Auditor-General for the Northern Territory
Auditing for Parliament

November 2017
Report to the Legislative Assembly

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

23 November 2017

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits, reviews and assessments completed during the four months ended 31 October 2017 and I request that you table the report in the Legislative Assembly.

This report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 19 Northern Territory Government agencies and the results from audits of 21 Territory controlled entities with a financial year ended 30 June 2017.

The results from my audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2017 are also included within this report.

This report presents findings from a performance management system audit conducted in relation to the Indigenous Employment Provisional Sum.

I have received no referrals under the *Public Information Act* since my last report was tabled in August 2017.

Yours sincerely,

Julie Crisp
Auditor-General for the Northern Territory

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Auditor-General's Overview

Audits Included in this Report

This report outlines the results of 42 separate audits and other tasks completed during the period 1 July 2017 to 31 October 2017. This report summarises the results of the following types of audits and legislated tasks conducted during the period:

- Statutory Audits of Financial Statements;
- Controls and Compliance Audits; and
- Performance Management Systems Audits.

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

The report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 19 Northern Territory Government agencies. Findings arising from these audits have been reported to the affected agencies to enable them to address control weaknesses as required. The end of year reviews of the Public Account are undertaken in accordance with section 13 of the *Audit Act* and provide support to the audit of the Treasurer's Annual Financial Statement. The focus for these reviews is primarily the end of year financial data consolidated into the Treasurer's Annual Financial Statement.

Also included are the results of audits of financial statements for those entities with a financial year ended 30 June 2017 where the audits were completed prior to 31 October 2017.

The *Audit Act* provides a legislative requirement for the Auditor-General to report to the Legislative Assembly on at least an annual basis. This is the second report I have provided for tabling within the Legislative Assembly for the year ending 30 June 2018, my last report was tabled during August 2017.

A number of audits scheduled to be commenced and completed in the period 1 July 2017 to 31 December 2017 are either not yet completed or there was insufficient time for agencies to respond to audit findings (as required by the *Audit Act*). I will report on the outcomes of these audits (listed in Appendix 2) in my next report to the Legislative Assembly.

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The Role and Responsibilities of the Auditor-General

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

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 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 including End of Year Reviews and the results of financial statement audits, an audit approach is designed and implemented to obtain assurance that the balances disclosed in the Treasurer's Annual Financial Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

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

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

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

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

The 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…

Audits 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 defined in section 3 of the *Financial Management 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 of the *Audit Act* 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*." 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.

Operational Framework

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

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity's corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;
- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress toward that achievement;
- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

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Guide to Using this Report

Auditing

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

Independent Audit (also known as External Audit)

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

Agencies are required, by Treasurer's Directions issued pursuant to the *Financial Management Act*, to prepare financial statements that comply with Australian Accounting Standards. Agencies are not, however, 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 I have issued a modified audit opinion.

The audit opinion and summaries of key findings represent the more important matters relating to each audit. 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 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 associated reports are included in my reports to the Legislative Assembly.

Reports on the Results of Audits, Reviews and Assessments

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Board of the Museum and Art Gallery of the Northern Territory

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

The Board of the Museum and Art Gallery of the Northern Territory (the Board) 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 Board); 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 2017 resulted in an unmodified independent audit opinion, which was issued on 29 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Board recognised a net deficit of $31,000 during the year (2016: net deficit of $131,000).

As with the previous year, the Board's main revenue sources were from grants and subsidies while its expenses were mainly related to employee expenses, property management and goods and services.

The improvement in the net deficit is due mainly to:

- income from grants and subsidies increasing by $756,000 in comparison to the year ended 30 June 2016. $444,000 of this is due to increased grants from the Department of Tourism and Culture (and its predecessor agency) (2017: $7.822 million, 2016: $7.378 million).
- property management expenses reducing by $125,000 mainly due to more efficient management of the air conditioning.

The increased income and reduced expenditure noted above were offset by an increase of $837,000 related to employee expenses due to increased staffing.

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

Going Concern

Despite reporting deficits in the 2017 and 2016 financial years and reduced net cash flows associated with operating activities this year of $86,000, the financial statements of the Board have been prepared on a going concern basis as the Board has:

- secured a five-year funding agreement with the Northern Territory Government from 1 July 2017 to 30 June 2022 amounting to $38.165 million (plus indexation);
- a positive cash balance of $1.311 million; and
- a positive working capital ratio as at 30 June 2017.

The Board needs to continue to closely monitor its cash flows in future years to ensure its financial viability and should consider how to reduce costs in order to attain a break-even position.

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

Financial Performance for the year

	2017	2016
	$'000	$'000
Income		
Sale of goods and/or services	255	265
Current grants and subsidies	8,701	7,945
Other	305	291
Total income	**9,261**	**8,501**
Expenditure		
Employee expenses	(4,861)	(4,024)
Supplies and services	(2,908)	(2,974)
Depreciation and amortisation	(65)	(26)
Property management	(1,458)	(1,583)
Grants and subsidies	-	(25)
Total expenditure	**(9,292)**	**(8,632)**
Surplus/(deficit)	**(31)**	**(131)**

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

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	1,311	2,097
Receivables and other current assets	313	106
Less current liabilities	(1,417)	(1,866)
Working Capital	**207**	**337**
Add non-current assets	109	145
Less non-current liabilities	-	(135)
Net Assets	**316**	**347**
Represented by:		
Accumulated funds	27	58
Capital	289	289
Equity	**316**	**347**

Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 2 October 2017.

Key Findings

Performance Overview

Revenue

Total revenue for the Service has increased by approximately $35.71 million (10%) from the prior year. The increase of $28.44 million in current grants and subsidies income is mainly attributed to additional funding from National Health Reform, the Highly Specialised Drugs Program, and new programs.

A significant new program during the year was the Northern Territory Remote Aboriginal Investment due to the transfer of the Oral Health and Hearing Program from Department of Health (DoH) to the Service.

The increase of $9.79 million in sales of goods and services income is mainly attributed to an increase in the Northern Territory and Commonwealth Activity Based Funding of $8.33 million and an increase of goods and services income of $1.44 million due to the transfer of the Oral Health and Hearing Program from DoH to the Service. This increase is slightly offset by a decrease in other income of $2.52 million due to the outward transfer of the Alcohol and Other Drugs program.

Central Australia Health Service cont…

Expenditure

Total expenditure increased this year by approximately $32.02 million (9%) from the prior year. Employee expenses have increased by approximately $20.03 million due to the transfer of the Oral Health and Hearing Program from DoH to the Service. Overall administrative and grant expenditure increased by approximately $11.99 million which was driven by increases in repairs and maintenance; agent service arrangements; consumables; cross border charges; medical/dental supply and services; depreciation; and current grants expense. The increase in expenditure reflects the increased funding and cost of service delivery in health.

Other comprehensive income

Other comprehensive income relates to changes in the asset revaluation reserve. There was a $2.55 million net revaluation decrement on land and buildings during the period. In the prior period there was a net revaluation increment of $11.13 million.

