housing cont...

Figure 3 - Department of Housing urban public housing dwellings by location at 30 June 2015⁵

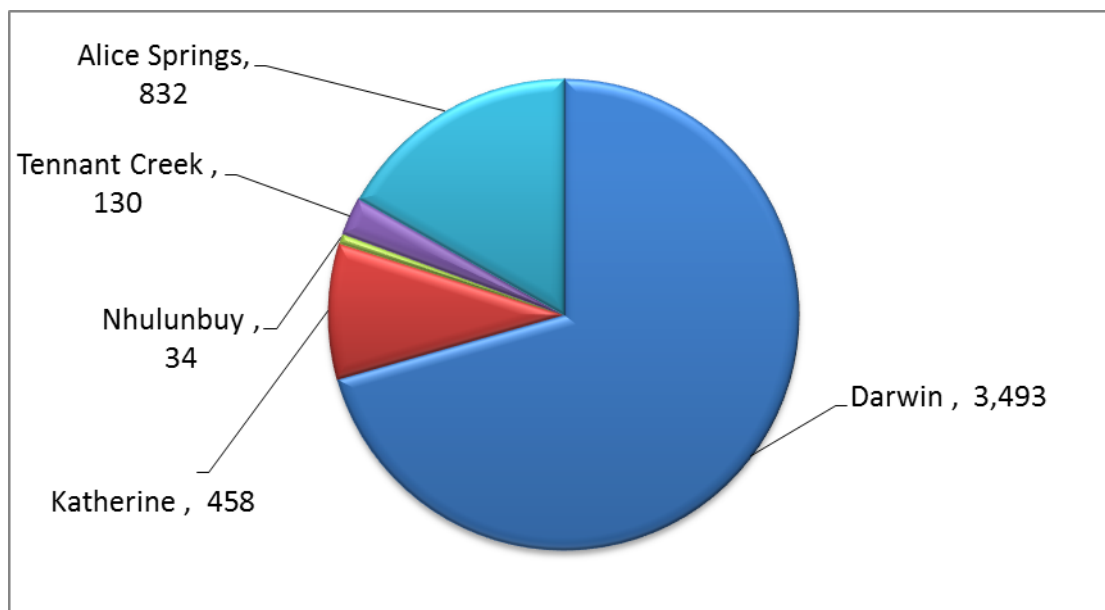
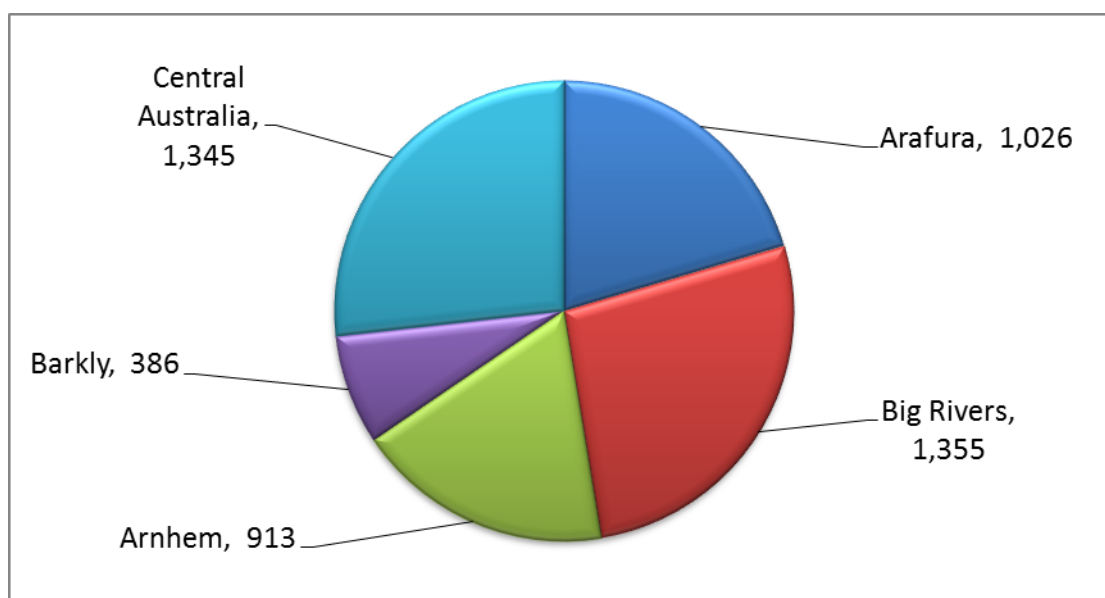


Figure 4 - Department of Housing remote public housing dwellings by region at 30 June 2015⁶



⁵ Department of Housing – Annual Report 2014-15 (page 7)

⁶ Department of Housing – Annual Report 2014-15 (page 8)

Department of Housing cont...

As part of its management of housing stock, the Department has responsibility for both maintaining a dwelling in accordance with the *Residential Tenancy Act* and maintaining a valuable, publicly-owned asset.⁷ This includes meeting the costs of maintenance due to fair wear and tear, providing public housing as efficiently as possible and undertaking alterations for clients with special needs.

Housing Stock Types and Supply

The Department's housing stock types and supply, as identified previously, are described below.

Urban and Remote Housing

Based on the 2014/15 Annual Report, public housing comprises approximately 84% of all housing managed by the Department. Urban public housing constitutes dwellings located within major population centres such as Darwin, Casuarina, Palmerston, Alice Springs, Katherine, Nhulunbuy and Tennant Creek. Within the Department's housing stock, remote housing is any other housing not located within these major population centres. Remote housing includes town camps. Town camps, whilst being located in major population centres, are treated as 'remote' with regard to contract management and reporting.

Industry Housing

Industry Housing represents properties that are owned by the Department and leased to Non-Government Organisations.

Government Employee Housing

GEH properties are managed by the Department and leased to other Government agencies and their staff.

Emergency Accommodation

Emergency accommodation is accommodation that is in place for response to the impact of cyclones and other emergency accommodation situations across the Northern Territory.

Affordable Rental Housing

Affordable Rental Housing represents rental options through Venture Housing and Real Housing for Growth initiatives such as Head-Leasing, National Rental Affordability Scheme (NRAS), Home Buyer, Home Build Access and redevelopment strategies. Venture Housing, Head-Leasing and NRAS provide tenants with up to a 30% discount on market rent if they work in a key industry in the Territory. Key industries include:

- tourism and hospitality;
- education and childcare;

⁷ Department of Housing – Dwelling Management Policy

Department of Housing cont...

- health and emergency services;
- community and social services;
- transport and logistics; and
- agriculture and fisheries.⁸

Two additional categories existed at 31 March 2016:

Community Housing

Community housing is property owned by the Department and managed by community service providers. A Departmental management report identified that there were 20 Community Housing dwellings at 31 March 2016.

Social Housing Head Leasing

Properties leased from the private sectors by the Department, which are used to allocate to eligible public housing tenants. The Department is responsible for tenancy and property management for a minimum of six years.⁹ A Departmental management report identified that there were 37 dwellings under this category as at 31 March 2016.

Housing Stock Ownership and Management

The Department manages properties either directly or through agencies, including properties that it owns and properties that the Department does not own.

As noted above, Industry Housing, owned by the Department, is leased to non-government organisations who manage the properties on the Department's behalf.

In addition to Department owned housing, the Department also manages some Remote Community Housing and Town Camps that are owned by other organisations and Social Head Leasing properties that are owned by the private sector.

Department of Housing asset register records land and dwellings both owned, and controlled by the agency. Some properties not owned but identified as being controlled by the Department of Housing, are held in the asset register where they meet the recognition criteria for an asset under Australian Accounting Standard *AASB 116 Property, Plant and Equipment*. Assets controlled by Department of Housing but not owned are land and dwellings in some town camps and community properties, where ownership is held by another entity such as Aboriginal Land Councils or Trusts.

⁸ NT Government Department of Housing website

⁹ <https://housing.nt.gov.au/development-opportunities/social-housing-head-leasing-initiative>

Department of Housing cont...

Department of Housing rents/head leases properties from the private sector under operational leases; these are not kept on the asset register.

Housing Stock Tenancy Agreements

The Department is required to have tenancy agreements in place for all properties that are rented out, however there are not always written agreements in place, particularly if they are longstanding tenancies.

At 31 March 2016, 459 remote public housing properties did not have a tenancy agreement in place. A detailed explanation of why there was no tenancy agreement in place was not provided.

Rent is not charged on properties that do not meet the minimum standard under the *Residential Tenancies Act*, however the Department can charge a maintenance levy. At 31 March 2016, 68 tenanted dwellings were not compliant with the *Residential Tenancies Act*.

Housing Stock Information Systems

The Department of Housing has the following information systems which identify how many housing stock assets it owns and manages:

- Tenancy Management System;
- ASNEX; and
- Fixed Asset Register (Excel Spreadsheet).

The systems also perform a fundamental role in the Department's day to day operations.

Tenancy Management System (TMS)

The system is an operational database used by the Department for tenancy management. It functions as a tenancy management and reporting system. Operationally, this system is used to identify and store information on all tenancies managed by the Department of Housing. The primary information in TMS includes but is not limited to:

- asset details which are obtained directly from ASNEX;
- tenants details;
- housing applicants details;
- dwelling status (occupied or unoccupied);
- information regarding tenancy agreements;
- property inspection details; and
- information regarding charges and receipts such as recent rent received, debt details and bond details.

Department of Housing cont...

Information reported from TMS is used to prepare executive management reports. The accuracy of the data within TMS and contained within the reports produced has not been verified as part of the audit and the Department has no formal procedure in place to confirm the accuracy of the data. It has been highlighted during the audit that the accuracy of the data is an area of concern.

The Performance Analysis team are tasked with generating executive management reports from TMS. Due to the vast amount of information and multiple reports required from TMS, this is a complex process. A procedures manual was in draft at the conclusion of the review. Formal approval of the procedures manual was yet to occur. In the absence of an approved procedures manual, there is an increased risk of a loss of corporate knowledge if members from the Performance Analysis team leave the team or the Department.

ASNEX

ASNEX is a suite of across government systems that the Department uses to manage expenditure on its assets. ASNEX incorporates the following primary functions:

- asset listing;
- contracts register of repairs and maintenance, minor new works and capital works contracts;
- raising of work orders;
- programming register (main funding buckets); and
- projects register (minor funding buckets).

ASNEX is considered the source of truth for all asset data and is the primary data source for each property's information. Each asset has a unique identifier which is the common identifier also used in TMS.

ASNEX stores details of all repairs and maintenance contracts, capital contracts and minor new works contracts. In addition to the contractor and contract details, ASNEX also stores results of contractors' performance assessments reflecting how the contractors are performing when responding to and delivering on work orders that have been raised through ASNEX.

Work orders are raised through ASNEX with the details populating both the asset register and contracts register within ASNEX.

Fixed Asset Register

The Fixed Asset Register (FAR) is maintained in a manually updated spreadsheet. The level of human involvement increases the possibility and likelihood of material misstatement caused by human error.

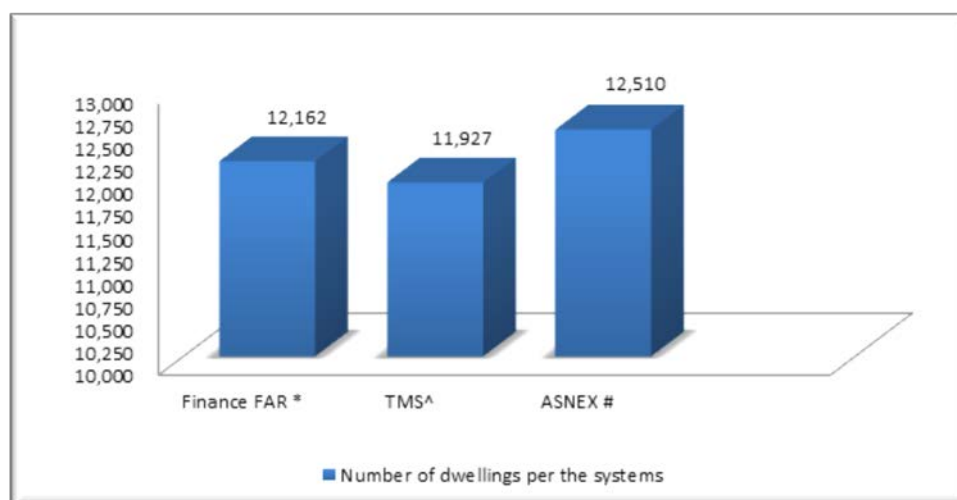
Department of Housing cont...

At the time of the audit, the FAR was in the process of being reconciled to information in ASNEX to enable accurate data to be input into the Government Accounting System Fixed Assets. The finance team records assets that the Department owns within the Fixed Asset Register and this information is then used in the preparation of the Department's annual financial report.

ASNEX includes details of assets that the Department owns and manages. TMS only records properties that are available to rent. The financial FAR only records assets that are owned by the Department so the information within the three systems will never match. Reconciliations of the differences are only performed upon request or on an ad hoc basis. A full detailed reconciliation was not able to be provided to my Authorised Auditors upon request. Figure 5 below highlights the differences between the information produced from each system in relation to the number of dwellings held as at 31 March 2016.

Reliance on a number of systems presents an increased risk that Department personnel may make decisions based on erroneous information.

Figure 5 - Department of Housing dwellings by information system as at 31 March 2016



The accuracy of the above data supplied by the Department was not able to be verified. This audit did not extend to verifying the data in each of the information systems.

* Dwellings under construction do not appear in the Fixed Asset Register as these are recorded in the general ledger in total as Work In Progress.

^ Dwellings under construction are not included in TMS. TMS obtains details of available dwellings from ASNEX.

Department of Housing cont...

The ASNEX report has been filtered and shows current dwellings as at 6 May 2016. This report includes dwellings under construction, complex common grounds and other buildings such as ablution blocks. A report as at 31 March 2016 could not be obtained.

Condition of Housing Stock

Housing stock is managed by the Department through the use of various information systems which include TMS and ASNEX. The Department has processes in place and intend to implement additional processes to monitor the condition of housing stock. Monitoring processes include:

- tenancy inspections;
- property inspections;
- vacate maintenance assessments;
- reporting of necessary repairs to the Department by tenants;
- property revaluations;
- Future Intent Framework Assessment (FIFA) requirements; and
- Condition Assessment Survey results.

Tenancy Inspections

Under the *Residential Tenancies Act*, the Department is only able to enter the premises or ancillary property once every three months for routine inspections. In accordance with legislation, the Department schedules annual inspections of all dwellings, however where there are known high risk tenancies, more frequent inspections are scheduled in negotiation with the tenant/s.

For Urban Housing, the Housing Officer references the incoming property condition report and identifies any repairs and maintenance based on their physical property inspection. The assessment determines whether the repairs are the responsibility of the tenant or the landlord. Regardless of responsibility, all health, safety and security damages are repaired by the Department. Amenities identified as requiring upgrades (extensive work) are programmed in Minor New Works. Examples include roof replacements and bathroom upgrades.

General inspections that result in minor works being identified are undertaken in the Repairs and Maintenance program.

For Remote Housing, the Department has contracts in place that employ Community Housing Officers (CHOs) who undertake tenancy inspections of properties where they are assessed as having the capability to do so, otherwise visiting Tenancy Contract Officers employed by the Department of Housing undertake these tenancy inspections. The CHOs are provided with a weekly work plan by the Department which helps the Department to ensure that inspections are scheduled.

Department of Housing cont...

Property Inspections

Tenancy Contract Officers also conduct property inspections. These inspections examine the condition of the asset to provide information to support an overall approach to management of the asset across its expected life-span.

A Departmental management report identified that at 31 March 2016, 1,181 Urban Housing properties and 2,060 Remote Housing properties had not been inspected for over 12 months. This increases the risk that the condition of a large portion of the Department's housing stock assets is unknown.

There is also a delay in recording the results of property inspections into TMS which increases the risk that required repairs are not being conducted in an efficient manner. In March 2016, 654 Urban Housing inspections were entered into TMS. Of these, 158 (24%) inspections were carried out between October 2015 and February 2016. In March 2016, 667 Remote Housing inspections were entered into TMS. Of these, 246 (37%) inspections were carried out between October 2015 and February 2016.

Vacate maintenance assessments

The Department advised that when a property becomes vacant, an inspection is undertaken and any work required is carried out whilst it is empty until it is of a standard that a new tenant can be placed in the property. Repairs can take between one and six weeks depending on the amount of work required.

Tenants report necessary repairs

Tenants are required to report required repairs to the Department. They can do this by visiting the front desk of a regional office or telephoning the Department.

In some instances, the Tenancy Officer will notify the Department that a repair is required as a result of a scheduled inspection to the property.

In remote regions, the Department has contracts in place that require a Housing Maintenance Officer (HMO) to be physically located within the community. The HMO is the first point of contact for the tenants in these communities to report a repair.

Department of Housing cont...

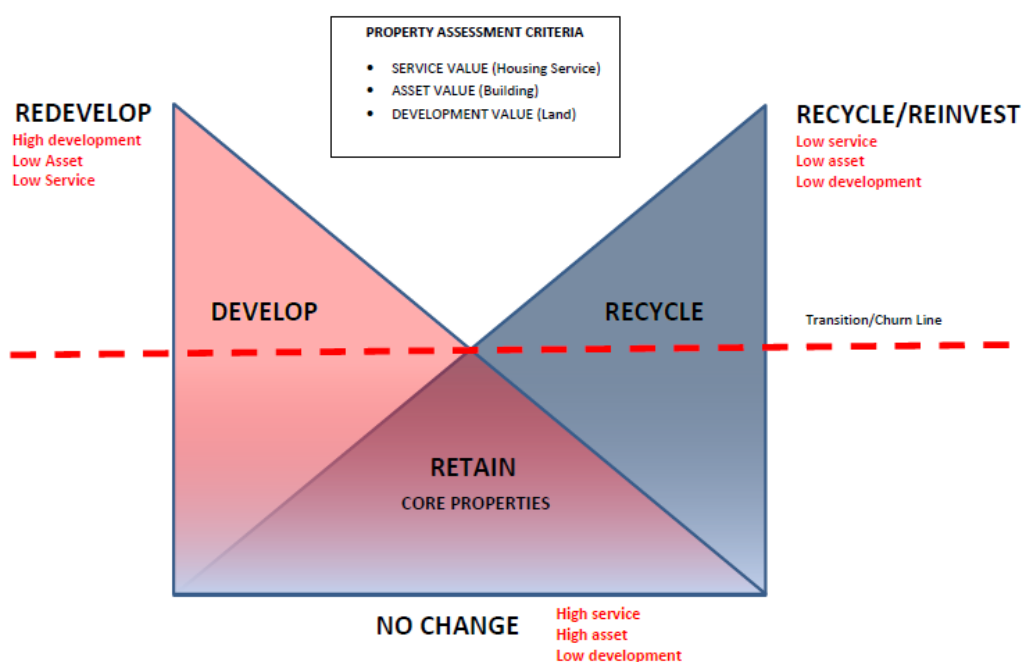
Property valuations and revaluations

While property valuations are not specifically undertaken to monitor the condition of the housing stock, they are done to assist with the preparation of the Department's annual financial statements. The Department uses this information to update the Housing Stock portfolio. Each year an independent valuation is carried out on specific property types. At 30 June 2015,¹⁰ revaluations were undertaken on urban rental dwellings and GEH remote rental dwellings. National Partnership Agreement Remote Indigenous Housing remote rental dwellings are initially recorded at cost and are to be revalued every five years. This audit did not examine the valuation and revaluation processes undertaken by the Department.

Future Intent Framework Assessment (FIFA)

FIFA is a framework created by the Department that enhances assessment of urban properties. It allows the Department to identify whether an urban property should be recycled, retained or redeveloped. Future intent of remote housing is based on the asset condition and as such this framework is not used for remote housing. The information is extracted from ASNEX and once assessed, is input back into ASNEX. In the future, the Department intends to use this information when making decisions for future planned maintenance and upgrades.

Figure 6 – FIFA – Value Assessment / Decision Process Diagram*



* provided by the Department's Housing Supply section.

¹⁰ Department of Housing – Annual Report 2014-15 (page 80)

Department of Housing cont...

This assessment is performed to enable the Department to determine what future capital work is required. All of the housing managed by the Department has been assessed against several criteria to determine whether the property should be redeveloped, recycled or retained. A desktop assessment was performed on all properties using FIFA between September 2015 and November 2015; the results from this were under review at the time of the audit fieldwork. Until the review is complete, the system will not be utilised on a widespread basis for decision making purposes.

Condition Assessment Survey

This is an updated tool being developed by the Department and requires a comprehensive survey to be conducted on each property owned by the Department. The results of the survey will form the basis for allocating the property with a percentage score. This will be used in conjunction with the FIFA framework to assess the future use of the property. It will also provide the Department with a current condition report on every property.

Current State of Housing Stock

The Department recently engaged a consulting firm to prepare a report of the current state of housing stock. The comprehensive report was provided to the Department in January 2016. It is unclear, based on the information provided during the audit, if the systems within the performance management framework have the ability to report on the current state of housing stock at any point in time.

I recognise that staff and contractors regularly visit properties for a variety of reasons, and therefore may identify if the condition of a property has changed, however my Authorised Auditors noted that in excess of 3,200 Urban and Remote properties had no inspection report recorded in the 12 months prior to 31 March 2016. The Department was unable to provide my Authorised Auditors with a complete and comprehensive assessment of the current state of housing stock as at the time of the audit fieldwork.

Based on a review of the transcripts associated with the Public Accounts Committee's public inquiry which lead to the Report on *Repairs and Maintenance of Housing on Town Camps*, discussions with Departmental staff and a review of internal consultancy reports, the main environmental factors appearing to impact the availability and condition of housing stock are:

Overcrowding

Overcrowding is likely to be having a detrimental impact on the useful lives of housing assets. It also is likely to lead to the requirement for more frequent repairs and maintenance work resulting in higher costs to the Department.

Department of Housing cont...

Ageing portfolio not aligned to demand

The Department has a large portfolio of properties that are more than 30 years old and are three bedroom, detached houses. The expected future demand based on waiting lists is for one or two bedroom properties.

Current portfolio requires additional maintenance costs

Three bedroom detached houses are likely to incur more maintenance costs than smaller units. The ageing properties are likely to require greater maintenance costs than newly built properties. There is a risk that the Department will have increasing repairs and maintenance costs in the coming years as a result of having a significant number of properties that are greater than 30 years old. Budget constraints are likely to lead to increased numbers of dwellings that are unable to be occupied if the costs to maintain, repair and refurbish exceed the allocated budget.

The Department has identified methods to improve its assessment of the current state of the housing stock and new initiatives are being implemented to address this. Detailed recommendations were provided in the consulting firm's report.

Other actions being undertaken by the Department to enhance the management of housing stock include:

- the Department has established a new framework for assessing whether properties should be recycled, retained or redeveloped (FIFA);
- the Department plans to initiate a Condition Assessment Survey of each property; and
- the Department has released new Urban and Remote Housing strategies which are available from the Department's website.

Department of Housing Contracts

Due to the extensive work involved with managing housing stock, the Department has contracts in place to help manage the housing stock where it does not have the resources or the expertise.

The Department does not have the resources to undertake repairs and maintenance and capital works that require qualified tradesmen and therefore it has contracts in place with contractors that do have these skills.

The two main types of contracts in place at the Department are:

- Repairs and maintenance contracts (213 contracts during 1 July 2014 – 31 March 2016); and
- Capital contracts (22 contracts at April 2016).

Department of Housing cont...

Contracts are separately awarded for Urban and Remote Housing work due to differing requirements and emphases on delivery criteria. The contracts are offered for public tender based on the region in which the work is to be performed and the type of contract.

The procurement of contractors is conducted in accordance with the Northern Territory Government Procurement Framework. Tenders are assessed based on a number of criteria including price, capacity, local development and past performance. Based on discussions with the Department, Contractor Performance Reports are utilised, where available, to assist in the assessment of past performance when awarding future contracts.

Repairs and Maintenance Contracts

The following table presents the main types of contracts managed by the Contract Implementation section of the Department and their allocation by region.

*Table 1 – Repairs and maintenance contracts 1 July 2014 – 31 March 2016**

	Darwin	Arafura	Arnhem (Nhulunbuy)	Barkly (Tennant Creek)	Big Rivers (Katherine)	Central Australia (Alice Springs)
No. of contracts	31	21	29	37	41	54
Urban	Grounds Maintenance	N/A	Grounds Maintenance/ Arboreal	Grounds Maintenance/ Arboreal	Grounds Maintenance/ Arboreal	Grounds Maintenance/ Arboreal
	Arboreal Services	N/A	Refer above	Refer above	Refer above	Refer above
	Alarm audit	N/A	Alarm audit	Alarm audit	Alarm audit	Alarm audit
	Responsive R&M	N/A	Responsive R&M	Responsive R&M	Responsive R&M	Responsive R&M
	Vacates	N/A	Vacates	Vacates	Vacates	Vacates
Remote	N/A	Panel Contract	Panel Contract	Panel Contract	Panel Contract	Panel Contract
	N/A	Tenancy Management	Tenancy Management	Tenancy Management	Tenancy Management	Tenancy Management
	N/A	N/A	N/A	Special Purpose Grant	Special Purpose Grant	N/A
	N/A	Housing Maintenance	Housing Maintenance	Housing Maintenance	Housing Maintenance	Housing Maintenance

** This table has been developed based on information provided by the Department.*

Department of Housing cont...

Urban contracts

The primary urban contracts managed by the Contract Implementation section of the Department are:

Grounds maintenance

These contracts cover grounds maintenance, litter control and cleaning services.

Arboreal Services

These contracts cover tree removal, as well as tree management services where the tree is above three metres in height.

Alarm audit

These contracts involve the audit of smoke alarms and residual current device installations.

Responsive repairs and maintenance

These contracts provide one contractor per region to undertake responsive repairs and maintenance services to properties. A walkthrough of this type of contract was undertaken as part of the audit and the results can be found in the "Urban contracts" subsection of the "Contract Implementation and Management" section of this report.

Vacates and planned works

These are panel contracts that provide repairs and maintenance works and refurbishments to vacated and occupied properties. A walkthrough of this type of contract was undertaken as part of the audit and the results can be found in the "Urban contracts" subsection of the "Contract Implementation and Management" section.

Tenancy management

The majority of tenancy management contracts in urban areas are performed by Department employees. However the Department has agreements in place in urban areas for tenancy management in Town Camps and Real Housing for Growth properties.

Department of Housing cont...

Remote contracts

The primary remote contracts managed by the Contract Implementation section of the Department are:

Panel contract

These contracts are made up of several contractors that provide responsive repairs and maintenance work and refurbishments to properties. A walkthrough of this type of contract was undertaken as part of the audit and the results can be found in the “Remote contracts” subsection of the “Contract Implementation and Management” section of this report.

Tenancy management

Contractors are engaged to provide CHOs in remote communities to undertake tenancy inspections and support services.

Special Purpose Grant

These contracts provide funding for special purpose property and tenancy programs.

Housing maintenance

Contractors are engaged to provide HMOs in remote communities to undertake non-trade responsive repairs and maintenance.

The Housing Maintenance and Tenancy Management contracts are often combined and undertaken by one contractor. A walkthrough of this type of contract was undertaken as part of the audit and the results can be found in the “Remote contracts” subsection of the “Contract Implementation and Management” section of this report.

Capital Contracts

As previously mentioned, the Department also has contracts in place to undertake capital works. The majority (approximately 70%) of these are managed by the former Department of Infrastructure (Dol). The Department of Housing explained that this arrangement aims to provide efficiencies both in the timing and cost of the works. Table 2 shows the areas where there are currently capital works in progress across the Territory and who is responsible for undertaking the capital works.

Influencing factors that would require the Department to manage a contract rather than Dol include economies of scale and existing panel contracts.

Department of Housing cont...

If a contract is allocated to DoI, it is still the responsibility of the Department to create the project and determine the appropriate certificates and standards required. DoI is then responsible for the design and procurement of the project which the Department will endorse. DoI is responsible for reporting to the Department through Performance Committee Group meetings. DoI is responsible for project and contract management and accepts handover from the contractor at the end of the project. The Department then accepts handover from DoI once satisfied the building is defect free. The following table was provided by the Department and summarises where the responsibilities lie at the various stages of the Projects.

Table 2 - Capital contracts 1 July 2014 – 31 March 2016*

		Darwin (Arafura)	Arnhem (Nhulunbuy)	Barkly (Tennant Creek)	Big Rivers (Katherine)	Central Australia (Alice Springs)
Urban	Upgrade	Vacates	Vacates	Vacates	Vacates	Vacates
	New	DoI	N/C	N/C	DoI	N/C
Remote	Upgrade	DHsg	N/C	DHsg/DoI	DHsg	DHsg
	New	DHsg	DHsg/DoI	N/C	N/C	DoI
Government Employee Housing	Upgrade	DoI	N/C	DoI	N/C	DoI
	New	DHsg/DoI	DoI	DoI	DoI	DoI

* This table has been developed based on information provided by the Department.

DHsg – Department of Housing

DoI – Department of Infrastructure

N/C – No contract in place at time of audit

Vacates – Urban upgrades are covered by vacates and planned works contracts rather than capital contracts.

Department of Housing cont...

The following table summarises the responsibilities of the Department and Dol for capital contracts that are currently in place.

Table 3 – Responsibilities of the two Departments

Task	Dol Responsibility	DHsg Responsibility
Project Creation		DHsg to create and advise Dol
Adequate Land Tenure		DHsg to obtain and advise Dol
Appropriate Certificates in place, i.e. AAPA, Consent to Construct, Sacred Site Clearance	Dol to advise contractor	DHsg to obtain and forward to Dol
Determine standards and level of amenity		DHsg to determine and advise Dol
Design and Document	Dol to design and document (often using existing design)	DHsg to oversee design to ensure compliance with standards and level of amenity
Procurement	Dol to undertake	DHsg to endorse
Compliance with NT Planning Scheme	Dol to ensure compliance	
Compliance with Building Code, NCC, Australia Standards etc.	Dol to ensure compliance	
Reporting	Dol to report to DHsg through Performance Committee Group meetings	
Program Control Group	Dol to establish, convene and take minutes	DHsg to attend
Program Management		DHsg to undertake
Project Management	Dol to undertake	
Contract Management	Dol to undertake	
Dwelling handover	Dol to take from contractor	DHsg to take from Dol once defect free

Department of Housing cont...

Contract Implementation and Management

As can be seen in table 1, the contracts in place differ depending on whether they apply to urban regions or remote regions. The contract implementation and management processes of the following four types of contracts have been explored in more detail and the results are discussed below:

- Urban contracts – responsive repairs and maintenance
- Urban contracts – vacates and planned works
- Remote contracts
- Housing maintenance and tenancy management contracts

Urban contracts

During my audit of urban contracts, meetings were held with the Department's Contract Managers to form an understanding of how the contracts were implemented and managed. A walk through was conducted on two contracts. The contract types related to:

- responsive repairs and maintenance; and
- vacates and planned works.

Each contract type has a different process for implementation and monitoring. The key performance indicators are also different for each contract type.

Responsive repairs and maintenance contract

Responsive repairs and maintenance may arise in a number of circumstances, including:

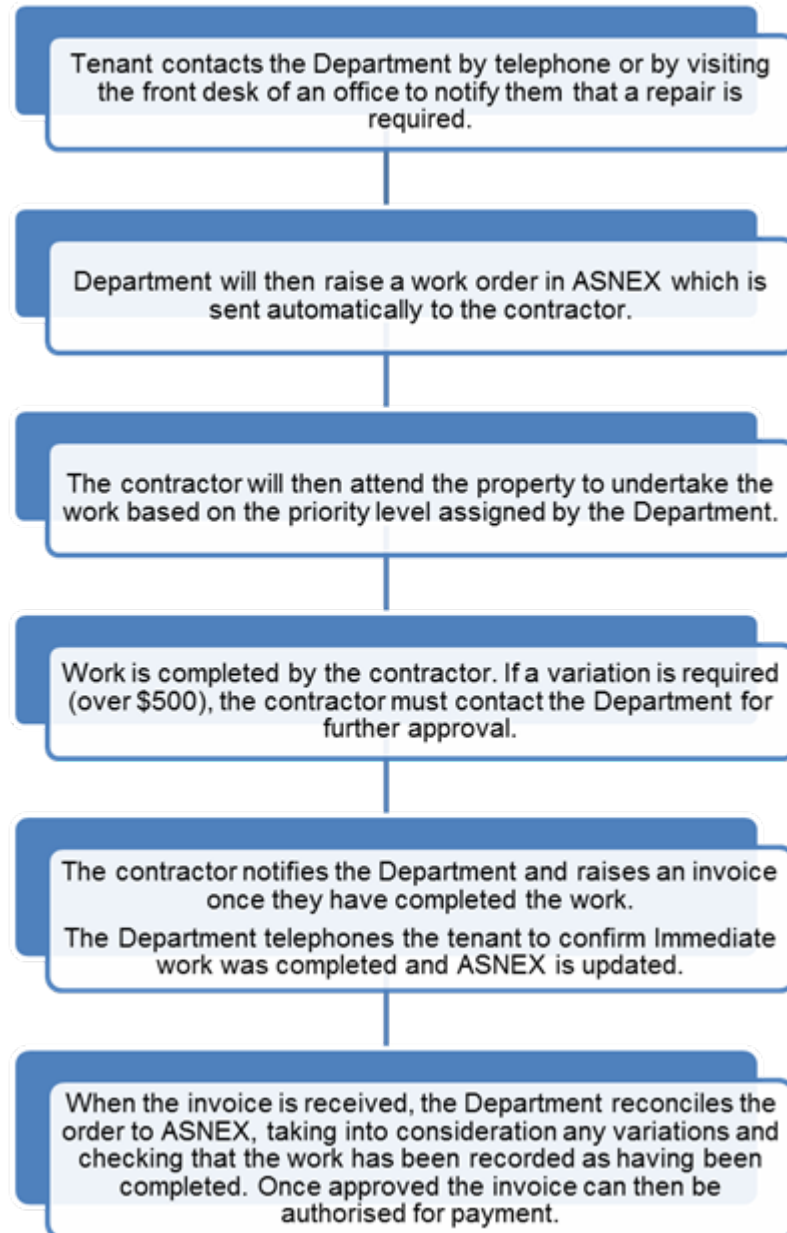
- fair wear and tear;
- damage caused by the tenant or other person; and
- damage caused due to an event such as a cyclone, fire or storm.

The process is either started by the tenant when they report the issue to the Department or, in some cases, the HMO will notify the Department as a result of an inspection.

The following diagram documents the process that has been established by the Department to be followed in accordance with this type of contract.

Department of Housing cont...

Figure 7 - Urban responsive repairs and maintenance process flowchart



Department of Housing cont...

Monitoring contractor performance for urban responsive repairs and maintenance

The Department has several ways to monitor and manage the contractor's performance. These include:

- data reports generated from ASNEX show open orders which the Department review and follow up with the contractor. (refer to "ASNEX Reporting" section);
- the inclusion by the Department of Key Performance Indicators (KPIs) in the contractor's contract. These KPIs are used for measuring the performance of contractors. (refer to table 3 below);
- telephoning the tenant to check that the work has been completed to a satisfactory standard. Results are recorded in ASNEX as satisfactory, incomplete or unsatisfactory in the audit function screen;
- the requirement to undertake on-site audits at three different sites each quarter;
- requiring the contractor to attend a monthly meeting with the Department to discuss matters related to the contract which include quality of works and timeliness, staffing levels, work health and safety issues and outstanding orders and payments; and
- requiring Contract Performance Reports to be generated by the Department at the end of the contract or every 12 months, whichever happens first.

The KPIs are based on the timeliness and quality of the work. Timeliness is assessed each month by determining how many jobs were completed in accordance with the priority level assigned.

Table 4 - Responsive repairs and maintenance KPI¹¹

Assessable Criteria – Responsive Repairs and Maintenance	Benchmark
Immediate - Attend to and render safe within four (4) hours of notification.	100%
Urgent - Attend and satisfactorily conclude within two (2) working days of notification	100%
Routine - Attend and satisfactorily conclude within ten (10) working days of notification	85%
Extension of Time – Attend and satisfactorily conclude within agreed extension timeframe.	85%

¹¹ Contract Number 1 – Operating Manual (page 29)

Department of Housing cont...

Audit findings from the Urban Responsive Repairs and Maintenance contract walkthrough

The following findings resulted from the review of the contract:

- While the Contract Manager was away for three months, no monthly meetings were held with the contractor.
- A Contractor Performance Report could not be provided when requested.
- The Department is currently not complying with the operating manual in that contractor performance is only measured after 12 months. The operating manual states that *“Territory Housing will measure the performance of the contractor monthly and then will determine the overall performance of the contractor at the end of each six month period.”*

The identified breaches of the Department’s contract monitoring process increase the risk that the contractor’s performance has not been adequately assessed and may result in the contractor not fulfilling their responsibilities under the contract agreement.

Vacates and planned works

Planned works involve the upgrades of properties at a time when the property is occupied. As a result the tenant is required to temporarily vacate the property for the work to be undertaken. According to the Department, transitional housing is offered and every attempt is made to suitably house the tenant although in most instances the tenants choose to stay with family or friends in the community. There is no additional cost to the tenant for staying in transitional housing provided by the Department. My Authorised Auditors were informed that, on the rare occasion that no suitable alternative housing can be found, the works will be put on hold.

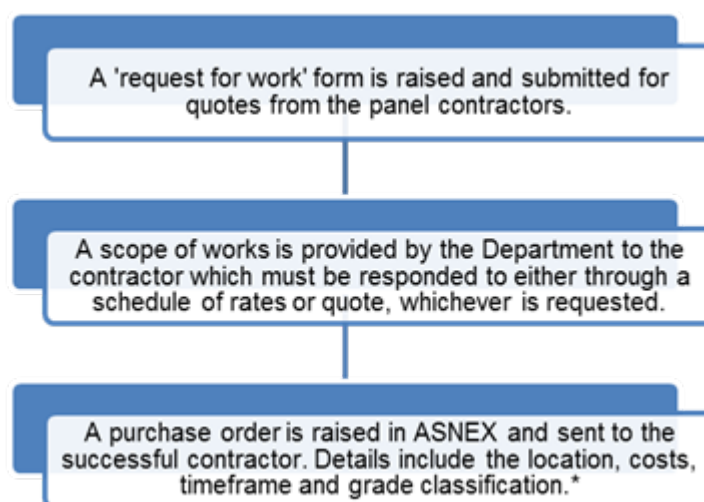
Vacates work involves repairs and upgrades to properties that are required after a tenancy has ceased in order to bring the property back to a standard able to be re-let. The work required is identified by the Tenancy Officer who performs an outgoing inspection of the property.

Panel contractors are used for vacates and planned works, and when work becomes available, the Department either allocates works on a rotation basis or requests contractors submit a quote for the work which enables the Department to ensure that best value for money is obtained.

Department of Housing cont...

The process in place at the Department for vacates and planned works contracts is detailed in the following diagram.