Assets

Total assets increased by approximately $17.82 million (7%) from the prior year due to increases in cash and deposits; receivables and property; prepayments and property, plant and equipment (PPE). Cash and deposits increased by $8.54 million. The increase in receivables of $5.14 million was mainly driven by the increase in cross border receivables of $3.30 million. The increase in prepayments of $1.77 million was due to a contract prepayment during the year ended 30 June 2017. PPE increased by $2.49 million due to the transfer of $14.97 million PPE from DoH to the Service associated with the Machinery of Government change in September 2016 and general asset additions of $2.38 million. These additions were largely offset by depreciation of $12.19 million and an asset revaluation decrement of $2.55 million.

Liabilities

Total liabilities as at 30 June 2017 increased by approximately $6.71 million (9%) from the prior year. This increase was mainly attributed to an increase in payables of $4.32 million relating to cross border payables and employee provisions of $1.73 million relating to the transfer of the Oral Health and Hearing Program from DoH to the Service.

Central Australia Health Service cont…

Equity

Equity for the Service increased by approximately $11.12 million from the prior year (6%) mainly attributed to an increase of capital in $14.60 million due to variations during the year relating to Machinery of Government changes and timing of Commonwealth funds. The asset revaluation reserve decreased by $2.55 million due to the decrement on land and buildings as a result of the revaluations conducted throughout the year. The decrease in accumulated funds of $0.93 million represented the deficit for the year ended 30 June 2017.

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.
- Management of overpayments of salaries to employees could be improved and the associated methodology for determining the provision for doubtful debt should be reviewed.
- The working capital deficit position has significantly improved however, the issue still persists as at 30 June 2017.

Central Australia Health Service cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Sale of goods and/or services	221,954	212,165
Current grants and subsidies	171,091	142,652
Other	796	3,319
Total income	**393,841**	**358,136**
Expenditure		
Employee expenses	(236,854)	(216,825)
Repairs and maintenance	(5,794)	(4,384)
Supplies and services	(123,521)	(115,946)
Depreciation and amortisation	(12,186)	(10,480)
Interest expenses	(38)	(38)
Grants and subsidies	(16,380)	(15,079)
Total expenses from ordinary activities	**(394,773)**	**(362,752)**
Surplus/(deficit) before income tax expense	**(932)**	**(4,616)**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**(932)**	**(4,616)**

Central Australia Health Service cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Current assets	19,586	11,044
Receivables and other current assets	56,441	49,646
Less current liabilities	(79,826)	(66,542)
Working Capital	**(3,799)**	**(5,852)**
Add non-current assets	213,645	211,159
Less non-current liabilities	(763)	(7,342)
Net Assets	**209,083**	**197,965**
Represented by:		
Accumulated funds	(61,435)	(60,503)
Capital	259,744	245,147
Asset revaluation reserve	10,774	13,321
Equity	**209,083**	**197,965**

Central Australia Health Service cont…

The Central Australia Health Service has commented:

The Service acknowledges the audit findings and will continue working with the DoH System Manager to further improve its systems. To address the key observations identified, the Service is committed to implementing the following measures:

- *Potential opportunities are being explored to refine the basis of the cross-border accrual methodology.*
- *Effort has been undertaken to clear historical staff overpayments and the development of the myResign module in the whole of government myHR system in 2017-18 year is expected to minimise recurrences in future. The doubtful debt provision methodology is also being reviewed and updated.*
- *The Service is continually working to improve its working capital position to ensure the Service's viability.*

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 27 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a deficit of $0.7 million compared to prior year's deficit of $2.4 million. The decrease in the deficit of $1.7 million primarily resulted from an increase in miscellaneous income attributed to a refund of $1.5 million received from Darwin Cove Convention Centre on account of excess Territory Operating Payments (TOP) made under the concessionaire deed in the previous years.

The Corporation continues to hold a strong net asset position of $146.1 million as at 30 June 2017 although as a result of the deficit, net assets decreased by $0.7 million compared to $146.8 million at 30 June 2016.

The Corporation reported a working capital position of negative $3.9 million as at 30 June 2017 compared to negative working capital of $4.4 million as at 30 June 2016. The improvement in working capital was due to an increase in the cash and cash equivalents balance of $0.4 million as at 30 June 2017.

Darwin Waterfront Corporation cont…

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) (2017: $3.0 million, 2016: $3.0 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) (2017: $3.2 million, 2016: $3.2 million). The TOP is an operational subsidy paid quarterly in advance and is based on the fixed 25 year budget which can only be increased with the Territory's approval.
- **Territory Efficiency Payment** (TEP) (2017: nil, 2016: $0.7 million). 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) (2017: $0.7 million, 2016: $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 established in the business case.

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 Corporation. I noted that for the year ended 30 June 2017, the Corporation had not evidenced an assessment of whether an operating surplus was payable or not from of the Territory Operating Payments ("TOP") made to Darwin Cove Convention Centre during the year.

Darwin Waterfront Corporation cont…

Financial Performance for the year

	2017	2016
	$'000	$'000
Income		
User charges	3,288	2,874
Operating grants and other contributions	20,946	21,281
Other	2,182	491
Total income	**26,416**	**24,646**
Expenditure		
Territory availability payments	(3,033)	(3,002)
Territory efficiency payments	-	(69)
Territory incentive payments	(700)	(797)
Territory operating payments	(3,241)	(3,241)
Goyder Park beautification	(15)	(845)
Agent service arrangements	(1,052)	(1,025)
Depreciation and amortisation	(4,603)	(4,587)
Employee expenses	(1,080)	(1,080)
Finance costs	(5,253)	(5,381)
Property maintenance	(4,322)	(3,593)
Other	(3,773)	(3,451)
Total expenses from ordinary activities	**(27,072)**	**(27,071)**
Surplus/(deficit) before income tax expense	**(656)**	**(2,425)**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**(656)**	**(2,425)**

Darwin Waterfront Corporation cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	1,550	1,141
Receivables and other current assets	664	533
Less current liabilities	(6,060)	(6,046)
Working Capital	**(3,846)**	**(4,372)**
Add non-current assets	225,425	228,877
Less non-current liabilities	(75,462)	(77,732)
Net Assets	**146,117**	**146,773**
Represented by:		
Accumulated funds	(28,118)	(27,462)
Capital	174,235	174,235
Equity	**146,117**	**146,773**

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

Data Centre Services is a Government Business Division established to manage the Northern Territory Government's Data Centre and 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 2017 resulted in an unmodified independent audit opinion, which was issued on 15 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Data Centre Services generated a net surplus before tax of $4.2 million in 2016-17, which was $0.9 million less than the prior year.

Total income of $25.6 million (2016: $25.3 million) increased from the prior year by $0.3 million. Total expenses of $21.4 million (2016: $20.1 million) increased from the prior year by $1.3 million. This increase in expenditure is predominantly due to consultancy expenses incurred in relation to the new internal billing invoice system and work performed on the new data centre site. There has also been an increase in the depreciation expense as a result of asset acquisitions incurred during the year.

Data Centre Services will pay an income tax equivalent of $1.3 million and return a dividend of $1.5 million to the Government for the year ended 30 June 2017.