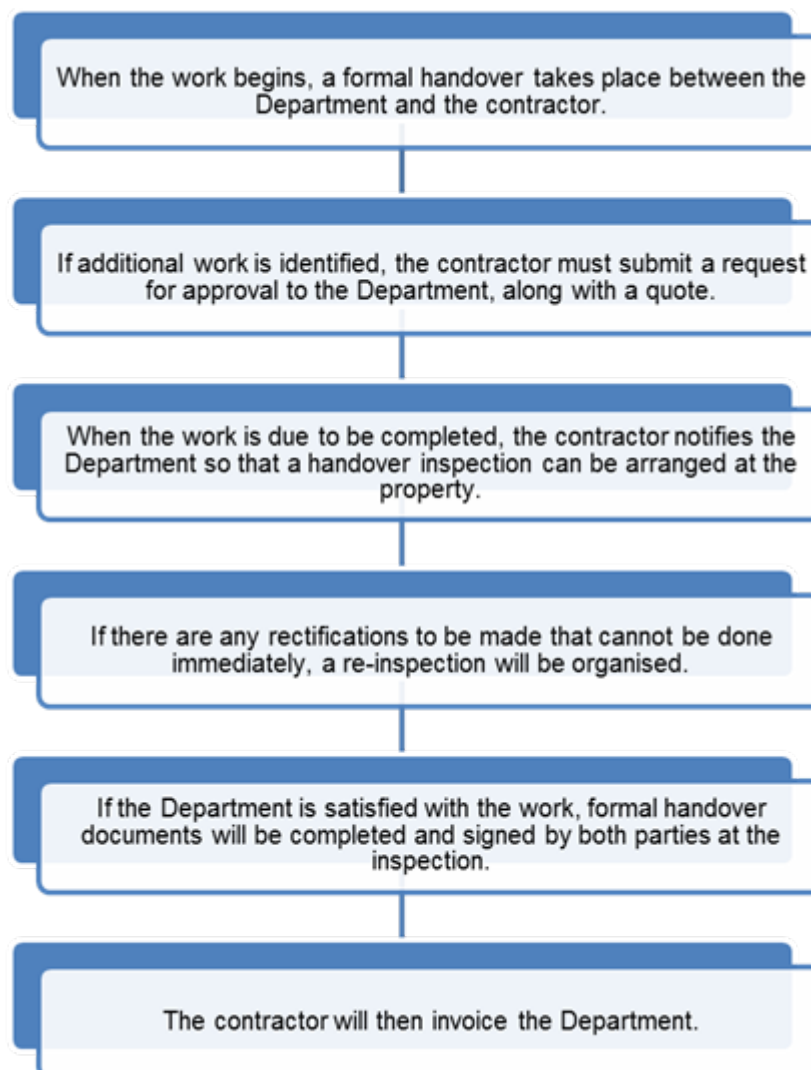
Figure 8 – Vacates and planned works flowchart



*Grade classifications are broken down as follows:

Classification	Response Time
Grade 1	Works to be completed within five working days
Grade 2	Works to be completed within 15 working days
Grade 3	Works to be completed within 25 working days
Grade 4	Works to be completed within the timeframe determined by Territory Housing (such timeframe to be not less than 25 working days). This classification will be applied where the property requires extensive upgrade works and/or where consents or approvals may be required from an authority.

Department of Housing cont...



Monitoring contractor performance for urban vacate and planned works

The Department has several ways to monitor and manage a contractor's performance, these include:

- the generation of data reports from ASNEX to show open orders which the Department reviews and follows up with the contractor (refer to the "ASNEX Reporting" section);
- inclusion by the Department of KPIs in each contractors' contract to be used for measuring the performance of contractors, refer to figure 8 above;
- the requirement to hold monthly meetings with each contractor to discuss any issues which may be raised by either party;

Department of Housing cont...

- requiring the contractor to provide a monthly report to the Department in accordance with the operational manual;
- the requirement to receive from the contractor a handover onsite that includes reports and photographs; and
- the completion of Contractor Performance Reports every 12 months.

Audit findings from the Urban Vacate and Planned Works contract walkthrough

The following findings resulted from the review of the contract:

- The Department is currently not complying with the operating manual in that contractor performance is only assessed after 12 months. The operating manual states that *“Territory Housing will measure the performance of the contractor monthly and then will determine the overall performance of the contractor at the end of each six month period.”*
- The KPI grades included within the contract are not used in practice as they are not considered realistic. Instead, when the contractors quote for the work, they propose start and finish dates for the works, and these are the timeframes used by the Department to monitor the contractor’s performance. The Department has no formal procedure to monitor this.
- There is no monthly reporting prepared for this contract which is a breach of the contract.
- The Contract Manager explained that they would like to see standard documents distributed across the regions for this type of reporting, as currently there is limited consistency in regional reporting.

The above breaches of the Department’s contract monitoring process increase the risk that the contractor’s performance has not been adequately measured and may result in the contractor not fulfilling their responsibilities under the contract agreement.

Remote contracts

During the audit of remote contracts, meetings were held with the Department’s Contract Managers to form an understanding of how the contracts were implemented and managed. A walk through was conducted on two contracts. The contract types included:

- a housing maintenance and tenancy management contract; and
- a remote trade panel contract.

Each contract type has a different process for implementation and monitoring. The key performance indicators are also different in each contract type.

Department of Housing cont...

Housing maintenance and tenancy management contract walkthrough

The process for conducting remote repairs is different to the process for conducting urban repairs. In remote regions HMOs are based in the communities. HMOs are the first point of contact for tenants to report that a repair or maintenance is required. The HMO can undertake the work without instruction from the Department where the work required is non-trade related and the cost of materials is less than \$100.

The Department explained that the HMOs attend to maintenance requests straight away as they are already present in the community. If they cannot undertake the work because it requires a qualified tradesman, the Department will allocate the work to one of the panel contractors (see below for remote trade panel contract) and the contractor will be given a timeframe to complete the work.

On occasions, the HMOs are not able to complete a maintenance request straight away which is usually because they can't get access to the property or they require materials. The outstanding requests are reported monthly to the Department and include details about the property and the reason why the maintenance request is outstanding.

Monitoring contractor performance for remote housing maintenance and tenancy management

The Department has several ways to monitor and manage the contractor's performance. These include:

- a requirement for a Department representative to visit the communities on a monthly basis to attend the Housing Reference Group meetings or to inspect work undertaken by the panel contractors. They will also meet with the HMO to receive feedback;
- the Department receiving monthly reports from the contractors that include a self-assessment of the contractor's performance against the KPIs; and
- holding monthly meetings to discuss the reports and to address any issues raised by either party .

The KPIs that the contractors are required to meet and report upon are:

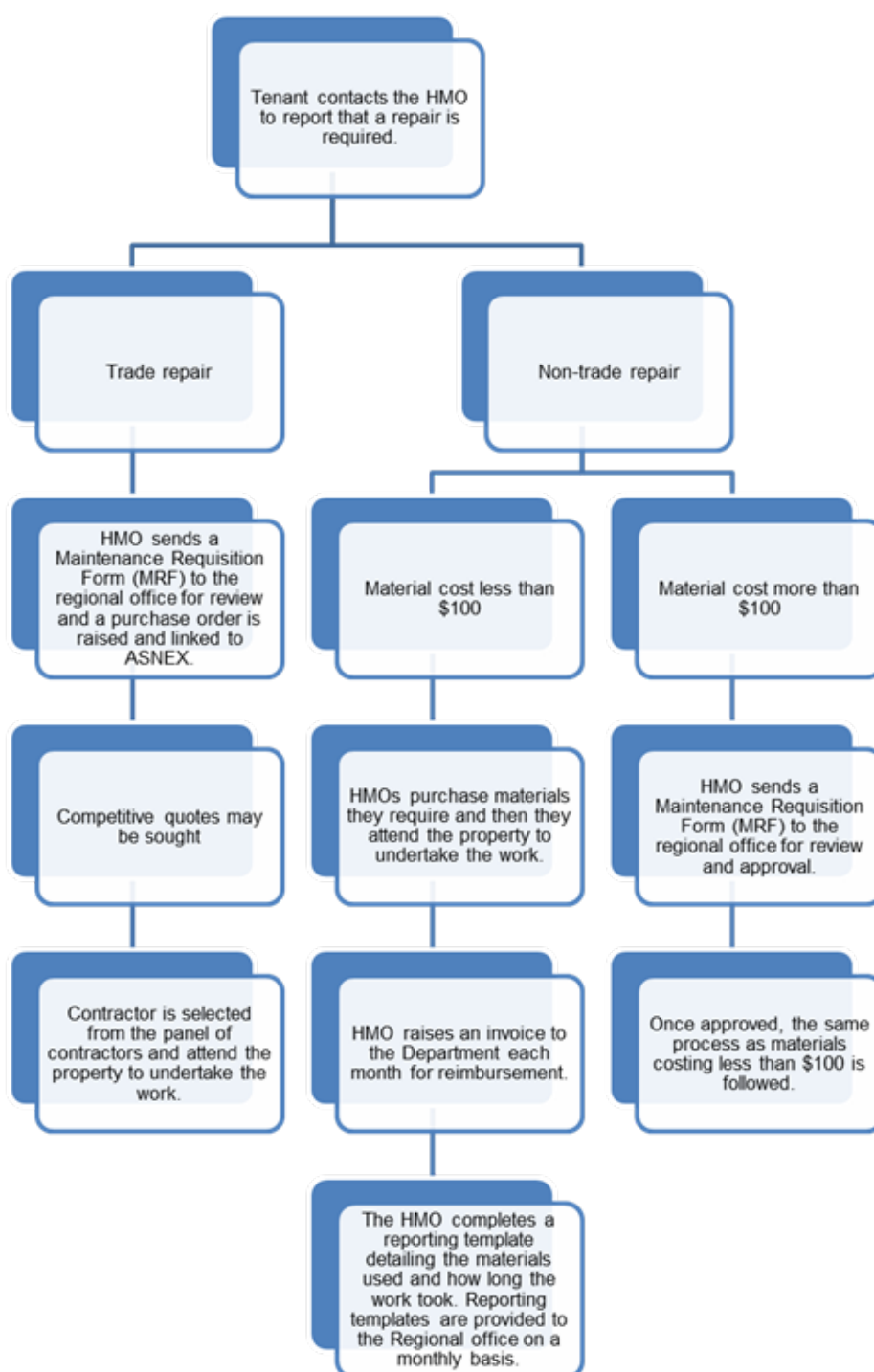
- two full time equivalent HMOs with at least 40% indigenous representation; and
- two full time equivalent CHOs with at least 50% indigenous.

Contractors are required to achieve an assessment of 90%. My Authorised Auditors were informed that breaches are discussed at the meetings and the contractors may be asked to correct any non-performance. My Authorised Auditors were informed that the Department generally only acts upon what the staff of the Department consider to be serious breaches. There is no guidance on what constitutes a serious breach.

Department of Housing cont...

The following diagram shows the process followed for remote repairs.

Figure 9 - Remote housing maintenance and tenancy management process flowchart



Department of Housing cont...

Remote trade panel contracts

These contracts are in place for when a HMO cannot complete the work as part of the housing maintenance contracts described above. The majority of the work completed is responsive repairs and maintenance, although HMOs also undertake some refurbishments.

There can be many contractors on a panel selected by the Department based on the needs of the community. For example, where the remote region includes islands, multi-trade contractors would be selected to minimise the number of contractors required to travel.

When the Department is notified of work required, work is allocated depending on a number of factors such as the contractor's capacity, the location of the work, and the amount of work allowed based on the contract with the contractor.

Once a contractor has been selected, the process followed is similar to the process for responsive repairs and maintenance in urban regions (figure 9):

- repairs are recorded and orders are raised in ASNEX;
- timeframes are provided for immediate, urgent and routine repairs (table 4);
- the Department follow up with a phone call to the contractor to check the work has been completed;
- variations to orders over \$100 have to be approved by the Department; and
- once work is complete, the contractor raises an invoice.

Monitoring contractor performance for remote trade panel contracts

The Department has several ways to monitor and manage the contractor's performance. These include:

- the generation of data reports from ASNEX to show open orders which the Department reviews and follows up on with the contractor (refer to the "ASNEX Reporting" section);
- confirmation sought by the Department from the contractors that works are completed;
- performance of routine inspections on the properties; and
- the Department sending weekly reports of 'outstanding orders' to the contractors and requiring them to respond by explaining the reasons for outstanding orders or raising invoices to clear the orders.

A walkthrough of a remote trade panel contract noted that repairs are given a timeframe for completion as recorded in the description box within ASNEX, but the system (ASNEX) will raise the due date to be the day of the order, regardless of the timeframe required.

Department of Housing cont...

The system does not have the ability to record that an immediate repair is due in four hours, or a routine repair is due in ten days. As a result it is difficult to accurately monitor whether contractors are meeting the KPIs.

The Department explained that work is not always inspected as, in most cases, this would require chartering a flight or driving for extensive periods of time which is not practical. Instead completion of works is checked as part of the routine inspection and through the provision of photographic evidence from the contractor. The inspection documents for the walkthrough of one contract could not be provided when requested.

Monthly meetings and reports were not required as part of the contract reviewed. Meetings are held with some contractors usually in response to assumed risks relating to contract delivery and availability of the contractor.

The inspection documents for a work order issued as a result of this contract could not be obtained by my Authorised Auditors, as such there was no evidence that an inspection of the works was undertaken.

ASNEX Reporting

Reports generated from ASNEX showing outstanding orders allow management to monitor performance. At 31 March 2016, the Department had 6,303 open orders across Northern and Central Australia with 1,324 of these greater than 90 days. I have been informed by staff of the Department that *“The outstanding work orders over 180 days are a result of contractors failing to submit invoices for completed works, work orders not being followed through by the contractor and the regional office not following up on outstanding work orders”*. This audit did not review individual outstanding orders.

Department of Housing cont...

Table 5 – Department of Housing open orders November 2014 to 31 March 2016¹²

Northern Australia – Urban and Remote

North	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	121 - 180 days	180+ days	Total
Region	No of Orders	No of Orders	No of Orders	No of Orders	No of Orders	No of Orders	No of Orders
Casuarina	307	59	8	6	0	0	380
Darwin	328	50	4	0	0	0	382
Arnhem	484	130	6	21	29	49	719
Arafura	474	271	74	34	41	11	905
Palmerston	398	87	11	0	0	0	496
Grand Total	1,991	597	103	61	70	60	2,882

Central Australia – Urban and Remote

Big Rivers	372	47	5	6	11	3	444
Central Aus.	1,087	450	51	169	193	747	2,697
Barkly	203	71	2	2	2	0	280
Grand Total	1,662	568	58	177	206	750	3,421
Total	3,653	1,165	161	238	276	810	6,303

Contracts conclusion

Based on the work undertaken, it is not evident that the Department has an effective well-structured framework for implementing and managing urban and remote contracts.

The process for undertaking repairs varies greatly depending on whether the property is in an urban or remote location. As a result, there is an increased risk that the Department is not using the most efficient and effective process when implementing and managing contracts.

While I have been made aware of the many ways in which the Department monitors the contracts and the contractors' performance, the findings resulting from my review of both urban and remote contracts have indicated that many procedures are not being followed.

¹² ASNEX Report

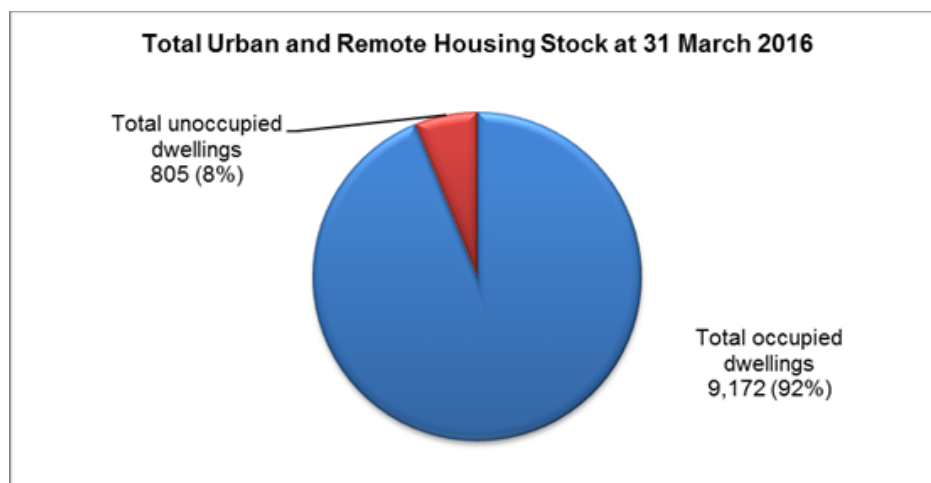
Department of Housing cont...

Turnaround Time for Unoccupied Property

Background

From time to time dwellings become unoccupied. At 31 March 2016, 805 dwellings were unoccupied, which represents 8% of the total urban and remote housing stock (other housing classes not included), as shown below.

Figure 10 – Urban and remote housing occupancy levels as at 31 March 2016¹³



Although the overall unoccupied housing stock is 8% of the total, only 305 properties (6%) of urban stock are unoccupied but 500 properties (10%) of remote stock are unoccupied. In order to determine why the properties are unoccupied, the Department breaks down the number of unoccupied dwellings for monitoring and reporting purposes into the following categories: vacant; upgrade and maintenance; pending; and available.

Vacant

This status commences when the dwelling is vacated by the tenant. During this stage, inspections and vacate maintenance assessments are undertaken. This status ceases when the dwelling moves to the next stage of either pending, maintenance, upgrade or available for allocation.

Upgrade and Maintenance

This status commences when keys to a dwelling are handed over to contractors to upgrade/maintain the dwelling, and ceases when the keys are handed back on completion of the upgrade works to the Service Delivery section of the Department.

¹³ Data extracted from TMS as at 31 March 2016.

Department of Housing cont...

Pending (operational and non-operational)

Dwellings are assessed as pending when they are awaiting a decision on the future use of the property. These are generally not likely to return to available stock.

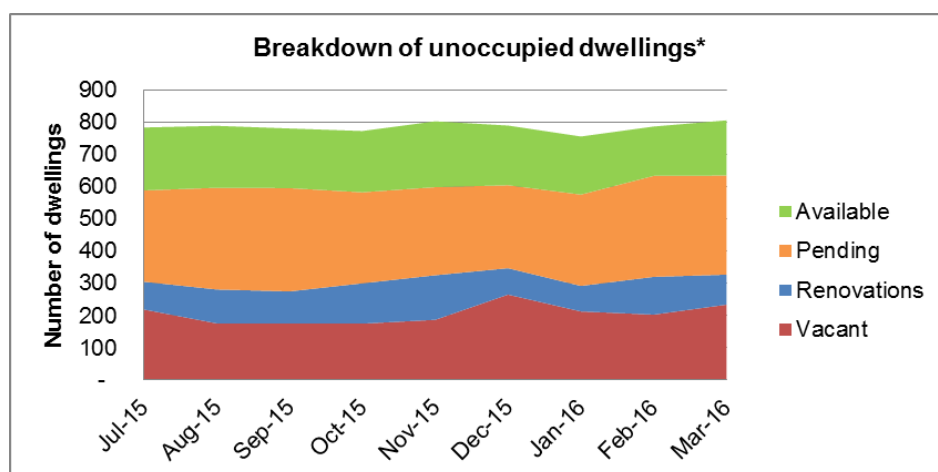
Available

This status commences when keys to a dwelling are handed back to Service Delivery following maintenance/upgrade, and ceases when the dwelling is tenanted.

Unoccupied Dwellings

For the nine month period from July 2015 to March 2016, the breakdown of total unoccupied dwellings is shown below.

Figure 11 - Urban and remote unoccupied dwellings¹⁴



Source: Department of Housing

* Data from July 2014 to June 2015 was only available for urban dwellings and has therefore been excluded.

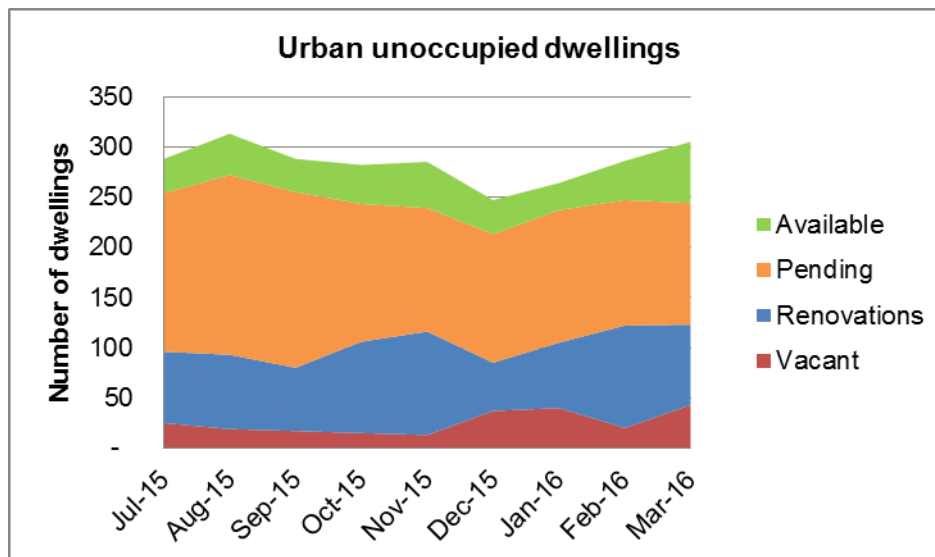
The longer properties remain untenanted, the greater the social impact on the applicants on the waiting list, and the greater the loss of revenue to the Department. As identified by figure 11, a significant proportion of properties unoccupied are those classified as 'pending'.

When the unoccupied dwellings are broken down further into remote and urban, there are significant differences with the composition of the four stages as demonstrated below:

¹⁴ Data extracted from TMS as at 31 March 2016.

Department of Housing cont...

Figure 12 - Urban unoccupied dwellings¹⁵

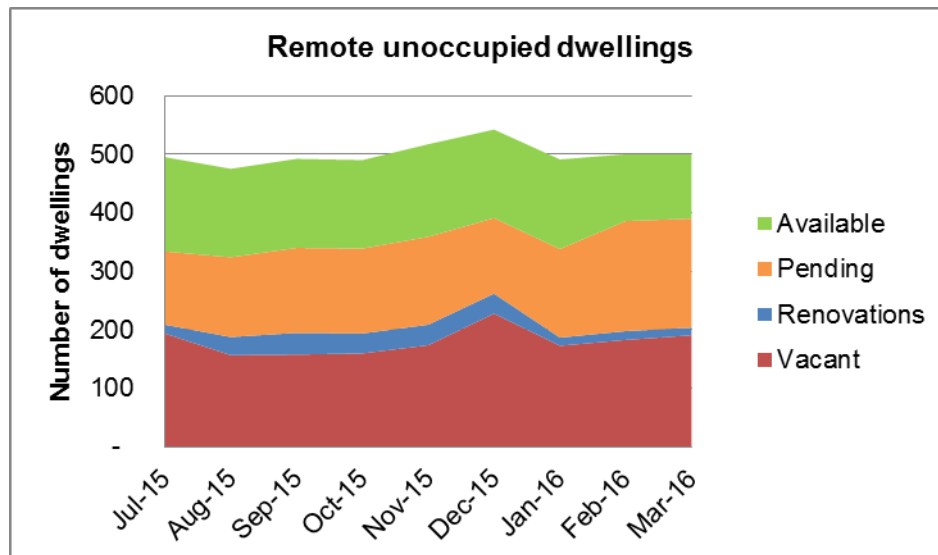


Source: Department of Housing

The Department of Housing consults with reference groups called Housing Reference Groups (HRGs) in remote communities, town camps and community living areas to ensure community and cultural issues are taken into account when making decisions regarding housing in these areas. This can extend the timeframe for a decision regarding allocation of remote housing, as a quorum of community representatives is required and 'sorry business' and other matters cause frequent delays in rescheduling HRGs.

¹⁵ Data extracted from TMS as at 31 March 2016.

Figure 13 - Remote unoccupied dwellings¹⁶



Source: Department of Housing

Turnaround Time

Turnaround time is the time taken, measured in the number of days, from the vacation of a property to reoccupation. Turnaround time is calculated using the number of vacant properties, upgrades and maintenance and available properties. The Department currently excludes the pending properties from the turnaround calculation on the basis that dwellings categorised as 'pending' are generally not likely to return to stock and are not reflective of normal vacate turnaround business processes. Management have stated that this methodology is widely applied across housing jurisdictions and is consistent with national reporting requirements.

The calculation used by the Department is as follows:

Average turnaround (days) = **A/B** where;

A = sum of days in 'vacant' status, 'maintenance' status and 'available' status;

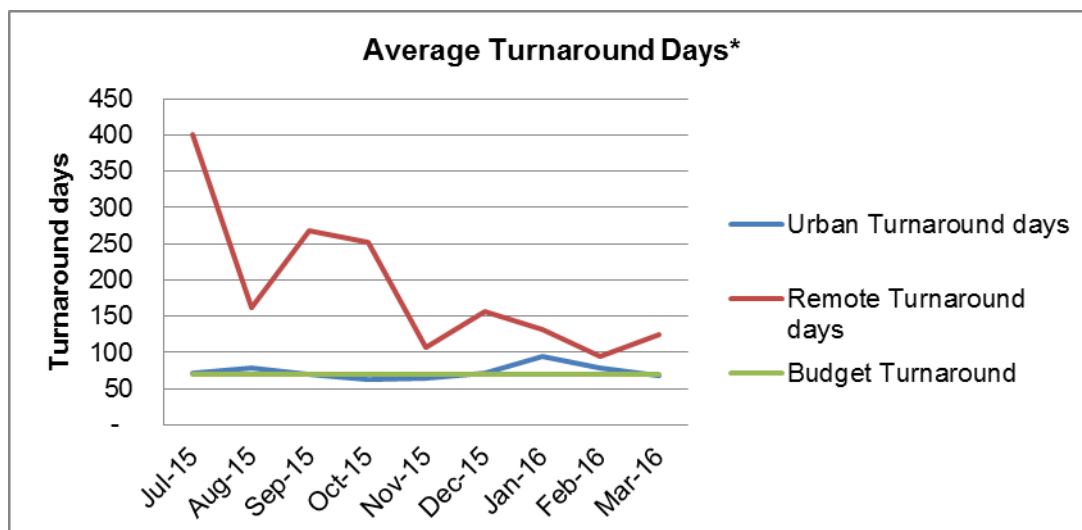
B = total number of dwellings in 'vacant' status, 'maintenance' status and 'available' status.

The budgeted turnaround time for both urban and remote properties is 70 days. The following graph shows how the actual results vary compared to budget:

¹⁶ Data extracted from TMS as at 31 March 2016.

Department of Housing cont...

Figure 14 - Urban and Remote average turnaround days¹⁷



Source: Department of Housing

* The data for remote turnaround is not available from July 2014 to June 2015 and therefore all data during this period has been excluded.

Urban turnaround

As can be seen in figure 14, the actual urban turnaround days have not varied significantly from the budgeted turnaround days over the nine month period. Although this is reasonable when assessing performance against the budget, this analysis does not take into account whether the budget turnaround is reasonable in comparison to the general market. The Department has identified challenges which affect the turnaround time and these help to explain why the turnaround days may be higher than the private property market.

Non-emergency property damage

Tenant responsibility damage such as writing on the walls is considered to be non-emergency and is not required to be repaired or cleaned as part of the Responsive Repairs and Maintenance contracts. Tenants are given 28 days to repair the damage and failing that, the Department may choose to repair the damage and invoice the tenant or leave it until the property becomes vacant. Therefore damage such as this may remain until the tenant vacates and then has to be addressed before the property can be re-let. This work will be added to the vacate work required which can take up to six weeks to complete.

¹⁷ Data extracted from TMS as at 31 March 2016.

Department of Housing cont...

Vacating without notice

In some instances the Department is not informed that a tenant is vacating a property and these properties are often left with extensive damage and contain abandoned goods. This leaves little time to prepare for any major works. With regard to abandoned goods, there are legislative requirements that must be adhered to which can add time to the process.

Tenant suitability

Once the properties have reached the 'available' stage, the Department still faces challenges when allocating a new tenant to the property. This is due to the demographic of public housing applicants. Many are not financially positioned to enter into lease agreements at any given time. Pre-tenancy interviews occur at a six week point prior to an offer of accommodation to allow time for the applicant to secure the necessary bond and rent requirements. Tenants also have the option of selecting a preferred suburb which contributes to delays. Some prospective tenants will not accept specific housing complexes due to ongoing anti-social behaviour issues or because the available properties have minimal essential services nearby.

Remote turnaround

In July 2015, the remote turnaround days were high. These have reduced significantly over the nine month period to 31 March 2016. Although this is a positive trend, the turnaround time at 31 March 2016 was 125 days which is still higher than the budgeted turnaround time.

Remote turnaround faces similar challenges to those mentioned above but due to the nature of remote accommodation, there are additional challenges faced which contribute to the large turnaround days:

Cultural sensitivities

The Department may have problems accessing the dwelling during the occupancy. Overcrowding issues in remote community housing may mean that when a property does become vacant, the repair work required can be extensive.

Environmental issues

The wet season in the Northern Territory can make it difficult for the Department to gain access to remote dwellings to undertake repairs.

Logistical challenges

Even when a property becomes vacant and repairs can be undertaken, there are practical issues to consider such as getting the materials to remote sites. The transport of building materials can be restricted due to size or weight limits on barges and freight aircraft.

Department of Housing cont...

The Department of Housing has commented:

The Department of Housing and Community Development acknowledges the findings of the Contract Management of Housing Stock Audit of the Department of Housing.

Prior to the audit the Department had been working to support improved record management of the Fixed Asset Register, one of the three key asset information systems referenced. The Department completed this work when it commenced using the Government Asset System Fixed Register to record its assets on the 7 July 2016.

The Department has recently implemented real time reporting to support already existing daily and monthly reports for staff and management.

The Department has also established a Data Management Working Group which is responsible for identifying data quality issues and working with the relevant business units to resolve them.

The Department will continue to improve the remaining performance controls identified in the audit to enhance service delivery.

Department of the Attorney-General and Justice

Integrated Justice Information System Review

Background

The objective of this review was to follow up on the status of information technology risk findings identified during a 2010 review of the Integrated Justice Information System (IJIS) and to understand how information security risks are being addressed as part of the VERITAS Program.

The scope of this audit included key items:

- determining the status of findings previously raised in the “Review of IT controls over IJIS” performed in 2010; and
- obtaining an understanding of the VERITAS Program and determining how information security risks are being addressed within program and project planning.

The scope of this assignment did not include an audit of risk or governance directly relating to the VERITAS Program. The review findings are based on a review of documentation and discussions with relevant Agency personnel.

Conclusion

The work performed during this audit identified that a number of matters raised in 2010 have not yet been fully addressed. Limited governance arrangements exist over information security and further consideration of information security risks is required within the VERITAS Program to ensure that the solutions are implemented in a secure manner. The review of the status of previously raised findings and the VERITAS program to modernise IJIS have identified a significant amount of work to be performed in relation to:

- Governance
- Functionality
- Access
- Security
- Configuration
- Classification.

Department of the Attorney-General and Justice cont...

VERITAS Program

The Northern Territory Integrated Justice Continuum consists of multiple government departments, councils and local agencies collaborating with each other both at a business and information technology (IT) level, to achieve the Integrated Justice business vision within the Northern Territory.

IJIS is the primary business tool for supporting, managing and reporting on the justice business processes associated with Police apprehension, prosecution, courts, correctional services and fines recovery. IJIS was implemented in 1992 as a mainframe application and is considered a significant strategic asset to the NT Government.

In 2015, the IJIS Modernisation project was reviewed, realigned and refreshed. A revised business case was endorsed for the VERITAS Program, with the purpose of modernising IJIS to support:

- the evolving nature of the Integrated Justice Continuum;
- provision of new business functionality to support an ever changing policy and regulatory framework;
- utilisation of emerging technologies (e.g. distributed architecture, commoditised hardware, cloud); and
- improvement of data quality and information management.

The VERITAS Program has been assigned fixed recurring funding of \$2.7 million per annum for six years to achieve the new business operating model within the Department of Attorney General and Justice and solution architecture (both defined in 2015). This will include projects to implement a range of applications that will replace IJIS functionality and changes to business practices. Key application components will include a case management system; master data management solution, fines recovery management system and prosecution services solution, all of which will be integrated using a whole of government enterprise service bus. Although the approach being adopted is to minimise customisation of applications, Agency representatives have advised that significant configuration will be required to fully implement the solutions within the complex across-agency justice environment.

The VERITAS Program at the time of the audit was undertaking a data governance and architecture project, in contract negotiations with a Master Data Management solution provider, and in procurement for an Integrated Case Management System.

Department of the Attorney-General and Justice cont...

The Agency undertook work in 2014 to understand the information security risks associated with IJIS, classify information within IJIS for information security purposes and to identify broad information security themes to be considered as part of the VERITAS Program. There has been minimal work undertaken since 2014 to define how information security requirements will be addressed for the new solution architecture. Further consideration, planning and resources are required to ensure that the security risks associated with the VERITAS program are effectively managed. This is particularly important given the change in technology platforms, potential integration of online functionality, changing approach to data exchange between systems and agencies and the variety of vendors and implementation partners that will be involved.

Key Findings

The most significant point raised during the 2010 audit that remains outstanding relates to the establishment of information security governance together with a supporting management system within the Agency. This is important to ensure that security risks across the Agency are effectively managed consistent with business needs and the level of sensitivity associated with information that the Agency has responsibility for.

The Agency has commenced a project to define and implement an information security management framework and governance structure.

Due to the sensitive nature of information and services the Agency manages, it is important that an effective management system over information security be implemented to ensure that information security related risks are managed effectively across technology, processes and people. A number of key areas of concern were identified in 2010 in relation to the existing approach to information security governance and remain largely unaddressed in 2016. These are listed below:

- Information security policies and procedures have not been defined within the Agency, although it is noted that analysis has been performed multiple times to identify areas of policy that are required.
- The initiative to identify and record information assets in use across the Agency is in progress and not yet completed.
- Data classification is currently being performed at a high level for information assets used by the Agency however in its current form, does not provide sufficient detail on the nature of information to guide the design of controls such as security information and event management, user access model or encryption.
- An information security training and awareness program has not yet been defined. Limited information security training is provided during induction.

Department of the Attorney-General and Justice cont...

- A compliance or assurance program has not been established in relation to information security to ensure that non-compliance with key policy requirements is addressed and to enable continuous improvement of the information security control environment.
- A dedicated information security resource has not been appointed to provide ongoing leadership and management of information security. Dedicated resourcing will be required in order to lead information security initiatives and to provide information.

Without appropriate Agency governance and management of information security, there is a risk that information security controls are not effectively designed and implemented across technology, processes and staff within the Agency. This could result in increased instances of data loss, compromised data quality and disruption of services.

Limited further work has been undertaken since the VERITAS solution architecture was developed or during the development of the VERITAS business case to define the how information security risks will be delivered as part of the proposed solution and the VERITAS Program. Information security activities, deliverables and resourcing are yet to be defined at the project level.

Without adequate planning for security requirements, architecture standards definition and resourcing within the VERITAS Program, there is an increased risk that solutions will be procured and implemented which do not adequately and consistently address security risks relevant to the Agency. If security requirements are not defined within procurement processes, there is a risk that unnecessary costs will be incurred if security requirements are communicated to vendors after contracts are signed in order to accommodate changes.

Change control policies and procedures require development and implementation

As noted in 2010, change control processes within the Agency are applied to changes in information systems based on informal processes. This includes use of a change ticketing system, change definition, change prioritisation and change verification activities.

There are no formally defined policies, procedures or work practices which direct and guide how changes should be governed and controlled. If change control policies, procedures and work practices are not defined there is a risk that changes may be made which do not meet business requirements or create a negative impact on the organisation.

No defined strategy exists for information security logging and event monitoring

As noted in 2010, a strategy has not been defined regarding security event monitoring associated with the IJIS environment. Logging is enabled within the IJIS application to track user activity, however the requirements for what should be monitored and how are not defined.

Department of the Attorney-General and Justice cont...

Patching of applications is not consistently performed or monitored

Patching of operating systems and applications is widely regarded as a key control in preventing a security attack within the organisation.

Operating system patching for servers and desktop devices operating systems is performed by an outsourced service provider under the whole of government IT outsourcing arrangements. It was noted that the Agency receives no reporting associated with the performance and level of exceptions that may exist in relation to operating system patching.

If security patching and vulnerability is not performed and monitored effectively across both operating systems and applications, there is an increased risk of security breaches within the Agency.

No disaster recovery plan exists for IJIS and disaster recovery procedures have not been tested.

Data Centre Services is responsible for performing backups and recovery of the IJIS environment. Full recovery testing is not performed from backup tapes to verify the effectiveness of backups or to validate information technology disaster recovery capabilities.

Inadequate testing of backups and IT disaster recovery planning may result in the IJIS system or data being unrecoverable or unavailable for an extended period of time in the event of a significant system interruption.

There is no periodic review process undertaken to confirm that user access is appropriate

Processes have been implemented to provision and de-provision user access, which are integrated with an across-government access solution. This is supplemented by ad hoc reviews being undertaken by the Agency to identify and remove stale user accounts which are no longer used.

There is no periodic review process undertaken to confirm that user access to sensitive functions and data objects within IJIS remains appropriate. This type of process is important to identify and remove excessive access which may have been provided to a user or sensitive access remaining with a user when they change positions. Without periodic reviews to validate access assigned to sensitive permissions within the IJIS system, there is a risk that users may have unnecessary or excessive access that could lead to unauthorised use of the system or a security breach.

Department of the Attorney-General and Justice cont...

I also understand that the approach to identity and access management has not yet been considered for the new VERITAS environment. The Department of Corporate and Information Services is the progress of procuring an identity and access management solution to support the across government systems. The VERITAS Program will need to work with the identified identity and access management solution as part of the access model development to support the Mobile Device Management implementation.

Department of the Attorney-General and Justice cont...

The Department of the Attorney-General and Justice has commented:

VERITAS Program

The VERITAS Program is 6-year program of work required to complete the modernisation of IJIS within the existing budget allocation of \$2.7 million per annum. Since the 2010 Audit there has been a major change in the governance arrangements overseeing the implementation of the Project. These changes recognise the whole of government significance of this body of work and the need to ensure plans and progress are monitored and the required outcomes are achieved.

Program VERITAS is being managed in accordance with NT Government policy to ensure good governance and financial outcomes and the delivery of a well designed solution that incorporates adequate controls including in relation to information security management. Oversight of the program is by a sub committee of the NT Government's ICT Governance Board, the Integrated Justice Committee (IJC). The IJC consists of the Chief Executive Officers of the Department of Corporate and Information Services and the Department of the Attorney-General and Justice, together with the Commissioners of Police and Correctional Services. The IJC has endorsed the design of the future integrated justice information system. The VERITAS Program undergoes regular stage-gate review and is on track.

Procurement of relevant technology is progressing. Procurement of the Master Data Management (MDM) technology was completed at the end of June 2016. Stage 1 of the MDM implementation commenced in July 2016 and is due to complete in January 2017. The experience gained from this stage includes the ability to deliver quickly to specific requirements, the ability to provide more granular security, and will inform later stages of the program.

A series of workshops are to occur between the 21st and 25th November 2016 to agree on information security and sharing protocols between the justice continuum agencies. This will supplement the Security Governance work undertaken in 2014 and will be implemented in the new solution architecture as Program VERITAS projects are undertaken.

The above comments and those below, build on advice provided by the Department at the time of the Auditor-General's review, and responses provided to findings at that time.

Department of the Attorney-General and Justice cont...

The Department of the Attorney-General and Justice has commented (cont...):

Information Security Management Framework and Governance Structure

The data governance and architecture project in process at the time of the Auditor-General's Review has been finalised and the associated recommendations will be provided to the IJC for its review and endorsement. A consultancy for development of an Information Security Management Framework was completed at the end of June 2016. The implementation of an Information Security Management System (ISMS) will be undertaken by the Department's Governance and Risk Branch. The ISMS addresses the key areas of information security policies and procedures, information security and awareness and compliance programs. Where all-of-Government information management and security policies exist the Department ensures these are complied with.

The information assets register is complete and will be updated to accommodate recent Machinery of Government changes. Data classification for information assets shared by the justice continuum have been addressed in the Data Governance and Architecture project and will be validated at November 2016 stakeholder agency workshops. These data classifications are to be implemented in the new solution architecture and associated applications.

Recent procurement for the MDM and Integrated Case Management System sought tenderers to respond to information security requirements. Acceptance tests and planned pre-production stage gate reviews will confirm compliance with mandatory security requirements.

Change control policies and procedures require development and implementation

For centrally managed services such as IJIS mainframe application support provided by Data Centre Services (DCS) desktop and Local Area Networked services, the Department observes the change control policies and procedures enforced by the respective service providers. These policies and procedures have been developed for all of government use by DCIS ICT Policy and Governance and have been endorsed by the ICT Governance Board.

The IJIS Business Advisory Group which is made up of representatives from IJIS stakeholder agencies remains in operation and provides advice, review and prioritise changes to IJIS.

As the new Solution Architecture for the Justice Continuum is implemented the role of the IJIS Business Advisory Group will be replicated in the new environments.

Department of the Attorney-General and Justice cont...

The Department of the Attorney-General and Justice has commented (cont...):

No defined strategy exists for information security logging and event monitoring

The Department complies with the all-of-government audit and logging policy developed by DCIS ICT Policy and Governance and endorsed by the ICT Governance Board. The Department works within the parameters set by the mainframe service provider for the retention of audit logs.

Patching of applications is not consistently performed or monitored

Patching of applications does occur consistently.

ICT services relating to patching of applications is provided by the NTG's outsourced service provider. These services are managed by DCIS. The Department's applications and shared servers are patched on a regular monthly schedule. Emergency patching is performed manually on a case by case basis.

The Department's mainframe applications environment is managed by DCS. Updates to the mainframe environment are undertaken by DCS based on a regular schedule.

Service provider reporting on this activity is performed at an all of government level to the DCIS ICT Infrastructure, Architecture and Security group. The Department will liaise with DCIS to determine if agency access to this reporting can be provided. The Department is notified by the relevant service provider with an impact assessment of the patches being applied, required outages and change controls. The Department maintains a record of these changes.

No disaster recovery plan exists for IJIS and the disaster recovery procedures have not been tested

A disaster recovery plan for IJIS exists and it identifies the sequence in which ICT services and systems are to be restored. DCS maintains its own Disaster Recovery Plan for the mainframe and its applications, including the restoration of IJIS.

The Department is reliant on the services of an external service provider for implementation of a recovery action if required.

Data Centre Services has initiated a project to restore IJIS from offsite backup tapes. The project definition and scope document is currently being reviewed by the Department. DCS has advised that they are in the process of reviewing additional disk storage required for this project and that it will have to be procured in due course. Procurement lead times will determine the project commencement.

Department of the Attorney-General and Justice cont...

The Department of the Attorney-General and Justice has commented (cont...):

There is no periodic review process undertaken to confirm that user access is appropriate

IJIS stakeholder agencies system administrators have delegated authority to review and amend access to the system. This includes granting access to new users and updating access as users transfer to other roles or leave the organisation. Stakeholders such as NT Police manage access to individual functions for example apprehension and custody management to authorised users to query, add and update IJIS information. A review of the suitability of access for a user is determined by the stakeholder agency.

In the Department of the Attorney-General and Justice, user access is authorised by the relevant delegate and access to functions are determined similar to the above process. In accordance with the all-of-government ICT Access Standards and Security Framework, which includes RACF procedures, inactive Mainframe User ID's disabled after 60 days and access to IJIS is revoked.

The Department is able to run IJIS reports to identify inappropriate access and access relevance on an as needed-basis, and has recently done so.

The current Identity and Access Management system ePass is an all-of-government system and the Department complies with the mandates for the use of this system. The Department will work with DCIS on the ePass replacement to take advantage of the business process improvements to enhance user access security within Program VERITAS.

Department Trade, Business and Innovation

Northern Gas Pipeline

Scope and Objectives

The primary objective of the Northern Gas Pipeline (NGP) audit was to provide the Legislative Assembly with an overview of the NGP project and assess the performance management system(s) in place at the former Department of the Chief Minister that resulted in the announcement that Jemena Northern Gas Pipeline Pty Ltd (Jemena) had been contracted to construct and operate the NGP.

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.*”

Whilst there was a gas sales process that took place concurrently with the gas pipeline project, this audit is not focused on the gas sales process.

The audit covered the period of the NGP, from the decision by the Northern Territory (NT) Government to initiate the process, to the announcement that Jemena had been selected.

Conclusion

The process followed by the Agency to assess whether its objectives were being achieved economically, efficiently and effectively was designed and implemented appropriately. The lessons learned from the NGP competitive process could assist in the development of other government initiated private sector led projects. Recommendations to enhance the effectiveness of management and monitoring of similar major project initiatives are summarised below.

Key Findings

The nature of the competitive process assisted in encouraging competitive tension. According to the initial evaluation plan, only three shortlisted proponents were expected to be put forward to the Final Proposal stage. The Evaluation Panel recommended a fourth proponent for inclusion. It was concluded that the top two ranked Final Proposals were very close in scoring based on the evaluation criteria. The Evaluation Panel concluded that based on the criteria and their weightings, the successful proponent's Final Proposal was deemed to deliver the best outcome for the NT Government.

The procurement for the consultants and advisors used for the project was largely ‘select procurement’. The key reasons documented for the selection of the procurement process were that:

- the project required specialist skills that were not available on the market; and
- there wasn't sufficient time to allow for a public procurement process to be conducted.

Department Trade, Business and Innovation cont...

Although the relevant approvals were obtained in compliance with the NT Government procurement framework, the approach to procurement on this project may not have fully achieved the underpinning procurement principles of the NT Government procurement framework. Whilst cognisant of the fact projects such as the NGP will always have time constraints and some degree of complexity, I recommended that the Department develop and implement a framework for public procurement of services required to support the procurement or initiation of major projects.

The budgeted costs for consultants and advisors used to support the NGP project were subject to significant variations. The Department called for the private sector to develop their own solutions in a move that was designed to increase innovation and competitiveness. This led to bespoke responses from the proponents and consequential increased time and cost resulting from the evaluation of proposals. I recommended that the Department develop and implement a framework for managing cost overruns from similar arrangements that considers risks related to open competitive processes.

Although the Department was able to provide my Authorised Auditors with a financial report detailing the actual expenditure for the direct costs related to the project, there was no readily available report of the project's actual costs, suggesting that there was no streamlined process to capture costs that were incurred by other NT Government agencies and departments. I recommended that the Department consider establishing a formalised and streamlined financial reporting framework to monitor and report actual spending on projects like the NGP.

The Department is to be commended for the quality of the *Contracts Administration Manual* developed for the NGP. The project culminated in a number of contracts to which the NT Government is a party to, either directly, or through Power and Water Corporation. The Legal Advisor prepared a Contracts Administration Manual which was used to assist in navigating and understanding the NGP project contracts. This is an extremely useful and valuable document that has been extensively used by the NGP project team during the competitive tender process and has continued to be used by Project Governance groups since the award of the contract.

The use of the data room was a very successful tool that provided a secure and efficient method of providing information both internally to the project team and to external parties such as the shortlisted proponents. The project team has been able to provide the evidence required to support the audit with relative ease.

The Probity Advisor concluded that, based on his review, nothing material came to his attention that caused him to believe that the NT Government (NTG) had undertaken the process other than with due regard to probity.

Department Trade, Business and Innovation cont...

Report Outline

This audit is reported in the following format:

- Overview – Northern Gas Pipeline
- Project management and governance
- Going to the market
 - Case for the NGP
 - Industry briefing
- Competitive process
 - EOI phase
 - EOI phase evaluation
 - Request for Initial Proposal (RFIP) phase
 - RFIP phase evaluation
 - Request for Final Proposal (RFFP) phase
 - RFFP phase evaluation
 - Probity
- Contracts and agreements
 - Power and Water Corporation (PWC) gas sales agreement
 - Other key contractual considerations
- Cost to the Northern Territory Government
- Procurement considerations
- Information management and record keeping

Department Trade, Business and Innovation cont...

Overview – Northern Gas Pipeline

In 2014, the NT Government established a competitive process to seek proposals for the construction and operation of a pipeline to connect the Northern and Eastern Gas Markets. At the time of going to market, the project was referred to as the North East Gas Interconnector (NEGI) however the project is now known as the Northern Gas Pipeline). Whilst the two terms could be used interchangeably, the acronym NGP has been used throughout this report unless in direct reference to the name of a source of information. There were two alternative pipeline routes proposed for the NGP, Alice Springs to Moomba (known as the “Southern route”) or Tennant Creek to Mount Isa (known as the “Eastern route”).

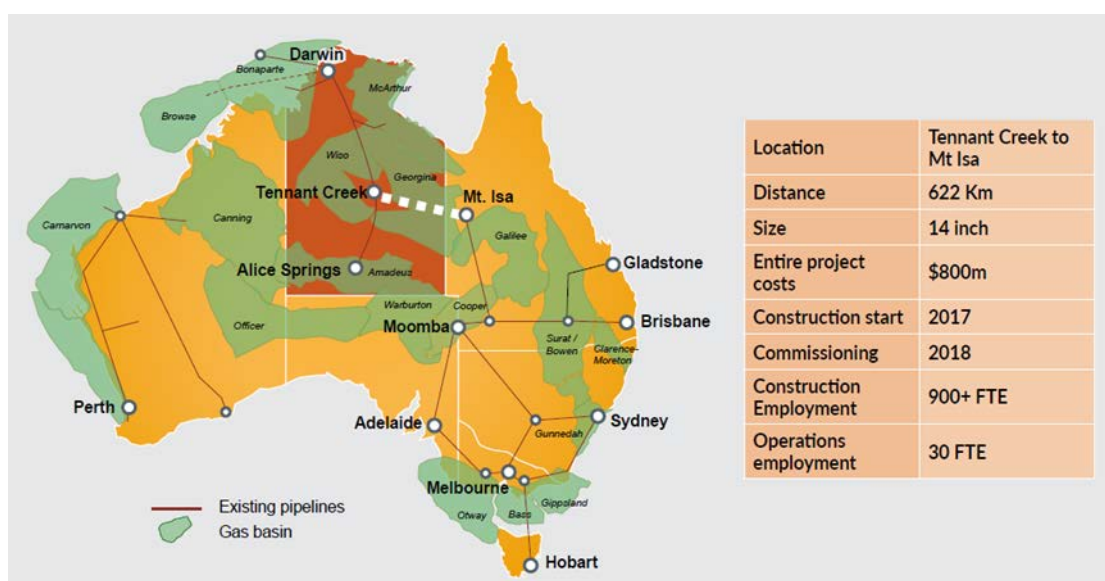
The NGP received support at the Council of Australian Governments meeting of 10 October 2014.

On 17 November 2015, the NT Government announced that it had selected Jemena Northern Gas Pipeline Pty Ltd to construct and operate the NGP with the proposed route being Tennant Creek to Mount Isa.

The competitive process for the NGP has been promoted by the NT Government as a unique approach to infrastructure investment because it has resulted in no direct investment funding from either the NT or Commonwealth Governments.

Figure 1 below illustrates the proposed route of the pipeline.

Figure 1: Gas pipeline route and statistics



Source: Northern Territory Government North East Gas Interconnector Fact Sheet 2

Note: In accordance with clauses within Jemena's bid, the pipeline size was subsequently reduced to 12 inches.

Department Trade, Business and Innovation cont...

The pipeline was estimated by Jemena to cost approximately \$800 million and aims to drive further commercial exploration and development of gas reserves in the NT.

The planning, construction, and commissioning phases were predicted to create up to 600 jobs for locals and offer up to 100 contracts for local businesses, worth around \$112 million. Ongoing operations and maintenance teams are expected to be staffed from local workforces at both Tennant Creek and Mount Isa.

Construction is expected to begin in early 2017 and be completed by early 2018.

Project management and governance

The Department of the Chief Minister (the Department), through its Office of Major Projects, Infrastructure and Investment (OMPII) were the lead agency. OMPPII was responsible for initiating, coordinating and facilitating the delivery of major projects in the Northern Territory. Subsequent to the completion of this audit, the activities and personnel related to OMPPII have been transferred to the Department of Trade, Business and Innovation.

On 25 August 2014, the NGP was awarded "Major Project" status by the NT Government based upon its expected significant contribution to the development of the Northern Territory. The project was deemed to exhibit the characteristics of major projects as described under the "Major Project Status Policy Framework".

The decision to award Major Project status is guided by the Major Project Status Policy Framework, which highlights that a project is considered to be a major project if it has one or more of the following characteristics:

- **Financial significance** - the capital expenditure (typically >\$50M); and/or the proportion of capital and operational expenditure which will be invested in the Northern Territory;
- **Strategic impact** - the opportunity to leverage additional investment such as growth in the supply and service sector; benefits of the resultant infrastructure to other industries and future projects; and economic development opportunities; and
- **Complexity** - consideration is given to, among other things, the regulatory approval requirements and project impacts.

The competitive process was managed and coordinated by the Strategic Oil and Gas Development Workgroup of the Department, which was established on 5 August 2014. The North East Gas Interconnector Probity Plan set out the hierarchy of decision making for the competitive process. This has been included at Figure 2 below.

Department Trade, Business and Innovation cont...

Figure 2: Decision making hierarchy



Source: North East Gas Interconnector Probity Plan

The composition of the working groups depicted above was as follows:

¹ Strategic Oil and Gas Development Workgroup

- Executive Director, Strategic Oil and Gas Development, Department of the Chief Minister
- Director, Strategic Oil and Gas Development, Infrastructure and Investment
- Project Officer, Strategic Oil and Gas Development, Infrastructure and Investment

² NT Pipeline Working Group

- Executive Director, Strategic Oil and Gas Development, Department of the Chief Minister
- Executive Director, Department of Mines and Energy
- Executive Director, Department of Lands, Planning and the Environment
- Assistant Under Treasurer, Department of Treasury and Finance
- Solicitor, Department of Attorney General and Justice

Department Trade, Business and Innovation cont...

³ *Gas Governance Group*

- Coordinator General, Department of the Chief Minister
- Chief Executive, Department of Mines and Energy
- Chief Executive, Power and Water Corporation
- Under Treasurer, Department of Treasury and Finance

⁴The Specialists and Advisors engaged to support the competitive process are discussed later in this report.

Decisions made by working groups were incorporated into the competitive process with key communication escalated to the NT Government through cabinet submissions. The general public and some key stakeholders were informed of project developments through a number of Ministerial communications. The submissions to cabinet for decision making were supported by relevant reports prepared by the project team.

Going to the market

Case for the NGP

An independent advisory firm (Lead Project Advisor) was engaged by the NT Government to advise on the economic and commercial case for a gas pipeline linking the Northern and Eastern Gas Markets. The engagement also included consideration of the role that the Government could play in developing the pipeline.

The Lead Project Advisor was approached and engaged by the NT Government at the recommendation of the Economic Development Advisory Panel. This panel was established on 5 April 2013 by the then Chief Minister to provide recommendations for the Northern Territory Government's Economic Development Strategy.

The report prepared by the Lead Project Advisor identified that the Eastern Gas Market conditions presented an opportunity for the sale of NT gas due to forecast increases in demand on the East Coast of Australia. In addition, the NGP would offer substantial economic reward to the NT and Australia.

Department Trade, Business and Innovation cont...

As part of the commercial review, the Lead Project Advisor made a high-level assessment of the economic activity associated with developing the NGP. The assessment estimated that total direct economic activity was estimated at \$2.7 billion Net Present Value for Australia, including approximately \$0.9 billion for the Northern Territory. It also provided an estimate of incremental economic activity but did not include beneficial indirect economic activity impacts including 'multiplier' effects. It also did not consider the impacts on the broader economy of changed patterns of investment and employment, including impacts on interest rates, exchange rates, and capital available for use in other sectors of the economy.

The report acknowledged that, whilst the concept of the NGP was not new, without government involvement, the private sector was unlikely to develop the pipeline in a timely way due to uncertainty around both supply and demand for gas.

The recommendations from the Lead Project Advisor were for the NT Government to facilitate a competitive process with the private sector to:

- bring private sector parties together in an intense process to determine how much of the commercial risk could be mitigated through innovative private sector infrastructure funding models, and to help create the conditions to enable the necessary commercial negotiations to occur;
- confirm the economic case for a pipeline; and
- identify the likely levels and nature of government support required by the private sector to enable this proposal to proceed.

The Lead Project Advisor concluded that a carefully designed and well executed competitive process would provide the best conditions to both enable the pipeline to proceed and minimise the level of government support that would be needed. Refer to Table 1 for the key project milestones discussed in this report.

The Lead Project Advisor acknowledged that a competitive process was not without risks as it was not possible to guarantee that attractive proposals would be received that would substantially minimise the cost for the NT Government. The report explored the principal risks in the competitive process and proposed mitigation strategies.

Department Trade, Business and Innovation cont...

The table below shows the key project milestones discussed in this report

Table 1: Key project timeline

	Major Project Status	Going to Market		Expression of Interest (EOI)		Request For Initial Proposal (RFIP)		Request for Final Proposal (RFFP)		RFFP Evaluation	Contract Award
Aug-14	Major project status granted										
Oct-14	COAG support NT efforts to establish a competitive process	MoU with NSW to build stronger relationship for project	Industry briefing in Alice Springs								
Nov-14				Approval to commence competitive process and release of EOI	EOI released on 13 November						
Dec-14					EOI closed on 15 December	RFIP shortlist approved and release of RFIP	Eleven companies shortlisted to progress to RFIP phase	RFIP released on 22 December			
Mar-15								RFIP closed on 2 March	External Evaluation Panel media release		
Apr-15									Four shortlisted proponents invited to progress to RFFP phase	RFFP released on 17 April	
Sept 15										RFFP closed on 30 September	
Nov 15										RFFP Evaluation report signed 16 November	Successful proponent appointment on 17 November

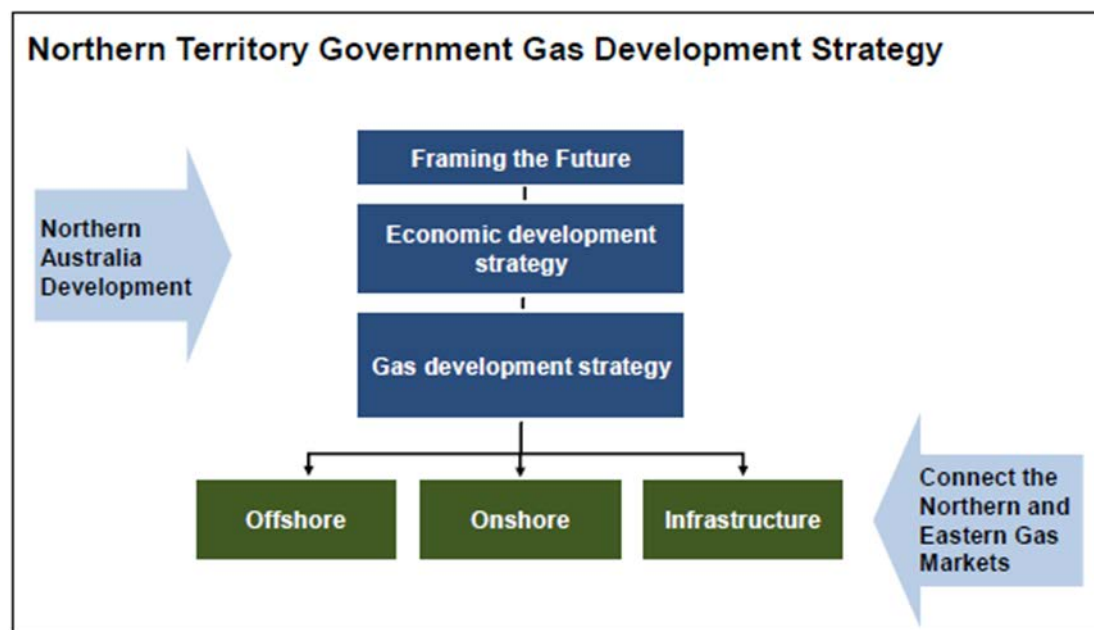
Department Trade, Business and Innovation cont...

Industry briefing

As recommended by the Lead Project Advisor, the Department organised and held an Industry Briefing on 31 October 2014. The purpose of the industry briefing was to provide potential participants in the project with information about the NT Government's intention to run a competitive process to seek commercial proposals for the construction, operation and ownership of the NGP.

The presentation at the Industry Briefing provided information on the NT Government's gas development strategy and how the NGP fit into that strategy as demonstrated by Figure 3.

Figure 3: Northern Territory Government Gas Development Strategy



Source: NEGI Industry Briefing Note

The presentation also discussed the economic case, market case and geological case for the NGP.

Department Trade, Business and Innovation cont...

Economic case

The presentation stated that the NGP would generate substantial economic activity, through its own development and operation, and associated upstream gas resources. The view was that the project would generate employment opportunities during and after the construction phases, with regional areas in the Territory expected to benefit. It was also perceived that local gas could allow cost-effective substitution for diesel in a number of remote generation areas. Compared to a liquefied natural gas (LNG) development, a gas pipeline was going to be quicker to construct and deemed to deliver more 'on the ground, distributed' infrastructure and activity. From the analysis done, per gigajoule of gas, the direct economic contributions from a new pipeline were similar to those of the new LNG developments. Therefore, the NGP was viewed as an important part of infrastructure within the broader NT gas development strategy.

The construction of the NGP was seen as consistent with the Australian Government's Energy Green Paper and the development of Northern Australia. The pipeline was considered as a contributor towards development of an efficient and low-cost domestic gas market.

The Energy Green Paper:

- acknowledges that markets will be increasingly influenced by higher production costs and export price parity;
- suggests these effects will be most obvious in the Eastern Gas Market; and
- suggests most stakeholders agree increasing the gas supply will help reduce upwards pressure.

Source: Energy Green Paper (September 2014), Australian Government Department of Industry, p37-38.

This was reflected in the subsequent 2015 Energy White Paper (April 2015), Australian Government Department of Industry and Science, page 20:

"The Australian Government believes that having diverse suppliers and encouraging additional supply are the best responses to high prices. Accordingly, the Australian Government supports the efforts of the Northern Territory Government to facilitate expansion of the gas pipeline network to connect the east coast to the Northern Territory. Such a link could help build a more integrated, resilient and diverse national energy market and provide gas users with access to multiple alternative sources of gas supply."

Department Trade, Business and Innovation cont...

Market case

It was noted that the Eastern gas market conditions created an opportunity for NT gas. The demand for gas was forecast to grow and, in the absence of a meaningful supply response, gas shortfalls were likely to impact customers. Projected decline in the Victorian production volumes also exacerbated the forecast shortfalls.

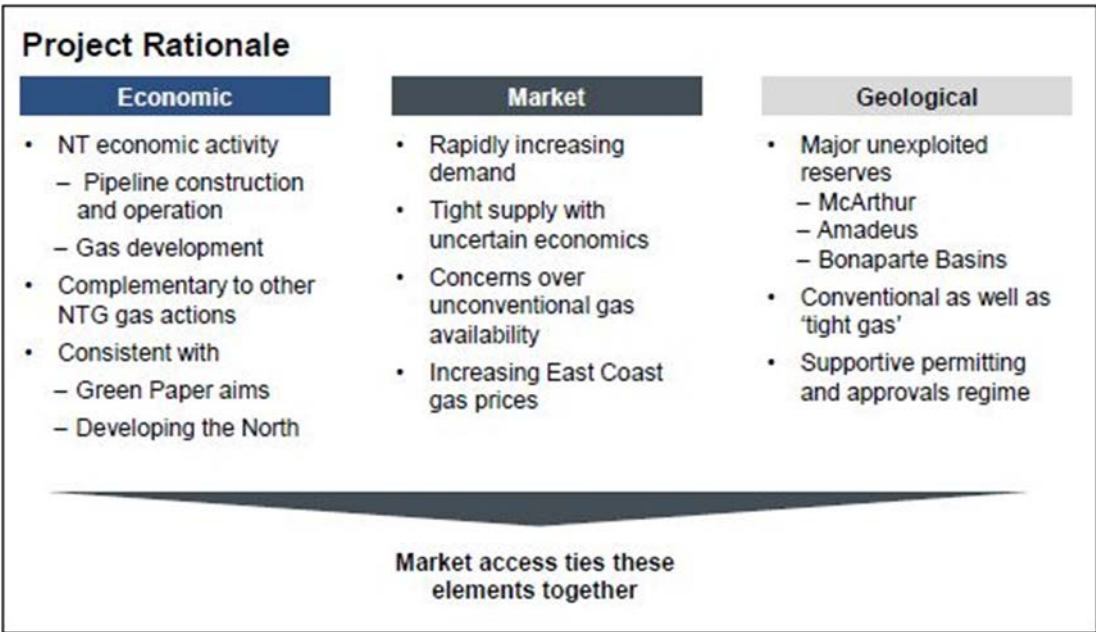
The Northern Territory was considered to have substantial conventional and unconventional gas resources of sufficient scale to help address these expected Eastern Gas Market supply shortfalls.

Geological case

Major unexploited gas resources were identified within the Territory, lying within six large gas basins. These are gas basins at the start of their lives and deemed to have lower cost structures than those in the Eastern gas market.

The figure below summarises the economic case, market case and geological case for the NGP discussed above.

Figure 4 The case for the NEGI economic, market and geological components



Source: NEGI Industry Briefing Note

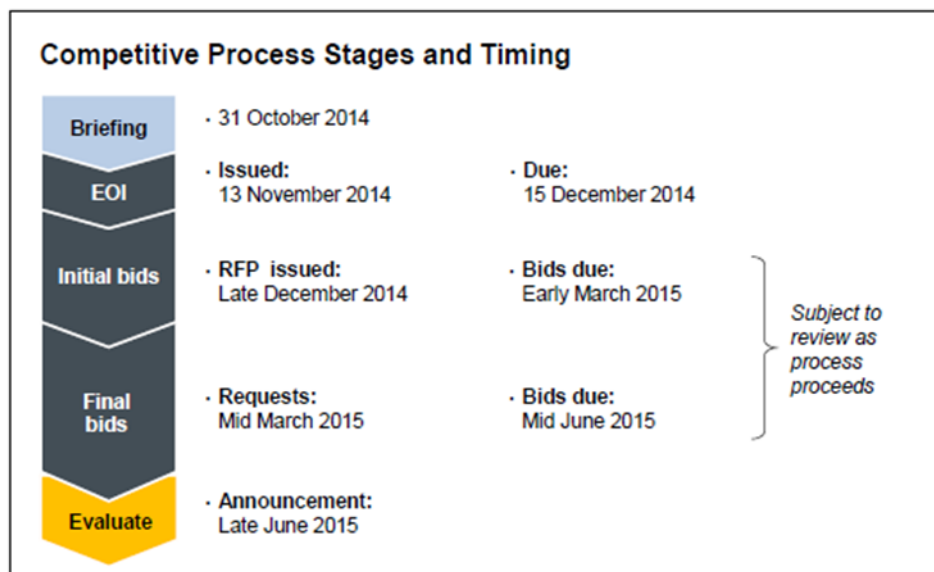
Department Trade, Business and Innovation cont...

The NT Government communicated its intention for a competitive process that was intended to allow the private sector to develop the pipeline solution. The design, stages and timing of the competitive process were also discussed. The NT Government noted that the competitive process was intended to balance three objectives. These were to:

- encourage a wide range of participants;
- allow, through an appropriate timeframe, the preferred proponent to be chosen with enough time to construct a pipeline that would meet market needs; and
- ensure that all participants could conduct the commercial and engineering activities in a cost effective, efficient and timely manner.

Figure 5 shows the planned competitive process shared with proponents.

Figure 5: Competitive Process Stages and Timing communicated at the Industry Briefing



Source: NEGI Industry Briefing Note

Department Trade, Business and Innovation cont...

The NT Government communicated to industry that the project had been granted Major Project status and that the successful proponent would receive coordinated support for the project from the NT Government. The NT Government advised that it was working with other jurisdictions to ensure coordinated support. To this effect, the NT Government signed a Memorandum of Understanding (MoU) with the NSW Government. The MoU, signed on 7 November 2014, is for a five year period. The objective of the MoU, signed by the Premier of New South Wales and the Chief Minister of the Northern Territory, is to foster a closer working relationship between the two governments to:

- accelerate the connection of the Northern and Eastern Gas Markets as the next step in development of a national gas grid; and
- promote development of a more national and competitive domestic gas market.

The NT Government's objective was to announce and sign a development agreement with the successful proponent and a gas transportation agreement for available gas. The NT Government communicated that there were four potential outcomes from the process. Taking into consideration the level of risk that the private sector and the NT Government were willing to accept respectively, the NT Government could either:

- accept a private sector proposal;
- proceed to deliver the pipeline itself;
- postpone the project; or
- take no action on the project.

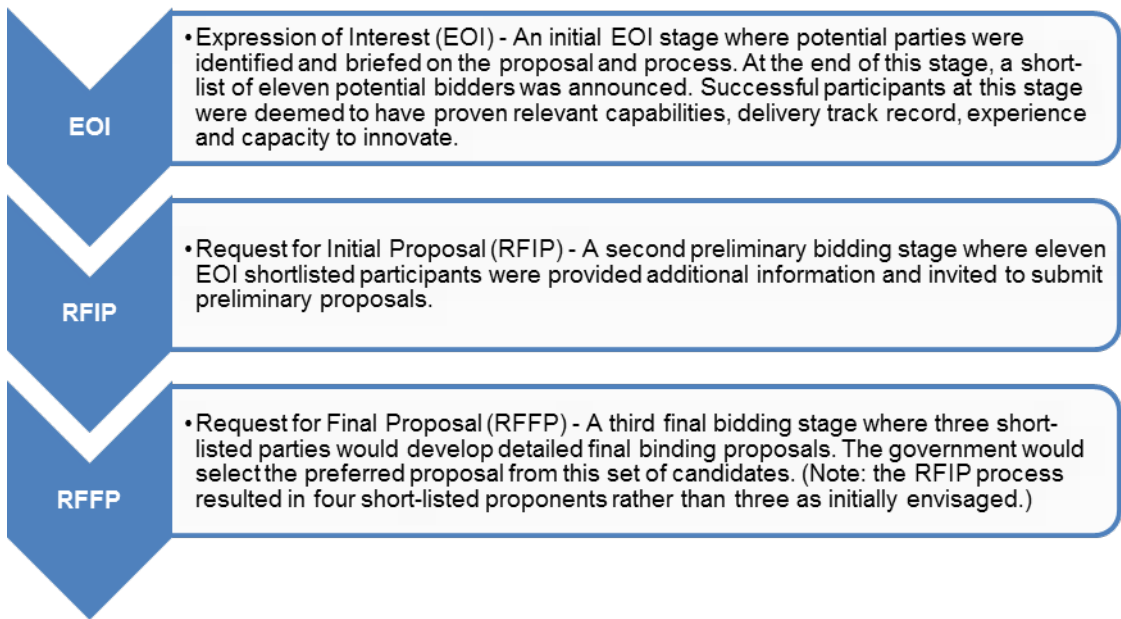
The NT Government acknowledged that the project would present risks. Where project risks could not be fully addressed by the private sector, the NT Government would consider assisting with managing these risks. The expectation was that the NT Government would be focused on the critical areas of the project. Proponents were encouraged to include information about proposed risk allocation and management strategies in their submissions.

Competitive Process

Following the Industry briefings, the competitive process was implemented in a three stage process, shown in the figure below.

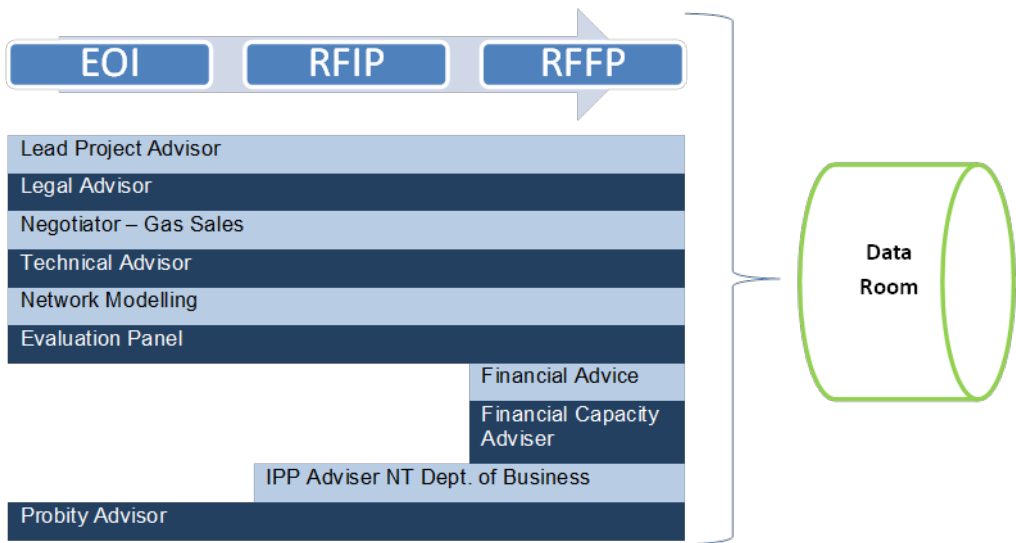
Department Trade, Business and Innovation cont...

Figure 6: Three stage competitive process executed by the Department



A number of consultants were engaged to work with the NT Government on this project. The following diagram illustrates the involvement of key consultants engaged during the three stage process, with descriptions of their roles underneath.

Figure 7: Key consultant matrix



Department Trade, Business and Innovation cont...

- **Lead Project Advisor** - advisory firm appointed to evaluate the business case for a gas pipeline and advise on how to move from 'concept to commitment'.
- **Legal Advisor** – law firm appointed to provide advice on all legal and commercial issues and questions referred by the Project Team.
- **Technical Advisor** – consulting firm engaged to provide high level advice on strategic planning and route selection for gas pipeline and storage infrastructure.
- **Network Modelling Consultants** – consulting firm engaged to provide gas pipeline network modelling services.
- **Chair of the Evaluation Panel** – individual from a consulting firm appointed to undertake the evaluation of and make recommendations in relation to responses to the Call for EOIs, the RFIP and the RFFP for the project.
- **Evaluation Panel Member (External to NT Government)** – individuals appointed to undertake the evaluation of and make recommendations in relation to responses to the Call for EOIs, the RFIP and the RFFP for the project.
- **Financial Advisory Firm** – consulting firm engaged to undertake the evaluation of and make recommendations in relation to responses to the Call for EOIs, the RFIP and the RFFP for the NGP project.
- **Probity Advisor** – chartered accountancy firm engaged to ensure that fairness and impartiality were observed throughout the competitive process and that the evaluation criteria were consistently applied to all proposals.
- **Industry Participation Plan Advisor NT Department of Business** – the NT Department of Business provided assistance in evaluating the Industry Participation Plans (IPP) submitted as part of the response schedules from proponents.
- **Information and data management** – a data room was procured from a third party service provider to provide a solution to manage/share large amounts of data and communicate effectively with proponents.

The procurement related to the engagement of these consultants and advisors is discussed later in this report.

Department Trade, Business and Innovation cont...

EOI phase

The call for Expressions of Interest was released on 13 November 2014 and invited prospective proponents to submit an EOI to undertake the project to enable the NT Government to shortlist proponents for the RFIP.

In the EOI, the NT Government provided information about the project and the objectives of the competitive process. The NT Government also stated that it would enter into an agreement with the successful proponent to design, construct, commission and operate the NGP. In their response, the successful proponent was required to establish the tariff structure that would be applied to the transportation of gas through the NGP.

The proponents were provided access to an electronic data room which contained all the information related to the EOI and was the platform for communicating any questions from proponents and responses and addenda to proponents.

There was no contribution by the NT Government for any direct costs incurred by proponents at the EOI phase.

EOI phase evaluation

The Department developed an evaluation plan entitled *North East Gas Interconnector EOI Evaluation Plan December 2014*. The purpose of the plan was to document the agreed process and evaluation methodology for the EOIs received from prospective proponents. The *EOI Evaluation Plan* was prepared in consultation with the Probity Advisor. The Evaluation Panel members confirmed their endorsement of the *Project Probity Plan* and the *EOI Evaluation Plan*. There were no changes to the evaluation criteria during the process

The *EOI Evaluation Plan* required all copies of EOIs to be treated as commercial-in-confidence and, except as required under the *Information Act*, documents were not to be given or made available to any persons not connected with the NGP or the competitive process. Access was restricted to the data room and all persons with access to EOIs were required to sign 'Confidentiality Undertakings' before being granted access to the information. I was informed that information was also managed through a secure email account created for the NGP. Conflicts were declared within the *Confidentiality Undertakings* and maintained in a register of interests maintained by the Project Director.

The EOI Evaluation Panel constituted:

- Chair, Director-General, Department of the Chief Minister, representing the Chief Executive, Department of the Chief Minister;
- Chief Executive, Department of Business; and
- Assistant Under Treasurer, Department of Treasury and Finance.

Department Trade, Business and Innovation cont...

The EOI responses were opened on 15 December 2014 in the presence of the Probity Advisor. One EOI response was withdrawn and fourteen were assessed. During the evaluation process, the panel consulted with the advisors as required. The proposals were assessed in accordance with the established criteria and scored accordingly. The panel's conclusions on each EOI were documented within the signed report. The minutes of the panel meetings were also documented and retained in the data room. The *EOI Evaluation Panel Evaluation Report* was signed by the three panellists on 19 December 2014.

Three proponents were deemed to have failed to satisfactorily respond to the evaluation criteria. The Evaluation Panel recommended eleven proponents be shortlisted.

RFIP phase

The RFIP issued on 22 December 2014 required the eleven shortlisted proponents to provide further details of their commercial and technical approaches to the NGP including how the proponents would work with the NT Government to deliver the project. The intention at this stage was to invite no more than three proponents to progress to the RFFP phase. The RFIP required the proponents to identify the best commercial model for the pipeline, including the choice of route and the design of the pipeline. The proponents were expected to bear all risks associated with the project. The proponents were required to propose their risk mitigation strategy and any expected involvement of the NT Government in mitigating these risks.

Similar to the EOI phase, the proponents were given access to an electronic data room which contained all the information related to the RFIP.

There was no contribution by the NT Government for any direct costs incurred by proponents at the RFIP phase.

RFIP phase evaluation

The Department prepared an evaluation plan, *North East Gas Interconnector RFIP Evaluation Plan* dated 27 March 2015. The purpose of the plan was to document the established assessment criteria, agreed process and evaluation methodology for the evaluation of RFIPs received. The *RFIP Evaluation Plan* was prepared in consultation with the Probity Advisor. The Evaluation Panel members confirmed their endorsement of the *Project Probity Plan* and the *RFIP Evaluation Plan*.

The information handling was similar to that set out at the EOI phase.

Department Trade, Business and Innovation cont...

The RFIP Evaluation Panel was constituted as follows:

- Chair, External Evaluation panel member;
- External Evaluation panel member;
- Chief Executive, Department of Land Resource Management, representing the Chief Executive of the Department of the Chief Minister; and
- Acting Deputy Under Treasurer, Department of Treasury and Finance.

Of the eleven shortlisted proponents to the RFIP, one proponent withdrew, one was deemed to be non-conforming and one did not respond to the RFIP. The eight conforming proposals were assessed in accordance with the criteria and scored. During the evaluation process, the panel consulted with the advisors as required and had the opportunity to seek clarification from proponents as required.

The evaluation panel met and discussed the proposals before summarising any additional information requirements necessary to enable finalisation of the panel evaluation. These requirements were passed on to the Project Team led by the Project Director from the Department. These issues were communicated to the proponents via the data room, depending on the nature; issues were either communicated to all proponents or specific proponents in accordance with the evaluation panel's requirements. The Project Director was responsible for approving all final communication with proponents within the data room.

The panel's conclusions on each RFIP were documented within the signed report. The *RFIP Evaluation Panel Report* was signed by the four panellists on 27 March 2015.

According to the *RFIP Evaluation Panel Report*, the Evaluation Panel compared the qualitative and quantitative aspects of the proposals against the evaluation plan. They noted that all proposals allowed producers to sell gas across the pipeline at attractive returns; however the degree of expected government contribution varied considerably. During its discussions, the panel noted that different route choices, and approaches to balancing the need for government assistance with required tariffs, complicated quantitative assessments. For this reason, the Evaluation Panel requested the Lead Project Advisor to perform additional analysis of these Proposals to allow 'like-for-like' assessments. This additional analysis included:

- for strong proponents who favoured the Moomba route, estimating quantitative outcomes had these proponents proposed a Mount Isa route;
- comparisons of Mount Isa bids, including those developed above, assuming a common approach to balancing tariffs with contributions; and

Department Trade, Business and Innovation cont...

- estimating the impact of a change in revenue/utilisation risk allocation at the proponent's specified cost of capital (noting that if this occurred the proponent's required return may be lower).

Although the RFIP included a statement that that no more than three proponents would be invited to the Final Proposal phase, the Evaluation Panel noted that the Territory had discretion in respect to the final number of shortlisted proponents and thus recommended a fourth proponent.

The Evaluation Panel noted that the incremental cost of allowing a fourth proponent through to the RFFP phase would be relatively modest and the benefit of the increased competitive tension could be significant. The incremental cost for including the fourth proponent was \$750 thousand however the value of the associated benefit was not quantified.

RFFP phase

The call for RFFP was released on 16 April 2015 to the shortlisted proponents and was divided into four volumes:

- Volume 1 described the purpose and conduct of the RFFP phase in detail, including key dates and activities required during this phase;
- Volume 2 contained the conditions that would govern the preparation, submission and evaluation of Final Proposals, including the evaluation criteria;
- Volume 3 described the returnable schedules that would be completed to ensure a complying Final Proposal; and
- Volume 4 included the commercial principles for various contracts required for Contractual Close.

The proponents were given access to an electronic data room which contained all the information related to the RFFP and was the platform for addressing any queries, questions and communication of addenda to proponents. The same data room was maintained from the EOI phase through to the RFFP phase. Access to this data room was managed by the Department's Project Administrator. The processes around managing the data room are discussed in greater detail later in this report.