Data Centre Services continues to hold a strong net asset position. As at 30 June 2017, the net asset position of Data Centre Services was $23.3 million (2016: $21.8 million).

Data Centre Services cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Sale of goods and/or services	25,354	24,924
Other	229	334
Total income	**25,583**	**25,258**
Expenditure		
Operational costs	(13,034)	(11,888)
Employee expenses	(6,568)	(6,771)
Depreciation and amortisation	(1,771)	(1,454)
Total expenditure	**(21,373)**	**(20,113)**
Surplus before income tax expense	**4,210**	**5,145**
Income tax expense	(1,263)	(1,544)
Surplus after income tax expense	**2,947**	**3,601**
Dividends	**(1,473)**	**(1,801)**
Net surplus	**1,474**	**1,800**

Data Centre Services cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	10,817	16,861
Receivables and other current assets	6,329	5,625
Less current liabilities	(4,549)	(4,891)
Working Capital	**12,597**	**17,595**
Add non-current assets	10,657	4,649
Less non-current liabilities	-	(464)
Net Assets	**23,254**	**21,780**
Represented by:		
Accumulated funds	21,888	20,414
Capital	1,366	1,366
Equity	**23,254**	**21,780**

Department of Infrastructure, Planning and Logistics

Indigenous Employment Provisional Sum

Scope and Objectives

Section 15 of the *Audit Act* provides that "*the Auditor-General may conduct an audit of performance management systems of any Agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.*"

The objective of an audit conducted under Section 15 includes "*determining whether the performance management systems of the Agency or organisation in respect of which the audit is being conducted enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively*."

The audit examined the system in place at the Department of Infrastructure, Planning and Logistics to manage the Indigenous Employment Provisional Sum (referred to as "IEPS" or "the initiative" hereafter). The primary objective of the audit was to provide the Legislative Assembly with:

- an overview of the performance management system in place at the Department of Infrastructure, Planning and Logistics to manage the IEPS initiative;
- assurance that the controls and processes leading to payments to contractors in accordance with the IEPS initiative are appropriately designed and implemented; and
- assurance that payments to contractors in accordance with the IEPS initiative have been made in accordance with the criteria applicable to the initiative.

The audit covered the period from when the IEPS initiative commenced in October 2014 through to 31 May 2017. The fieldwork supporting this audit was conducted between 8 June 2017 and 14 July 2017.

The Machinery of Government changes following the Northern Territory Election in August 2016 saw the former Department of Infrastructure (DoI) being incorporated into the newly created Department of Infrastructure, Planning and Logistics (DIPL). Both the current and former Departments are referred to as "the Agency" hereafter.

Department of Infrastructure, Planning and Logistics cont…

Limitation of Scope

At the time of fieldwork, management were not able to produce a report providing all of the following three elements:

- projects to which the IEPS applied;
- the value of the IEPS commitment applicable to each project; and
- the IEPS amount paid to date to each contractor for each project.

As a result, I was unable to identify:

- how many (if any) payments had been made to contractors against the IEPS beyond the amount identified in the Schedule of Rates as 'Indigenous Employment Provisional Sum' without prior written authority from the Principal / Project Director of the contract; or
- the amount (if any) of payments claimed against the IEPS that have not been attempted to be verified and/or have not been able to be verified by the Agency.

At the time of preparing my report to the Legislative Assembly, I was advised by the Agency that a single report presenting all three required elements is now able be generated directly using the ASNEX system.

Background

The "*Indigenous Participation on Construction Projects Policy*" (referred to as IPoCPP hereafter) was introduced by the Agency in October 2014 and became effective on 15 October 2014. The purpose of the IPoCPP was *"to provide employment opportunities and build the capacity of Indigenous businesses to successfully share in the delivery of construction projects in the Northern Territory."* The accompanying Policy statement read:

> *"The Department of Infrastructure is seeking to maximise employment and business opportunities for Indigenous persons through:*
>
> - *increasing the number of tenders awarded to Indigenous Business Enterprises;*
> - *increasing the number of Indigenous trainees / apprentices participating in Department issued contracts; and*
> - *increasing the number of tenders and quotes that have weighted assessment criteria for Indigenous participation.*
>
> *Northern Territory Government contracts will provide employment and/or apprentice / trainee opportunities for local Indigenous persons especially in the delivery of works in remote locations."*

Department of Infrastructure, Planning and Logistics cont…

The former Northern Territory Government announced in a Media Release on 29 October 2014 that the Northern Territory Government was committed to implementing initiatives which will enhance training and employment outcomes for Indigenous Territorians. In the media release, the then Minister for Infrastructure announced that "*the Department of Infrastructure's (DoI) policy for Indigenous Participation on Construction Projects has been developed to provide employment opportunities and build the capacity of Indigenous businesses*."

The IEPS was established as part of the IPoCPP to support the employment of Indigenous persons, including apprentices and trainees, by a contractor and any sub-contractors in the performance of Works. Employment was to be supported by the Agency nominating a "Provisional Sum" item in the contract schedule for Indigenous employment to incentivise contractors to engage Indigenous staff where project values exceeded $500,000. *"A provisional sum is an allowance, in this case estimated by the Agency that is inserted into tender documents for a specific element of the works that is not yet defined in enough detail for tenderers to price"*[1].

At the time of my audit, the IPoCPP internal policy document held by DIPL had been slightly amended and its intent was "*to improve opportunities for Indigenous wealth creation by maximising employment and business opportunities for persons through:*

- *increasing the number of tenders awarded to Indigenous Business Enterprises (these are businesses which have an Australian Business Number and are 50% or more Indigenous owned[2]);*
- *improving the participation rate of Indigenous employees, trainees / apprentices directly employed through Agency issued contracts; and*
- *equitably weighted assessment criteria for Indigenous participation.*"

As at 31 May 2017, Agency records showed the Northern Territory Government (NTG) had paid over $40 million to contractors under the IEPS initiative. The Minister for Infrastructure, Planning and Logistics announced in a Media Release dated 4 August 2017 that "*Following advice received from the Department of Infrastructure, Planning and Logistics relating to potential widespread fraud of the IEPS, the Government has suspended the scheme, effective immediately*". The IEPS will continue to apply to those contracts already issued containing the Provisional Sum until the completion of the contracts.

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[1] https://www.designingbuildings.co.uk/wiki/Provisional_sum; Accessed on 12/07/2017

[2] Department of Infrastructure *"Indigenous participation on construction projects policy"*

Department of Infrastructure, Planning and Logistics cont…

Conclusion

A performance management system should be designed and implemented so as to enable the Agency to assess whether its objectives, in this instance the objectives of the IEPS initiative, are being achieved efficiently, effectively and with economy. I make no comment as to the merits of the IPoCPP or the IEPS initiative.