The key activities for the proponents at this phase were to:

- engage with relevant jurisdictions in relation to approvals, including preparatory work in relation to environmental approvals in all relevant jurisdictions;

Department Trade, Business and Innovation cont...

- engage with relevant landholders (the proponents would be responsible for securing the pipeline corridor for the project through negotiations with relevant land owners and interest holders);
- engage with the NT Government in negotiating the terms and conditions of the NGP Project Agreements;
- engage with gas producers and other potential shippers of gas and agree gas transportation agreements for the transportation of gas through the NGP;
- negotiate the terms of a *Pipeline Connection Agreement* to connect the NGP to the Amadeus Gas Pipeline and to the southern/eastern connection point; and
- engage with the Industry Capability Network NT and the Northern Territory Department of Business in developing their IPP.

The NT Government acknowledged that proponents would incur costs for environmental and engineering studies during the RFFP phase. Therefore, the NT Government committed to paying each unsuccessful proponent an amount of \$750 thousand and each unsuccessful preferred proponent an amount of \$1 million.

RFFP phase evaluation

The Department prepared an evaluation plan, dated September 2015, named the *North East Gas Interconnector RFFP Evaluation Plan*. The purpose of the plan was to document the established criteria, agreed process and evaluation methodology for the evaluation of RFFPs received. The *RFFP Evaluation Plan* was prepared in consultation with the Probity Advisor. The Evaluation Panel members confirmed their endorsement of the *Project Probity Plan* and the *RFFP Evaluation Plan*.

The information handling processes were similar to those established to support the EOI and RFIP phases and the same evaluation panel from the RFIP phase was retained for the RFFP evaluation.

The *RFFP Evaluation Panel Report* was signed by the four panellists on 16 November 2015. During the evaluation process, the panel consulted with the advisors as required. The proposals were assessed in accordance with the criteria above and scored accordingly. The panel noted that the two top ranked Final Proposals were very close in scoring based on the criteria and that both proposals would deliver attractive commercial outcomes for the NT Government and meet the NT Government's objectives for the NGP. There were no changes made to the established evaluation criteria. The panel's discussions were minuted and the results summarised in the *RFFP Evaluation Panel Report*, which also states that the Probity Advisor attended all the meetings.

Department Trade, Business and Innovation cont...

From review of the *RFFP Evaluation Panel Report*, it is noted that the scoring, rankings and panel comments represented the unanimous view of the panel and were supported by all members. The panel concluded that based on the criteria and their weighting, the successful proponent's Final Proposal would deliver the best outcome for the NT Government and was therefore the panel's recommendation to the NT Government.

Based on the rankings, the Evaluation Panel was of the view that the Eastern Route proposals were clearly superior to the Southern Route proposals. The successful proponent's proposal was viewed to be superior.

The Evaluation Panel is to be commended for providing comprehensive evaluation reports which extended beyond scoring and notations on responses received, to explaining the role and responsibilities of the evaluation panel.

Probity

A Probity Advisor, from a chartered accountancy firm, was appointed in October 2014 and the Probity Plan was implemented in December 2014. The role of the Probity Advisor was to ensure that fairness and impartiality was observed throughout the Competitive Process and that the criteria were consistently applied to all proposals.

As stated in the *North East Gas Interconnector, Probity Plan, December 2014*, the objective of the probity process was to provide assurance that the competitive process (for the selection of a private sector investor led NGP proposal):

- ensured conformity to processes;
- provided accountability;
- ensured that the interests of proponents were protected by an ethical and fair process;
- ensured that all proposals would be assessed against the same criteria;
- preserved public and proponent confidence in Territory processes; and
- improved defensibility of decisions to potential legal challenge.

The Probity Advisor was involved in all three stages of the project and issued probity letters concluding that nothing had come to their attention that caused the Probity Advisor to believe that the Evaluation Panel had undertaken the process to rank proponents who responded to the EOI, RFIP and RFFP other than with due probity and regard to the evaluation plan and probity plan.

The signed probity reports were provided to the Department's Project Director.

Department Trade, Business and Innovation cont...

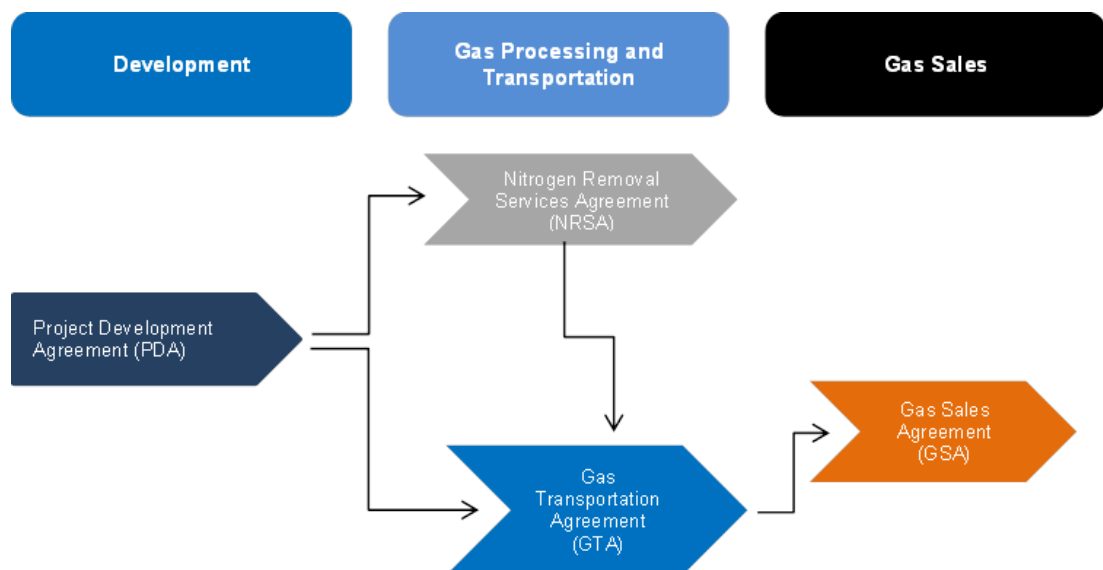
Contracts and Agreements

The NGP project culminated in a number of contracts to which the NT Government is a party, either directly or through PWC. The Legal Advisor prepared a *Contracts Administration Manual* which was used to assist in navigating and understanding the NGP project contracts. This is an extremely useful document that has been extensively used by the NGP project team during the competitive tender process and has been continued to be used by Project Governance groups since the award of the contract.

The Department is to be commended for the quality of the *Contracts Administration Manual* and could consider developing a similar high level summary of the contractual arrangements for future projects with Major Project status.

Figure 8 below summarises the key contracts.

Figure 8: Contract structure and overview



Source: NEGI - Contracts Administration Manual

Following the implementation of the *Contracts Administration Manual* and the award of the NGP contract, the Department has established a system for ensuring compliance with contractual arrangements and tracking of milestones. As provided for by the Project Development Agreement, the successful proponent and the NT Government have established the NGP Approvals Oversight Group (AOG) and Project Monitoring Group (PMG).

Department Trade, Business and Innovation cont...

The PMG was established to monitor the overall progress of the Project and the successful proponent has an obligation to provide a monthly Progress Report for consideration by the Territory and the PMG. The PMG consists of Territory Representatives, Jemena Representatives, Construction Contractor's Representative and any other person nominated by the Territory from time to time and any other person the parties agree. The PMG's role is to monitor the overall progress of the design and construction activities, review progress reports and discuss and address other relevant matters.

The AOG was established to facilitate the implementation of the land tenure acquisition arrangements and the timely assessment of applications for key NT Government Approvals. The AOG consists of the Territory Representative and senior representatives of Department of Lands, Planning and Environment, Department of Resource Management, Department of Mines and Energy, Department of Attorney General and Justice, Major Projects, Infrastructure and Investment and Jemena. The AOG will meet at the request of Jemena, but not more than once per month.

Minutes of the meetings of the PMG and AOG are recorded and retained by the Project Director.

Other key contractual considerations

Land tenure

According to the Project Development Agreement (PDA), the successful proponent may seek assistance to acquire underlying tenure. The Territory's main obligations are to facilitate the timely assessment of approvals and to assist the successful proponent with acquiring land tenure.

Intergovernmental assistance

The NT Government acknowledges that part of the project is located in Queensland and the successful proponent may require assistance from the Queensland Government of the kind the NT Government has provided.

Contingent Liabilities

Under the PDA, the Territory has underwritten to supply a specified quantity of gas in the later years of the Gas Transport Agreement.

Department Trade, Business and Innovation cont...

Cost to the Northern Territory Government

As at 26 August 2016, the direct costs incurred by NT Government, as provided by OMPIL, amounted to \$15.1 million. These are the costs that can be directly attributable to the NGP project. The total cost presented does not include NT Government employees' wages.

The consultants engaged for the NGP project entered into signed agreements with the Department and agreed to different payment terms. None of the consultants were paid on a success fee basis. One consultant, the Financial Advisor, was paid on a retainer fee basis at agreed rates. The remainder of the consultants were paid in accordance with agreed fee schedules, with approved variations for additional or extended services.

The Legal Advisor was procured through the Department of the Attorney-General and Justice, however paid for by DCM.

The NT Government's ongoing contribution to the NGP project includes whole of government coordination and facilitation under the Major Projects Status Framework and those matters and assistance set out in the project development agreement and the special project legislation.

Procurement considerations

In executing this project, the Strategic Oil and Gas Development Workgroup established that there was a need to procure various specialist skills at each stage of the competitive process. The Department, between August 2014 and December 2015, procured services directly attributable to the facilitation of the NGP project.

As part of the audit, my Authorised Auditors examined whether, the procurement process was undertaken within the guidelines of the NTG's procurement framework which encompasses:

- (a) *Procurement Act*;
- (b) Procurement Regulations;
- (c) Procurement Code;
- (d) Procurement Directions; and
- (e) Procurement Best Practice Guidelines

Department Trade, Business and Innovation cont...

Broadly, the Government uses the following procurement methods for obtaining supplies:

Table 2: Summary of procurement methods used

Method	Description
Public Quotation	The procurement process where an Agency requirement for specific supplies is invited through advertising a Request for Quotation on the Quotation and Tenders Online System.
Public Tender Process	The procurement process where an Agency requirement for specific supplies is invited through advertising a Request for Tender on the Quotation and Tenders Online System.
Select Quotation	The process where an Agency requirement for specific supplies is directly issued to selected suppliers following the issuing of an Approval to Invite Select Quotations or in the case of Tier Two an Approval to Obtain Less than 3 Quotes
Select Tender Process	The process where an Agency's requirement for specific supplies is directly issued to selected suppliers, following the issuing of a Certificate of Exemption from Public Tendering.
Existing and Other Government Period Contracts	Mandated whole of government Period Contract which has been established for certain supplies that are commonly used throughout Government Agencies.
<ul style="list-style-type: none"> ▪ Across Government Contracts ▪ Agency Specific Period Contracts and Other Government Period Contracts Panel 	A contract for supplies that is valid for a specified period of time.

Agencies select the appropriate procurement method in accordance with the Procurement Directions. If there is a significant demonstrable benefit to use an alternative procurement method, the Agency must obtain the approval of the Accountable Officer to use the alternative method.

Department Trade, Business and Innovation cont...

My Authorised Auditors tested the procurement of nine services, including services for:

- Lead Project Advisor;
- Lead Legal Advisor;
- Probity Advisor;
- Online Data Room;
- Technical, Financial and Modelling Advice; and
- Evaluation Panel Members.

Of these services, one was procured on an hourly rate fee structure, and another on a fee retainer basis. Of the remaining services, there were significant contract variations approved. All the contract variations were approved by the Accountable Officer in accordance with the procurement framework.

Comparison between the initial approved procurement value and the actual expenditure paid by the NT Government identified significant variations. Of the services tested, two were unable to be compared due to the fee structure identified above. Of the remaining services, one had a variation in excess of 1000% and two had variations in excess of 500%, where the amount paid by the NT Government exceeded the original contracted value. These three were the Lead Project Advisor, a Technical Advisor and the Probity Auditor, whose services were continued to be used throughout the project, including during the evaluation process. I acknowledge that it would have been difficult at the time of procurement to predict the extent of their involvement in the process and therefore predict with certainty their contract value.

Information management and record keeping

Data Management

The Department selected a non-standard NTG information management system, a virtual data room sourced from a contractor. A virtual data room is designed and developed to keep important information safe by providing selective access features and giving administrators total control over confidential documents.

The Department settled on the data room as opposed to conventional/standard Northern Territory Government systems as they were after a solution to manage/share large amounts of data and communicate effectively in a secure environment given the demanding time frames.

Department Trade, Business and Innovation cont...

Some of the key features are:

- a) Virtual data rooms, unlike generic file sharing services, provide an easy and effective way to manage security, document permissions and revoke user access at any time during and after the project is complete.
- b) Users receive real time notifications about activity within the data room to keep them updated as new information is made available. This was critical to ensure real time access for all tender proponents.
- c) Tracking activity.
- d) Search and bulk download helps bidders work faster.
- e) A question and answer platform is accessible and visible to all proponents.

The Department established that similar data rooms had been successfully used within the NSW Government and locally within the NTG.

The access to the data room was controlled and co-managed by two administrators, one from the Department and one from the Lead Project Advisor. Only appropriately authorised people were granted access at various security levels within the data room. Prior to obtaining access to the data room, the project administrator ensured that confidentiality undertakings were signed by the prospective user. Once the user was set up, final approval for access had to be obtained from the lead Project Director. The user access logs could not be provided at the time of the audit inquiries as the data room had been closed to stop the Department from incurring further costs.

The Department has been able to provide all the documentation requested by my Authorised Auditors in a final version state. The data room file was closed off towards the conclusion of this audit. I was advised that all the data on these files will be transferred to the conventional NT Government systems for archiving and future access.

Financial Systems

The Department, through its finance team, recorded costs related to the NGP project within the Government Accounting System (GAS). A specific cost centre was created for the project.

Although the Department was able to provide my Authorised Auditors with a financial report detailing the actual expenditure for the direct costs related to the project, it was noted that some background work was required to be performed by the finance team in order to extract the final information from the GAS.

Department of Treasury and Finance

Darwin Port

Scope and Objective

A review was recently conducted at the Department of Treasury and Finance (Treasury) in relation to the accounting treatment of the sale of Darwin Port Operations Pty Ltd (DPO) and the lease of assets relating to the Port of Darwin (the Port), referred to hereafter as the Transaction.

The primary purpose of my review procedures was to obtain sufficient and appropriate evidence to form a conclusion on the financial aspects of the Transaction as reflected in the Treasurer's Annual Financial Statements.

Conclusion

Based on the information provided for my review, with the exception of the recognition of direct costs associated with the Transaction, the accounting treatment of the sale of Darwin Port Operations Pty Ltd and the lease of assets relating to the Port of Darwin is in accordance with Australian Accounting Standards. Notwithstanding this conclusion, a number of recommendations arose as a result of this review.

Recommendations

The significant recommendations are listed below:

- In the event of similar transactions in the future, the Northern Territory Government (NTG) should consider conducting a separate exercise to verify the value of key assets relevant to the transaction. Such verification should be undertaken by an appropriately qualified independent party to ensure the balances recorded in the Transaction are accurate and to provide assurance that the NTG has received appropriate and adequate consideration.
- NTG should ensure sufficient appropriate documentation is retained and available for inspection in order to support the accounting treatment and to avoid non-compliance with legislative requirements to produce documentation.
- The NTG would benefit from the development of a framework to achieve consistency in the calculation and accounting treatment of the residual value of similar transactions were they to occur in the future. This framework should take into account the new Australian Accounting Standard relating to leases effective from 1 January 2019.
- A process should be developed which enables NTG to accurately capture all direct costs associated with similar transactions to enable compliance with Australian Accounting Standards.

Department of Treasury and Finance cont...

Background

A transaction that included the sale of DPO and the lease for 99 years of assets relating to the Port took effect on 16 November 2015 (the transaction date). The successful proponent was Landbridge Infrastructure Australia Pty Ltd (Landbridge) who paid \$506 million for the Transaction.

Overview

To provide an understanding of the Transaction and the accounting issues reviewed, this report presents the following information:

The process leading to the sale of DPO

This section provides the decision for the private investment of the Port of Darwin, a brief outline of the composition of the Transaction and the key processes that took place prior to the sale of DPO.

Structuring the Transaction

This section provides details of the three key structuring milestones that formulated the Transaction and the structure and ownership arrangements before and after the transaction date.

Accounting implications surrounding the sale of DPO

This section provides details of the accounting issues considered including the value of DPO, how the sale of DPO was accounted for and the transfer of employees to the private sector.

Accounting implications surrounding the long term lease of the Port

This section considers the accounting treatment of the lease including the recognition of the lease, the lease premium received in advance, the residual value of the Port assets upon return to the Northern Territory Government after 99 years, contingent rent arrangements and the contractual options included in the lease agreement.

Other Observations

This section contains other observations arising from my review.

Key Findings

The process leading to the sale of DPO

The decision by the NTG for the private investment of the Port was underpinned by two reasons:

- The need to significantly expand Darwin's existing port facilities and services to cater for growth in the Northern Territory (NT) economy, in order to further develop the NT as a key trade route of Australia.
- The limited capacity to raise capital. This was evidenced through the NTG's past applications to Infrastructure Australia for capital funding for the growth and development of the Port which were rejected by the Australian Government.

Department of Treasury and Finance cont...

In late 2013, NTG decided to test the private sector's interest in investing in and operating the Port. Through this process, the outcomes sought by NTG, as stated in its submission to the Port of Darwin Select Committee were:

- “a partnership with a private operator which has a vision for growth and development of the port which is aligned with that of the NT Government
- access to new private sector capital into the Northern Territory economy
- opportunity to realise the value inherent in an NT Government asset to allow capital to be channelled into new productivity and growth enhancing infrastructure”.¹⁸

In February 2014, NTG engaged a Lead Advisor to scope opportunities for private investment. The Lead Advisor provided advice that a long term lease of the Port was feasible.

Following the initial scoping study completed in April 2014 by the Lead Advisor, NTG undertook further detailed internal investigations and analysis on the scope of the Transaction to establish which assets could be put to the market under a long-term lease arrangement.

In late 2014, NTG undertook an assessment of the market appetite for the long term lease transaction. At that time, NTG had formed a preliminary view on the asset package and the high level terms and conditions which it sought to include in the long term lease arrangement.

In January 2015, NTG launched an exploratory process to gauge the level of national and international private sector interest in the Port. Registrations of interest in leasing the Port were received from 33 private investors.

The Indicative Bids Phase for the lease of the Port commenced in May 2015 and closed at the end of June 2015. At that time, NTG prescribed the following structure for the lease of the Port:

- the grant of a 99 year lease over the Port property and assets from NTG in return for an upfront lease premium;
- acquisition of shares in DPO in exchange for consideration; and
- the development of and entry into documented agreements supporting the Transaction.

The shortlist of bidders was invited to participate in the Binding Bids Phase which commenced in July 2015 and concluded at the end of September 2015. In July 2015, the identity of shortlisted bidders was provided to the Foreign Investment Review Board and the Australian Competition and Consumer Commission to enable these agencies to undertake required due diligence. The Binding Bids Phase resulted in the NTG receiving eleven indicative offers and three Binding Bids.

¹⁸ Port of Darwin Project Steering Committee – Northern Territory Government, *Submission to the Port of Darwin Select Committee*, http://www.nt.gov.au/lant/parliamentary-business/committees/pod/Submissions/Number_4_Northern_Territory_Government.pdf (accessed 31 May 2016)

Department of Treasury and Finance cont...

The evaluation of the bidding process was undertaken by a committee comprised of a sub-group of the NTG Port Project Steering Committee and independent experts. A probity advisor oversaw all engagement with bidders and the evaluation process. The probity advisor's report identified no issues with the evaluation process.

On 13 October 2015, NTG announced that it had selected Landbridge as the successful bidder for the 99 year lease of the Port.

On 16 November 2015, DPO was sold and the lease agreement with Landbridge commenced. The lease agreement will expire on 15 November 2114.

The lease of the Port and the sale of the controlling interest in DPO resulted in NTG receiving \$506 million. This represents the total amount paid for the Transaction allocated between:

- a lease premium of \$390.6 million for the Port Lease paid to the Department of Lands, Planning and the Environment (DLPE) who then distributed the lease premium to the NTG Central Holding Authority; and
- the purchase price of \$115.4 million for DPO, including stamp duty, which was paid to Darwin Port Corporation (DPC) and subsequently transferred to the NTG Central Holding Authority.

The leasing arrangements also specify levels of investment and community sponsorship to be undertaken by Landbridge over the life of the lease.

Under the arrangement, NTG will also receive a share of future revenue where better than expected trade performance arises. This is subsequently referred to as contingent rent. This arrangement enables the NT to share in the upside from the natural strengths of the NT economy from future resource cycles, growth in offshore gas activity and the expected growth in the live cattle export trade.

Under the arrangement, the operator of the port provides the civil infrastructure and is responsible for maintenance of port assets, provision of pilotage services and direction of vessel movement and scheduling among other tasks, and consequently has the right to charge for port use. Stevedoring services are provided by contractors to the operator of the port. These contractors are responsible for handling of goods and loading and unloading of vessels.

The areas of the Port of Darwin that have been leased to the Landbridge are:

- East Arm Wharf and the land and waters next to the wharf;
- Darwin Marine Supply Base;
- Fort Hill Wharf which is used for cruise ships and Defence vessels;
- bulk fuel terminal that is leased to VOPAK; and
- land adjacent to the railway for possible future development.

Department of Treasury and Finance cont...

Excluded areas are Frances Bay Mooring Basin including Sadgroves Creek moorings, Hornibrook's Wharf, Fisherman's Wharf and Stokes Hill Wharf.

Structuring the Transaction

In undertaking the Transaction, three key structuring milestones occurred, namely Day 0, Day 1 and Day 2. Whilst the actual dates are not consecutive, they represent the three stages of the Transaction.

Day 0

On and prior to Day 0, being 31 December 2014, DPC transferred out excluded assets and associated liabilities such as Frances Bay Mooring Basin, Hornibrook's Wharf, Fisherman's Wharf and Stokes Hill Wharf to other NTG entities. These assets were identified as "Excluded Business" in the Transaction.

After Day 0 and before Day 1, DPC acquired all shares in DPO. This acquisition took place on 16 June 2015.

Day 1

On Day 1, being 1 July 2015, the following activities/events occurred:

- non-land assets and liabilities that were to be included in the sale arrangement (referred to as "Included Business B") were transferred to DPO; and
- relevant land assets / interests that were to be included in the lease arrangement were transferred from DPC (referred to as "Included Business A") and from Land Development Corporation (LDC) (referred to as "Included Business C") to DLPE.

Following Day 1, a number of contractual agreements were put in place between NTG, DPC and DPO. These included:

- an Interim Port Lease under which the land related assets owned by DLPE would be leased to DPO;
- a Port Chattel Lease under which the structures, improvements, plant and equipment on Port land ("included Business B") that are legally owned by NTG would be leased to DPO;
- a Port Operating Deed which provided the obligations of DPO in respect of the operations of the Port; and
- agreement that relevant employees of NTG would remain employed by NTG until Day 2 at which time they would transferred to DPO.

The Darwin Port Manager Trust (PMT) was established after Day 1 with DPO as the trustee company.

Department of Treasury and Finance cont...

Day 2

On Day 2, being 16 November 2015, the following activities/events occurred:

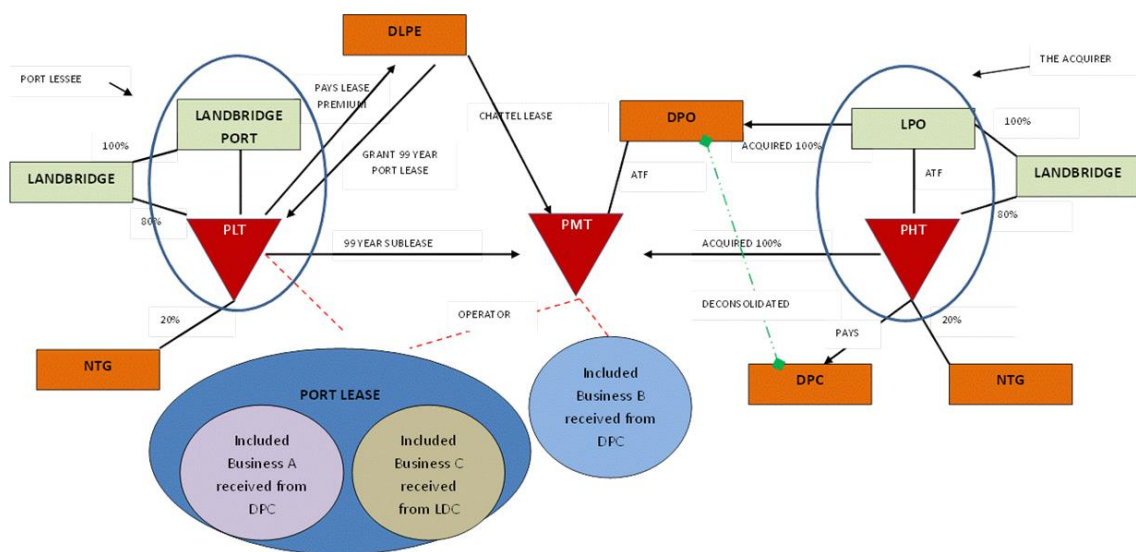
- Landbridge Port Operations Pty Ltd (LPO) as trustee for the Landbridge Darwin Port Holding Trust (PHT) entered into the Sale and Purchase Agreement with NTG and DPC to acquire the shares in DPO from DPC;
- the proceeds from the sale of the shares in DPO were paid directly to DPC and were subsequently distributed to the Central Holding Authority;
- relevant employees terminated their employment with NTG and became employed by DPO;
- DLPE (as the Port Lessor) granted a 99 year Port Lease to the Port Lessee (Landbridge Port Pty Ltd as trustee for the Landbridge Darwin Port Lessee Trust (PLT)), a Bid Trust nominated by Landbridge; and
- DLPE (as the Port Lessor) granted a 99 year Chattel Lease to DPO (as trustee for the Darwin Port Manager Trust (PMT)); and
- a lease premium, in respect to the grant of the 99 year Port Lease, was paid by the Port Lessee to DLPE who then distributed the lease premium to the NTG Central Holding Authority.

A condition of the leasing arrangements is that NTG will retain a 20% interest in the leasing arrangements until Landbridge can identify an Australian investor to acquire the 20% interest. As a result, NTG has a 20% interest in both PHT and PLT.

Department of Treasury and Finance cont...

The figure below represents the ownership and leasing arrangements following the Transaction.

Figure 1: Diagrammatical representation of the Transaction



Legend	Description
Landbridge Port	Landbridge Port Pty Ltd (trustee for PLT)
PLT	Landbridge Port Lessee Trust (NTG holds 20% ownership)
DPO	Darwin Port Operations Pty Ltd (trustee for PMT)
PMT	Darwin Port Manager Trust (fully owned and controlled by the Landbridge Group)
LPO	Landbridge Port Operations Pty Ltd (PHT)
PHT	Landbridge Port Holding Trust (NTG holds 20% ownership)
Included Business A	Land assets / interests that were to be included in the <u>lease</u> arrangement that were transferred from DPC
Included Business B	Non-land assets and liabilities such as contracts, chattels, businesses, liabilities licences included in the <u>sale</u> arrangement
Included Business C	Land assets / interests that were to be included in the <u>lease</u> arrangement that were transferred from LDC.
DLPE	Former Department of Lands, Planning and the Environment
DPC	Former Darwin Port Corporation
NTG	Northern Territory Government

Department of Treasury and Finance cont...

Accounting implications surrounding the sale of DPO

The NTG calculated the value of DPO based on the net tangible assets as at 1 July 2015. The value of DPO's business was based upon the consideration paid by the Acquirer. This included intangible assets such as existing contractual agreements. To calculate the value of DPO's net assets as at 1 July 2015, the value of the Long Term Lease of the Darwin Port Corporation Port Package (the Port Package) was first determined. The NTG, through the Department of the Chief Minister, engaged consultants to provide accounting advice in relation to the Port Package.

Calculation of the value of DPO's net assets as at 1 July 2015 commenced by using the audited balance sheet of DPC as at 30 June 2015 with the following adjustments:

- exclusion of non-vesting items such as cash and borrowings, including interest receivable and payables, provisions for income tax and tax related balances;
- inclusion of the transfers to and from DLPE at the recorded book value;
- inclusion of navigational aids located at the Darwin Marine Supply Base from DLPE at book value;
- inclusion of employee long service leave balances as at 30 June 2015 held by CHA; and
- exclusion of business land assets transferred from DPC to DLPE.

Following the calculated pro forma value of the Port Package, the net assets of DPO were separated from the pro forma value of the Port Package. The net assets of DPO were calculated as the pro forma value of the Port Package less employee related balances and the Port land and improvements attached to the land.

The NTG engaged external consultants to provide a due diligence report on the long term lease of the Port of Darwin. The due diligence exercise reported on certain assets, liabilities and operations of DPC and was used by NTG to determine which assets and liabilities were transferred in and out of DPC to DPO. The due diligence did not address valuation of assets and liabilities to be included in the Port Package. Though the audited DPC balance sheet as at 30 June 2015 was used as a starting point for the calculation of the Port Package, the material and significant transfer of assets in and out of DPC and DPO during the Transaction meant that results of the DPC audit could no longer be inferred on the resulting DPO balances.

The value attributed to DPO's net assets as at 1 July 2015 was not subject to independent audit by my Office or a third party service provider.

The value of DPO's net assets as at 1 July 2015 and the value of the leased assets from DLPE may have been misstated which could have resulted in the recorded gain on sale of DPO and the fair value gain on the leased assets being misstated and/or the negotiated sale and leasing settlement not representing the true value of the assets.

Department of Treasury and Finance cont...

In the consolidated accounts of DPC as at 30 June 2015, DPC recognised a gain on the sale of DPO. This represented the excess of the amount paid by the Acquirer above the carrying value of DPO's net assets as at 16 November 2015.

In the stand-alone accounts of DPC, DPC recognised a gain on the sale of DPO being the excess of the amount paid by the Acquirer above the investment in the subsidiary. The investment, which was recorded at cost, was equal to the net assets of DPO on 1 July 2015. Accordingly, the gain on DPC's stand-alone financial statements includes DPO's trading profits from 1 July 2015 to 16 November 2015.

From my review, based on the information provided, nothing has come to my attention that causes me to believe the sale of DPO has not been accounted for in accordance with Australian Accounting Standards.

Accounting implications surrounding the long term lease of the Port

As explained previously, NTG has a 20% stake in PLT and PHT. There were 2 classes of securities issued by these trusts: "A Ordinary Securities" representing 20% of the total securities on issue; and "B Ordinary Securities" representing 80% of the total securities on issue. The Landbridge Group hold the B Ordinary Securities.

NTG does not control the trusts through its 20% interest. NTG does not have significant influence over the financial and operating policies of the trusts therefore the 20% interest does not represent an investment in an associate. NTG representatives are unable to participate in the trustee companies' Board of Directors meetings and does not have participation rights or exposure to benefits attached to the ownership interest of 20%. None of the control criteria under Australian Accounting Standard AASB 10 *Consolidation* were met and therefore the interest has not and will not be consolidated or recognised in the NTG's financial statements.

NTG holds the A Ordinary Securities until an Australian investor is found by the Landbridge Group. The A Ordinary Securities do not grant the same voting rights as the B Ordinary Securities.

NTG is entitled to a distribution each financial year, however for the first 18 months (from 16 November 2015) the distribution is reinvested. After five years, the Trusts are required to make payments based on the purchase price. The payment will be higher in the event that NTG still holds the A Ordinary Securities after five years. This clause should be accounted for as a contingent asset. Such contingent consideration would initially be measured at fair value and subsequently re-measured each reporting period for any changes to probability estimates and assumptions as to the likelihood of an Australian investor being found within the relevant timeframes. NTG did not record a contingent consideration based on their assessment that the value of any contingent consideration would be negligible upon initial recognition as it is expected that an Australian investor will be found within five years from 16 November 2015.

Department of Treasury and Finance cont...

There was no formal documentation of the assessment performed by NTG to substantiate the conclusions that:

- the value of any contingent consideration would be negligible upon initial recognition; and
- it was more probable than not that an Australian investor will be found within five years from 16 November 2015.

NTG recognised the entire purchase consideration, including contingent consideration attributed to the 20% interest (which was determined by NTG as \$nil) at the time the DPO shares were transferred to the Acquirer. The rationale for this was that NTG had lost control upon the sale of the DPO shares and, in accordance with AASB 10 *Consolidation*, NTG recognised the gain associated with the loss of control.

NTG formed the following conclusions:

- The Port Lease represents a finance lease as the Port Lessee will bear the majority of the risks and rewards of ownership of the leased assets (including the Port land) over the lease term.
- DLPE derecognised the land, improvements and fixtures subject to the lease upon entering into the 99 year lease and recognised a revaluation gain to uplift the assets to fair value and to recognise its residual interest in the finance leased assets.
- As required by AASB 117 *Leases*, DLPE recognised its net investment in the leased assets. As DLPE received the full lease premium in advance, there is no effective interest rate calculated in relation to the lease premiums.
- DLPE will recognise contingent rent (received if Port operations exceed a specified level) only as it is incurred.
- The net present value of the unguaranteed residual amount (being the value of the assets to be returned at the conclusion of the 99 year lease) will be calculated by NTG and credited to the profit or loss statement as finance income on an annual basis over the 99 year lease term.
- The option to acquire and lease additional/new Port land by Port Manager and the subsequent leaseback to the Port Manager of any additional/new Port land acquired/leased by the Port Lessor will be accounted for only if and when the option is exercised.
- The option for the Port Lessee to acquire the end of term Port assets will be accounted for only if and when the option is exercised.
- No deferred tax on the residual interests is recognised in accordance with guidance in the National Tax Equivalent Regime Manual.

Department of Treasury and Finance cont...

From my review, based on the information provided, nothing has come to my attention that causes me to believe the accounting treatment of the long term lease within the financial statements of the NTG is not in accordance with Australian Accounting Standards.

Other observations

AASB 117 *Leases* requires any initial direct costs incurred in relation to the Port lease to be capitalised. Such direct costs would include the costs associated with advisors, legal costs and due diligence exercises. Excluding travel (to visit the port operations of shortlisted bidders) and incidental costs, the NTG has captured direct costs associated with the Transaction of \$27 million. All direct costs incurred by NTG were expensed therefore, in this respect; the NTG has not complied with Australian Accounting Standards.

AASB 117 *Leases* does not provide specific guidance on how any unguaranteed residual value should be measured or estimated. NTG, through the Department of Chief Minister, engaged a professional services firm to provide accounting advice on the accounting treatment of the asset upon its return to the NTG in 99 years and the assessment of the fair value of the expected residual value. The absence of an NTG specific policy relating to accounting for residual interest resulted in the professional services firm, with the agreement of the NTG, valuing the residual value of the leased assets with regard to the *NSW Treasury Accounting Policy – Accounting for Privately Financed Projects – Policy and Guidelines Paper* (the NSW Guidelines) as at 16 November 2015 (the Valuation date). The adoption of another jurisdiction's guidance in this regard appears appropriate.

Department of Treasury and Finance cont...

The Department of Treasury and Finance has commented:

The recommendations are noted.

Comprehensive due diligence was undertaken on the entire transaction to ensure the Territory received value for money on the long term lease of the Port of Darwin. In this regard, it is the view of the Territory that the matters raised with regards to the value of DPO's net tangible assets as at 1 June 2015 and the value of the leased assets from DLPE has no bearing on the appropriateness or adequacy of the final consideration received.

In addition, independent accounting advice was sought on the lease and related transactions including the recognition of any contingent considerations to ensure that they were appropriately disclosed in the whole of government accounts.

Contingent considerations with regards to the Territory's 20 per cent share will be assessed annually from 2016-17 and recorded if appropriate.

Jabiru Town Development Authority

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

The Authority is indebted to the Northern Territory Government as a result of loans provided to the Authority for the construction of infrastructure. The initial value of loans provided was \$8.40 million, but by 1986, the amount outstanding had increased to \$8.80 million due to the capitalisation of net unpaid interest. In August 1986, the Northern Territory Government granted the Authority a moratorium on interest payments and principal repayments on existing loans. That moratorium continued to apply at 30 June 2016.

Audit Opinion

The audit of the Jabiru Town Development Authority for the year ended 30 June 2016 resulted in an unqualified independent audit opinion, which was issued on 11 October 2016.

Key Findings

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

“Moratorium on loan repayments

The Authority refers to its expectation of the continuation of the indefinite moratorium on the Authority’s future interest and principal repayment of loans due to the Northern Territory Government totalling \$8,804,916. Without this moratorium, there would be significant uncertainty as to whether the Authority would be able to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Legislative changes

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

Jabiru Town Development Authority cont...

Performance Overview

The Authority currently prepares its annual financial statements on a going concern basis. As identified in previous years, there are two significant events which may bring the appropriateness of this assumption under question. These are:

- The Authority holds a loan owed to the Northern Territory Government totalling \$8,804,916 as at 30 June 2016. There is currently a moratorium in place allowing the Authority relief from making the principal and interest repayments on this loan. Should this moratorium be lifted, it is uncertain as to whether the Authority would have access to sufficient liquid resources to meet these repayments.
- In June 2013, the Federal Parliament ratified the *Aboriginal Land Rights and Other Legislation Amendment Act 2013*. One of the possible ramifications of this Bill is the transfer of the lease over the Jabiru township from the Authority to the Kakadu Aboriginal Land Trust. Should this occur, the current lease between the Director of National Parks and the Authority will cease to exist.

Jabiru Town Development Authority (the “Authority”) generated a net deficit of \$255 thousand for the year ended 30 June 2016:

- Total revenue of \$127 thousand (2015: \$153 thousand) decreased from the prior year by \$26 thousand due to the decreased interest received as a result of the reduction in the funds held on deposit during the year.
- Total expenses of \$382 thousand (2015: \$1.5 million) decreased from the prior year by \$1.14 million due to the significant repairs and maintenance work for the power, water and sewerage infrastructure in the town that occurred during the prior year.

The Authority has a net liability position. As at 30 June 2016, the net liability position of the Authority was \$6.7 million (2015: \$6.5 million), comprising:

- Cash and deposits of \$1.8 million;
- Receivables of \$6 thousand;
- Non-current assets of \$272 thousand offset by
- Payables totalling \$49 thousand; and
- Borrowings of \$8.8 million.

Jabiru Town Development Authority cont...

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
Grants	90	90
Interest	37	58
Sub-lease transfer proceeds	-	5
Total income	127	153
Less expenditure		
Administration expenses	(319)	(1,463)
Amortisation of town infrastructure	(63)	(63)
Total expenditure	(382)	(1,526)
Surplus/(deficit)	(255)	(1,373)

Jabiru Town Development Authority cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	1,839	2,438
Receivables and other current assets	6	62
Less current liabilities	(49)	(511)
Working Capital	1,796	1,989
Add non-current assets	272	334
Less non-current liabilities	(8,805)	(8,805)
Net Assets	(6,737)	(6,482)
Represented by:		
Accumulated deficit	(6,737)	(6,482)
Equity	(6,737)	(6,482)

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of the Land Development Corporation for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 23 September 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a surplus of \$2.8 million compared to the prior year's surplus of \$29.0 million. The decrease in surplus was attributed to the following:

- There was a significant decrease of \$19.2 million in land sales for the period due to weaker market conditions. There were no industrial land sales during the year and residential sales were below expectations. Accordingly, cost of sales of land also declined by \$9.0 million to \$7.5 million (2015:\$16.6 million).
- In the prior year, the Corporation received an asset for nil consideration valued at \$18.4 million for accounting purposes.
- Rental income for the year was \$1.9 million compared to \$4.9 million in 2015. The Corporation no longer receives rental income generated from the lots that formed part of the former Darwin Port Corporation, primarily the fuel terminal which contributed approximately \$1.7 million revenue per annum.
- The settlement of the Kenbi Land claim contributed to the increase in expenses of \$2.4 million from \$0.4 million in the prior year.
- Employee expenses increased by \$0.6 million due to additional senior staffing positions that did not exist in the prior year.

The decrease in net surplus noted above was positively impacted by community service obligation revenue of \$8 million recognised during the year. This included an amount of \$1.9 million related to the development of strategic projects and \$6.1 million associated with the settlement of the Kenbi Land claim by the Northern Territory government.