The following conclusions have formed made based on my assessment of the processes and systems in place to manage the IEPS:

- The performance management system in place to manage IEPS is ineffective and does not enable the Agency to assess whether the objectives of the IEPS initiative are being achieved efficiently, effectively and with economy;
- I am unable to provide assurance that the controls and processes enabling payments to contractors in accordance with the IEPS initiative were appropriately designed and implemented as there were no formal controls and processes in place and I was provided no evidence that there was consistent interpretation or application of the IEPS initiative; and
- I am unable to provide assurance that payments to contractors were paid in accordance with the criteria applicable to IEPS as the criteria were inconsistently interpreted and applied across different projects / contracts.

I have been made aware that the Agency has referred a number of contractual dealings to NT Police for further investigation. As a result of the findings arising from this performance management system audit, I strongly recommend that the IEPS initiative be subject to independent audit in its entirety with further instances of suspected fraud referred to the NT Police in accordance with the Treasurer's Directions.

Risk Management

There have been a significant number of procedural weaknesses; IEPS claim anomalies; and system inadequacies brought to the attention of those at executive level since the inception of the initiative. In March 2017, the number and nature of issues raised was collated and formally reported by the Agency's Contractor Compliance Unit through memoranda to executive management accompanied by proposals on how to address some of the issues. Many of the issues have been identified as a result of the detective controls stemming from the expanded mandate and increased resourcing made available to the Agency's Contractor Compliance Unit (as discussed later in this report). The absence of effective preventative controls from the implementation of the IEPS initiative exposed the Agency to significant financial risk and there is evidence to suggest that some contractors have deliberately claimed payments under the IEPS to which they were not entitled.

Department of Infrastructure, Planning and Logistics cont…

Key risks identified as a result of the deficiencies in the performance management system, procedures and processes the Agency has in place to manage the IEPS initiative include:

- material fraud being perpetrated upon the Territory;
- material financial loss arising as a result of misinterpretation of policy requirements;
- not achieving the intended outcomes of the policy;
- inability to measure what impact, if any, the policy is having and consequently making decisions that are inconsistent with the intended outcomes;
- inability to measure what impact, if any, the policy is having and consequently not taking corrective action when required; and
- incorrect reporting to the ultimate decision-makers within the Northern Territory Government resulting in reputational risk and loss of credibility.

At the time of audit fieldwork there was limited evidence to demonstrate that shortcomings in the management of the IEPS were being addressed and I considered the risks to the Agency and the Territory, as listed above, generally remained unmitigated. Notwithstanding the announcement by the Minister for Infrastructure, Planning and Logistics that the IEPS initiative would cease effective 4 August 2017, contracts to which IEPS already applied will remain subject to IEPS until completion, consequently there remains a risk of fraud and error associated with:

- inadequate review of claims for IEPS;
- failure to pursue invalid claims for IEPS; and
- incorrect interpretation of what can or cannot be claimed.

Department of Infrastructure, Planning and Logistics cont…

Recommendations

I have raised a number of recommendations. As my audit was largely concluded prior to the Minister's announcement, some of my recommendations are no longer relevant to the IEPS initiative unless it is reinstated. The recommendations remain valid to the extent that the IEPS remains applicable to a number of contracts already issued and in progress but not yet completed. The recommendations should be considered however, when formulating any initiative intended to replace the IEPS initiative.

- It is recommended that management reviews the current Policy and Guidelines to provide further guidance and assistance to employees on the IEPS (or equivalent).
- It is recommended that management establishes appropriate performance measures to enable effective monitoring of contractor performance against and compliance with the IEPS initiative (or equivalent).
- It is recommended that the Agency's holistic contract management framework includes policies and procedures to support managing the IEPS initiative (or equivalent).
- The quality and accuracy of information recorded and reported to stakeholders could be improved.
- It is recommended that management attends to the control weaknesses that exist in relation to the IEPS initiative (or equivalent) as they affect the procurement process.
- The Agency is encouraged to establish formal reporting protocols in relation to the IEPS (or equivalent).
- The Agency would benefit from establishing a formal process for escalating concerns, complaints and allegations arising from weaknesses within the Agency's performance management system.
- Consideration should be given to enhancing the recordkeeping systems and processes in place at the Agency.

Department of Infrastructure, Planning and Logistics cont…

Chronology of Events

The table below presents the evolution of the IEPS initiative as at the conclusion of my audit:

Table 1: Chronology of Events

Date	Event
15 October 2014	Introduction of Indigenous Participation on Construction Projects Policy (IPoCPP).
22 October 2014	Agency employees advised that IEPS would become effective from 15 October 2014 and apply to all Tier 4 and Tier 5 construction procurement activities released.
29 October 2014	NTG Media Release announcing the IPoCPP.
October 2014	First tender released containing the IEPS.
October / November 2015	Factsheet entitled *Indigenous Participation on Construction Projects Implementation Notes* was developed yet not widely released throughout the Agency.
January 2015	Agency received first contractor claim for payment against the IEPS.
February 2015	Agency made first payment to a contractor against the IEPS.
17 February 2015	IEPS initiative amended to permit only claims for wages of Indigenous people and to exclude claims for training or percentage mark-ups for Indigenous employment and training.
17 February 2015	*Guidelines for the Implementation of the Indigenous Employment Provisional Sum* were released to all Agency personnel.
March 2016	Consultant engaged to undertake a review of payments in accordance with Departmental policies and guidelines.
1 June 2016	The *Guidelines for the Implementation of the Indigenous Employment Provisional Sum* were revised.
10 June 2016	Consultant's report arising from the review of payments in accordance with Departmental policies and guidelines issued to the Agency.
September 2016	Machinery of Government changes resulted in the formation of DIPL.

Department of Infrastructure, Planning and Logistics cont…

Date	Event
September 2016	The NTG, through the Department of Trade, Business and Innovation, engaged an independent consultant to review two programs designed to increase Indigenous employment opportunities, one of which was the IEPS.
December 2016	The Department of Trade, Business and Innovation received the final report from the independent consultant's review of the IEPS.
November 2016	Anomalies were identified in claims submitted from one contractor.
February 2017	The Agency's Contractor Compliance Unit finalised a review into anomalies in claims submitted by one contractor and the Agency notified relevant parties of suspected fraud.
March 2017	The Agency's Contractor Compliance Unit initiated further reviews into contractor claims.
May 2017	Discussions occurred between representatives of the Agency and NT Police to discuss further potential ineligible claims.
June 2017	Personnel from the Agency's Contractor Compliance Unit undertook investigative work in relation to a further five contractors and prepared associated draft reports.
1 August 2017	Reports from the Agency's investigation into the five contractors were finalised.
3 August 2017	Agency employees tasked with the investigation advised CEO of serious concerns identified within a number of payment files and the potential misuse of the IEPS.
4 August 2017	Minister for Infrastructure, Planning and Logistics suspended the IEPS Initiative.