Land Development Corporation cont...

The Corporation continued to hold a strong net asset position of \$139.8 million as at 30 June 2016, compared to \$138.8 million at 30 June 2015. The Corporation had a secure liquidity position with \$22.5 million in cash and a portfolio of land with \$23.4 million in current land inventory and \$113.9 million in non-current land inventory. The Corporation returned a dividend of \$984 thousand to the Territory.

Land Development Corporation cont...

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
Revenue from land sales	8,017	27,241
Royalties, rents and dividends	1,868	4,889
Community service obligations	7,960	-
Development grants	-	855
Other	1,401	788
Asset acquired for nil consideration	-	18,350
Total income	19,246	52,123
Less expenditure		
Cost of land sold	(7,536)	(16,581)
Depreciation and amortisation	(351)	(338)
Employee expenses	(2,739)	(2,130)
Interest	(1,134)	(1,332)
Operational costs	(4,676)	(2,693)
Total expenditure	(16,436)	(23,074)
Surplus before income tax expense	2,810	29,049
Income tax expense	(843)	(2,953)
Surplus after income tax expense	1,967	26,096

Land Development Corporation cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	22,528	38,057
Receivables and other current assets	24,249	30,878
Less current liabilities	(25,239)	(31,158)
Working Capital	21,538	37,777
Add non-current assets	133,283	116,130
Less non-current liabilities	(15,019)	(15,082)
Net Assets	139,802	138,825
Represented by:		
Capital	54,089	54,095
Reserves	1,864	1,864
Accumulated funds	83,849	82,866
Equity	139,802	138,825

Land Development Corporation

Tiwi Islands Leasing Arrangements

Scope and Objective

To provide the Legislative Assembly with an understanding of the proposed leasing arrangements on the Tiwi Islands including:

- an overview of transactions relating to the lease agreement;
- a chronological record of the processes leading to the current leasing arrangements;
- the current situation and intent of the leasing arrangement; and
- an overview of the legal and financial structure of the arrangements and the related accounting treatment.

The review did not examine the policy underlying the leasing arrangements.

The review did not extend into commercial or transactional arrangements between parties external to the Northern Territory Government beyond those that directly involved Land Development Corporation.

Conclusion

Whilst significant activity has been undertaken by Land Development Corporation in pursuing economic development on the Tiwi Islands following the payment of \$1 million on 27 August 2013, I was not provided with evidence to demonstrate that a robust and comprehensive evaluation of the project had occurred prior to the payment being made. There exist a number of opportunities for Land Development Corporation to improve the diligence surrounding initiatives such as the Tiwi Islands leasing arrangements and the continued management of such initiatives.

Recommendations

Recommendations arising from this review have been summarised below:

- Land Development Corporation should ensure there are no additional obligations or commitments imposed by similar agreements and arrangements related to the economic development of remote land.
- Land Development Corporation should ensure that a robust and comprehensive business case including a cost-benefit analysis is prepared prior to entering into substantial financial transactions.
- Communication prepared to inform key decision-makers should be comprehensive, complete and list all available options.

Land Development Corporation cont...

- Land Development Corporation should prepare and retain appropriate evidence to demonstrate value for money principles were applied prior to entering into substantial financial transactions.

Land Development Corporation needs to continue to assess at each reporting date:

- the existence of assets and liabilities (actual or contingent) arising as a result of the Tiwi Development Framework Agreement;
- the recoverability of the Advanced Payment and Pre-Lease Costs, either through deductions from rental earned from lease arrangements or direct recovery from the parties to the Tiwi Development Framework Agreement; and
- the likelihood of any leasing arrangements being entered into.

Background

Overview

On 27 August 2013, Land Development Corporation paid \$1 million (excluding goods and services tax [GST]) to Tiwi Resources Pty Ltd as trustee for the Tiwi Resources Trust for a 99 year lease agreement over land from the Tiwi Aboriginal Land Trust. The \$1 million payment is hereafter referred to as the Advanced Payment.

Location

The 99 year leasing arrangements relate to 10,040 hectares of land on the Tiwi Islands which had not been specifically identified but were designated as follows:

- 10,000 hectares of land for pastoral, agriculture and aquaculture purposes;
- 10 hectares of land for rural residential and residential purposes;
- 20 hectares of land for tourism and industrial purposes; and
- 10 hectares of township land, including land around Wurrumiyanga.

Benefits

The leasing arrangements were intended to facilitate development of agriculture, aquaculture, industrial and tourism industries on the Tiwi Islands.

Land Development Corporation cont...

Chronology

Listed below is a timeline of events relating to the Tiwi Islands leasing arrangements. It should be noted that this timeline has been produced using a range of source information and I was unable to obtain documentary evidence to corroborate all dates.

Date	Action
June 2013	NT Government identified a number of initiatives that could progress economic development on the Tiwi Islands if funding could be identified.
19 August 2013	In principle approval given to provide funding to the Tiwi Land Council in exchange for long-term leases to support sub-leasing opportunities to encourage commercial development. NT Government commenced developing a map identifying areas suitable for residential; industrial; fishing; agricultural and tourism development.
20 August 2013	Advice received from the Valuer-General that \$1 million was the market value equivalent of: 20,000ha of land held under a pastoral lease; or 10ha of rural residential land; or 5 to 10ha of high-end tourism or industrial land.
22 August 2013	NT Government offered an upfront lease premium in return for the Tiwi Aboriginal Land Trust providing 99-year leases over 10,040ha of land for pastoral, agricultural, residential, tourism, industrial, aquacultural and township purposes. The Tiwi Aboriginal Land Trust and the Tiwi Land Council agree to the offer.
26 August 2013	The former Chief Executive of Land Development Corporation approved the payment of an up-front lease premium to Tiwi Resources as trustee for the Tiwi Resources Trust (as nominated by the Tiwi Land Council to be the recipient of the funds).
27 August 2013	Payment of \$1 million (excluding goods and services tax [GST]) occurs together with a further payment of \$100,000 for GST.
1 November 2013	Solicitor-General advises Land Development Corporation to develop a leasing framework.

Land Development Corporation cont...

Date	Action
December 2013	Memorandum of Understanding signed between the Northern Territory Government and the Tiwi Land Council. This document was prepared by the Department of the Chief Minister and was not able to be provided by Land Development Corporation at the time of the review.
3 March 2014	Land Development Corporation completes a Business Case supporting the leasing arrangements.
30 April 2014	Tiwi Land Council provides consent to the investigative and planning processes required to establish the leasing framework to support the preparation and publication of an investment prospectus.
29 August 2014	Land Development Corporation provides a draft leasing agreement to the Tiwi Land Council.
10 December 2014	Tiwi Aboriginal Land Trust and Tiwi Land Council sign the Tiwi Development Framework Agreement.
12 December 2014	Tiwi Resources Pty Ltd signs the Tiwi Development Framework Agreement.
December 2014	Tiwi Islands Investment Prospectus released.
6 February 2015	Land Development Corporation signs the Tiwi Development Framework Agreement.
5 March 2015	The former Chief Minister announces the Development Framework Agreement on the Tiwi Islands.

Findings

Establishment of a business case for the proposed leasing arrangements

The Tiwi Development Framework Agreement represents the overarching legal document pertaining to the proposed leasing arrangements between the Northern Territory and the Tiwi parties to the agreement. The Tiwi Development Framework Agreement did not come into effect until 6 February 2015.

Documents provided for my review included reference to a Memorandum of Understanding between the Northern Territory Government, the Tiwi Land Council and the Tiwi Aboriginal Land Trust (dated 12 June 2013 and signed in December 2013) and a Tiwi Islands Regional Heads of Agreement. The draft wording of the Tiwi Islands Memorandum of Understanding is publicly available however both of these documents were prepared and executed by the Department of the Chief Minister and signed, executed copies were not provided to me for review.

Land Development Corporation cont...

The Tiwi Development Framework Agreement makes reference to the intent of the NT Government and the Tiwi Land Council to enter into a partnership agreement to formalise a commitment to economic development and job creation on the Tiwi Islands. To the extent that the Memorandum of Understanding, Tiwi Islands Regional Heads of Agreement or any subsequent partnership arrangement affect Land Development Corporation, these documents should be obtained and retained by Land Development Corporation.

A payment of \$1 million, exclusive of goods and services tax (GST), was made on 27 August 2013.

Following the payment, a Strategic Assessment and Options Analysis document was prepared by the Department of Treasury and Finance for Land Development Corporation in relation to Tiwi Islands Economic Development. The paper advised that the description of the proposal was to facilitate development of agriculture; aquaculture; industrial; and tourism industries on Tiwi Islands.

No evidence was provided to me that demonstrated a strategic risk assessment and cost-benefit analysis was undertaken prior to making the payment of \$1 million. There was no cost-benefit analysis prepared that provided a net present value to the Northern Territory, either positive or negative. The nature and scope of the arrangements were not established and there were no terms agreed between the parties prior to the transfer of funds. Increased risk arises when payments are made prior to parties entering into any written agreement. For future initiatives, appropriate negotiation and agreement should be reached prior to committing the funds of the Northern Territory.

The Strategic Assessment and Options Analysis document was prepared following the announcement of a government policy initiative in relation to advancing economic development. The Strategic Assessment and Options Analysis did assess the advantages and disadvantages of the option to enter into the leasing arrangement. The paper identified:

- the reason for the project proposal;
- the benefit – being the generation of economic development on the Tiwi Islands;
- the risk – the major risk being that there may be a lack of market interest in land development on the Tiwi Islands and that Land Development Corporation would be unable to recover the funds spent;
- the opportunity – to seek funding from Infrastructure Australia for delivery of assets on the Tiwi Islands;
- advantages of the initiative – generating employment and training opportunities for the Tiwi people; generating diversity of employment; breaking the cycle of welfare dependency; and receipt of funding to upgrade assets;

Land Development Corporation cont...

- disadvantages of the option – people may not be attracted to the employment and training opportunities and thus not make a positive economic impact; Land Development Corporation may receive head leases that cannot be sub-leased; or there may not be sufficient interest to recover the \$1 million Advanced Payment;
- costs for pre-lease activities were estimated at approximately \$800,000 with an expectation that the Department of the Chief Minister would meet any costs associated with feasibility studies and Land Development Corporation would meet costs associated with environmental assessments, geological surveys and leasing arrangements; and
- timeframes – the head lease was to be entered into by mid-2014.

Irrespective of the timing of the preparation of the Strategic Assessment and Options Analysis, the most significant shortcoming of the Strategic Assessment and Options Analysis is that it presented only one option, that being to enter into the leasing arrangements. The alternative to taking action is to take no action. I acknowledge that, as the Advanced Payment had already been made, the options available were limited. For future initiatives, any Strategic Assessment and Options Analysis, or equivalent document, should include 'taking no further action' as an option for consideration.

A Business Case document was signed off as complete on 3 March 2014. The document identified three tasks that were required to be completed in order to achieve successful leasing of land on the Tiwi Islands. These were to:

- prepare an Economic Development Strategy to assist with identifying preferred investors who will develop land on the Tiwi Islands, whilst also identifying the training and business needs of the Tiwi people;
- undertake aerial photography for Bathurst Island to successfully complete land capability and cultural assessment; and
- obtain certification from the Aboriginal Areas Protection Authority before any land capability assessment.

The Business Case established a Proposed Evaluation Method for each of the three tasks. Management of Land Development Corporation have advised that the milestones in the 2014 Business Case have been largely achieved as at the date of the completion of this review. The Economic Development Strategy was undertaken by a consultant in February 2015. Aerial photography was completed. The land capability and cultural assessment was completed and the outcomes were released in a public document in June 2016. Informal consultation has been undertaken in relation to sacred sites and traditional use of the lands however further formal and informal assessment certification will only be able to be undertaken when specific development sites are established.

Land Development Corporation cont...

Justification for the value of the payment

The payment of \$1 million, made on 27 August 2013, has been variously described within the documentation provided for review as an “Advanced Payment”; a “premium payment”; a “payment to secure Land Development Corporation’s ability to enter negotiations of the Tiwi Development Framework Agreement”, and a “lease facilitation payment”. The Tiwi Development Framework Agreement refers to the payment of \$1 million as an Advanced Payment, a term used throughout this report.

Email correspondence dated prior to the payment suggested the Valuer-General had estimated that the value of any land parcel in the Territory sized at 10,040 hectares would be worth \$1 million. There was no formal report or documentation dated prior to 27 August 2013 which provided the assumptions and basis underlying that estimate. The \$1 million was not aligned to land values on the Tiwi Islands as the land destined to be leased had not been specifically identified or designated at that time.

An independent valuation entity issued a report in May 2015 in response to an instruction by Land Development Corporation “to provide sales evidence as to value and rent on remote lands in the NT”. Whilst prepared in accordance with instructions from Land Development Corporation, the valuation report was not specific to the Tiwi Islands and drew from information relating to land use and value in other areas of the Northern Territory such as the Douglas Daly region, Katherine and Alice Springs. I acknowledge that limited transactions have occurred in relation to valuations of land on the Tiwi Islands and that the instructions from Land Development Corporation were intended to result in a valuation that could be inferred upon the agreed acreage and nature of land to be leased. Given that the actual parcels of land had not been agreed and valued at the time of payment, and in the absence of further documentary support, I am unable to conclude that there existed any evidence to support the value of the \$1 million payment prior to May 2015.

Sufficient appropriate information should be obtained, assessed and retained to demonstrate the value for money principle has been applied to each transaction entered into by Land Development Corporation.

Land Development Corporation cont...

Parties to the Tiwi Development Framework Agreement

The Northern Territory Government parties to the Tiwi Development Framework Agreement, and their financial responsibilities, are:

- Department of the Chief Minister – no financial contribution relating to leases, however direct and indirect costs associated with marketing opportunities on the Tiwi Islands.
- Land Development Corporation – \$1 million Advanced Payment to the Tiwi Islands, direct and indirect costs associated with marketing; informing potential lessees about opportunities that could be pursued on the Tiwi Islands; travel; geological, ecological and environmental studies; and costs of consultation with the Tiwi people and associated entities.

The following entities exist to provide economic development and commercial services to the Tiwi people and are parties to the Tiwi Development Framework Agreement:

- Tiwi Aboriginal Land Trust – its purpose is to own and hold the land and assets upon the land (other than land under lease). The only organisation able to direct and operate the Tiwi Aboriginal Land Trust is the Tiwi Land Council.
- Tiwi Land Council – parent entity of Tiwi Resources Pty Ltd. Tiwi Land Council is required to consult with Traditional Owners in relation to any proposed sub-leasing and business arrangements entered into as a result of the Tiwi Development Framework Agreement.
- Tiwi Resources Pty Ltd – wholly controlled entity of the Tiwi Land Council, recipient of the \$1 million Advanced Payment and jointly and severally liable with the Tiwi Aboriginal Land Trust for repayment of the \$1 million in the event the objectives of the Tiwi Development Framework Agreement are not met.

There have been no special purpose entities established by the Northern Territory Government to facilitate the arrangement.

Structure and tenure of the Tiwi Development Framework Agreement

It is intended that Land Development Corporation will enter into the leases for a 99 year period and will then sub-lease the land to third parties for any or part of the remaining lease term.

Entities proposing to sub-lease land are required to present a concept/proposal for the land and the related business for acceptance by Traditional Owners. The Tiwi Land Council is responsible for undertaking consultation with Traditional Owners.

Under the *Aboriginal Land Rights (Northern Territory) Act 1976*, the Commonwealth Minister has responsibility for considering whether to approve the grant of each Lease (once agreed by the Tiwi Land Council and the Traditional Owners).

Land Development Corporation cont...

The underlying agreement, the Tiwi Development Framework Agreement, commenced on the date it was executed by the last of the parties to execute (6 February 2015) and, subject to any sooner determination in accordance with its terms, expires upon the earlier of the following:

- the expiry or sooner determination of the last Lease granted pursuant to the Agreement; or
- the 50th anniversary of the date of the Agreement unless the date is extended by mutual agreement of the parties.

The leases, if any, established as a result of the Tiwi Development Framework Agreement, can survive the term of the agreement.

Rights and obligations of the parties to the Tiwi Development Framework Agreement

Land Development Corporation is the intended entity for on-leasing the land and the entity having lessee rights for the land initially leased from the Tiwi Aboriginal Land Trust. Land Development Corporation operates under the *Land Development Corporation Act*, and previously reported to the Chief Minister of the Northern Territory in the portfolio Economic Development and Major Projects. From 12 September 2016, Land Development Corporation reports to the Minister for Infrastructure, Planning and Logistics.

In the event that no leases are entered into by the fifth anniversary of the date of signing [being 6 February 2020], it is a requirement to perform a review of the Tiwi Development Framework Agreement, and:

- if it is determined that it remains unlikely the objectives of the Tiwi Development Framework Agreement will be met, the agreement can be terminated and recovery of the Advanced Payment can be called from the Tiwi based parties to the agreement. In this instance, it may be appropriate to recognise a debtor until the amount is fully paid; or
- if it is determined that it is likely the objectives of the Tiwi Development Framework Agreement will be met, the parties can agree to continue with the agreement until a future point in time. The current accounting treatment would prevail however, it may be appropriate to recognise a contingent asset where it is probable that lease/leases will be entered into in the foreseeable future.

Lease and indemnity arrangements within the Tiwi Development Framework Agreement require Land Development Corporation to release and indemnify, and keep the Tiwi Aboriginal Land Trust and the Tiwi Land Council indemnified against all loss, damage, claims and liabilities (including for reasonable legal costs) which the Tiwi Aboriginal Land Trust and the Tiwi Land Council may be liable for in connection with any act or omission of Land Development Corporation, its employees, contractors, incites and agents or a party deriving title or possession including without limitation any damage or loss of property or death or injury to any person on any land the subject of a Lease. The indemnity is reduced to the extent any claim or liability is caused or contributed to by Tiwi Resources Pty Ltd, Tiwi Aboriginal Land Trust and the Tiwi Land Council.

Land Development Corporation cont...

Cost and return to the NT Government

The total costs of entering into the leasing arrangements include:

- \$1 million lease Advanced Payment;
- cost of land and water surveys;
- cost of developing the investment prospectus; and
- costs related to the establishment of the leases and sub-leases.

Pre-Lease costs associated with the proposed project were estimated at approximately \$800,000 in respect to the surveys, legal expenditure and certification. With the exception of the Advanced Payment, all other costs are collectively referred to as Pre-Lease Costs. The Tiwi Development Framework Agreement provides for Land Development Corporation to recover Pre-Lease Costs.

Given the aim of the strategy to lease land on the Tiwi Islands was to utilise Land Development Corporation's expertise as a strategic land developer in the Northern Territory, future government assistance is likely to include costs associated with marketing, communication and consultation; identification of land for leasing; and development and execution of lease arrangements.

Land Development Corporation maintains a specific expenditure code for capturing all costs associated with the project to enter into leasing arrangements on the Tiwi Islands. Total project costs are reported within the quarterly finance report to the Chief Executive and can be determined at any date. Total costs associated with the Tiwi Islands leasing project had reached \$1.461 million as at 30 June 2016.

Upon entering into sub-leasing arrangements, the Tiwi Development Framework Agreement requires Land Development Corporation, on a quarterly basis, to remit 50% of rent received in respect of all leases in place where there remains an amount unpaid relating to the Advanced Payment and the Pre-Lease Costs. Where the Advanced Payment and Pre-Lease Costs have been paid in full, Land Development Corporation is required on a quarterly basis to remit 80% of rent received in respect of all leases in place.

Accounting treatment applicable as a result of the Tiwi Development Framework Agreement

Liabilities

Land Development Corporation advised in May 2015 that the release and indemnity arrangements within the Tiwi Development Framework Agreement would be recognised as a contingent liability in the notes to the financial statements of Land Development Corporation as required. In October 2016, Land Development Corporation remained of the view that the leasing arrangements had not sufficiently progressed to require contingent liabilities to be recorded by Land Development Corporation or by the Northern Territory Government as a result of the Tiwi Development Framework Agreement.

Land Development Corporation cont...

Accounting treatment applicable as a result of the Tiwi Development Framework Agreement cont...

Assets

The Advanced Payment of \$1 million paid from Land Development Corporation to Tiwi Resources Pty Ltd was initially recorded by Land Development Corporation as an asset in the year ended 30 June 2014. This was de-recognised as an asset and expensed at 30 June 2014 due to uncertainty as to future leasing arrangements. To date, Land Development Corporation has been unable to justify recording the Advanced Payment as an asset as the timing and likelihood of benefitting from the asset are unknown. Due to the uncertainty of attracting interest from potential lessees and the fact that no leases have been entered into, this treatment appears appropriate. No assets or liabilities relating to the Tiwi Development Framework Agreement have been recognised elsewhere within the public sector.

The accounting treatment applied by Land Development Corporation as at the reporting date for each year following the Advanced Payment is summarised below.

For the year ended 30 June 2014: Land Development Corporation was unable to provide sufficient appropriate evidence to support its assertion that the \$1 million Advanced Payment represented an asset, primarily because no land had been identified to which a lease premium could be attributed and accordingly, no progress had occurred in relation to leasing land on the Tiwi Islands. Land Development Corporation was reluctant to record the payment as a loan due to the nature of the payment. The payment was therefore expensed as there was no asset recognised.

For the year ended 30 June 2015: Land had still not been identified to which a lease premium could be attributed and accordingly, no progress had occurred in relation to leasing land on the Tiwi Islands. Notwithstanding the development of a prospectus and significant work done by Land Development Corporation and a number of government departments, no leases had been negotiated. Consequently no asset was recognised.

For the year ended 30 June 2016: Land had still not been identified to which a lease premium could be attributed and accordingly, no asset was recognised.

In the event that Land Development Corporation and the Tiwi Land Council do agree the parcels of land subject to lease, it may be appropriate to recognise the \$1 million Advanced Payment as an asset.

Land Development Corporation cont...

Accounting treatment applicable as a result of the Tiwi Development Framework Agreement cont...

Revenue

No leases have been entered into as at 30 June 2016 therefore there is no revenue from sub-leases being received.

Expenditure

No leases have been entered into as at 30 June 2016 therefore there is no ongoing annual leasing charge applicable.

The annual financial statements of Land Development Corporation are subject to audit in accordance with Land Development Corporation's enabling legislation. No instances of non-compliance with Australian Accounting Standards have been identified in relation to the accounting treatment of the Advanced Payment for the years ended 30 June 2014, 2015 and 2016.

Failure to meet the obligations of the Tiwi Development Framework Agreement

The Tiwi Development Framework Agreement requires the Tiwi Land Council and Land Development Corporation to review the operation of the Agreement if, for any reason, no lease has been granted for any period of five consecutive years during the term of the Agreement. Following the review, both the Tiwi Land Council and Land Development Corporation may agree that the Agreement requires amendment and may negotiate and agree amendments or may decide that the Agreement does not and is not capable of meeting its objectives and terminate the Agreement.

If the Agreement is terminated, the Tiwi Aboriginal Land Trust and Tiwi Resources Pty Ltd will be jointly and severally liable to repay the amount of Remaining Advanced Payment to Land Development Corporation unless the Agreement was terminated due to Land Development Corporation breaching the Agreement. The Remaining Advanced Payment means, at the relevant date of calculation, the amount of the Advanced Payment, plus all Pre-Lease costs incurred pursuant to the Tiwi Development Framework Agreement, less any payments retained by Land Development Corporation.

The Commencement Date of the Agreement is "the date it is executed by the last of the parties to execute." The Tiwi Development Framework Agreement was signed by the Tiwi Aboriginal Land Trust and the Tiwi Land Council on 10 December 2014; by Tiwi Resources Pty Ltd on 12 December 2014; and signed by the last of the parties, Land Development Corporation, on 6 February 2015. The review date for the Tiwi Development Framework Agreement is therefore, no later than 6 February 2020.

Legislative Assembly Members' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Amendments to the Superannuation Act passed during 2010 assigned to the Trustee Board, established under that Act, the power to exercise powers and perform functions under the *Legislative Assembly Members' Superannuation Fund Act*.

Audit Opinion

The audit of the Legislative Assembly Members' Superannuation Fund for the year ended 30 June 2016 resulted in unmodified independent audit opinion, which was issued on 29 September 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The overall net assets of the Fund were \$65.1 million which represents 83% of the value of vested benefits as at 30 June 2016 (2015: 89%). Vested benefits are benefits not conditional upon continued membership of the scheme and include benefits that members are entitled to receive had they terminated their membership of the scheme at the reporting date. Vested benefits represent the present value of benefits payable in respect of former members and the benefits payable to current members on voluntary withdrawal from scheme membership at that date. The decrease from 89% to 83% indicates that the shortfall in net assets is increasing. Were all members to exit the scheme simultaneously at reporting date, the Northern Territory Government would have been required to fund the shortfall of \$13.3 million (2015: \$8.1 million).

Net assets of the fund decreased by \$3.2 million primarily due to the \$4.4 million of benefit payments offset by a \$1 million contribution from the Territory.

The triennial actuarial review was conducted as at 30 June 2016 and the actuarial calculations are reflected in the financial statements.

Legislative Assembly Members' Superannuation Fund cont...

Abridged Statement of Changes in Net Assets		
	2016	2015
	\$'000	\$'000
Income		
Interest and distributions	2,738	1,856
Changes in net market value of investments	(2,709)	4,596
Member contributions	37	44
Member surcharge contributions	-	60
Territory contributions	1,000	2,000
Total income	1,066	8,556
Expenditure		
Benefits paid	(4,422)	(3,979)
Superannuation contribution surcharge	(2)	(7)
Other expenses	(10)	(7)
Total expenses	(4,434)	(3,993)
Revenue less expenses before income tax expense	(3,368)	4,563
Income tax benefit	113	7
Change in net assets	(3,255)	4,570

Legislative Assembly Members' Superannuation Fund cont...

Abridged Statement of Net Assets

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	263	633
Investments	64,825	67,804
Tax asset	149	50
Total assets	65,237	68,487
Less liabilities	(108)	(103)
Net Assets	65,129	68,384
 Vested Benefits	 78,300	 76,465
Net assets as a percentage of vested benefits	83%	89%

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

Nitmiluk (Katherine Gorge) National Park Board

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of the Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 19 September 2016.

Key Findings

Performance Overview

Park income has increased by \$84 thousand compared to the previous year. This increased revenue is due to an increase in the number of visitors by approximately 4.5% from previous years. This was attributed to the region being accessible for a longer period of time with the decreased monsoonal activity during the year ended 30 June 2016.

It was also noted that the prior year balance for accrued revenue and accrued expenses have been restated to adjust for the overstatement of \$76 thousand in both accounts. This adjustment had no effect on the previously reported financial surplus or net assets however impacted the cash flow statement with a \$76 thousand increase in both receipts from sales of goods and services and payments to Traditional Owners and Parks and Wildlife Commission of the Northern Territory, thereby having a nil impact on the overall cash at the end of the financial year. This prior period adjustment has been reflected in the financial report.

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

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
Park income	927	843
Less payments to Traditional Owners	(575)	(541)
Less payments to the Parks and Wildlife Commission of the Northern Territory	(352)	(302)
Northern Territory Government funding sundry income	77	95
Total income	77	95
Less expenditure		
Operational costs	(77)	(95)
Total expenditure	(77)	(95)
Surplus	-	-

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

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	-	-
Receivables and other current assets	249	223
Less current liabilities	(249)	(223)
Working Capital	-	-
Add non-current assets	-	-
Less non-current liabilities	-	-
Net Assets	-	-
Represented by:		
Accumulated surplus	-	-

Northern Territory Government and Public Authorities Employees' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

Amendments to the Act, in 2010, established the Trustee Board (which replaced the Superannuation Investment Board). The Trustee Board is required:

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

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

Audit Opinion

The audit of the Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2016 resulted in unmodified independent audit opinion, which was issued on 3 October 2016.

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

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The growth (default) investment option of the fund achieved investment returns for the year of 1.66% (2015: 10.79%) reflecting poorer market returns.

It was noted that in February 2016 Adherent Accounts were transferred under a successor fund to Sunsuper. This event was the primary reason for the \$211 million increase in total benefit payments during the year.

I also note that in May 2016, the fund's investments were transitioned from units in life policies to units in unit trusts as a result of one investment entity selling its life insurance business. The change resulted in the fund being liable for tax on investment income and gains. Previously the tax on investment income and gains was paid by the investment manager/life policy.

As result the fund has recognised a Deferred Tax Asset for prior period tax losses of \$2.8 million.

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

Abridged Statement of Changes in Net Assets

	2016	2015
	\$'000	\$'000
Income		
Interest and distributions from investments	30,757	109
Movement in net market value of investments	(32,416)	97,232
Member contributions	26,828	27,404
Member surcharge payments received	128	263
Territory contributions	74,185	74,193
Transfers and rollovers	42,472	80,061
Total income	141,954	279,262
Expenditure		
Benefits paid	(542,205)	(331,188)
Other expenses	(613)	(877)
Total expenses	(542,818)	(332,065)
Revenue less expenses before income tax expense	(400,864)	(52,803)
Income tax benefit/(expense)	232	(5,577)
Change in net assets	(400,632)	(58,380)

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

Abridged Statement of Net Assets

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	1,843	368
Investments	545,439	947,932
Other receivables	27,026	15,222
Total assets	574,308	963,522
Less liabilities	(45,076)	(33,658)
Net Assets	529,232	929,864

Vested Benefits	1,454,560	1,819,130
Net assets as a percentage of vested benefits	36%	51%

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

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of the Northern Territory Legal Aid Commission for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 3 October 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission has reported an operating surplus of \$258,429 for the year ended 30 June 2016. This result represents a 50% decline from the operating surplus recognised in the prior year.

While there has been a 33% increase in Commonwealth grant funds received from the prior year, there has been an 11% decrease in funding from the Northern Territory Government and an 11% increase in employee expenses.

Northern Territory Legal Aid Commission cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Grants – Northern Territory Government	5,757	6,495
Grants – Commonwealth	6,199	4,676
Grants – other	270	381
Rendering of services	199	360
Other	291	116
Total income	12,716	12,028
Less expenditure		
Administration	(1,238)	(1,272)
Employee expenses	(7,698)	(6,929)
Legal	(1,968)	(1,902)
Depreciation and amortisation	(108)	(201)
Other	(1,446)	(1,211)
Total expenditure	(12,458)	(11,515)
Surplus	258	513

Northern Territory Legal Aid Commission cont...

Financial Position at year end

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	1,187	2,294
Receivables and other current assets	1,956	812
Less current liabilities	(1,440)	(1,564)
Working Capital	1,703	1,542
Add non-current assets	1,082	973
Less non-current liabilities	(384)	(372)
Net Assets	2,401	2,143
Represented by:		
Reserves	2,130	1,067
Retained earnings	271	1,076
Equity	2,401	2,143

Northern Territory Major Events Company Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 15 September 2016

Key Findings

Performance Overview

The Company reported a profit for the year of \$0.3 million (2015 profit: \$0.1 million). The increase in profit resulted mainly from the \$6.2 million increase in revenue, and by a \$0.1 million increase in interest income due to higher cash resources available throughout the year as a consequence of the additional funding received. This was offset by a \$6 million increase in expenditures.

The increase in revenue of \$6.2 million from the prior year was influenced by the following factors:

- Festivals NT and Territory Day Signature events produced combined revenue of \$3 million which did not occur in the previous year.
- The Parrtjima festival also contributed over \$1 million in revenue and did not occur in the prior year. The budgeted amount for Parrtjima was \$2.2 million, with the remaining \$1.1 million accounted for as unearned revenue as the funding received was not entirely spent at 30 June 2016. This is consistent with the requirements of Australian Accounting Standard AASB 118 *Revenue*.

Northern Territory Major Events Company Pty Ltd cont...

- V8's revenue of \$6 million also received an increase of approximately \$0.8 million in grant funding when compared to the prior year. Included in this increase was an additional \$1 million funding received for Occupational Health and Safety and Marketing purposes which was allocated between the V8's (\$0.6 million), RedCentreNATs (\$0.3 million) and BASSINTEGRASS (\$0.1 million). The revenue from ticket sales was consistent with 2015, despite the increase in the number of tickets sold this year of 15,624 (2015: 14,778). This was mainly due to the higher number of tickets sold at a lower price.
- The Company's operational funding increased by approximately \$0.7 million consistent with the budgeted amount for the year.
- Blatherskite Bitumen funding did not occur in the previous financial year and contributed approximately \$0.3 million to the current year's revenue.
- The RedCentreNATS have also contributed to increased revenue of approximately \$0.9 million.
- Other events offset each other, with minor increases/decreases which combined generated an overall decrease of \$0.7 million in revenue.

In a similar way, expenditures also increased for each event; total operating expenditure increased by \$5.8 million and employee costs increased by \$0.2 million mainly due to additional resources employed for Festivals NT.

Other Findings

Whilst no material misstatements were identified as a result of the audit, the small number of employees means it is difficult for the Company to provide the appropriate level of segregation of duties on which good internal control depends. I have recommended the Company examine existing controls and processes to determine what opportunities exist to strengthen the existing segregation of duties notwithstanding the limited number of company personnel.

Northern Territory Major Events Company Pty Ltd cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Government grants	11,765	5,970
Other	4,252	3,739
Total income	16,017	9,709
Less expenditure		
Employee expenses	(1,738)	(1,511)
Depreciation	(14)	(23)
Other	(13,935)	(8,027)
Total expenditure	(15,687)	(9,561)
Surplus before income tax expense	330	148
Income tax expense	-	-
Surplus after income tax expense	330	148
Dividends	-	-
Net surplus	330	148

Northern Territory Major Events Company Pty Ltd cont...

Financial Position at year end

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	6,957	3,044
Receivables and other current assets	1,700	552
Less current liabilities	(7,718)	(2,947)
Working Capital	939	649
Add non-current assets	100	59
Less non-current liabilities	-	-
Net Assets	1,039	708
Represented by:		
Event reserve	287	-
Retained profits	752	708
Equity	1,039	708

Northern Territory Police Supplementary Benefit Scheme

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Eligibility for membership of the CSS ceased from 1 January 1988 and membership of the scheme is declining steadily. At 30 June 2016 there were 47 members (53 in 2015) and 183 pensioners (181 in 2015).

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

A member qualifies for a supplementary benefit if:

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

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

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

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 29 September 2016.

Northern Territory Police Supplementary Benefit Scheme cont...

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Net assets of the Scheme decreased by \$190,944 to \$2,321,631 (2015: \$2,512,575) primarily due to the decline in active members.

Although benefits paid by the fund decreased from \$568,546 in 2015 to \$301,787 in 2016, this was offset by reduction of investment income by \$252,640 to \$33,234 (2015: \$285,874).

Vested benefits, being benefits that are not conditional upon continued membership of the scheme were valued at \$78.3 million as at 30 June 2016 (2015: \$73 million). This would have represented the amount payable by the Northern Territory Government had all members ceased membership on that date.

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Changes in Net Assets		
	2016	2015
	\$'000	\$'000
Income		
Interest	1	2
Movement in net market value of investments	32	284
Member revenue	82	86
Total income	115	372
Expenditure		
Benefits		
Refunds of accumulated contributions	(52)	104
Payment of accumulated contributions to the Territory	(250)	(672)
Superannuation contribution surcharge	-	(1)
Other expenses	(2)	(2)
Total expenses	(304)	(571)
Revenue less expenses before income tax expense	(189)	(199)
Income tax expense	(2)	-
Change in net assets	(191)	(199)

Northern Territory Police Supplementary Benefit Scheme cont...

Abridged Statement of Net Assets

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	50	84
Investments	2,539	2,672
Total assets	2,589	2,756
Less liabilities	(267)	(243)
Net Assets	2,322	2,513
 Vested Benefits	 78,259	 73,000
Net assets as a percentage of vested benefits	3.0%	3.4%

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

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

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

The host Agency is the Department of Treasury and Finance.

Audit Opinion

The audit of the Northern Territory Treasury Corporation for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 27 September 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Income after tax for the year was \$17 million compared to \$25 million in 2015. This has been driven by a decrease in interest income due to the repayment of loans. The decrease in interest income was offset by a decrease in interest expense.

The Corporation achieved a 2.22 per cent cost of borrowing as a result of the low interest rate environment throughout the year.

Northern Territory Treasury Corporation cont...

The borrowing program for 2015/16 was approximately \$33 million compared to \$29 million for 2014/15. This was raised throughout the financial year mainly through retail Territory Bonds. Matured debt was \$565 million of which \$532 million was repaid following retirement of outstanding loans by the Central Holding Authority. The impact of the borrowing program and repayment of loans resulted in the following outstanding loans receivable.

	2016	2015
	\$'millions	\$'millions
Central Holding Authority	2,440	3,051
Power and Water Corporation	1,113	1,034
NT Home Ownership	211	247
Territory Generation	180	180
Department of Housing	76	78
Land Development Corporation	20	20
Darwin Port Corporation	-	12
Total	4,040	4,622

The borrowings portfolio reduced by \$545 million from the prior year to \$3,991 million due to repayment of Central Holding Authority loans. Outstanding borrowings were:

	2016	2015
	\$'millions	\$'millions
Fixed Interest Securities	3,676	4,209
Territory Bonds	91	96
Migration Linked Bonds	1	1
Credit Foncier Loans	223	230
Total	3,991	4,536

Northern Territory Treasury Corporation cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Interest	238,408	276,405
Other	822	844
Total income	239,230	277,249
Less expenditure		
Interest	(212,829)	(238,841)
Administration	(2,269)	(2,279)
Total expenditure	(215,098)	(241,120)
Surplus before income tax expense	24,132	36,129
Income tax expense	(7,240)	(10,839)
Surplus after income tax expense	16,892	25,290

Northern Territory Treasury Corporation cont...

Financial Position at year end

	2016	2015
	\$'000	\$'000
Total assets	4,085,056	4,648,108
Less total liabilities	(4,063,426)	(4,626,478)
Net Assets	21,630	21,630
Represented by:		
Contributed capital	21,630	21,630
Capital	-	-
Equity	21,630	21,630

NT Build

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of the NT Build for the year ended 30 June 2016 resulted in an unqualified independent audit opinion, which was issued on 27 September 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

The audit opinion on the financial statements of NT Build for the year ended 30 June 2016 was unqualified however an emphasis of matter paragraph was included to draw the attention of users of the financial statements to uncertainties related to the Long Service Leave liability.

Due to the nature of the long service leave liability and the inability to complete the valuation based on long term scheme historical data, the estimate maintains a high level of uncertainty. It is noted that in particular the liability is moderately sensitive to the assumption that 30% of inactive members will reactivate. If only 20% of inactive members reactivate, the liability would be approximately \$1.9 million (3.5%) lower. Furthermore, the series of assumptions made regarding the benefit payments and timing of exit is uncertain. Specific sensitivities include:

- decreasing withdrawal rates for active members by 25% would increase the liability by \$2.7 million (5%);
- decreasing withdrawal rates for inactive members by 25% would increase the liability by \$0.4 million (1%);
- increasing or decreasing in-service benefit payment by 25% would move the liability by less than 1%.

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

NT Build cont...

Performance Overview

NT Build reported a deficit of \$17.4 million compared to the prior year's deficit of \$0.3 million. The increase in deficit is attributed to:

- Total income of \$6.0 million (2015: \$10.0 million) decreased from the prior year by \$4.0 million mainly due to a downward market movement from the prior year of one investment fund by \$7.7 million. This decrease was partially offset by a combination of an increase of levy charges of \$1.2 million, an increase of reciprocal agreement income of \$1.4 million and an increase of investment income of \$1.2 million.
- Total expenses were \$23.4 million (2015: \$10.4 million). The increase in expenses of \$13.0 million is due to a combined increase in the long service leave scheme expense of \$10.4 million and the long service leave benefits payments of \$2.6 million. This was partially offset by a decrease in other expenses.

NT Build continues to hold a strong net asset position. As at 30 June 2016, the net asset position of NT Build was \$17.9 million (2015: \$35.3 million) which decreased predominantly due to an increase in long-term provisions of \$14.4 million and an increase in short-term provisions of \$2.6 million.

NT Build cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Contributions from levy payers	3,665	2,425
Other	2,331	7,592
Total income	5,996	10,017
Less expenditure		
Employee expenses	(853)	(837)
Occupancy costs	(103)	(101)
Depreciation and amortisation	(1)	(3)
Fees and allowances	(46)	(34)
Long service leave benefit payments	(4,729)	(2,135)
Long service scheme expense	(17,271)	(6,907)
Other	(385)	(336)
Total expenditure	(23,388)	(10,353)
Surplus/(deficit)	(17,392)	(336)

NT Build cont...