Source: NTAGO developed

Department of Infrastructure, Planning and Logistics cont…

Audit Observations and Findings

I have presented my observations and findings from this audit within four sections of this report, being:

- Policy Development (including assessment; consultation; research; drafting of policy; and approval);
- Policy Implementation;
- Policy Review and Evaluation; and
- Results of Audit Testing

Policy Development

The development of the Agency's policy and guidance underpinning IEPS

The IEPS was an Agency initiative of DoI formulated during August 2014. On 22 October 2014 the former Chief Executive Officer (CEO) of DoI released an email to inform all DoI staff that "*from 15 October 2014 all Tier 4 and Tier 5 construction procurement activities released, will be subject to the mandatory requirements*" of the Policy. One key statement contained within the former CEO's email of 22 October 2014 was the announcement of "*An Indigenous Employment Provisional Sum equal to 10 percent of the estimated project value (GST exclusive) to create Indigenous employment and also support the training and education*".

A Media Release titled "*Securing employment for Indigenous Territorians*" was issued on 29 October 2014 by the former Minister for Infrastructure. The Media Release announced the commencement of IPoCPP and that "*The policy will make it mandatory for 10 percent of the estimated value of each construction project over $500,000 to go towards contracting Indigenous organisations*".

At the time of fieldwork, apart from email correspondence by senior management on what operational changes would be implemented to support the IPoCPP, there was limited evidence provided to my Authorised Auditor to demonstrate that the Agency undertook a comprehensive assessment of how the IEPS initiative was to be managed and measured in order to demonstrate achievement of its intended outcomes. There was no evidence produced by the Agency to demonstrate that a risk assessment was performed relating to the implementation of the IEPS initiative.

The first tender containing the IEPS was released in October 2014, the first claim for the IEPS by a contractor was made in January 2015 and the first payment of IEPS was made in February 2015.

Department of Infrastructure, Planning and Logistics cont…

Review of correspondence between senior management personnel within the Agency demonstrated the lack of planning and the absence of education to key stakeholders of how the IEPS would be implemented at the time the initiative became effective in October 2014.

The "*Indigenous Participation on Construction Projects - Implementation Notes*" (referred to hereafter as the "Implementation Notes") presented an interpretation of how IEPS should / would be implemented. There was no evidence at the time of my audit that the Implementation Notes were made available to all staff and none of the Agency employees interviewed during my audit acknowledged seeing the Implementation Notes previously.

Notwithstanding the implementation of the policy including the application of the IEPS effective from 15 October 2014, the "*Guidelines for the Implementation of the Indigenous Employment Provisional Sum*" (referred to as the "Guidelines" hereafter) were first drafted for review on 13 February 2015. The Guidelines were subsequently formalised and released to all staff of the Agency on 17 February 2015 by the former CEO. The release of the Guidelines was four months after the IEPS initiative was introduced and followed the first claim and related payment.

The email from the former CEO on 17 February 2015 accompanying the Guidelines highlighted two changes to the previously released policy, those being:

1. "*Only the wages of Indigenous people being employed on Works to be claimable under the Indigenous Employment Provisional Sum, thus excluding training claims, as outlined in the attached guideline*"; and
2. "*The percentage mark-ups for Indigenous employment and training will no longer be applied to Contracts*."

The email also highlighted that *"In the early stages of implementing the Indigenous Employment Provisional Sum, some contracts were awarded which enabled the successful Contractors to make claims under the IEPS for both the employment and training of Indigenous people being employed on Works and included a percentage mark-up for both employment and training. For these contracts only, the Contractor will still be able to make claims for both the employment and training of Indigenous people and the percentage mark ups will be applied*." At the time of fieldwork, I was unable to ascertain the value paid to contractors under those early contracts that would not have been paid if the IEPS had been applied consistently to how it was operating at the time of my audit fieldwork.

Department of Infrastructure, Planning and Logistics cont…

Each Request for Tender to which the policy applied included a value designated as the IEPS applicable to the contract. The Media Release on 29 October 2014 by the former Minister of Infrastructure, which stated that the IEPS was "*equal to 10 percent of the estimated project value*" resulted in industry participants deriving the estimated value of the project and quoting accordingly. This was identified as a problem by personnel within the Agency as they perceived quotes were no longer being determined based on a robust evaluation of the cost of required works by the proponent with a consequential negative effect on the competitive tender process.

On 5 November 2014, the NT Government Newsroom site amended the Media Release issued on 29 October 2014. The quoted sentence relating to the 10 percent in the Media Release was amended to read *"The policy will make it mandatory for a percentage of the estimated value of each construction project over $500,000 to go towards contracting Indigenous organisations*". Beyond changing the content of the media release and thus the public record of the initiative, my Authorised Auditor was unable to ascertain whether further communication to industry was made to assist contractors in their interpretation of how the IEPS would be applied.

Governance structure - the key stakeholders managing the IEPS initiative

The responsibility for managing the IEPS initiative from October 2014 to the time of my audit differed between two distinct periods, those being October 2014 to September 2016 and from December 2016 to the time of my audit. From the introduction of the IEPS initiative in October 2014 until September 2016, the policy owners of IEPS within the Agency consisted of the CEO, the Executive Director of Major Projects and the Director of Procurement. Key roles and responsibilities of those involved in the management of IEPS between October 2014 and September 2016 are detailed in the following table.

Department of Infrastructure, Planning and Logistics cont…

Table 2: Key roles and responsibilities of Agency personnel involved in the management of the IEPS initiative from October 2014 to September 2016

Position	Role and Responsibilities in relation to IEPS
CEO of DoI *Policy Owner of IEPS*	Held ultimate decision making and authority for the IPoCPP and responsibility for effective implementation of the IEPS initiative. Held delegation to approve IEPS less than 10 percent.
Executive Director of Major Projects *Policy Owner of IEPS*	Implemented the directions of the CEO relating to IEPS. Established relevant guidance and provided clarification for the operational aspects of the initiative and guidance and clarification as to what was claimable under IEPS.
Director of Procurement *Policy Owner of IEPS*	Implemented the directions of the CEO relating to IEPS. Established relevant guidance and provided clarification for the operational aspects of the initiative and guidance and clarification as to what was claimable under IEPS. Was responsible for responding to queries from industry and internal staff.
Infrastructure, Delivery and Support (IDS) Officer	Provided administrative support to the CEO, Executive Director of Major Projects and Director of Procurement to implement and manage the initiative. Prepared and maintained records of IEPS information for reporting purposes.
Project Directors	Held financial delegation to approve IEPS payments. Had overall responsibility for managing individual awarded contracts / projects / Works including management of related IEPS. Held delegation to allow/disallow claims for the IEPS based on the Project Directors' personal interpretation of the requirements applicable to the IEPS initiative Policy.

Department of Infrastructure, Planning and Logistics cont…

Position	Role and Responsibilities in relation to IEPS
Project Managers	Depending on the practices and processes in place within the Project Manager's division, had responsibility for checking and verifying claims for IEPS and / or approving payment. May have also been assigned overall responsibility for managing individual awarded contracts / projects / Works including management of the related IEPS.
Project Administrators	Depending on the practices and processes in place within the Project Administrator's division, had responsibility for checking claims for IEPS and processing payments following the receipt of approval to pay by the delegated officer.

Source: NTAGO developed

The role of Director Contractor Compliance was established during mid-2016 primarily to undertake assessments of individual contractor's adherence to the Indigenous Development Plans and Safety Management Plans agreed between the Agency and the contractor at the time of awarding a contract. The purpose of the assessment process was to verify the Principal Contractor's conformance with applicable Northern Territory Government (NTG) and Commonwealth of Australia Government laws, regulations, national and international standards and the requirements of project contracts to ensure delivery of an agreed level of service and product. In an organisational context, the Director Contractor Compliance reported to the Executive Director Corporate Services from mid-2016.

The Machinery of Government changes after the election in August 2016 resulted in the merger of a number of former agencies and functions resulting in the formation of DIPL. Between September 2016 and December 2016 the structure of the newly formed Department was established. As a result, responsibility for the management of IEPS was reviewed. In December 2016, the Director Contractor Compliance took a leadership role in the newly created Contractor Compliance Unit within the Agency. The Contractor Compliance Unit was allocated responsibility for responding to queries in relation to the IEPS received from both industry and Agency personnel.

Department of Infrastructure, Planning and Logistics cont…

In November 2016, following identification of anomalies associated with claims against the IEPS by one contractor, staff of the Contractor Compliance Unit assisted in undertaking a detailed investigation of the anomalies. The financial and resourcing budget allocated to the Contractor Compliance Unit was increased in February 2017 and a number of reviews were commenced in relation to claims for payment from a number of further contractors against the IEPS from March 2017. My audit did not examine the operations of the Contractor Compliance Unit or its enhanced role of assessing contractors' compliance with the provisions of the IEPS initiative. I do note that the Contractor Compliance Unit currently holds responsibility for interpreting elements of the IEPS as it continues to apply to ongoing contracts consequently it is not independent of management as would be required of an internal audit function.

Documentary evidence provided confirmed that, in February 2017, the Executive Director Programming and Compliance provided the following clarification as to where queries regarding the IEPS should be directed:

- all queries regarding policy interpretation and application be directed through the Contractor Compliance Unit who would serve as a single point of contact for how the Policy should be interpreted and applied for Agency personnel and industry;
- the Policy and any changes and updates would be owned by the Executive Director Programming and Compliance; and
- the implementation of any policy changes and updates would be undertaken by all relevant parties including the Procurement Unit.

Key roles and responsibilities of those involved in the management of the IEPS initiative from December 2016 are detailed in Table 3.

Department of Infrastructure, Planning and Logistics cont…

Table 3: Key roles and responsibilities of Agency personnel involved in the management of the IEPS initiative from December 2016

Position	Role and Responsibilities in relation to IEPS
CEO of DIPL	Holds ultimate decision making and authority for the IPoCPP.
General Manager Infrastructure Investment and Contracts Division	Implements the directions of the CEO relating to the IEPS initiative. Has overall responsibility for the effectiveness of the IEPS initiative.
Executive Director Programming and Compliance	Implements the directions of the CEO and the General Manager Infrastructure Investment and Contracts Division relating to the IEPS initiative. Establishes relevant guidance and provides clarification for the operational aspects of the initiative and guidance and clarification as to what is claimable under IEPS.
Director Contractor Compliance Unit	Leads the Contractor Compliance Unit and reports findings from operational audits (including aspects of contractor compliance with the IEPS initiative) to management.
Manager Contractor Requirements	Assists the Director Contractor Compliance Unit in undertaking contractor audits including those relating to compliance with the IEPS initiative.
Infrastructure, Delivery and Support (IDS) Officer	Provides administrative support to record IEPS information for reporting purposes. Forwards potential anomalies to the Contractor Compliance Unit for investigation.
Project Director	Holds financial delegation to approve claims against the IEPS. Has overall responsibility for managing individual awarded contracts / projects / Works including management of the related IEPS. Holds delegation to allow/disallow claims for IEPS based on their personal interpretation of the requirements applicable to the IEPS initiative.

Position	Role and Responsibilities in relation to IEPS
Project Manager	Depending on the practices and processes in place within the Project Manager's division, has responsibility for checking and verifying claims against IEPS and / or approving payment. May also be assigned overall responsibility for managing individual awarded contracts / projects / Works including management of the related IEPS.

Source: NTAGO developed

The IEPS amount applicable to each tendered project

A number of Agency personnel advised that the IEPS amount for an applicable tender is 10 percent of the total estimated project cost. One reason provided for establishing the IEPS at 10 percent of the contract value was premised on the assumption that a construction project comprises 70 percent materials cost and 30 percent labour cost. Another reason proffered was that the Indigenous population in the Northern Territory is 30 percent and therefore calculating 30 percent labour cost by 30 percent Indigenous population would result in the IEPS amount of 10 percent of the total estimated project cost. [I note that applying this calculation would result in an IEPS amount of 9 percent of total estimated project cost.]

Despite anecdotal evidence of awareness by personnel of the Agency that the IEPS was intended to be established at 10 percent of the total estimated project cost, the actual percentage was not documented in the revised Policy document or within the Guidelines. My Authorised Auditor was advised that the 10 percent was specified in the Procurement Activity Plan (PAP) applicable to each project, however my inspection of two PAPs did not support this assertion.

Exceptions to the 10 percent have been permitted. These exceptions required approval from the CEO for a lower percentage to be applied to the contract however no approval requirements were established in relation to an increase in the amount able to be claimed against the IEPS. In many instances, the justification and approval requirements applicable to a reduction or an increase in the IEPS were not documented, formally approved or communicated to Agency personnel.

Department of Infrastructure, Planning and Logistics cont…

The Agency provided my Authorised Auditor with an Excel workbook containing three lists of all Tier 4 and 5 contracts issued allocated to one of the following three categories:

1. Tier 4 and Tier 5 contracts to which the IEPS did not apply (such as Managing Contractor contracts) [List 1];
2. Tier 4 and Tier 5 contracts where the IEPS was agreed at less than 10 percent [List 2]; and
3. All remaining Tier 4 and Tier 5 contracts [List 3].

List 3 should represent all Tier 4 and 5 contracts where IEPS was 10 percent in accordance with the Agency's policy. Analysis and recalculation of the information provided in List 3 identified 74 of 479 (15%) tenders which had an IEPS amount greater or less than 10 percent of the estimated project value.

Management advised that the information provided within the Excel workbook was yet to be verified and, at the time of providing the information, it appeared that the information extracted through ASNEX was not accurately reflecting the information within the Agency's system in all instances. No revised report was produced or provided to me prior to the conclusion of the audit.

The Implementation Notes were never formally approved for release or communicated to Agency personnel, consequently the application of rounding was not consistently applied.

External parties raised concerns that the 10 percent IEPS value would be unlikely to be achieved by contracting parties due to the low numbers of appropriately skilled workers to whom the IEPS requirements would apply. The feasibility of construction businesses achieving sufficient Indigenous employment levels to receive an IEPS amount equivalent to 10 percent of the total estimated project cost was not thoroughly considered during formulation of the policy.

Policy, Guidance and Tools Applicable to the IEPS

At the time of the audit fieldwork, it was observed that the Procurement page on the Agency's intranet site contained information relating to the IEPS under the heading "Indigenous Participation on Construction Projects". This information consisted of links to the following documents:

- "*Indigenous Participation on Construction Projects Policy (pdf)*";
- "*Guidelines*";
- "*Summary Template*"; and
- "*Public Web Link*".