Financial Position at year end		
	2016	2015
	\$'000	\$'000
Cash and cash equivalents	5,951	6,049
Receivables and other current assets	75,059	74,753
Less current liabilities	(7,550)	(4,304)
Working capital	73,460	76,498
Add non-current assets	319	2
Less non-current liabilities	(55,912)	(41,241)
Net assets	17,867	35,259
Represented by:		
Implementation funding	297	297
Accumulated surplus	17,570	34,962
Equity	17,867	35,259

NT Build cont...

NT Build has commented:

NT Build accepts the finding and notes that with further Scheme experience over time the assumptions made by the actuary will be able to be refined enabling greater certainty in the valuation to be achieved.

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

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

Audit Opinion

The audit of the NT Fleet for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 3 October 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet produced a net surplus before tax of \$9.9 million in 2015/16, which was slightly less than the budget estimate of \$11.8 million. Revenue was \$1.3 million less than budget due mainly to decreased demand for vehicles and lower than expected sales. Expenses were greater than budgeted by \$0.6 million due to higher than expected supplier costs and additional maintenance costs. The depreciation charge was also more than expected due to the increase in the new asset additions for both vehicles and computer software which were greater than budgeted.

- Total revenue of \$41.83 million (2015: \$41.80 million) increased from the prior year by \$0.03 million due to increased recoverable works revenue and contract income. The increases in goods and service income of \$0.5 million were offset by the decline in revenue earned from motor vehicle disposals due to less vehicles being sold in the current year. Interest revenue also decreased due to the combination of holding less cash at bank and declining interest rates.
- Total expenses of \$31.9 million (2015: \$30.7 million) increased from the prior year by \$1.2 million due to the increased annual depreciation charge resulting from the increase in the number of vehicles in the motor fleet. Motor vehicle repairs cost also increased due to the larger motor vehicle fleet in 2016.

NT Fleet will pay an income tax equivalent of \$3 million and return a dividend of \$3.5 million to government for 2015/16. As at 30 June 2016, the net assets position of NT Fleet was \$112.7 million (2015: \$109.2 million).

NT Fleet cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Revenue from vehicle lease rentals	38,206	37,698
Gain on disposal of assets	2,954	3,319
Other revenues	668	784
Total income	41,828	41,801
Expenditure		
Operational costs	(12,336)	(11,656)
Employee expenses	(2,752)	(2,747)
Depreciation and amortisation	(16,851)	(16,304)
Total expenditure	(31,939)	(30,707)
Surplus before income tax expense	9,889	11,094
Income tax expense	(2,967)	(3,328)
Surplus after income tax expense	6,922	7,766

NT Fleet cont...

Financial Position at year end		
	2016	2015
	\$'000	\$'000
Cash and cash equivalents	24,013	27,601
Receivables and other current assets	3,121	3,486
Less current liabilities	(10,331)	(11,057)
Working Capital	16,803	20,030
Add non-current assets	95,949	89,272
Less non-current liabilities	(97)	(122)
Net Assets	112,655	109,180
Represented by:		
Accumulated funds	112,119	108,658
Capital	536	522
Equity	112,655	109,180

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

The host Agency was the Department of Housing.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 5 September 2016.

Key Findings

NT Home Ownership recorded a net deficit before tax of \$7.2 million in 2015/16, which was significantly different to the budget estimate of a surplus of \$0.5 million. Revenues were \$3.1 million less than budget estimate and expenses were \$4.6 million more than budget estimate. This large variance is mainly due to a loss on revaluation of shared equity investments of \$4.9 million compared to a budgeted gain of \$0.9 million. The loss on revaluation of shared equity investments reflects the deterioration of the Northern Territory property market.

Total revenue of \$11.8 million (2015: \$13 million) decreased from the prior year by \$1.2 million as a result of a decline in interest revenue of \$1.3 million reflecting lower interest rates, reduced loan advances balances and a reduced cash balance, offset by a slight increase in Community Service Obligations received.

Total expenses of \$19 million (2014: \$18 million) increased from the prior year by \$1 million due to the increased loss on revaluation of investments of \$2.7 million, which was partially offset by a decrease in agent service arrangement fees of \$0.7 million and a decrease in interest expense of \$1.1 million from the prior year.

NT Home Ownership continues to maintain a strong net asset position. As at 30 June 2016, the net asset position of NT Home Ownership was \$27 million (2015: \$34.2 million), comprising:

- Cash and deposits of \$8.2 million;
- Advances of \$164.3 million;
- Shared equity investments of \$66.2 million; offset by
- Payables of \$0.9 million; and
- Borrowings of \$211 million.

NT Home Ownership cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Other income	7	7
Interest revenue	9,500	10,814
Community Service Obligations	2,264	2,137
Total income	11,771	12,958
Less expenditure		
Employee expenses	(235)	(166)
Administration fees	(1,748)	(2,312)
Borrowing costs	(11,144)	(12,292)
Loss on revaluation of investments	(4,880)	(2,199)
Loss on disposal of investments	(187)	(397)
Other expenses	(764)	(631)
Total expenditure	(18,958)	(17,997)
Surplus/(deficit) before income tax expense	(7,187)	(5,039)
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(7,187)	(5,039)

NT Home Ownership cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	8,181	35,895
Receivables and other current assets	3,050	2,709
Less current liabilities	(9,467)	(39,325)
Working Capital	1,764	(721)
Add non-current assets	227,478	243,729
Less non-current liabilities	(202,214)	(208,793)
Net Assets	27,028	34,215
Represented by:		
Accumulated surplus	4,283	11,470
Capital	22,745	22,745
Equity	27,028	34,215

NT Home Ownership cont...

NT Home Ownership has commented:

NT Home Ownership notes the positive findings of the audit report and will continue to improve controls to support compliance and greater efficiency.

Power and Water Corporation (2015)

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

Background

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

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

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

Audit Opinion

On 24 June 2016, I issued a qualified audit opinion on the consolidated financial statements of the Corporation for the year ended 30 June 2015. The qualifications reported within the audit opinion were directly as a result of issues within the following account balances:

- Property, plant and equipment;
- Intangible assets;
- Provision for onerous contract; and
- Income tax and related balances.

Key Findings

The year ended 30 June 2015 saw the Corporation undergo a number of changes that significantly impacted the operations and results of the Corporation for the year then ended.

The most notable change occurred in February 2014 when legislation was introduced in the Northern Territory Parliament to separate the Corporation effective 1 July 2014 into three corporations being Power Retail Corporation (Jacana Energy), Power Generation Corporation (Territory Generation) and Power and Water Corporation (retaining residual functions).

Consistent with prior years, my Authorised Auditors commenced the audit process with an interim visit between April and June 2015 and returned to PWC in July 2015 to continue the audit. On 7 December 2015, I had not received consolidated financial statements for the Corporation that were sufficiently complete to enable me to form an audit opinion. I released a report to the Chairman and Members of the Board of Directors (hereinafter referred to as the "Report of 7 December 2015") to assist in their development of rectification plans in order for a level of assurance to be gained in relation to the financial results. Subsequent to the Report of 7 December 2015, management of the Corporation performed a 'rectification plan' to address the findings and my Authorised Auditors re-commenced the external audit in February 2016.

Power and Water Corporation (2015) cont...

Re-implementation of core financial applications

As a result of the Corporation restructure, the core financial applications were reconfigured and re-implemented. This involved segmenting the systems to align to the new multi organisational structure and new chart of accounts. The Corporation's key accounting systems are the Financial Management System (FMS), Maximo (the procure-to-pay system) and the Retail Management System (RMS). Changes were made to interfaces, databases and infrastructure to support the structural changes. This included the implementation of new production servers and databases. The "go live" date was 27 April 2015.

The restructure of the Corporation from 1 July 2014 and subsequent re-implementation of the core financial applications on 27 April 2015 resulted in numerous issues in relation to the interface mapping between RMS and FMS that were unresolved at the time of the initial audit visit in May 2015. The Corporation was unable to determine precisely what revenue transactions and associated balances belonged to each entity. This inability to interface RMS and FMS resulted in significant management override of general business controls in an attempt to match balances reported from FMS to RMS.

The Corporation had not performed reconciliations between Maximo and FMS. Prior to performing any substantive audit testing, my Authorised Auditors attempted to reconcile Maximo and FMS to check for completeness and validity of data within FMS however were unable to gather sufficient information to resolve a variance of approximately \$47 million.

A number of Business Intelligence Reports could not be generated following the re-implementation of FMS. The inability to generate meaningful reports significantly impacted the ability of management and the Board to review the financial information in the systems for validity, completeness, accuracy and allocation (including allocation of transactions between the Government Owned Corporations (GOCs)).

Controls weaknesses

A number of significant control weaknesses were identified in the Corporation's control environment relating to:

- inadequate segregation of duties within the Maximo system, which is instrumental in the procure-to-pay process;
- overreliance on a limited number of individuals for their knowledge of corporate matters, systems and processes;
- an inability to provide sufficient, appropriate evidence to support the reported balances arising from the change in the measurement of asset values from historical cost to fair value;
- inadequate access and security controls within the information systems;

Power and Water Corporation (2015) cont...

- Limited reporting capability, inadequate reconciliation processes and lack of audit preparedness; and
- Unreconciled transactions remaining between the Corporation and its subsidiary, Indigenous Essential Services Pty Ltd; Jacana Energy and Territory Generation.

The significant control weaknesses identified, together with an inability to reconcile the systems, an absence of mitigating controls and evidence of significant management override of controls resulted in my Authorised Auditors being unable to take a control reliance approach for the audit.

Change in the measurement of assets from historical cost to fair value

During the year ended 30 June 2014, the Corporation, in conjunction with independent valuers, undertook a complete physical verification of fixed assets resulting in a reversal of previous impairment valued at \$371 million. This resulted in reported assets values for the Corporation of \$2,050 million and \$2,327 million for the Consolidated Entity.

As at 1 July 2014, the Corporation changed its accounting policy in relation to the measurement of its property, plant and equipment following initial recognition from historical cost to fair value. The Corporation commissioned independent valuations to provide a fair value. The valuations were performed using the cost approach, specifically depreciated replacement cost.

The move to depreciated replacement cost proposed by the Corporation in 2015 resulted in the asset balances reported for inclusion in the Treasurer's Annual Financial Statements being \$3,092 million for the Corporation and \$3,992 million for the Consolidated Entity.

During the audit visit commencing July 2015, I questioned the significant increase in the value of property, plant and equipment, being a \$1,042 million increase within the Corporation and a \$1,665 million increase within the Consolidated Entity. The Corporation is required by Australian Accounting Standard to assess its assets for impairment, where indicators exist that suggest assets may be impaired. Such evaluation is generally undertaken by considering an entity's ability to generate economic benefits by using the assets in their highest and best use or by selling the assets to another market participant. In February 2016, the Corporation presented a new income approach model for the Corporation and retained the depreciated replacement cost valuation for the not-for-profit subsidiary, Indigenous Essential Services Pty Ltd (IES). The final asset values presented for audit for the year ended 30 June 2015 were \$2,257 million within the Corporation and \$2,934 million within the Consolidated Entity.

Power and Water Corporation (2015) cont...

In reviewing the valuation work performed and making enquiries of the Corporation's management, my Authorised Auditors sought to satisfy themselves that the:

- models have sufficient rigour to provide a working representation of the underlying operations;
- construct of the models is conceptually sound; and
- assumptions in the models are supported, reasonable and have regard to the positions that a market participant would adopt in evaluating the fair value of the asset.

The assumptions used in the valuation were not appropriately documented and the initial analysis by my Authorised Auditors identified significant deficiencies in both the assumptions used and the calculations performed. This was communicated to the Corporation. As a result, the Corporation resolved that an appropriate valuation could not be completed for the audit and that they would not be able to provide sufficient audit evidence to support the valuation of property, plant and equipment.

The audit also identified a significant number of data quality issues relating to the reconciliation between the fixed asset register and the general ledger and the change in the asset hierarchies which occurred at the same time as the valuation upload. These issues were material to the financial statements.

As a result of the above, I was unable to obtain sufficient appropriate audit evidence to support the validity, completeness, existence, accuracy, valuation and classification of property, plant and equipment assets and the asset revaluation reserve in the statement of financial position as at 30 June 2015, and depreciation expense, asset impairment and net loss on disposal of property, plant and equipment (included in Other Expenses) in the statement of profit or loss and other comprehensive income for the year ended 30 June 2015.

Onerous contract

The structural separation on 1 July 2014 resulted in the gas contracts remaining with the Corporation being identified as potentially onerous. In previous years the gas purchases were used to generate electricity within the Corporation and any actual or possible future losses relating to gas purchases were unable to be specifically determined. Upon structural separation, the Corporation now sells the purchased gas to third parties using an established sale price thus any current loss on the sale of gas as a whole can be determined. The Corporation prepared a discounted cash flow model to estimate total losses, if any.

Power and Water Corporation (2015) cont...

The absence of long-term gas sales contracts that equal or exceed the value of long-term gas purchase contracts means there is a possibility that one or more onerous contracts exist. Where the expected economic costs of a contract outweigh the expected benefits derived, Accounting Standard AASB137 *Provisions, Contingent Liabilities and Contingent Assets*, requires the recognition of a provision (liability) within the statement of financial position equivalent to the estimated future losses together with a corresponding expense in the statement of profit and loss and other comprehensive income. The Corporation was unable to reliably quantify the value, if any, attributable to the onerous portion of the gas purchase contracts and consequently has not recognised a provision. The Corporation disclosed the gas contracts as contingent liabilities in the notes to the financial statements for the year ended 30 June 2015.

I was unable to obtain sufficient appropriate audit evidence in order to determine the value, if any, by which the economic costs of these contracts are projected to exceed the benefits, as derived over the remainder of the life of the contract.

Intangible assets

As at 30 June 2015, the Corporation recognised an impairment charge on Make-up Gas (included in Intangible Assets) which has resulted in the balance decreasing by \$9,553,000 to \$12,959,000. Make-up Gas represents the value of gas paid for but not used under the take-or-pay gas purchase contracts. The impairment has been estimated by the Corporation taking into consideration the expected price of gas in the future and the expected recoverable value of the Make-up Gas. I was not able to obtain sufficient appropriate audit evidence in relation to the carrying value of the Make-up Gas of \$12,959,000 in the statement of financial position. Accordingly I qualified my audit opinion in relation to intangible assets.

Income tax expense and related tax balances

Because of the matters described in the paragraphs above, and their potential impact on the calculation of income tax balances, I was unable to determine whether any adjustments might have been found necessary in respect of the recorded or unrecorded current tax payable, deferred tax assets and current tax liabilities reported in the statement of financial position or the income tax expense reported within the statement of profit or loss and other comprehensive income and the statement of financial position. Accordingly I qualified my audit opinion in relation to all reported tax related balances.

Power and Water Corporation (2015) cont...

Financial Performance for the year of the Corporation

	2015	2014
	\$'000	\$'000
Revenue from continuing operations		
Sale of goods	447,296	554,528
Rendering of services	70,705	64,969
Finance revenue	520	1,859
Other	105,045	493,869
Total revenue from ordinary activities	623,566	1,115,225
Less expense from ordinary activities		
Raw materials and consumables used	(198,856)	(256,153)
Finance costs	(46,789)	(70,631)
Repairs and maintenance expenses	(64,875)	(75,325)
Employee expenses	(75,797)	(91,384)
External service agreements	(29,011)	(19,747)
Depreciation and amortisation	(102,069)	(94,515)
Other expenditure	(71,811)	(110,402)
Total expenses from ordinary activities	(589,208)	(718,157)
Profit before income tax expense	34,358	397,068
Income tax expense	(10,353)	(110,337)
Profit after income tax expense	24,005	286,731

Power and Water Corporation (2015) cont...

Financial Position at year end of the Corporation		
	2015	2014
	\$'000	\$'000
Cash and cash equivalents	11,482	65,917
Receivables and other current assets	164,506	159,408
Less current liabilities	(257,183)	(164,507)
Working Capital	(81,195)	60,818
Add non-current assets	2,318,188	2,128,567
Less non-current liabilities	(1,123,738)	(1,320,272)
Net Assets	1,113,255	869,113
Represented by:		
Retained profits	741,514	716,531
Contributed equity	(1,383)	152,582
Asset revaluation reserves	373,124	-
Equity	1,113,255	869,113

Power and Water Corporation (2015) cont...

Financial Performance for the year of the Consolidated Entity		
	2015	2014
	\$'000	\$'000
Revenue from continuing operations		
Sale of goods	478,676	589,028
Rendering of services	173,092	152,680
Finance revenue	899	2,568
Other	90,122	479,589
Total revenue from ordinary activities	742,789	1,223,865
Less expense from ordinary activities		
Raw materials and consumables used	(231,424)	(295,385)
Finance costs	(46,939)	(70,683)
Repairs and maintenance expenses	(86,762)	(92,969)
Employee expenses	(88,279)	(103,253)
External service agreements	(44,701)	(30,789)
Depreciation and amortisation	(140,971)	(107,132)
Other expenditure	(80,401)	(132,652)
Total expenses from ordinary activities	(719,477)	(832,863)
Profit before income tax expense	23,312	391,002
Income tax expense	(10,353)	(110,337)
Profit after income tax expense	12,959	280,665

Power and Water Corporation (2015) cont...

Financial Position at year end of the Consolidated Entity		
	2015	2014
	\$'000	\$'000
Cash and cash equivalents	25,113	93,825
Receivables and other current assets	159,650	157,793
Less current liabilities	(327,510)	(198,558)
Working Capital	(142,747)	53,060
Add non-current assets	2,995,111	2,404,964
Less non-current liabilities	(1,344,589)	(1,594,942)
Net Assets	1,507,775	863,082
Represented by:		
Retained profits	724,431	710,500
Contributed equity	(1,383)	152,582
Asset revaluation reserves	784,727	-
Equity	1,507,775	863,082

Power and Water Corporation (2015) cont...

The Power and Water Corporation has commented:

Re-implementation of core financial applications

The issues relating to the core financial systems have been resolved.

Control weaknesses

The issues relating to control weaknesses have been resolved.

Change in the measurement of assets from historical cost to fair value

The majority of the issues identified have been resolved. Outstanding Issues identified during the audit of the 2016 financial year are being addressed across PWC and IES through a formal asset rectification project, overseen by the CFO and the Finance Improvement Program steering committee.

Intangible assets

The intangible asset relating to Make-up gas has been fully impaired in the 2016 financial year.

Indigenous Essential Services (2015)

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

Background

Indigenous Essential Services Pty Limited (IES) is a not-for-profit entity formed on 26 June 2003, commencing operations on 1 July 2003. IES provides electricity, water and sewerage services to remote communities in the Northern Territory. IES is a proprietary company (limited by shares) pursuant to the *Corporations Act 2001* that is controlled by Power and Water Corporation. Power and Water Corporation (PWC) is a Government Owned Corporation pursuant to the Northern Territory's *Government Owned Corporations Act*.

PWC guarantees the solvency of IES and provides corporate support for all management and accounting services.

Audit Opinion

On 24 June 2016, I issued a disclaimer of opinion on the financial statements of IES for the year ended 30 June 2015. I was not able to obtain sufficient and appropriate audit evidence in relation to the account balances listed below and the effect was both material and pervasive to the financial statements. Accordingly, I did not express an opinion on the financial report. The disclaimer of opinion was directly as a result of the following account balances:

- Property, plant and equipment;
- Intercompany balances; and
- Revenue.

Key Findings

The year ended 30 June 2015 has seen PWC undergo a number of changes, nearly all of which have had a significant impact on the operations and results of both PWC and IES.

The most notable change occurred in February 2014 when legislation was introduced in the Northern Territory Parliament to separate PWC into three corporations being Power Retail Corporation (Jacana Energy), Power Generation Corporation (Territory Generation) and PWC (retaining residual functions).

As a wholly owned and controlled subsidiary of PWC, IES is fully reliant on PWC, as its service provider, providing personnel, systems, policies, process and controls and management decisions about day to day activities. IES is reliant on reports that are generated by PWC from its systems for decision making purposes. IES has not implemented any system checks of its own to verify the validity, completeness, existence, accuracy, classification, valuation and allocation of transactions and balances reported.

Indigenous Essential Services (2015) cont...

The Board primarily comprises directors from the PWC Board. It is a reasonable statement to say that PWC has previously drawn the majority of the attention. The importance of the operations of IES, including not just the challenges of remote operations but governance issues, such as the implications of not complying with the *Corporations Act 2001* needs to be recognised.

The Board of IES is responsible for the results of IES and therefore should be ensuring that there are sufficient processes and controls in place from the perspective of IES. The balances reported should reflect a true and fair view of the results of operations of IES for the year. IES, as an Australian Securities and Investments Commission regulated company, should never be fully reliant upon PWC for its financial management and reporting processes. A number of factors affecting PWC, Jacana Energy and Territory Generation were not considered sufficiently from an IES perspective. Given that the majority of IES's transactions are processed through PWC's accounting and management systems, the accounting and system issues identified as negatively impacting the operational and reporting ability for Territory Generation and Jacana should have received significantly more focus from an IES standpoint.

Consistent with prior years my Authorised Auditors commenced the audit in July 2015. On 7 December 2015 I had not received financial statements for IES that were sufficiently complete to enable me to form an audit opinion. I released a report to the Chairman and Members of the Board of Directors (hereinafter referred to as the "IES Report of 7 December 2015") to assist in their development of rectification plans in order for a level of assurance to be gained in relation to the financial results. The key findings in the IES Report of 7 December 2015 were in relation to the following items:

- re-implementation of core financial applications;
- lack of segregation of duties within Maximo;
- changes in key personnel, particularly within the finance team;
- findings from the external information technology audit; and
- audit readiness.

Subsequent to the IES Report of 7 December 2015, management of PWC performed a 'rectification plan' to address the findings and my Authorised Auditors re-commenced the external audit of IES in February 2016.

Indigenous Essential Services (2015) cont...

Audit Rectification Plan

The Audit Rectification Plan completed by PWC was separated into the following four streams of work to address the issues raised in the IES Report of 7 December 2015:

- Revenue;
- Expenses;
- Fixed Assets; and
- Other items.

An update is provided on these items below, as well as other key findings that have come to my attention.

Revenue

The restructure of PWC into three corporations on 1 July 2014 and the re-implementation of the core financial applications on 27 April 2015 resulted in numerous unresolved issues in relation to the interface mapping between the Retail Management System ("RMS") and the Financial Management System ("FMS") with PWC unable to determine what revenue transactions and associated balances belonged to each entity. This inability to interface RMS and FMS resulted in significant management override of general business controls in order to reconcile RMS to FMS.

PWC's reconciliation of RMS and FMS was unable to resolve an unreconciled variance relating to IES of \$244 thousand.

Notwithstanding this, as a result of the issues identified in the intercompany payable to PWC, I was not able to obtain sufficient appropriate audit evidence in relation to revenue from the sales of goods of \$32,149,567 reported in the statement of profit or loss and other comprehensive income.

Expenses

In the IES Report of 7 December 2015, I noted that PWC did not perform reconciliations between Maximo and FMS. Prior to performing any substantive audit testing, my Authorised Auditors attempted to perform a reconciliation between Maximo and FMS to check for completeness and validity of data within FMS. Unexplained variances of \$47 million remained unresolved at 7 December 2015. These were subsequently resolved during the audit visit conducted during 2016.

Indigenous Essential Services (2015) cont...

A number of individually and cumulatively material errors have been identified in relation to accrued expenses and other payables.

During October 2015, the audit process a number of errors were identified in relation to accrued expenses and other liabilities.

In addition to the errors identified that could be quantified and were rectified, I was unable to form an opinion on the following items that comprise accrued expenses and other payables:

- A liability for Accrued Work in Progress was not been recognised in the accounts presented for audit due to PWC's staff being unable to generate the relevant report. In the absence of this report, the balance of Accrued Work in Progress was unable to be determined. The balances of Accrued Work in Progress reported for each of the three previous years were \$490 thousand (2014), \$2.2 million (2013), and \$1.4 million (2012).
- The balance reported as attributable to System Generated Accruals was a debit balance of \$16 thousand. This was not consistent with balances in previous years or my understanding of system generated accruals. Further investigations undertaken by PWC staff have since determined the balance to be incorrect due to issues with the reports being generated. The credit balances reported for the previous financial years were \$523 thousand (2014), \$359 thousand (2013) and \$927 thousand (2012). PWC places reliance on the system to generate these accruals and consequently no review of the system generated accruals is undertaken to check completeness, accuracy and the appropriateness of the allocation to IES. The errors in the reports generated from the system remained unresolved at the date of the IES Report of 7 December 2015.

Further to the errors noted in my Report of 7 December 2015, the audit visit conducted in the 2016 calendar year also identified a number of errors in relation to accrued expenses and other liabilities as reported in the statement of financial position.

In addition, I noted a lack of segregation of duties within Maximo. Additional evidence supplied by PWC did not change my conclusion that the significant control weaknesses identified, together with an absence of mitigating controls and evidence of significant management override of controls, resulted in my Authorised Auditors being unable to take a control reliance approach for the audit of the financial transactions occurring during the year ended 30 June 2015.

Fixed Assets

In 2013, PWC undertook a review of all property, plant and equipment owned by the consolidated entity in order to adopt fair value accounting for assets. The attempt to recognise the independently determined fair values of assets controlled by IES resulted in the following issues affecting the audit process.

Indigenous Essential Services (2015) cont...

As at 1 July 2014, IES changed its accounting policy in relation to the measurement of its property, plant and equipment from historical cost to fair value. The Company commissioned independent valuations to provide a fair value which resulted in the value of property, plant and equipment reported in the statement of financial position increasing by \$411.6 million from a written down value of \$332.1 million as at 30 June 2014. The fair value was based upon depreciated replacement cost.

In the IES Report of 7 December 2015, I noted a significant number of errors which were individually and / or cumulatively material in relation to property, plant and equipment.

PWC assigned a team to be responsible for the move to fair value. A number of errors were identified in relation to the fair value uplift of the assets which were considered pervasive to the whole of property, plant and equipment and contributed to the Disclaimer of Opinion issued on the financial statements as a whole. The errors identified directly in relation to the fair value uplift were:

- duplication of assets;
- incorrect accounting treatment related to borrowing costs and long service levies; and
- incorrect capitalisation and subsequent depreciation of completed projects previously recognised as work in progress.

Further to the IES Report of 7 December 2015, the subsequent audit visit identified further errors in the accounts presented for auditing which were individually and / or cumulatively material to the financial statements. These included:

- data quality issues which raised concerns as to the completeness, accuracy, existence and valuation of items in the asset register;
- material differences between my Authorised Auditors' calculation of expected depreciation and the actual depreciation expense recorded by IES which were unable to be explained;
- the asset movements schedule for IES provided for audit purposes did not reconcile the asset register to the general ledger with an unreconciled variance of \$8.5 million; and
- Bundled assets – the financial statements of IES initially included \$242 million 'new found assets' accounted for within the Asset Revaluation Reserve. I was unable to determine whether this treatment was correct based on the evidence provided at the time of the audit. IES subsequently reversed this amount and will delay recognition until sufficient work can be performed to substantiate this balance.

It should be noted that audit procedures applicable to the property, plant and equipment balances and transactions were not able to be completed and therefore there may exist more issues than those identified by my Authorised Auditors.

Indigenous Essential Services (2015) cont...

As a result of the above, I was unable to obtain sufficient appropriate audit evidence to support the validity, completeness, existence, accuracy, valuation and classification of property, plant and equipment assets and the asset revaluation reserve in the statement of financial position as at 30 June 2015, and depreciation expense, asset impairment and net loss on disposal of property, plant and equipment (included in Other Expenses) in the statement of profit or loss and other comprehensive income for the year ended 30 June 2015.

Intercompany balances between IES and Power and Water Corporation

The books and records for IES are maintained by its parent entity, PWC, using PWC's financial systems and applications. As a result of the restructure of PWC, the core financial applications and underlying infrastructure were reconfigured and re-implemented on 27 April 2015. This resulted in numerous errors and unresolved issues in relation to the intercompany payable of \$12.1 million from IES to PWC as at 30 June 2015.

No reconciliation was prepared for the intercompany payable until requested by my Authorised Auditors. My Authorised Auditors requested supporting documentation for the reported balance but were not provided with sufficient appropriate audit evidence in relation to this balance.

The intercompany payable balance includes all transactions processed on behalf of IES by PWC and I was unable to obtain sufficient appropriate audit evidence to support the transactions and balances reported in the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the notes to the financial statements for the year ended and as at 30 June 2015 for IES. I was unable to confirm or verify this balance by alternative means. As a result, I was unable to determine whether any adjustments might have been found necessary in respect of this balance within the statement of profit or loss and other comprehensive income; the statement of financial position; the statement of changes in equity and/or; the statement of cash flows.

There is no evidence of agreed accounting arrangements between IES and PWC

PWC could not provide copies of current service level agreements for services provided by PWC to IES. My Authorised Auditors were informed that the service level agreements have expired and have not been renewed. PWC have continued using the same service level agreement applying annual CPI increases to the charges.

Sufficient appropriate audit evidence was not obtained to support allocated costs between IES and PWC

PWC has a policy of allocating all corporate costs that are incurred between the various business units within PWC. IES is classified as a business unit.

Indigenous Essential Services (2015) cont...

PWC uses costs drivers for allocating corporate costs. These were last updated on 17 January 2014 for the 2013/14 financial year. An initial review of the cost drivers was unable to confirm that the allocation methods are clearly supported by rationale or justification for the basis of allocation.

The percentages calculated using the cost drivers are then uploaded into FMS to be applied automatically to corporate costs that are incurred each month. Management of PWC noted that the allocations are approved annually as part of the Statement of Corporate Intent; however management was unable to provide the updated percentage allocations.

There was no evident link between the cost driver document and the actual percentages uploaded to the information technology system.

Notwithstanding that my Authorised Auditors were unable to substantiate the percentage allocators, the board of directors of IES resolved in May 2016 to accept the corporate allocations that had been charged by PWC for the year ended 30 June 2015.

Quality assurance and review processes

A significant numbers of issues were identified in relation to the quality assurance and review processes implemented particularly in relation to:

- general ledger reconciliations – the external audit highlighted that reconciliations are either not prepared on a regular basis, do not properly reconcile the underlying balance, are not updated when the general ledger is adjusted or the review process is not sufficient to identify reconciliation issues;
- financial statements – there were multiple drafts of the financial statements presented to my Authorised Auditors and it was apparent that a detailed review was not performed prior to them being.

In the audit visit commencing in February 2016, my Authorised Auditors observed that the general ledger reconciliations were not updated to reflect the numerous adjustments made since the initial audit. Reconciliations were only updated upon request.

There was no documented record of key decisions occurring as a result of the quality review process and there appeared to be limited accountability by personnel involved in performing, reviewing and or implementing required changes.

Indigenous Essential Services (2015) cont...

Financial Performance for the year

	2015	2014
	\$'000	\$'000
Revenue from continuing operations		
Revenue from sale of goods	32,150	34,500
Revenue from rendering of services	89,758	97,289
Other revenues	2,157	1,811
Total revenue from ordinary activities	124,065	133,600
Less expense from ordinary activities		
Raw materials and consumables	(35,243)	(42,109)
Employee expenses	(15,958)	(14,705)
Agents – community contract fees	(10,863)	(8,133)
Finance costs	(150)	(52)
Depreciation and amortisation	(49,105)	(14,697)
Repairs and maintenance	(21,887)	(17,645)
Other costs	(24,736)	(34,829)
Total expenses from ordinary activities	(157,942)	(132,170)
Surplus/(deficit)	(33,877)	1,430

Indigenous Essential Services (2015) cont...

Financial Position at year end	2015	2014
	\$'000	\$'000
Cash and cash equivalents	13,630	27,908
Receivables and other current assets	7,431	7,852
Less current liabilities	(31,198)	(32,893)
Working Capital	(10,137)	2,867
Add non-current assets	722,432	332,118
Less non-current liabilities	(6,325)	(6,741)
Net Assets	705,970	328,244
Represented by:		
Retained earnings	294,367	328,244
Asset revaluation reserve	411,603	-
Equity	705,970	328,244

Indigenous Essential Services (2015) cont...

Indigenous Essential Services has commented:**Fixed Assets**

PWC has implemented an Asset Rectification Project to address the issues associated with property, plant and equipment. The objectives of the Asset Rectification Project are to rebuild the asset register with a project team established to oversee this project with representation from Finance, Executive Management and the Board. In addition, external consultants will be engaged to assist PWC and IES by performing a quality assurance review over the rebuilding of the asset register.

Revenue

The issues relating to the revenue from sale of goods was resolved as part of the remedial actions from the finance improvement project.

Expenses

Exception reports are produced from the Maximo purchasing system and distributed to the business units on a monthly basis for senior management review and sign off. Statistics from these reports are summarised and distributed to the ELT for noting and corrective action where required. Preventative controls are also now in place with the implementation of Maximo Release 9.

Accounting arrangements between IES and PWC

Arrangements for the provision of services to IES will be formalised in an agreement between IES and PWC for the 2016-17 financial year. The accounting treatment of transactions between the two entities will be addressed in the agreement and supported by an appropriate allocation methodology and calculations.

Support for allocated costs between IES and PWC

Until the agreement referred to above is signed, the IES Board will be requested to ratify any accounting treatments or cost allocations as an interim measure.

Quality Assurance and review processes

General ledger reconciliations are performed, reviewed and signed off by appropriately senior staff on a monthly basis.

Power and Water Corporation (2016)

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

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

Audit Opinion

On 30 September 2016, I issued a qualified audit opinion on the consolidated financial statements of the Corporation for the year ended 30 June 2016. The qualifications reported within the audit opinion related to:

- Property, plant and equipment;
- Provision for onerous contract; and
- Income tax and related balances.

Key Findings

The year ended 30 June 2016 has seen the Corporation continue to work through a number of significant changes in the prior year.

Revenue and associated balances

The physical separation in the prior year highlighted a number of significant issues in the mapping between the Retail Management System (RMS) and the Financial Management System (FMS), with the Corporation unable to initially determine what revenue transactions and associated balances belong to each entity including Indigenous Essential Services (IES) and Power Retail Corporation (Jacana).

Significant rectification work was undertaken by the Corporation during the year ended 30 June 2016 and the automated interface between RMS and FMS was reinstated in June 2016. A suite of Business Intelligence reports were also created in order to obtain tailored reporting and an appropriate annual reconciliation in relation to revenue.

Power and Water Corporation (2016) cont...

Expenses and associated balances

The Corporation commenced a procure-to-pay review project in September 2015 in order to address the various deficiencies raised by both external and internal audits for the year ended 30 June 2015. The key control designed and implemented by the Corporation to address the various deficiencies previously raised was a review of exception reports by the Business Unit Leaders. As the project commenced in September 2015, the exception reporting was not operating effectively for the full year ended 30 June 2016 and together with an absence of other mitigating controls and evidence of significant management override of controls, resulted in my Authorised Auditors being unable to take a control reliance approach for the audit of the expenditure transactions occurring during the year ended 30 June 2016.

Fixed assets – Valuation

In the current year, the Corporation commissioned an independent valuer to provide a fair value of property, plant and equipment. This has resulted in the value of property, plant and equipment reported in the statement of financial position decreasing by \$459,264,000 from the prior year for both the Corporation and the consolidated entity as at 30 June 2016. The valuation for the Corporation was performed using the income approach and the valuation for the subsidiary, IES, was performed using depreciated replacement cost.

Sufficient appropriate audit evidence was obtained in relation to the valuation of the Corporation's property, plant and equipment as at 30 June 2016, however unresolved material issues from the prior year remain for the balance of property, plant and equipment in the subsidiary, IES. The value of the subsidiary's property, plant and equipment as at 30 June 2016 represents a material proportion of the balance reported in the consolidated statement of financial position, consequently I was unable to obtain sufficient appropriate audit evidence to support the valuation of the consolidated entity's property, plant and equipment balance as reported in the statement of financial position as at 30 June 2015 and 30 June 2016.

Fixed assets – Underlying Records

In applying the valuation to the fixed asset register in the prior year, the standard asset hierarchy and related asset categories were updated in the financial management system to align with the asset management system. This process resulted in significant data integrity issues with the fixed asset register for accounting purposes and for tax purposes. The fixed asset register as at 30 June 2015 and as at 30 June 2016 was unable to be reconciled to the general ledger. As a result, I was unable to obtain sufficient appropriate audit evidence to support the validity, completeness, existence, accuracy and classification of property, plant and equipment assets and the asset revaluation reserve in the statement of financial position as at 30 June 2015 and 30 June 2016 and all associated balances for both the Corporation and the consolidated entity.

Power and Water Corporation (2016) cont...

Onerous Contract

Evidence provided in relation to two gas purchase contracts held by the Corporation indicates that these contracts might be considered as onerous as the expected economic costs of these contracts may outweigh the expected benefits to be derived. Classifying these contracts as onerous in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, would result in the recognition of a provision (liability) within the statement of financial position equivalent to the estimated future losses together with a corresponding expense in the statement of profit or loss and other comprehensive income. The Corporation has been unable to reliably quantify the value, if any, by which the expected economic costs of these contracts may outweigh the expected benefits to be derived and consequently has not recognised a provision. The Corporation has disclosed the gas contracts as contingent liabilities in the notes to the financial statements.

In relation to the two gas purchase contracts referred to above, I have not been able to obtain sufficient appropriate audit evidence in order to determine the value, if any, by which the economic costs of these contracts are projected to exceed the benefits, as derived over the remainder of the life of the contracts.

Income tax expense and related tax balances

Because of the matters described in the paragraphs above, and their potential impact on the calculation of income tax balances, I was unable to determine whether any adjustments might have been found necessary in respect of the recorded or unrecorded current tax payable, deferred tax assets and current tax liabilities reported in the statement of financial position or the income tax expense reported within the statement of profit or loss and other comprehensive income and the statement of financial position.

Restatement of prior period balances

The comparative balances of the consolidated entity in the financial statements were restated to correct the following items.

Bundled Assets

During the financial year ended 30 June 2015, IES identified “Bundled Assets” totalling \$242 million that were removed from the general ledger due to an inability to verify the existence of these assets. Due to unbundling of these assets and subsequent verification procedures, assets valued at \$163.6 million have been verified by IES as existing at 30 June 2015. The associated depreciation for these assets should also have been recorded in the 2015 financial year in a total amount of \$11.7 million.

Power and Water Corporation (2016) cont...

Consolidation journals in relation to Government Grants

During the financial year ended 30 June 2015, both the Corporation and IES received government grants. IES is a not-for-profit entity and applies AASB 1004 *Contributions* when accounting for grants it receives and the Corporation is a for-profit entity and applies AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* when accounting for grants it receives. Consolidation journals are processed at year end to align the accounting policies in the consolidated entity.

Calculation errors were identified in relation to the consolidation adjustment for the year ended 30 June 2015. The correction of these items resulted in a reduction of prior year consolidated profits of \$31 million, a reduction of prior year fixed assets of \$8 million and an increase in capital grant deferred revenue liability in the balance sheet of \$23 million.

Power and Water Corporation (2016) cont...

Financial Performance for the year of the Corporation		
	2016	2015
	\$'000	\$'000
Revenue from continuing operations		
Sale of goods	459,261	447,258
Rendering of services	72,950	70,705
Finance revenue	647	520
Other	89,085	105,083
Total revenue from ordinary activities	621,943	623,566
Less expense from ordinary activities		
Raw materials and consumables used	(189,890)	(198,856)
Finance costs	(44,897)	(46,790)
Repairs and maintenance expenses	(62,364)	(64,876)
Employee expenses	(83,699)	(75,798)
External service agreements	(23,256)	(29,012)
Depreciation and amortisation	(117,217)	(102,070)
Other expenditure	(94,985)	(71,811)
Total expenses from ordinary activities	(616,308)	(589,213)
Profit before income tax expense	5,635	34,353
Income tax expense	(1,695)	(10,353)
Profit after income tax expense	3,940	24,000

Power and Water Corporation (2016) cont...

Financial Position at year end of the Corporation

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	56,984	11,482
Receivables and other current assets	126,755	164,506
Less current liabilities	(124,490)	(257,183)
Working Capital	59,249	(81,195)
Add non-current assets	1,904,915	2,318,188
Less non-current liabilities	(1,128,454)	(1,123,738)
Net Assets	853,710	1,113,255
Represented by:		
Retained profits	745,454	741,514
Contributed equity	38,617	(1,383)
Asset revaluation reserves	51,639	373,124
Equity	835,710	1,113,255

Power and Water Corporation (2016) cont...