Department of Infrastructure, Planning and Logistics cont…

<u>Audit Observations – Policy Development</u>

My observations in relation to the development stage of the IEPS initiative are:

- there was limited planning prior to the introduction of the IEPS initiative;
- no risk assessment was performed in relation to the implementation and operation of the IEPS initiative;
- no framework was developed identifying roles, responsibilities, processes and systems that would be required to support the IEPS initiative;
- the requirements, procedures and processes required to support the IEPS initiative were not determined, defined, documented or communicated;
- desired outcomes of the policy were not articulated in measurable terms and no key performance indicators were developed to support the measurement and reporting of performance;
- no consultation occurred with legal experts; advisors or other agencies in relation to implementation of the policy; and
- no plan was developed to coordinate communication with stakeholders within industry, Indigenous organisations; or Agency personnel.

Policy Implementation

<u>The evolution of what could be claimed under the IEPS</u>

From 17 February 2015 when the Guidelines became available, only the wages of Indigenous people employed on the contracted Works were claimable under the IEPS. The exclusions listed in the Guidelines (at the time) that were not permitted to be claimed against the IEPS were:

- employment agency/broker fees;
- mentoring costs;
- accommodation;
- personal protective equipment; and
- Indigenous employees not working directly on the Works.

Department of Infrastructure, Planning and Logistics cont…

Further exclusions and amendments were noted in the updated Guidelines made available to staff in June 2016. In addition to the exclusions listed above, additional exclusions were announced. These additional amendments included:

- for sole-traders operating under an ABN or business owners/directors who are not receiving wages as part of the PAYG taxation system, reimbursable wages shall be capped at $40 per hour;
- training expenses*; and
- travel expenses*.

* hours travelling (in remote areas) and hours attending training can be claimed, but associated costs cannot be claimed.

As previously stated, some early contracts awarded allowed those contractors to submit claims under IEPS for both the employment and training of Indigenous people employed on the contracted Works and also to include a percentage mark-up for both employment and training. Due to the limited reporting functionality of the Agency's recording systems, it was not possible to accurately determine how many contracts allowed claims against the IEPS for both employment and training and the value applicable to claims for training which subsequently became ineligible. For these contracts only, the arrangements allowing employment and training to be claimed were permitted to continue to the end of the contract.

The application of IEPS

The IEPS has been established in Tier 4 ($500 000 but less than $2 million) and Tier 5 projects ($2 million and greater) to support the employment of Indigenous persons by the contractor and any sub-contractors in the performance of construction projects issued by the Agency. Although not documented in the Guidelines, my Authorised Auditor was advised that IEPS applies to period contracts but not to consultancy work; Managing Contractor Contract arrangements; or work performed by regional councils. IEPS has been applied inconsistently to Indigenous organisations.

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Procurement

Publically released Requests for Tenders containing IEPS are released, evaluated and awarded in accordance with the across government procurement process. The decision to apply the IEPS to each contract is made during the procurement planning stage. Applicable clauses are to be captured in the Procurement Activity Plan (PAP) applicable to the individual procurement and the related Request for Tender documentation. The IEPS impacts elements of the procurement cycle as described below.

Procurement planning

Each Request for Tender document released to the market includes a Schedule of Rates which quantifies a dollar value attributable to the IEPS. Based on the understanding of Agency personnel as conveyed to my Authorised Auditor, the value attributed to the IEPS should equate to 10 percent of the total estimated cost for the project and be approved by the Project Director.

For a public quotation, the tender would be advertised in accordance with the mandated across government procurement process. For a select tender, my Authorised Auditor was advised that one of two scenarios could occur. One scenario is that the IEPS will apply to the tender. The other scenario was that IEPS would not be applicable because the select tenderer is an Indigenous organisation already having an ideal Indigenous workforce capacity. The Agency was not able to demonstrate a consistent approach or understanding of the intent of the Policy with respect to Indigenous organisations. The Agency representative’s understanding was that the application of the Policy was able to be determined by the responsible Project Director and/or Manager, who assess all the information about a project and make a determination and recommendation as to whether the IEPS applies.

Review of the documentation underpinning two projects which received Commonwealth funding tied to the delivery of Indigenous outcomes identified that the contractors involved had submitted Indigenous Development Plans for both projects and these plans were managed and assessed by the Agency’s Contractor Compliance Unit. Neither tender included an IEPS component.

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Approaching the market

The Request for Tender applicable to each project is to outline how the successful contractor shall submit claims against the IEPS. The Request for Tender requires the contractor to provide an Indigenous Employment Report to accompany each claim incorporating:

1. a listing of all Indigenous persons employed by the contractor and any sub-contractor in the performance of the Works;
2. pay sheets signed by the participants, detailing hours worked and wages details relating to those Indigenous employees for whom a claim is being made for the period claimed and who are employed by the contractor in the performance of the Works;
3. pay sheets, signed by the participants, detailing hours worked and wages details relating to those Indigenous employees for whom a claim is being made for the period claimed and who are identified as being employed by any sub-contractor in the performance of the Works accompanied by a sub-contractor's invoice that reflects the claims;
4. a summary report of claims against the IEPS from the commencement of the Works including the current monthly claims; and
5. details of any other subsidies received by or to which the contractor or sub-contractor may be entitled for engaging Indigenous employees.

When a Request for Tender is released to the public, any queries regarding the tender are to be directed to the nominated officer specified in the tender document. Where queries specific to IEPS were raised prior to December 2016, Agency personnel advised that the queries were directed to Procurement Services within the Agency.

Contract Management

The applicability of the IEPS impacts the contract management phase as described below.

Processing claims against the IEPS

Depending on the region and division within the Agency, an assigned employee checks and validates the claims submitted for payment against the IEPS. Based on the audit work performed and discussion with a number of Agency personnel, differences were identified across:

- what can or cannot be claimed;
- the information required to be provided to claim payment against the IEPS; and
- the robustness of the validation particularly around the verification of Indigeneity and local employment.

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The consistent feedback from Agency personnel was that validating a claim for payment against the IEPS presented a significant administrative burden and that it could take a full day for an administrative employee to check one claim for payment against the IEPS. Furthermore claims are often questioned by Agency representatives and returned to contractors several times before they are able to be finalised.

Agency personnel advised the process was complicated further as a result of contractors' understanding of the IEPS initiative being inaccurate and may have contributed to the identified variations from the Policy and the intent of the IEPS initiative. A video produced by an external company made reference to the IEPS being essentially a wage subsidy for Indigenous workers with the tax and superannuation guarantee purportedly claimable resulting in an Indigenous workforce at basically zero cost. The video also claimed that contractors would pass on IEPS payments to eligible sub-contractors although there is no requirement within the Conditions of Contract for this to occur.