Financial Performance for the year of the Consolidated Entity			
	2016	Restated 2015	2015
	\$'000	\$'000	\$'000
Revenue from continuing operations			
Sale of goods	498,664	478,676	478,676
Rendering of services	153,250	149,867	173,092
Finance revenue	805	900	899
Other	72,150	90,123	90,122
Total revenue from ordinary activities	724,869	719,566	742,789
Less expense from ordinary activities			
Raw materials and consumables used	(218,677)	(231,425)	(231,424)
Finance costs	(45,070)	(46,940)	(46,939)
Repairs and maintenance expenses	(79,001)	(86,763)	(86,762)
Employee expenses	(98,085)	(88,280)	(88,279)
External service agreements	(36,764)	(44,701)	(44,701)
Depreciation and amortisation	(175,111)	(160,830)	(140,971)
Other expenditure	(108,655)	(80,402)	(80,401)
Total expenses from ordinary activities	(761,363)	(739,341)	(719,477)
Surplus/(deficit) before income tax expense	(36,494)	(19,775)	23,312
Income Tax Expense	(1,695)	(10,354)	(10,353)
Surplus/(deficit) after income tax expense	(38,189)	(30,129)	12,959

Power and Water Corporation (2016) cont...

Financial Position at year end of the Consolidated Entity

	2016	Restated 2015	2015
	\$'000	\$'000	\$'000
Cash and cash equivalents	83,817	25,113	25,113
Receivables and other current assets	123,394	159,662	159,650
Less current liabilities	(201,712)	(327,516)	(327,510)
Working Capital	5,499	(142,741)	(142,747)
Add non-current assets	2,694,004	3,138,909	2,995,111
Less non-current liabilities	(1,390,827)	(1,367,818)	(1,344,589)
Net Assets	1,308,676	1,628,350	1,507,775
Represented by:			
Retained profits	643,159	681,348	724,431
Contributed equity	38,617	(1,383)	(1,383)
Asset revaluation reserves	626,900	948,385	784,727
Equity	1,308,676	1,628,350	1,507,775

Power and Water Corporation (2016) cont...

The Power and Water Corporation has commented:

Overview

The separation of Power and Water into three separate corporations highlighted a number of previously unknown issues that resulted in qualified audit opinions for the 2015 and 2016 financial years. As a result of the issues that were identified, a finance improvement project, consisting of senior staff members, was introduced to focus on rectification actions. At the end of the 2016 financial year the project delivered a number of successes as is evident from the 2016 audit report. Detail responses to the report from the Auditor General are recorded below.

Expenses and Associated Balances

Exception reports are produced from the Maximo purchasing system and distributed to the business units on a monthly basis for senior management review and sign off. Statistics from these reports are summarised and distributed to the ELT for noting and corrective action where required. Preventative controls are also now in place with the implementation of Maximo Release 9.

Fixed Assets – Valuation & underlying records

Issues identified are being addressed across PWC and IES through a formal asset rectification project, overseen by the CFO, Executive Management and the Board.

Onerous Contract

The view of the board is that no onerous contract exists, although the board acknowledges the risk to the recovery of the costs of the ENI contract, given the uncertainty beyond the current sales contracts and the rules associated with the Northern Gas Pipeline. The wholesale gas business unit position and the financial consequences of the model outputs will continue to be monitored by the ARMC and the Board on a regular basis.

Income tax expense and related balances

Income tax expense and related matters will be recalculated after the conclusion of the fixed asset rectification project.

Indigenous Essential Services (2016)

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

Indigenous Essential Services Pty Limited (IES) is a not-for-profit entity formed on 26 June 2003, commencing operations on 1 July 2003, which provides electricity, water and sewerage services to remote communities in the Northern Territory. IES is a proprietary company (limited by shares) pursuant to the *Corporations Act 2001* that is controlled by Power and Water Corporation. Power and Water Corporation (PWC) is a Government Owned Corporation pursuant to the Northern Territory's *Government Owned Corporations Act 2001*.

PWC guarantees the solvency of IES and provides corporate support for all management and accounting services.

Audit Opinion

On 30 September 2016, I issued a qualified audit opinion on the financial statements of IES for the year ended 30 June 2016. The qualification reported within the audit opinion was directly as a result of issues within property, plant and equipment.

Key Findings

The year ended 30 June 2016 has seen PWC continue to work through a number of significant changes which occurred in the prior year.

As a wholly owned and controlled subsidiary of PWC, IES is fully reliant on PWC as its service provider, providing personnel, systems, policies, process and controls and management decisions about day to day activities. IES is reliant on the reports that are generated by PWC from its systems for decision making purposes. IES has not implemented any system checks of its own to verify the validity, completeness, existence, accuracy, classification, valuation and allocation of transactions and balances reported.

The Board is a subset of the PWC Board as it is primarily made up of directors from the PWC Board. Notwithstanding that IES represents a much smaller entity within the consolidated group, there are circumstances specific to IES, such as the challenges of remote operations and governance issues arising from the regulatory requirements of the *Corporations Act 2001*, which require additional focus.

Indigenous Essential Services (2016) cont...

Property, plant and equipment

As at 1 July 2014, IES changed its accounting policy in relation to the measurement of its property, plant and equipment from historical cost to fair value. IES commissioned independent valuations to provide a fair value which has resulted in the value of property, plant and equipment reported in the statement of financial position at 30 June 2015 increasing by \$411,602,985 from a written down value of \$332,117,911 as at 30 June 2014. The valuations were performed using depreciated replacement cost. A number of material issues were identified in relation to the valuation process in the prior year that have not been resolved in the current year.

In applying the valuation to the fixed asset register in the prior year, the standard asset hierarchy and related asset categories were also updated in the financial management system to align with the asset management system. This process resulted in significant data integrity issues with the fixed asset register for accounting purposes and for tax purposes. The fixed asset register as at 30 June 2015 and as at 30 June 2016 was unable to be reconciled to the general ledger.

As a result of the above, I was unable to obtain sufficient appropriate audit evidence to support the validity, completeness, existence, accuracy, valuation and classification of property, plant and equipment assets and the asset revaluation reserve in the statement of financial position as at 30 June 2015 and 30 June 2016, and depreciation expense, asset impairment and net loss on disposal of property, plant and equipment (included in Other Expenses) in the statement of profit or loss and other comprehensive income for the years ended 30 June 2015 and 30 June 2016.

Other Findings

Revenue and associated balances

The physical separation in the prior year highlighted a number of significant issues in the mapping between the Retail Management System (RMS) and the Financial Management System (FMS), with PWC unable to initially determine what revenue transactions and associated balances belong to IES.

Significant rectification work was undertaken by PWC during the year ended 30 June 2016 and the automated interface between RMS and FMS was reinstated in June 2016. A suite of Business Intelligence reports were also created in order to obtain tailored reporting and an appropriate annual reconciliation in relation to revenue.

Indigenous Essential Services (2016) cont...

Expenses and associated balances

PWC commenced a procure-to-pay review project in September 2015 in order to address the various deficiencies raised by both external and internal audits for the year ended 30 June 2015 that affected PWC and IES. The key control designed and implemented by PWC to address the various deficiencies previously raised was a review of exception reports by the Business Unit Leaders. As the project commenced in September 2015, the exception reporting was not operating effectively for the full year ended 30 June 2016 and together with an absence of other mitigating controls and evidence of significant management override of controls, resulted in my Authorised Auditors being unable to take a control reliance approach for the audit of the expenditure transactions occurring during the year ended 30 June 2016.

Restatement of prior period balances

The comparative balances of IES in the financial statements were restated to correct the Bundled Assets totalling \$242 million that were removed from the general ledger due to an inability to verify the existence of these assets. Due to unbundling of these assets and subsequent verification procedures, assets valued at \$163.6 million have been verified by IES as existing at 30 June 2015. The associated depreciation for these assets, totalling \$11.7 million, should also have been recorded in the 2015 financial year.

Indigenous Essential Services (2016) cont...

Financial Performance for the year	2016	Restated 2015	2015
	\$'000	\$'000	\$'000
Revenue from continuing operations			
Revenue from sale of goods	39,402	32,150	32,150
Revenue from rendering of services	84,075	89,758	89,758
Other revenues	2,516	2,157	2,157
Total revenue from ordinary activities	125,993	124,065	124,065
Less expense from ordinary activities			
Raw materials and consumables	(32,301)	(35,243)	(35,243)
Employee expenses	(18,405)	(15,958)	(15,958)
Agents – community contract fees	(9,748)	(10,863)	(10,863)
Finance costs	(173)	(150)	(150)
Depreciation and amortisation	(59,975)	(60,841)	(49,105)
Repairs and maintenance	(16,637)	(21,887)	(21,887)
Other costs	(29,189)	(24,736)	(24,736)
Total expenses from ordinary activities	(166,428)	(169,678)	(157,942)
Surplus/(deficit)	(40,435)	(45,613)	(33,877)

Indigenous Essential Services (2016) cont...

Financial Position at year end	2016	Restated 2015	2015
	\$'000	\$'000	\$'000
Cash and cash equivalents	26,833	13,630	13,630
Receivables and other current assets	10,940	7,431	7,431
Less current liabilities	(54,441)	(31,198)	(31,198)
Working Capital	(16,668)	(10,137)	(10,137)
Add non-current assets	840,648	874,354	722,432
Less non-current liabilities	(6,523)	(6,325)	(6,325)
Net Assets	817,457	857,892	705,970
Represented by:			
Retained earnings	242,196	282,631	294,367
Asset revaluation reserve	575,261	575,261	411,603
Equity	817,457	857,892	705,970

Indigenous Essential Services (2016) cont...

Indigenous Essential Services has commented:

Issues identified are being addressed across PWC and IES through a formal asset rectification project, overseen by the CFO and the Finance Improvement Program steering committee.

Power Generation Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of Power Generation Corporation for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 29 September 2016.

Key Findings

Performance Overview

The 2015/16 financial year was Territory Generation's second year of trading. For the 12 months ended 30 June 2016, of the total revenue of \$313 million (2015: \$351 million), \$307 million (2015: \$343 million) is from the sale of electricity to retail distribution companies.

The decrease in revenue from the prior year is primarily due to a review of wholesale pricing, implemented from 1 July 2015. This decrease was partially offset by greater electricity sent outs associated with increased demand due to extended periods of higher Top End temperatures from February through to June.

Operating costs in the current year were \$253 million (2015: \$266 million), a decrease of \$13 million from the prior year. The decrease was mainly attributed to the reduction of approximately \$7 million in the external services paid to Power and Water Corporation arising from services required initially from the separation of Territory Generation from Power and Water Corporation in 2014.

Capital expenditure for the 12 months to 30 June 2016 was \$59 million compared with \$18 million the previous year. The increase was due to continued works on the Channel Island and Katherine Power Stations life extension program and the commencement of major project construction works associated with generation capacity upgrades at Owen Springs and Tennant Creek.

Overall, the net profit after tax for the year is \$17 million (2015: \$36 million).

In respect to the Statement of Financial Position, total assets increased from \$463 million in 2015 to \$522 million as at 30 June 2016. The increase of \$60 million was mainly attributed to a \$50 million capital grant received towards the construction of Alice Springs and Tennant Creek Power Stations.

Power Generation Corporation cont...

The increase of \$60 million in total liabilities as at 30 June 2016 from \$243 million in 2015 to \$303 million was due to the \$50 million capital grant mentioned previously being recognised as deferred income as the cost of the works is being amortised over the expected useful life of the project from commissioning.

The movement in equity from \$220 million at the beginning of the year to \$218 million as at 30 June 2016 resulted from current year profit of \$17 million being offset against dividends paid during the year of \$18 million.

Power Generation Corporation cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Sales revenue		
Electricity sales	306,605	342,789
Gas sales	2,082	3,079
Interest revenue	713	552
Other revenue	3,136	4,495
Total income	312,536	350,915
Less expenditure		
Cost of energy	(175,985)	(197,910)
Employee benefits expense	(26,948)	(20,499)
Depreciation and amortisation	(26,887)	(24,031)
Finance costs	(7,590)	(10,260)
Other expense	(50,906)	(47,184)
Total expenditure	(288,316)	(299,884)
Profit before income tax expense	24,220	51,031
Income tax expense	(7,507)	(15,042)
Profit after income tax expense	16,713	35,989

Power Generation Corporation cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	78,866	22,769
Receivables and other current assets	56,267	96,083
Less current liabilities	(63,153)	(52,598)
Working Capital	71,980	66,254
Add non-current assets	386,588	344,160
Less non-current liabilities	(240,267)	(190,832)
Net Assets	218,301	219,582
Represented by:		
Retained earnings	34,708	35,989
Contributed equity	183,593	183,593
Equity	218,301	219,582

Power Retail Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

Audit Opinion

The audit of Power Retail Corporation for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 30 September 2016.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The financial year ended 30 June 2016 was Jacana Energy's second year of trading. For the 12 months ended 30 June 2016, total revenue was \$516.11 million compared to \$512.46 million in the previous year. The revenue included Community Service Obligations of \$59.37 million (2015: \$57.84 million).

Overall expenses excluding tax were \$508.93 million (2015: \$497.50 million) which comprised cost of sales of \$491.20 million (2015: \$481.92 million) and operating expenses of \$17.73 million (2015: \$15.58 million). Compared to the prior year, the increase in cost of sales primarily related to the large-scale Generation Certificates which represented \$6.93 million of the increase and small-scale Technology Certificates of approximately \$1 million. System and network costs also increased by \$23.65 million from last year however the effect was fully negated by the reduction in generation costs which were renegotiated effective from 1 July 2015. The increase in operating expenses was attributed to one-off costs mainly associated with establishment of Jacana Energy's customer service capability and other factors unique to the start-up phase of the business.

Overall, the net profit after tax for the year was \$5.02 million compared to \$10.48 million last year.

In respect of the Statement of Financial Position, total assets decreased from \$166.10 million to \$143.43 million as at 30 June 2016. The decrease of \$22.67 million was due to the reduction in trade receivables relating to Community Service Obligations.

Total liabilities also decreased by \$27.69 million from \$107.95 million in the prior year. The decrease was attributed to the settlement of prior year's loan balance with Power and Water Corporation of \$21.49 million and the reduction in tax liability of \$4.90 million.

Power Retail Corporation cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Sale of goods	452,268	452,311
Community service obligations	59,365	57,835
Interest revenue	1,750	434
Other income	2,722	1,884
Total income	516,105	512,464
Less expenditure		
Energy cost of sales	(491,202)	(481,917)
Depreciation	(6)	-
Employee benefits expenses	(5,740)	(2,483)
External service agreements	(5,623)	(6,788)
Structural separation expenses	-	(406)
Other expenses	(6,360)	(5,903)
Total expenditure	(508,931)	(497,497)
Profit before income tax expense	7,174	14,967
Income tax expense	(2,153)	(4,489)
Profit after income tax expense	5,021	10,478

Power Retail Corporation cont...

Financial Position at year end		
	2016	2015
	\$'000	\$'000
Cash and cash equivalents	55,078	61,220
Receivables and other current assets	84,305	101,856
Less current liabilities	(80,168)	(107,906)
Working Capital	59,215	55,170
Add non-current assets	4,045	3,022
Less non-current liabilities	(95)	(48)
Net Assets	63,165	58,144
Represented by:		
Retained earnings	15,499	10,478
Contributed equity	47,666	47,666
Equity	63,165	58,144

Selected Agencies

End of Year Reviews

Review Objectives and Scope

The objective of the end of year review at each Agency was to review the adequacy of selected aspects of end of financial year reporting and controls over accounting and material financial transactions at each Agency. The reviews represent a major supporting approach to the audit of the Treasurer's Annual Financial Statement (TAFS).

The reviews were not directed to auditing financial information in each Agencies' annual report.

Background

The purpose of the end of year reviews of the Public Account under section 13 of the *Audit Act* was to provide support to the audit of the TAFS. Accordingly the strategy was to review the reasonableness of Agency end of financial year reporting and controls over accounting, material financial transactions and, most importantly, the Agency's end of year financial data consolidated into the TAFS by the Department of Treasury and Finance (Treasury).

The reviews may also provide matters for Accountable Officers to consider when they are preparing their representations to their relevant Ministers.

Whilst an audit opinion is not expressed on the financial statements of each Agency, the Authorised Auditor was asked to provide representation to my Office at the completion of the review that the Agency's APEX input documentation for the year ended 30 June (effectively a trial balance) contained no material misstatement.

Selected Agencies cont...

End of year reviews were performed in each of the following Agencies:

- 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

Reviews conducted at most agencies identified no material or significant weaknesses in controls.

Some agencies had undertaken revaluations of their property, plant and equipment assets as at 30 June 2016. A number of issues were identified relating to these valuation exercises which, if not addressed, could result in material misstatements in future years. These primarily related to the absence of sufficient detail within valuation reports to support the assumptions made and methods used by the independent valuer. Furthermore, at some Agencies, the independent valuer heavily qualified his or her report noting some, or all, of the following caveats:

- the valuer was not provided with a fixed asset register relating to each property, construction and completion dates or building areas;
- no inspection of subject properties took place;
- no title searches were undertaken;
- the valuer has relied on the replacement costs provided by the Agency to perform the valuation; and
- the valuer has relied on the remaining economic life for each building provided by the Agency.

One Agency performed its own in-house valuation and the following significant matters were brought to my attention as a result of the review:

- numerous errors were identified during the examination of the unit rate calculations, relating to both inaccuracies in the information used to calculate the rates and deficiencies in the methodology used to determine the rate used;
- some assets had been omitted from the asset listing used as the basis of the valuation;
- documentation was not available to support the reported value of some land assets; and
- the acquisition date of at least one asset was incorrect.

I have recommended that the Agency undertake a detailed review of all assumptions, calculations and inputs applied within the revaluation model and resultant report. Action taken by the Agency to resolve the issues and to subject both the model and the methodology to a robust quality review will be assessed during the next audit conducted at the Agency.

Selected Agencies cont...

Other matters identified

In addition to the findings arising from revaluation reviews, the following matters were noted across a number of agencies:

- Issues were noted in relation to the recording of property, plant and equipment.
- Depreciation was incorrectly applied for the full year rather than from the date of capitalisation (where capitalisation occurred throughout the year) resulting in an overstatement of depreciation expense and an understatement of asset values.
- Errors in the capitalisation and expensing of asset related costs due to inadequate maintenance and retention of records.
- The revaluation of assets immediately prior to sale causing any profit or loss on sale to be incorrectly calculated and reported. In this particular instance, the opening book value of such assets totalled \$8.9 million as at 1 July 2015 however the book values of these assets, immediately prior to sale, were written down by \$4.2 million. The total write down of assets by \$4.2 million represents a 46% reduction on the opening book value of the specific assets. I was unable to obtain an explanation for this significant decrease in value suggesting these assets were overvalued at 30 June 2015. As the year end valuation was performed on a desktop basis, and the valuation prior to sale based on the physical condition of the asset, it is likely that the values of other assets were similarly overstated at 30 June 2016.
- Year-end journals were not completed in a timely manner with some being processed in mid-August that related to the 30 June 2016 year end.
- At one Agency it was noted that various reconciliations had not been prepared regularly since January 2016 and, at another Agency, a significant clearing account had not been fully reconciled.
- Advances provided by some Agencies are not adequately assessed for evidence of impairment, consequently an appropriate provision for impairment has not been provided. In other instances the advances have not been recorded at their amortised cost.
- At one Agency, the stocktake process to confirm the 2013/14 Register of Assets did not commence until June 2015, almost 12 months after the asset values were reported. As at 27 August 2016, the stocktake had still not been completed.

Selected Agencies cont...

- The end of year reviews identified a significant number of government employees who have annual leave entitlements in excess of 15 weeks (550 hours). Employees with excessive annual leave entitlements present several risks to the Agency and the broader public sector. Examples of such risks include:
 - increased employee work, health and safety risks arising from extended periods of work;
 - increased risk that fraud is occurring and not being detected;
 - employees may be receiving paid leave (with or without approval) to which they have no entitlement;
 - increased financial risk if full leave entitlements are taken by many employees at the same time; and
 - operational risks associated with rosters and staff scheduling.

Selected Agencies cont...

The Department of Arts and Museums has commented:

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

The Department of Corporate and Information Services has commented:

The End of Year Review of the Department of Corporate and Information Services identified only one matter for noting, relating to a clearing account reconciliation.

The funds in this account are fully recorded and accounted, with the requirement that, should the account be ceased in the future, any surplus funds are to be returned to the Central Holding Authority.

The Department of Health has commented:

The Department of Health acknowledges the findings and has measures in place to actively implement continuous improvement initiatives to strengthen systems and process to ensure compliance.

The Department of Housing and Community Development has commented on behalf of the former Department of Housing and the former Department of Local Government and Community Services:

The Department of Housing and Community Development acknowledges the findings of the End of Year Reviews of the Department of Housing and the Department of Local Government and Community Services and will improve controls to support compliance.

The Department of Land Resource Management has commented:

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

Selected Agencies cont...

The Department of Primary Industry and Resources has commented on behalf of the former Department of Mines and Energy (DME) and the former Department of Primary Industry and Fisheries (DPIF):

The Department of Primary Industry and Resources notes the Review Opinion of the Auditor-General in relation to the former DPIF and DME End of Year reviews that 'Based on the work performed in this audit no significant matters were brought to my attention as the auditor of the Treasurers Annual Financial Statement'.

The Department of Sport and Recreation has commented:

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

The Parks and Wildlife Commission of the Northern Territory has commented:

The Parks and Wildlife Commission of the Northern Territory notes accounting and control procedures examined were found to be generally satisfactory and provided reasonable assurance responsibilities will be met if the systems continue to operate in the manner identified in the audit.

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 FMA, Financial Management Regulations and 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 my June 2016 Report to the Legislative Assembly. The results of the remaining four audits are reported below. The completed audits were undertaken at the:

- Department of Land Resource Management;
- Department of Mines and Energy;
- Department of Primary Industry and Fisheries; and
- Department of Sport and Recreation.

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 at the conclusion of this narrative. 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.

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.

Selected Agencies cont...

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 Audit Committee meetings 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 value of an effective internal audit function in mitigating agency risks is considerable. An effective internal audit function can support the design, implementation and effectiveness of an agency's control environment through highlighting areas where controls can be improved in order to prevent or detect fraud, error and non-compliance or to increase efficiency and effectiveness of service delivery.

Whilst all four agencies demonstrated compliance with the Treasurer's Directions to some degree, a significant number of opportunities were identified at two of the agencies suggesting that two agencies had a more mature and established internal audit function.

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...

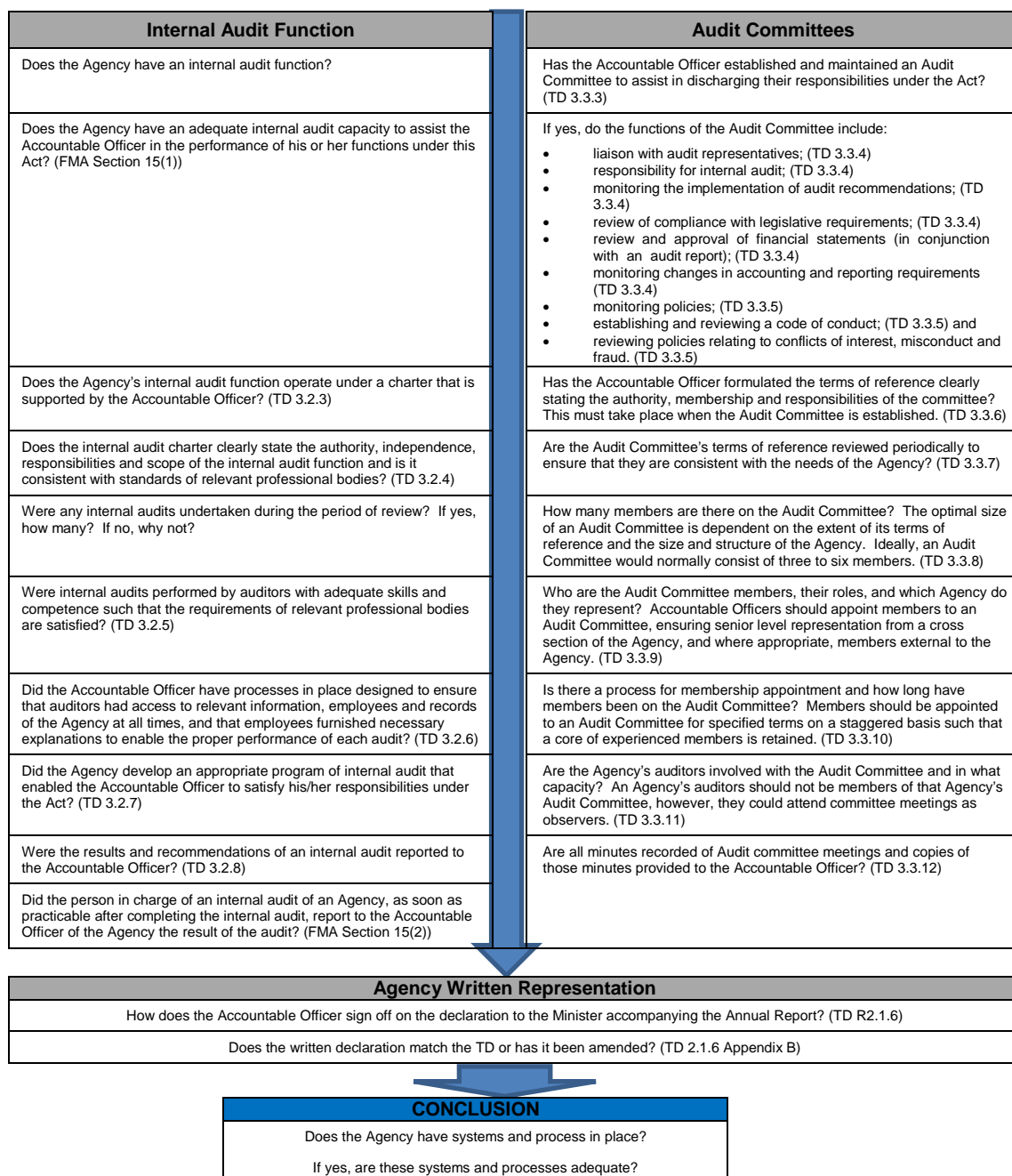
A number of recommendations to enhance the effectiveness of the Agencies' performance management systems in relation to their internal audit framework were raised as a result of these audits including:

- giving consideration to the inclusion of external members on the Audit Committee;
- reviewing the performance of the Audit Committee, and in two agencies' enhancing the Terms of Reference of the Audit Committee;
- in two agencies, enhancing the Internal Audit Charter and inclusion of an internal audit strategy to clearly define the role and responsibilities of the internal audit function;
- in two agencies, steps to enhance acceptance and implementation of audit recommendations; and
- in two agencies, 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



Note: The above diagram does not include better practice guidance which Agencies may find useful to enhance their performance management systems governing their internal audit framework.

Selected Agencies cont...

The Department of Land Resource Management has commented:

The Department of Land Resource Management has noted the recommendations to enhance the effectiveness of the Agency Performance Management Systems.

The Department of Primary Industry and Resources has commented on behalf of the former Department of Mines and Energy (DME) and the former Department of Primary Industry and Fisheries (DPIF):

The Department of Primary Industry and Resources have noted the recommendations in relation to the Evaluation of the Internal Audit Framework for the former DPIF and DME and will implement these to ensure the development of its internal audit function reflects best practice.

The Department of Sport and Recreation has commented:

The Department of Sport and Recreation has noted the recommendations to enhance the effectiveness of the Agency Performance Management Systems.

Surveyors Board of the Northern Territory of Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

The Board regulates the practice of land boundary surveying and the registration of land boundary surveyors.

Audit Opinion

The audit of the Surveyors Board of the Northern Territory of Australia for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 21 September 2016.

Key Findings

The Board's accounting and control procedures were found to be generally satisfactory.

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

Performance Overview

The Board has reported an operating deficit of \$1,033 for the year ended 30 June 2016. This result was the product of an 11% decrease in surveyor registrations received and a 6% increase in operating expenditure experienced during the year.

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

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
Income from fees	13	15
Services received free of charge	28	27
Total income	41	42
Less expenditure		
Services received free of charge	(28)	(27)
Audit expenses	(7)	(7)
Supplies and services	(6)	(5)
Membership fees	(1)	(1)
Total expenditure	(42)	(40)
(Deficit)/Surplus	(1)	2

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

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	68	70
Receivables and other current assets	-	-
Less current liabilities	(7)	(8)
Working Capital	61	62
Add non-current assets	-	-
Less non-current liabilities	-	-
Net Assets	61	62
Represented by:		
Retailed profits	61	62
Capital	61	62

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

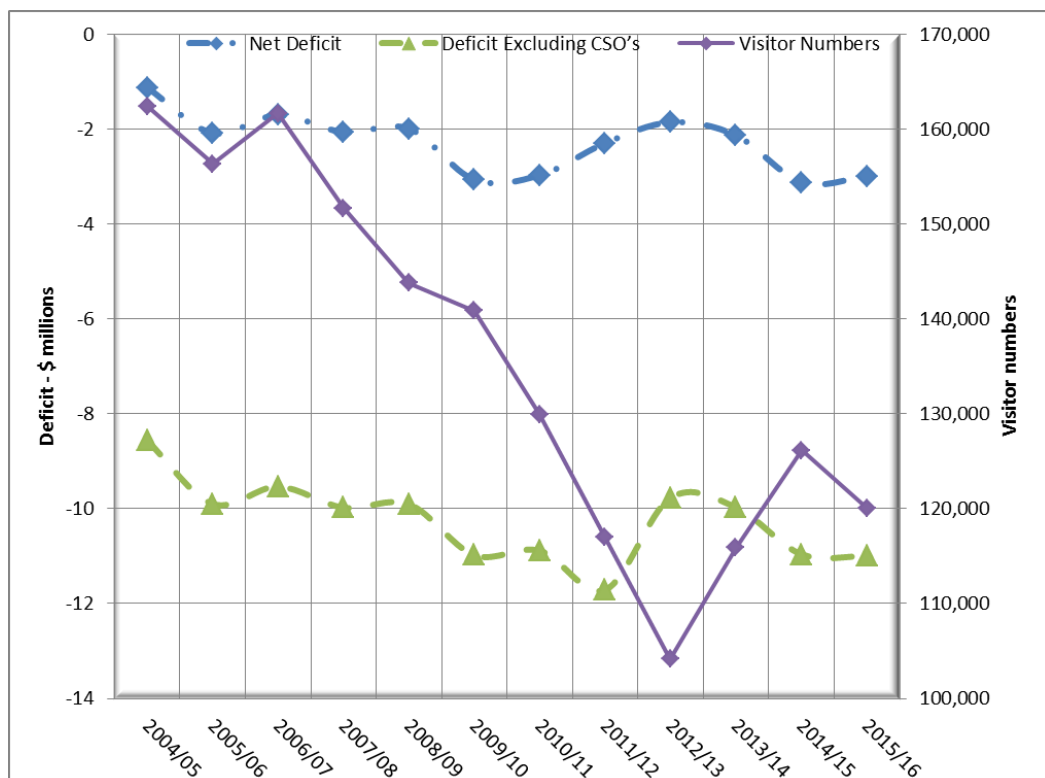
The host Agency was the Parks and Wildlife Commission of the Northern Territory.

Audit Opinion

The audit of the Territory Wildlife Parks for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 30 September 2016.

Key Findings

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



Territory Wildlife Parks cont...

	Net Deficit \$,000	CSO Income \$,000	Deficit Excluding CSO's \$,000	Visitor Numbers
2004/05	(1,123)	7,445	(8,568)	162,424
2005/06	(2,080)	7,817	(9,897)	156,323
2006/07	(1,700)	7,834	(9,534)	161,660
2007/08	(2,063)	7,915	(9,978)	151,675
2008/09	(1,990)	7,915	(9,905)	143,775
2009/10	(3,063)	7,915	(10,978)	140,854
2010/11	(2,970)	7,915	(10,885)	129,933
2011/12	(2,294)	9,418	(11,712)	116,954
2012/13	(1,854)	7,915	(9,769)	104,177
2013/14	(2,128)	7,842	(9,970)	115,877
2014/15	(3,118)	7,842	(10,960)	126,153
2015/16	(2,818)	7,824	(10,624)	120,076

Performance Overview

Operating losses

Territory Wildlife Parks incurred an operating loss of \$2.8 million this year (2015: \$3.1 million). Notwithstanding the marginally better result, the current year loss again calls into question the viability of the entity in the medium to longer term.

Negative Working Capital

Territory Wildlife Parks has reported negative working capital since 2008 and in 2016. The total current liabilities of \$1.1 million (2015: \$1.3 million) exceeded total current assets of \$0.6 million (2015: \$0.5 million).

Negative working capital indicates that, without support from the Northern Territory Government, Territory Wildlife Parks will not have sufficient available funds to meet its financial obligations as they fall due. It is also an indicator of the potential for financial failure in the near future.

Territory Wildlife Parks cont...

Negative Cash Flows from Operating Activities

Territory Wildlife Parks has also been reporting net cash used in operating activities in the past 3 years: from \$0.2 million in 2014 and \$1 million in 2015 to \$0.9 million in 2016.

Negative cash flows from operating activities are considered an indicator that Territory Wildlife Parks does not have sufficient cash to cover operational expenses and the assumption that the entity will continue as a going concern may not be supported.

Territory Wildlife Parks has budgeted for a loss of \$1.8 million in 2016/17 and I continue to recommend that the Executive Leadership Group continue to closely monitor the cash flow position and review the business model of Territory Wildlife Parks so as to ensure its financial viability for the future. Sufficient funding for the next financial year will need to be sourced in order for Territory Wildlife Parks to be financially viable.

Territory Wildlife Parks cont...

Financial Performance for the year		
	2016	2015
	\$'000	\$'000
Income		
Community Service Obligations	7,824	7,842
Sales of goods and services	2,709	2,612
Other revenues	58	39
Total income	10,591	10,493
Less expenditure		
Employee expenses	(6,727)	(6,652)
Depreciation and amortisation	(1,995)	(1,983)
Other expenses	(4,687)	(4,976)
Total expenditure	(13,409)	(13,611)
Deficit	(2,818)	(3,118)

Territory Wildlife Parks cont...

Financial Position at year end

	2016	2015
	\$'000	\$'000
Current assets	611	504
Less current liabilities	(1,149)	(1,319)
Working Capital	(538)	(815)
Add non-current assets	33,660	35,050
Less non-current liabilities	-	-
Net Assets	33,122	34,235
Represented by:		
Accumulated losses	(24,126)	(21,308)
Contributed equity	25,719	24,014
Asset revaluation reserve	31,529	31,529
Equity	33,122	34,235

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Background

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

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

The host Agency is the Department of Health.

Audit Opinion

The audit of the Top End Health Service for the year ended 30 June 2016 resulted in an unmodified independent audit opinion, which was issued on 29 September 2016

Key Findings

Performance Overview

Revenue

Total revenue for Top End Health Service (TEHS) has increased by approximately \$40.5 million (5%) from the prior year. The increase in Current Grants and Subsidies Income was mainly attributed to additional funding in the Health Reform Highly Specialised Drugs Program and Multiple Funding Program. Significant new programs for the year include National Partnership Agreement Indigenous Teenage Sexual Health and Reproductive Health and Young Parent Support Program, Clinical Teaching Services Agreement, Health Network NT (replacing NT Medicare Local) and Rural Health Outreach Fund. Sales of goods and services income increased due to the increase in Commonwealth Activity Based Funding (ABF) and Northern Territory ABF. This additional funding resulted in a net increase of approximately \$51.3 million, partially offset by the decrease in other income from the prior year of \$10.8 million, relating to the Menzies building which was transferred for nil consideration during the year ended 30 June 2015.

Top End Health Service cont...

Expenditure

Total expenditure increased this year by approximately \$108.0 million (14%) from the prior year. Employee expenses increased by \$53.8 million as a result of the transfer of the Alcohol and Other Drugs (AOD) division from Department of Health (DoH) to TEHS. Expense categories that experienced significant increases from the prior year include agency service arrangements; cross border patient charges; depreciation; current grants expense; medical/dental supply and services. These expenses increased by \$54.3 million in aggregate.

Other comprehensive income

Asset revaluations resulted in a movement of \$71.0 million (147%) from the prior year. In 2015 there was a substantial decrement in asset revaluations of \$48.4 million, however this year's asset revaluations of Remote Health Clinics resulted in an increment of \$22.6 million.

Assets

Total assets increased by approximately \$42.4 million (8%) from the prior year as a result of the increase in property, plant and equipment, inventory and prepayments, slightly offset by decreased cash, deposits and receivables for the year. Property, plant and equipment increased by \$69.2 million which was attributed to the revaluation of the Remote Health Clinics, transfer of AOD to TEHS and completed work in progress transferred from the Department of Infrastructure. Inventory and prepayments also increased collectively by \$1.7 million. This year's increase was partially offset by reduced receivables of \$4.8 million and the decrease in cash of \$23.8 million which is mainly due to the net deficit in the current year.

Liabilities

Total liabilities for the year have increased by \$6.8 million (5%) from the prior year. The increase was mainly attributed to the increase in cross border accrued expenses, and additional employee provisions from the transfer of employees in AOD from DoH.

Equity

The equity of TEHS increased by \$35.67 million (8%) from the prior year. This was mainly attributed to an increase in capital of \$77.8 million from equity injections and completed work in progress transferred in from the Department of Infrastructure, together with the asset revaluation surplus of \$22.6 million mentioned above. These increases were partially offset by the \$64.8 million net deficit in the current year.

Top End Health Service cont...

Other findings

Whilst no material weaknesses in controls were identified as a result of the audit, a number of observations and recommendations have been communicated to the Service. Key observations are listed below.

- Opportunities exist for the Service to further refine the estimation of cross-border accrued revenue and expenditure.
- Documentation and retention of evidence demonstrating that an independent review of transactions has occurred could be improved.
- Adequate documentary evidence was not available to support the determination of reciprocal grants and the monitoring of related unspent funds.
- Monitoring and accounting for employee entitlements and payments to employees could be improved.

Top End Health Service cont...

Financial Performance for the year

	2016	2015
	\$'000	\$'000
Income		
Sales of goods and/or services	340,069	335,171
Current grants and subsidies	445,505	399,111
Other	9,410	20,250
Total income	794,984	754,532
Less expenditure		
Employee expenses	(483,157)	(429,395)
Repairs and maintenance	(19,372)	(25,158)
Supplies and services	(295,674)	(252,727)
Depreciation and amortisation	(25,671)	(21,667)
Interest expense	(188)	(189)
Current grants and subsidies	(33,701)	(19,107)
Other expenses	(1,890)	(3,378)
Total expenditure	(859,653)	(751,621)
Surplus/(deficit) before income tax expense	(64,669)	2,911
Income tax expense	-	-
Surplus/(deficit) after income tax expense	(64,669)	2,911

Top End Health Service cont...

Financial Position at year end	2016	2015
	\$'000	\$'000
Cash and cash equivalents	5,666	29,470
Receivables and other current assets	48,875	51,790
Less current liabilities	(112,590)	(106,276)
Working Capital	(58,049)	(25,016)
Add non-current assets	546,523	477,368
Less non-current liabilities	(19,186)	(18,730)
Net Assets	469,288	433,622
Represented by:		
Accumulated funds	(87,608)	(22,940)
Asset revaluation surplus	174,460	151,880
Capital	382,436	304,682
Equity	469,288	433,622

Top End Health Service cont...

The Top End Health Service has commented:

The Service acknowledges the audit findings and will continue working with the Department of Health (DoH) System Manager to further improve its systems.

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2016

Audit Opinion

This report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2016. TAFS forms part of the Treasurer's Annual Financial Report (TAFR).

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

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

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

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

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

Treasurer's Annual Financial Statement cont...

Figure 1: TAFS Composition

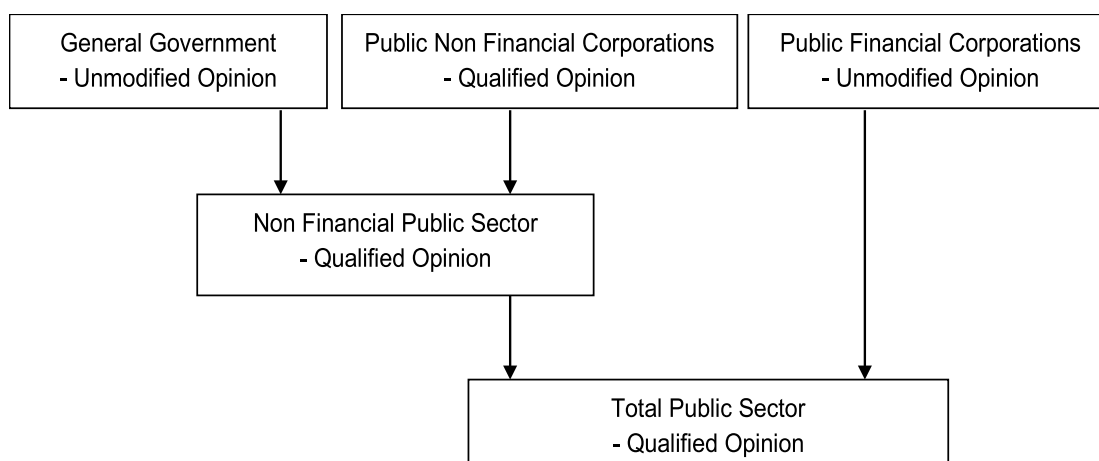


Table 1 outlines the key reporting elements of the Northern Territory.

Table 1: Northern Territory Government reporting entity

General Government Sector	Public Non Financial Corporations	Public Financial Corporations
<p><i>Includes:</i></p> <p>All government departments;</p> <p>Other administrative units such as the NT Police, Fire and Emergency Services and the Office of the Commissioner for Public Employment; and</p> <p>Other entities that provide services that are mainly non-market in nature, for the collective consumption by other Agencies or by the community.</p> <p>From 1 January 2015, this sector also includes the results of the Motor Accidents (Compensation) Commission.</p>	<p><i>Comprises:</i></p> <p>Power and Water Corporation and its subsidiary Indigenous Essential Services Pty Ltd;</p> <p>Power Retail Corporation (trading as Jacana Energy);</p> <p>Power Generation Corporation (trading as Territory Generation);</p> <p>Darwin Bus Service (to 30 June 2015);</p> <p>Darwin Port Corporation (to 30 June 2015); and</p> <p>Land Development Corporation.</p>	<p><i>Comprises:</i></p> <p>Northern Territory Treasury Corporation</p> <p>Territory Insurance Office (to 31 December 2014, thus relevant for the comparative year ended 30 June 2015)</p>

Treasurer's Annual Financial Statement cont...

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

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

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

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

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

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

Entities not consolidated into any of the above sectors

The consolidated financial statements of the Total Public Sector comprise all agencies, Government Business Divisions, Government Owned Corporations, the former TIO and other entities controlled by the Northern Territory Government. The following entities are excluded from the consolidation:

- Charles Darwin University and its associated entities
- Menzies School of Health Research
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board
- Nitmiluk (Katherine Gorge) National Park Board
- Surveyors Board of the Northern Territory of Australia
- Northern Territory Grants Commission

Treasurer's Annual Financial Statement cont...

- Northern Territory Government and Public Authorities Employees' Superannuation Fund
- Legislative Assembly Members' Superannuation Trust
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local Government/Regional Councils.

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

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

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

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

Net Operating Balance – a measure of financial performance calculated as the excess of revenues over expenses. The Net Operating Balance is a measure of the sustainability of a government.

Fiscal Balance – a measure of financial performance sometimes referred to as Net Lending/Borrowing and calculated as the Net Operating Balance less the net acquisition of non-financial assets. It is a measure of the extent to which a government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. A net lending (or fiscal surplus) balance indicates that a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit position) indicates that a government's level of investment is greater than its level of savings.

Treasurer's Annual Financial Statement cont...

Net Worth – a measure of financial position calculated as total financial and non-financial assets less total liabilities and contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

Net Financial Worth – a measure of financial position calculated as total financial assets less total liabilities. This measure can be viewed as an alternative measure for assessing the sustainability of fiscal activities as it may be difficult to attach market values to some general government sector non-financial assets that form part of the calculation of Net Worth.

Net Debt – a measure of financial position comprising certain financial liabilities less financial assets. The items included in this measure are discussed in some detail in the Budget Papers.

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

Audit Opinion

My audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2016 resulted in a modified independent audit opinion, which was issued on 17 October 2016. My audit opinion on the Financial Report was provided in two parts:

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

General Government Sector and Public Financial Corporation Sector

I issued an unmodified opinion in relation to the General Government Sector and Public Financial Corporation Sector.

In my opinion, the Treasurer's Annual Financial Report gives a true and fair view of the financial position of the General Government Sector and Public Financial Corporation Sector as at 30 June 2016 and of their performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the financial reporting requirements of the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*.

Treasurer's Annual Financial Statement cont...

Public Non Financial Corporation Sector, Non Financial Public Sector and Total Public Sector

I qualified my opinion Public Non Financial Corporation Sector, Non Financial Public Sector and Total Public Sector because of the matters described below.

Valuation of property, plant and equipment

As at 1 July 2014, Power and Water Corporation and its subsidiary, Indigenous Essential Services Pty Ltd, changed accounting policy in relation to the measurement of property, plant and equipment from historical cost to fair value. Independent valuations were commissioned to provide a fair value which has resulted in the value of property, plant and equipment reported in the balance sheet increasing by \$1,409,215,000 to \$3,091,566,000 for Power and Water Corporation and increasing by \$654,554,000 to \$900,574,000 for Indigenous Essential Services Pty Ltd. The valuations were performed using depreciated replacement cost and did not consider Power and Water Corporation's ability to generate economic benefits by using the assets or by selling them to another market participant. In addition, a number of material issues were identified in relation to the valuation process, which were not resolved by 30 June 2015.

In the current year, Power and Water Corporation commissioned an independent valuation to provide a fair value using the income approach which has resulted in the value of property, plant and equipment reported in the balance sheet decreasing by \$1,335,445,000 as at 30 June 2016. While sufficient appropriate audit evidence was obtained in relation to the valuation of property, plant and equipment for Power and Water Corporation's property, plant and equipment as at 30 June 2016, I was unable to obtain sufficient appropriate audit evidence to support the valuation of Indigenous Essential Services Pty Ltd's property, plant and equipment and the asset revaluation reserve in the balance sheet as at 30 June 2016 and depreciation expense, asset impairment and net loss on disposal of property, plant and equipment reported as Other Expenses within the Comprehensive Income Statement of the Non Financial Corporation Sector, the Non Financial Public Sector and the Total Public Sector for the year ended 30 June 2016.

Treasurer's Annual Financial Statement cont...

In applying the valuation to the fixed asset register in the prior year, the standard asset hierarchy and related asset categories were updated in the financial management system to align with the asset management system. This process resulted in significant data integrity issues with the fixed asset register for both accounting and tax purposes. The fixed asset register as at 30 June 2015 and as at 30 June 2016 was unable to be reconciled to the general ledger. As a result, I was unable to obtain sufficient appropriate audit evidence to support the validity, completeness, existence, accuracy and classification of property, plant and equipment and the asset revaluation reserve in the balance sheet as at 30 June 2015 and 30 June 2016 and depreciation expense, asset impairment and net loss on disposal of property, plant and equipment reported as Other Expenses within the Comprehensive Income Statement of the Non Financial Corporation Sector, the Non Financial Public Sector and the Total Public Sector for the years ended 30 June 2015 and 30 June 2016 for both Power and Water Corporation and Indigenous Essential Services Pty Ltd.

In simple terms, my inability to obtain sufficient appropriate evidence to support the balances identified within the Non Financial Public Corporation Sector results has led me to qualify my opinion on that sector as at 30 June 2016. This has also resulted in a qualified opinion on the Non Financial Public Sector and the Total Public Sector as these sectors include the results of the Non Financial Public Corporation Sector.

The purpose and structure of my audit report on the TAFS

My audit report on the TAFS was signed on 17 October 2016 and is set out on page 15 of the TAFR. The purpose of an audit report on a financial report is to enhance the credibility of the financial information presented in relation to an entity's financial performance, financial position and cash flows and, where relevant, advise readers of problems in the financial report. The audit report is structured to clearly define the financial report being audited, the person(s) responsible for preparing the financial report, explain the scope of the audit and present the auditor's opinion on the financial report.

The extent or scope of the audit

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

Treasurer's Annual Financial Statement cont...

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

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

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

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

Impact of materiality and audit procedures on the audit opinion

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

Treasurer's Annual Financial Statement cont...

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

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

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

What the audit opinion does not provide

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

My audit of the Public Account assists considerably in forming a view on the TAFS however users of this report are reminded that I do not separately audit and form an opinion on the financial statements of individual Agencies.

Treasurer's Annual Financial Statement cont...

Key Findings

Performance overview

With the exception of the Motor Accidents (Compensation) Commission which will be reported upon in my next Legislative Assembly Report, my comments and findings on each individual entity within the Total Public Sector are reported separately within this report.

The comments that follow are largely confined to the General Government Sector. The sector is arguably the most important sector of government. It is that sector that is funded largely through taxation and on that basis alone deserves to be considered, but it is also the sector that is responsible for the provision of those services that the community commonly associates with the role of a government.

The financial performance of the General Government Sector, as measured by the Net Operating Balance, decreased during the year ended 30 June 2016 when compared with the prior year. The Net Operating Balance for the year ended 30 June 2016 was \$293.1million, a decrease of \$594.3 million when compared to the surplus of \$887.4 million reported for the year ended 30 June 2015. Total revenues decreased by \$55.7 million when compared to the previous year. Revenue sources contributing the largest increases were grants (an increase of \$288.5 million) and sales of goods and services (an increase of \$100.8 million). These increases were largely offset by decreases in taxation revenue (\$106.5 million), dividend and income tax equivalent income (\$105.6 million) and other revenue (\$246.0 million).

Individually significant items resulting in the prior year's income exceeding that of the current were a special dividend received in the prior year from the former Territory Insurance Office of \$140 million and the \$265 million profit on the sale of the Territory Insurance Office recognised within other revenue.

Expenses increased from the prior year by \$537.4 million. The largest components of expense growth were grants and subsidies (an increase of \$241.5 million); employee expenses (an increase of \$119.6 million); and other operating expenses (an increase of \$167.4 million).

Whilst total revenues declined by \$55.7 million from the prior year, total expenses were \$537.4 million higher than the prior year indicating opportunities may exist where spending could be restrained in the current economic environment.

Treasurer's Annual Financial Statement cont...

The Fiscal Balance result also decreased, from a surplus of \$295.7 million for the year ended 30 June 2015 to a deficit for the year ended 30 June 2016 of \$31.7 million. Again, a significant proportion of the decrease of \$327.4 million is due to the prior year's Fiscal Balance being impacted by the sale of the former Territory Insurance Office. In 2015, revenue from the sale of TIO, including the special dividend and sales proceeds, together with related stamp duty, totalled \$411.0 million. The Fiscal Balance demonstrates that an additional \$266.8 million was invested last year in the acquisition of non-financial assets.

The financial position of the General Government Sector, as measured by Net Debt, improved by \$364.9 million for the year reflecting the following significant changes:

- a decrease in borrowings of \$613.9 million; offset by
- a increase in deposits held of \$112.2 million; and
- a decrease of \$185.9 million in investments, loans and placements.

Net Financial Worth decreased by \$1,676.7 million when compared with the position at 30 June 2015 to negative \$4,177.7 million demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities increased by \$95.5 million for the year reflecting the change in Net Financial Worth of \$1,676.7 million then adjusted by the \$1,581.2 million decrease in the value of investments in other public sector entities.

Treasurer's Annual Financial Statement cont...

General Government Sector – Components of Financial Performance

	2016	2015
	\$'million	\$'million
Taxation revenue	608.4	714.9
Grants	4,682.6	4,394.1
Sales of goods and services	435.5	334.7
Interest income	101.8	88.8
Dividend and income tax equivalent income	97.3	202.9
Other	282.4	528.4
Total revenues	6,208.1	6,263.8
Employee expenses	(2,153.7)	(2,034.1)
Other operating expenses	(1,440.4)	(1,273.0)
Depreciation	(322.6)	(313.6)
Superannuation expense	(343.3)	(332.3)
Interest expenses	(234.9)	(246.0)
Other property expenses	(2.0)	(2.1)
Grants and subsidies	(1,420.4)	(1,178.8)
Total expenses	(5,917.3)	(5,379.9)
Transactions from discontinuing operations	2.3	3.4
Net operating balance	293.1	887.3
Other economic flows	(44.3)	20.1
Operating result	248.8	907.5
Note: Totals may not add due to rounding		
Net operating balance	293.1	887.3
Less net acquisition of non financial assets	(324.8)	(591.6)
Fiscal balance	(31.7)	295.7

Treasurer's Annual Financial Statement cont...

General Government Sector – Components of Financial Position

	Balance at 30 June 2016	Movement for 2015/16	Balance at 30 June 2015
	\$'million	\$'million	\$'million
Cash and deposits	623.6	13.2	610.4
Advances paid	178.0	3.1	174.9
Investments, loans and placements	2,182.2	(185.8)	2,368.0
Deposits held	(361.3)	(112.2)	(249.1)
Advances received	(293.5)	32.8	(326.3)
Borrowings	(3,097.4)	613.8	(3,711.2)
Net debt	(768.4)	364.9	(1,133.3)
Other non-equity financial assets	396.9	87.5	309.4
Equity assets	2,129.0	(1,581.2)	3,710.2
Superannuation liabilities	(4,263.9)	(426.8)	(3,837.1)
Other employee entitlements and provisions	(591.9)	27.0	(618.9)
Other non-equity liabilities	(1,079.6)	(148.1)	(931.4)
Net financial worth	(4,177.7)	(1,676.7)	(2,501.1)
Less: Equity assets	(2,129.0)	1,581.2	(3,710.2)
Net financial liabilities	(6,306.7)	(95.5)	(6,211.3)
Net carrying amounts of non financial assets	13,953.2	340.8	13,612.4
Equity assets	2,129.0	(1,581.2)	3,710.2
Net worth	9,775.5	(1,335.9)	11,111.3

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont...

General Government Sector – Abridged Statement of Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity as at 30 June
2015/16	\$'million	\$'million	\$'million
Accumulated funds	1,957.9	248.8	2,206.7
Transfers from reserves	-	113.3	113.3
Other movements directly to equity	-	(398.0)	(398.0)
Total accumulated funds	1,957.9	(35.9)	1,922.1
Reserves			
Asset revaluation surplus	6,172.9	165.5	6,338.4
Investments in public sector entities revaluation surplus	2,979.9	(1,482.8)	1,497.1
Other reserves	0.6	17.3	17.9
Total reserves	9,153.4	(1,300.0)	7,853.4
Total equity at end of financial year	11,111.3	(1,335.8)	9,775.5
2014/15			
Accumulated funds	552.5	907.5	1,460.0
Correction of prior period errors	-	(32.1)	(32.1)
Transfers from reserves	-	728.4	728.4
Other movements directly to equity	-	(198.4)	(198.4)
Total accumulated funds	552.5	1,405.4	1,957.9
Reserves			
Asset revaluation surplus	4,760.1	1,412.8	6,172.9
Asset realisation surplus	335.5	(335.5)	-
Investments in public sector entities revaluation surplus	2,103.7	876.2	2,979.8
Other reserves	0.8	(0.2)	0.6
Total reserves	7,200.1	1,953.3	9,153.4
Total equity at end of financial year	7,752.6	3,358.7	11,111.3

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont...

Total Public Sector – Components of Financial Performance

	2016	2015
	\$'million	\$'million
Taxation revenue	598.1	704.6
Grants	4,693.7	4,398.5
Sales of goods and services	1,014.3	1,096.7
Interest income	101.6	154.9
Other	302.2	588.4
Total revenues	6,709.9	6,943.1
Employee expenses	(2,266.1)	(2,153.0)
Other operating expenses	(1,811.2)	(1,822.3)
Depreciation	(527.0)	(558.4)
Superannuation expense	(354.4)	(340.7)
Interest expenses	(272.0)	(292.6)
Other property expenses	(2.0)	(3.5)
Grants and subsidies	(1,156.8)	(997.9)
Total expenses	(6,389.6)	(6,168.2)
Transactions from discontinuing operations	2.0	16.6
Net operating balance	322.3	791.5
Other economic flows	(118.4)	(244.6)
Operating result	203.9	546.9
Note: Totals may not add due to rounding		
Net operating balance	322.3	791.5
Less net acquisition of non financial assets	(400.4)	(611.2)
Fiscal balance	(78.1)	180.3

Treasurer's Annual Financial Statement cont...

Total Public Sector – Components of Financial Position

	Balance at 30 June 2016	Movement for 2015/16	Balance at 30 June 2015
	\$'million	\$'million	\$'million
Cash and deposits	623.7	13.3	610.4
Advances paid	178.0	3.1	174.9
Investments, loans and placements	2,182.2	(185.8)	2,368.0
Deposits held	(83.8)	(5.8)	(78.0)
Advances received	(229.6)	1.7	(231.3)
Borrowings	(4,433.2)	544.8	(4,978.0)
Net debt	(1,762.7)	371.3	(2,134.0)
Other non-equity financial assets	485.6	106.2	379.4
Equity assets	-	-	-
Superannuation liabilities	(4,263.9)	(426.8)	(3,837.1)
Other employee entitlements and provisions	(643.9)	25.7	(669.6)
Other non-equity liabilities	(1,277.6)	(194.3)	(1,083.3)
Net financial worth	(7,462.5)	(118.0)	(7,344.5)
Less: Equity assets	-	-	-
Net financial liabilities	(7,462.5)	(118.0)	(7,344.5)
Net carrying amounts of non financial assets	17,237.9	(1,217.9)	18,455.8
Equity assets	-	-	-
Net worth	9,775.5	(1,335.8)	11,111.3

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont...

Total Public Sector – Abridged Statement of Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity as at 30 June
	\$'million	\$'million	\$'million
2015/16			
Accumulated funds	2,818.9	203.9	3,022.7
Transfers from reserves	-	172.0	172.0
Other movements directly to equity	-	(404.4)	(404.4)
Total accumulated funds	2,818.9	(28.5)	2,790.3
Reserves			
Asset revaluation surplus	8,291.8	(1,324.6)	6,967.2
Asset realisation surplus	-		-
Other reserves	0.6	17.3	17.9
Total reserves	8,292.4	(1,307.3)	6,985.1
Total equity at end of financial year	11,111.3	(1,335.8)	9,775.5
2014/15			
Accumulated funds	1,468.6	546.9	2,015.5
Correction of prior period errors	-	(32.1)	(32.1)
Transfers from reserves	-	1,034.1	1,034.1
Other movements directly to equity	-	(198.6)	(198.6)
Total accumulated funds	1,468.6	1,350.3	2,818.9
Reserves			
Asset revaluation surplus	5,933.5	2,358.3	8,291.8
Asset realisation surplus	335.5	(335.5)	-
Other reserves	15.0	(14.4)	0.6
Total reserves	6,284.0	2,008.4	8,292.4
Total equity at end of financial year	7,752.6	3,358.7	11,111.3

Note: Totals may not add due to rounding

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*;
- Territory Insurance Office;
- 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, the results of which are reported below.

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

Referral of a complaint to the Auditor-General – Progress Report Year 3

A matter was referred to my office on 26 February 2016 regarding contraventions of the provisions of the *Public Information Act* (the Act). I am required by the Act to review any allegation made and report my findings to either the Speaker or to the Legislative Assembly as part of one of my periodic reports to the Legislative Assembly.

Review of Allegation

The referred matter consisted of a flyer issued via public letterbox drop. The flyer is entitled *Progress Report Year 3* and contains a number of statements against the four pillars of the government's plan: "*prosperous economy; strong society; confident culture; and balanced environment*".

Specific concern was raised in relation to:

- promotion of the Country Liberal Party's (CLP) political interests;
- factual inaccuracies contained within the material; and
- inclusion of images of CLP Ministers generally characteristic of party political advertising.

Conclusion

In forming my opinion, I have considered the content of the referral received, reviewed the flyer and reviewed information provided to me by the Office of the former Chief Minister as a result of my enquiries of personnel at the Office of the former Chief Minister. I have now concluded my enquiries.

As a result of my review, I formed the opinion that the material listed below represented contraventions of the provisions of sections 6(2)(b) and 6(2)(c) of the Act.

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

Section 6(2)(a)

Whilst there are pictures of CLP members on two pages of the brochure, all were Ministers at the time of the publication and therefore can be linked to portfolios of direct responsibility for those pictured. The information makes no specific reference to the Country Liberal Party. There are no slogans or taglines on the brochure which I have assessed as belonging to a political party or a politician. I am not satisfied the content of the information promotes particular party political interests notwithstanding a reference within the document to “*174 election commitments*.” It could be interpreted that the information is intended to report on performance in relation to government undertakings. There is nothing in the document that attacks or comments on the views, policies or actions of a political party or politician. I am therefore satisfied that the information does not contravene Section 6(2)(a) of the *Public Information Act*.

Section 6(2)(b)

In the response to my correspondence dated 26 May 2016 notifying the public authority of the referred matter, the Chief of Staff of the Office of the former Chief Minister provided a document which linked each of the 71 statements to a source. The letter also advised that, “*as a progress report, the progress report reflects progress at a particular point in time*”. The attachment to the letter provided links to media releases only for 52 of the statements included on the referred information. Section 4(b) of the *Public Information Act* specifically excludes media releases from the scope of the Act. In the absence of further information, I am unable to conclude that these 52 statements are deliberately misleading or factually inaccurate.

My review of the information found that the wording of some of the statements could be misinterpreted. The additional information provided to me included referenced sources beyond media releases that enabled nine of the 71 statements to be verified as factually correct using the references provided. Of the remaining 10 statements, five were unable to be verified to an independent source; one was factually inaccurate as determined and advised by the Office of the former Chief Minister when preparing the supporting documentation for my review; and four were referenced to publically available estimates and forecasts and thus were not determined to be “facts”. Consequently, my opinion is that the information presented has contravened section 6(2)(b) of the *Public Information Act* albeit I am of the view that the information was not deliberately presented as misleading or factually inaccurate.

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

Section 6(2)(c)

The flyer presents 71 statements against the four pillars identified in the government's plan as well as additional information and statements. Of the content, only one statement: *Fuel Summit helped deliver lowest prices in Australia*, has been referenced to the NT Council of Social Services 9th NT Cost of Living Report (15/9/16). As such, a reader would be unable to determine, from the flyer, which of the statements represent a statement of facts and which represent a statement of comments. In this regard, I find that the information does not clearly distinguish a statement of facts from a statement of comments. Consequently, my opinion is that the information presented has contravened section 6(2)(c) of the *Public Information Act*.

As a result I have concluded that the referred material represented a contravention of the provisions of sections 6(2)(b) and 6(2)(c) of the Act.

Recommendation

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

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

The information was issued by flyer in a public letterbox drop. Withdrawal of the information is not an appropriate recommendation. Requesting the content of the information to be changed is not a pragmatic recommendation as it would result in additional unnecessary costs, and given the nature of the information (a progress report at a point in time), the re-issue of the information may no longer be appropriate or relevant. Accordingly, I have made no recommendation as provided for within Section 8(3).

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

Referral of a complaint to the Auditor-General – Facebook Page – Office of Aboriginal Affairs NT

A matter was referred to my office on Friday 3 June 2016 regarding contraventions of the provisions of the *Public Information Act* (the Act). I am required by the Act to review any allegation made and report my findings to either the Speaker or to the Legislative Assembly as part of one of my periodic reports to the Legislative Assembly.

Review of Allegation

The referred matter consisted of content included within a number of posts on a Facebook site allegedly controlled by the Office of Aboriginal Affairs NT. The allegation was that the posts within the Aboriginal Affairs NT Facebook site (<https://www.facebook.com/AboriginalAffairsNT/>) contravened the provisions of the Act on the grounds that the information within the Aboriginal Affairs NT Facebook site promoted particular party political interests.

Specific concern was raised in relation to:

- inclusion within one article of a direct link to the Country Liberal Party (CLP) Facebook site;
- negative references to Labor;
- inclusion of images of CLP candidates; and
- images and slogans generally characteristic of party political advertising.

At the time of the referral, the Aboriginal Affairs NT Facebook site was controlled and managed by the Office of the former Chief Minister. The Aboriginal Affairs NT Facebook site was accessible by any member of the public that has a Facebook account, therefore the content of the Aboriginal Affairs NT Facebook site represented public information given by a public authority by using money or other property of the Territory. I therefore am of the opinion that the referred content was subject to the provisions of the Act.

Matters Subsequent to the Referral of Information

I acknowledge that, prior to my preliminary opinion being issued to the Office of the Chief Minister, the Office of the former Chief Minister undertook an internal review of the Aboriginal Affairs NT Facebook site and consequently removed a number of posts to the site that were perceived as not complying with the Act.

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

Conclusion

In forming my conclusion, I have considered the content of the referral received, reviewed the Aboriginal Affairs NT Facebook site and its contents (at the time of referral and subsequently) and made appropriate enquiries of personnel at the Office of the former Chief Minister.

As a result of my review, I formed the opinion that some of the information posted on the Aboriginal Affairs NT Facebook site contravened the provisions of sections 6(2)(a) and 6(2)(c) of the Act.

Section 6(2)(a)

In my opinion, some of the information posted on the Aboriginal Affairs NT Facebook site at the time of the referral, contravened section 6(2)(a) of the *Public Information Act* in that it promoted party political interests. Additionally, one post on 24 May 2016 included a link to the Country Liberals Facebook site.

Further guidance as to what content may be seen as promoting party political interests is provided in Section 6(4) which states: *“Without limiting subsection (2)(a), the content of the public information promotes particular party political interests if the information includes an image or message that may reasonably be regarded as promoting (whether expressly or implicitly) a particular political party or any of its members”*.

Section 6(2)(b)

I have not requested further information in relation to the statements on the Aboriginal Affairs NT Facebook site in order to determine whether or not they were factually accurate given that I have found the public information contravened Section 6(2)(c) as discussed below.

Section 6(2)(c)

The content contained in a number of posts on the Aboriginal Affairs NT Facebook site was not adequately referenced in order to enable a reader to determine for themselves if the public information provided was factually correct and therefore, it is also my opinion that some of the content on the Facebook site contravenes section 6(2)(c) of the Act in that it does not clearly distinguish a statement of facts from a statement of comments.

As a result I have concluded that the referred material represented a contravention of the provisions of sections 6(2)(a) and 6(2)(c) of the Act.

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

Recommendation

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

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

In accordance with section 8(3) of the *Public Information Act*, I recommended to the Office of the former Chief Minister that appropriate controls be developed and implemented in order to prevent further instances where information is given using money or property of the Territory that promotes party political interests and/or does not distinguish a statement of facts from a statement of comments. The increased use of social media may require the Office of the Chief Minister to revisit its existing control framework to ensure contemporary controls exist to prevent legislative non-compliance.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 17 June 2016

Financial Statements for the year ended 30 June 2015

	Date 2015 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2015	Date of Audit report year ended 30 June 2014
Indigenous Essential Services Pty Ltd	Not required	24 June 16	29 September 14
Power and Water Corporation	27 June 16	24 June 16	29 September 14

Financial Statements for the year ended 30 June 2016

	Date 2016 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2016	Date of Audit report year ended 30 June 2015
Board of the Museum and Art Gallery of the Northern Territory	Not yet tabled	6 October 16	9 December 15
Central Australia Health Service	26 October 16	27 September 16	16 October 15
Darwin Waterfront Corporation	27 October 16	23 September 16	25 September 15
Data Centre Services	27 October 16	3 October 16	1 October 15
Indigenous Essential Services Pty Ltd	Not required	30 September 16	24 June 16
Jabiru Town Development Authority	Not yet tabled	11 October 16	13 October 15
Land Development Corporation	Not yet tabled	23 September 16	25 September 15
Legislative Assembly Members' Superannuation Fund	27 October 16	29 September 16	30 September 15
Motor Accidents (Compensation) Commission	Not yet tabled	26 October 16	2 October 15
Nitmiluk (Katherine Gorge) National Park Board	Not yet tabled	19 September 16	16 November 15

Not yet tabled – as at 4 November 2016

Not required – Financial statements are not required to be tabled

N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 17 June 2016 cont...

Financial Statements for the year ended 30 June 2016

	Date 2016 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2016	Date of Audit report year ended 30 June 2015
Northern Territory Government and Public Authorities Employees' Superannuation Fund	27 October 16	3 October 16	30 September 15
Northern Territory Grants Commission	Not yet tabled	30 September 16	23 October 15
Northern Territory Legal Aid Commission	Not yet tabled	3 October 16	25 November 15
Northern Territory Major Events Company Pty Ltd	Not required	15 September 16	29 September 15
Northern Territory Police Supplementary Benefit Scheme	Not required	29 September 16	30 September 15
Northern Territory Treasury Corporation	27 October 16	27 September 16	29 September 15
NT Build		27 September 16	15 October 15
NT Fleet	27 October 16	3 October 16	1 October 15
NT Home Ownership	26 October 16	5 September 16	28 September 15
Power and Water Corporation	25 October 16	30 September 16	24 June 16
Power Generation Corporation	25 October 16	29 September 16	5 November 15
Power Retail Corporation	25 October 16	30 September 16	22 December 15
Surveyors Board of the Northern Territory of Australia	27 October 16	21 September 16	17 December 15
Territory Wildlife Parks	27 October 16	30 September 16	13 October 15
Top End Health Service	26 October 16	29 September 16	16 October 15
Treasurer's Annual Financial Statement	25 October 16	17 October 16	30 October 15

Not yet tabled – as at 4 November 2016

Not required – Financial statements are not required to be tabled

N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 17 June 2016 cont...

Acquittals or other returns for the year ended 30 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
Department of Business – Summary AVETMISS Financial Data Acquittal	14 July 16	23 June 16	19 June 15

Acquittals or other returns for the year ended 30 June 2016

	Deadline for submission of Audited Financial Statements	Date of Audit report year ended 30 June 2016	Date of Audit report year ended 30 June 2015
Health Pool Funding Acquittal	30 September 16	9 September 16	7 September 15
<i>Interstate Road Transport Act 1985</i>	31 December 16	31 October 16	6 November 15
Local Government Financial Assistance Acquittal	Not specified	30 September 16	23 October 15
Motor Accidents (Compensation) Commission Annual Return	31 October 16	2 November 16	29 October 15
<i>National Land Transport Act 2014</i>			
Black Spot	31 December 16	31 October 16	27 November 15
Not yet completed – as at 4 November 2016			
Not specified – No deadline specified			

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Appendix 2: Status of Audits and Reviews which were Identified to be Conducted in my June 2016 Report

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 my June 2016 report to the Legislative Assembly as either not yet complete at 17 June 2016 or scheduled to be conducted during the six months to 31 December 2016:

Department of Corporate and Information Services

General Computer Controls – EFT Accounts	Refer page 40
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Department of Correctional Services

Contract Management – Darwin Correctional Centre	Not yet completed
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Department of Education

General Computer Controls – Student Administration Management System	Not yet completed
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Independent Public Schools Governance	Refer page 43
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Department of Health

Contract Management – St John Ambulance, Careflight, Disability Services	Not yet completed
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Department of Infrastructure

Procurement	Not yet completed
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Tiger Brennan Drive	Not yet completed
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Department of Land Resource Management

Evaluation of Internal Audit Framework	Refer page 257
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Department of Mines and Energy

Evaluation of Internal Audit Framework	Refer page 257
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Department of Primary Industry and Fisheries

Evaluation of Internal Audit Framework	Refer page 257
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Department of Sport and Recreation

Evaluation of Internal Audit Framework	Refer page 257
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Appendix 2: Status of Audits and Reviews which were Identified to be Conducted in my June 2016 Report cont...

Department of the Attorney-General and Justice

Integrated Justice Information System Review

Refer page 101

Selected Agencies

Fraud Assessment Framework

Not yet completed

Appendix 3: 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.

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 was completed in September 2016. An unmodified audit opinion was issued on 13 September 2016.

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Appendix 4: Abbreviations

ABF	Activity Based Funding
ANAO	Australian National Audit Office
AOD	Alcohol and Other Drugs
AOG	Approvals Oversight Group
BCP	Business Continuity Plan
CLP	Country Liberal Party
CSO	Community Service Obligations
CSS	Commonwealth Superannuation Scheme
DCIS	Department of Corporate and Information Services
DCM	Department of the Chief Minister
DHsg	Department of Housing
DLPE	Department of Lands, Planning and the Environment
DME	Department of Mines and Energy
DoH	Department of Health
Dol	Department of Infrastructure
DPC	Darwin Port Corporation
DPIF	Department of Primary Industry and Fisheries
DPO	Darwin Port Operations Pty Ltd
DRP	Disaster Recovery Plan
DSR	Department of Sport and Recreation
EOI	Expressions of Interest
FAR	Fixed Asset Register
FIFA	Future Intent Framework Assessment
FMA	<i>Financial Management Act</i>
FMS	Financial Management System
GAS	Government Accounting System
GEH	Government Employee Housing
GFS	Government Financial Statistics

Appendix 4: Abbreviations cont...

GSB	Global School Budget
GST	Goods and Services Tax
HMO	Housing Maintenance Officer
HRG	Housing Reference Group
ICSEA	Index of Community Socio-Educational Advantage
IES	Indigenous Essential Services Pty Limited
IJIS	Integrated Justice Information System
IPP	Industry Participation Plans
IPS	Independent Public Schools
IT	Information Technology
Jacana Energy	Power Retail Corporation
Jemena	Jemena Northern Gas Pipeline Pty Ltd
KPI	Key Performance Indicator
LAMS	Legislative Assembly Members' Superannuation
LDC	Land Development Corporation
LNG	Liquefied Natural Gas
MAGNT	Board of the Museum and Art Gallery of the Northern
MoU	Memorandum of Understanding
NEGI	North East Gas Interconnector
NGP	Northern Gas Pipeline
NRAS	National Rental Affordability Scheme
NSW	New South Wales
NT	Northern Territory
NTG	Northern Territory Government
PDA	Project Development Agreement
PHT	Landbridge Darwin Port Holding Trust
PLT	Landbridge Darwin Port Lessee Trust
PMG	Project Monitoring Group

Appendix 4: Abbreviations cont...

PMT	Darwin Port Manager Trust
PWC	Power and Water Corporation
RFIP	Request for Initial Proposal
RFFP	Request for Final Proposal
RMS	Retail Management System
SOD	Segregation of duties
TAFR	Treasurer's Annual Financial Report
TAFS	Treasurer's Annual Financial Statement
TAP	Territory Availability Payment
TD	Treasurer's Direction
TEHS	Top End Health Service
TEP	Territory Efficiency Payment
Territory Generation	Power Generation Corporation
TIP	Territory Incentive Payment
TMS	Tenancy Management System
TOP	Territory Operating Payment
Treasury	Department of Treasury and Finance

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Appendix 5: Engagement letter

Services provided by the Northern Territory Auditor-General's Office

It is quite common for auditors to issue “letters of engagement” to their clients. These are intended to assist in ensuring that there is a clear understanding between the auditor and the client about the objectives and scope of the audit, the extent of the auditor's responsibilities and the form of any reports.

In the public sector there is generally no requirement for Auditors-General to issue letters of engagement as the roles and responsibilities are set out in relevant legislation. However, there has been an increasing tendency to provide parliaments with a form of letter of engagement to assist them to have a better understanding of the audit role.

Meeting the Legislative Assembly's expectations

The principal legislation that governs the conduct of audits in the Northern Territory public sector is the *Audit Act*. That Act:

- requires me to audit the Public Account and other accounts in such manner as I think fit having regard to recognised professional standards and practices;
- permits the Minister to direct me to carry out an audit which I have the power under the Act to carry out; and
- permits me to conduct an audit of performance managements systems of any Agency or other organisation in respect of the accounts of which I am required or permitted by a law of the Territory to conduct an audit.

Financial attest and compliance audits

Financial attest and compliance audits are conducted by the Office in accordance with legislated requirements and Australian Auditing Standards. The main purpose of an audit is to add credibility to a financial report by providing an independent audit opinion. When reading an opinion it is essential to have a clear understanding of what it provides and what a financial report audit covers.

The audit opinion provides users of a financial report with reasonable assurance that it is free of material error and complies with legislation and applicable accounting standards. It does not:

- provide a guarantee of absolute accuracy in the financial report;
- express a view on the adequacy of the organisation's systems or the efficiency and effectiveness with which management conducts its affairs; or
- provide any assurance about the organisation's future viability.

Appendix 5: Engagement letter cont...

An audit does not guarantee that every amount and disclosure in the financial report is error free. An audit does not examine every transaction of an organisation, as this would be prohibitively expensive and time-consuming. A financial compliance or attest audit is a combination of systems checks and examination of samples of transactions for all items in the financial report that are considered to be material or of high risk and which, if materially misstated as a result of an error or fraud, could affect the judgements made by users on the basis of that report.

It is also important to understand that the organisation's management, not the auditor, is responsible for:

- maintaining adequate accounting records and preparing the financial report; and
- maintaining a system of internal controls to prevent or detect errors or irregularities.

I recognise that, in the public sector, financial report audit opinions by themselves will not meet the Legislative Assembly's expectations. Firstly, because the principal objective of most public sector Agencies is to provide services rather than to generate profits, their financial reports give only limited information about their performance. Secondly, the Legislative Assembly and the community have higher expectations of probity and proper conduct in public sector Agencies.

Accordingly, when the Audit Office conducts financial report audits it has regard to:

- agency performance;
- wastage of public resources;
- probity or financial prudence in the management of financial resources; and
- compliance by Agencies with legislative requirements and government policies and procedures.

Audit of performance management systems

The *Audit Act* also permits me to conduct an audit of performance management systems of Agencies or entities or other organisations in respect of the accounts or financial report of which I am required or permitted by a law of the Territory to conduct an audit.

The conduct of these audits is governed by Part 3 of the *Audit Act*. These audits may be separate audits or they may be undertaken as part of another audit. The objective is to determine whether the performance management systems of the Agency or organisation enable the Agency or entity to assess whether its objectives are being achieved economically, efficiently and effectively. It is important to note that the provisions of the *Audit Act* do not countenance audits of economy, efficiency or effectiveness per se.

Performance management systems audits can be conducted at a corporate, output or category of cost level. My Office has developed a framework for its approach to the conduct of performance management system audits.

Appendix 5: Engagement letter cont...

Over the years the Northern Territory Auditor-General's Office has encouraged improved reporting of performance by Agencies and other Government entities. It has also encouraged Agencies and other entities to report performance indicators that address the criteria of economy, efficiency and effectiveness. In applying the audit framework referred to above, the Office continues to apply the following definitions that are contained in Australian Auditing Standard ASAE 3500 *Performance Engagements*:

- Economy – the acquisition of the appropriate quality and quantity of resources at the appropriate times and the lowest cost.
- Efficiency – the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- Effectiveness – the achievement of the objectives or other intended effects of activities at a program or entity level.

Reporting to the Legislative Assembly

Auditor-General's reports to the Legislative Assembly present the findings of my financial report audits of Agencies and other public sector entities. These reports address high-level issues on Agency operations. Minor matters are reported only where they are symptomatic of a larger problem or where it is considered that insufficient attention has been given by the Agency to addressing issues raised.

Management letters to Agencies

A more detailed report is issued to the Accountable Officers of Agencies on matters identified during audits and these may include recommendations for operational improvements. These matters are in addition to any matters that may be included as part of the Independent Audit Report.

Procedural fairness

The Audit Office submits its draft reports to the relevant Accountable Officers and staff in their Agencies to ensure factual accuracy and to provide an opportunity for Agencies to submit comments on my findings for inclusion in my reports to the Legislative Assembly.

Appendix 5: Engagement letter cont...

Enhancing the value of the audit function

As part of the discharge of my role, I will seek to maximise the value to the Agency, the Government and the Legislative Assembly of all audit work including where appropriate the framing of recommendations to address:

- improvement in the framework of accountability;
- opportunities for cost savings and efficiency gains; and
- recognition of good practice in use by Agencies, entities and units of administration.

Audit fees

Audit fees are not charged by the Audit Office for audits of Agencies. In these circumstances the costs of the audit are met from monies appropriated by the Legislative Assembly.

In most instances, where an audit is performed in respect of an organisation that is a statutory entity or where the audit is performed for a third party, for example, audits of acquittals of expenditure on behalf of the Commonwealth, the costs of the audit are recovered directly from the organisation in question.

Independence

Independence is the hallmark of audit. It is a fundamental concept that requires me to approach my work with integrity and objectivity. I must both be, and be seen to be, free of any interest which is incompatible with objectivity. It is essential therefore that I am independent of the Agencies being audited and free of interests that could be incompatible with integrity and objectivity.

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