Contract Variations

There were inconsistent approaches as to how the IEPS was treated when contract variations occur in that the IEPS was initially applied to all contract variations however a later change resulted in the IEPS not being applicable to contract variations. A further change resulted in the IEPS being applied to some contract variations in the following manner:

- when there is a genuine increase in scope, the IEPS is adjusted accordingly. As an example, a change in scope to a design and construct project from the initial contract would result in an amendment to the IEPS; and
- when there are delays in delivering the project / Works and a contract variation is issued to extend the Works, any request to increase the IEPS is rejected.

Contractor performance

The IPoCPP states that "*The Contractor will be required to provide a report on compliance (achievements against the contract requirements) with the Indigenous Development Plan within thirty (30) days of the completion of the Contract. Contract performance outcomes may be taken into consideration for future construction project tender evaluations*."

Employees of the Agency advised that either the "*Scorecard*" or the "*Contractor Performance Report*" are used to monitor and record the contractor's performance. One performance indicator included in both the "*Scorecard*" and the "*Contractor Performance Report*" is performance against the Indigenous Development Plan which implicitly incorporates the IEPS.

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Close-out of the contract

The standard Agency process to close out contracts applies to contracts containing the IEPS. Agency personnel advised that the amount of time taken to finalise payments has negatively impacted the time taken to close out contracts when administration of the IEPS is involved.

Recording and Reporting on IEPS

Since the inception of the IEPS initiative in October 2014 there have been no formal protocols established to review or report the results of the IEPS initiative to management and/or the Audit Committee.

Systems used to manage IEPS

The following information technology systems are used by the Agency to issue and manage aspects of the IEPS initiative.

Table 4: Summary of the systems used to manage IEPS

System name	Description of the system	Applicability to IEPS data
Asset Information System (AIS)	AIS is an asset management system tool for infrastructure assets owned and managed by NTG. It is designed to enable asset management from design and construction through to maintenance and asset replacement. The system also provides management of programs, contracts, projects and assets. AIS is one of many systems that ASNEX (see below) extracts information from.	The IEPS commitment related to the contract is recorded within AIS. The IEPS amounts paid during the life of the project are recorded within AIS.
Agency Procurement Requisition Online (APRO)	APRO is a system managed by Procurement Services within the Department of Trade, Business and Innovation. APRO is mandated across the NT Public Sector to record, track and report Tier 2 and greater procurement activity.	All tenders which have an IEPS component will have the tender documentation entered within APRO.

System name	Description of the system	Applicability to IEPS data
Microsoft Excel	Software that allows users to organise, format and calculate data with formulae using a spreadsheet system.	IEPS payment claim information such as the total amount paid and employee numbers and hours worked are entered into Microsoft Excel for analysis and reporting.
TRM	TRM is an enterprise document and record management system for physical and electronic information to be managed and recorded in order to meet governance and regulatory compliance obligations.	All IEPS related documentation such as: email correspondence; superseded Policies, Guidelines, Work Instructions; and Executive Management Team (EMT) meeting papers and minutes are retained / stored within TRM.
Asset Systems Nexus (ASNEX)	ASNEX is a fit for purpose solution using contemporary software to refresh existing asset systems and integrate systems providing expanded functionality including data warehouse reporting and a contemporary web based portal allowing access to internal and external users.	ASNEX is used to generate tailored reports/information relating to IEPS.

Source: NTAGO developed

Monthly recording of IEPS information

The recording of the IEPS in projects / contracts is a manual process. APRO does not have the functionality to individually flag contracts containing the IEPS so it is necessary for an Agency employee to access APRO on a monthly basis to identify contracts awarded in the preceding month that include the IEPS.

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Where contracts containing the IEPS are identified, information from APRO is copied to an excel spreadsheet which is continuously updated on a monthly basis. Agency personnel confirmed that there is no independent verification of the information recorded and it is possible that not all contracts including IEPS are recorded. Review of the information provided within the spreadsheet identified errors in the calculation and accuracy of the spreadsheet.

Table 5 presents a summary of the information provided by the Agency at the time of the audit.

Table 5: An overview summarising Tier 4 and Tier 5 contracts which contain IEPS issued from October 2014 to 31 May 2017.

Description	Count	Estimated Tender Value	Value of IEPS Committed
Tier 4 and 5 Contracts where IEPS approximately 10%	479	$1,278,126,137	$124,860,280
Tier 4 and 5 Contracts where the Agency identified IEPS as less than 10%	9	$24,760,434	$1,195,000
Total	**488**	**$1,302,886,571**	**$126,055,280**

A report extracted from APRO as at 6 June 2017 of all contracts against which IEPS has been provided reported the total IEPS value as $126 million (see Table 5). The Agency advised that the value of IEPS reported from APRO represents the total potential IEPS value applicable to contracts recorded within the APRO system. A subsequent excel spreadsheet provided to me on 4 September 2017 summarising the value of IEPS paid or committed to be paid in relation to awarded contracts, as recorded in the AIS system, reported the total IEPS as $87,079,210. I was advised that the total amount reported from AIS represents the contractually committed value and consequently is less than the value provided in the earlier report generated from APRO. This represents a $39 million difference from the report extracted from APRO. A reconciliation between the two systems had not occurred at the time of concluding my audit.

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The process of recording information for monthly reporting

When IEPS claims are paid and processed by the Project Administrator Officers, an email containing all information relating to the IEPS claim is sent to the IDS Officer. The IDS Officer maintains a spreadsheet recording the following information:

- company;
- contract name;
- position;
- name of the employee; and
- the hours worked in the month by each employee.

Agency personnel use a reporting tool called the Project Reporting System (PRS) to extract specific data fields from AIS. These data fields in AIS record the IEPS related amounts paid on each project / contract.

A Monthly Statistics report developed for reporting statistical data relating to the IEPS initiative to the EMT included a calculation of the IEPS paid throughout the month and a manual calculation of the employee numbers and hours. Agency personnel confirmed that there was no independent verification of the information gathered and reported.

My Authorised Auditor attempted to perform an analysis of this recorded information in order to summarise statistical results attributable to the IEPS initiative. The analysis yielded unexpected monthly results relating to hours worked by Indigenous employees and the number of contracted works each Indigenous employee was reportedly working on. As an example, a number of indigenous employees were recorded as having worked in excess of 24 hours per day during one or more months.

I was advised by representatives of the Agency that the information was collated in the month it was received from the contractors rather than being recorded into the spreadsheet in the time period the contractors' information related to. For example, if a contractor submitted an Indigenous Employment Report in September 2016 containing information relevant to the months of June, July and August 2016, all employment data would be entered into the month of September 2016. Whilst this is a plausible explanation, a number of further exceptions contradicted this explanation.

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As a consequence, I was advised the collated information is unable to be effectively used to detect anomalies. The spreadsheet was used simply to collate the data received from contractors and was not analysed or reviewed to enable the Agency to investigate indicators of potential fraud; inaccurate contractor claims for payment; or inaccurate data entry by Agency employees.

Monthly reporting of IEPS information

Statistics relating to IEPS were first compiled in March 2015 following the first IEPS payment made in February 2015. Agency personnel advised that the Monthly Statistics reports were submitted to the CEO and reported at EMT meetings. Review of the EMT meeting minutes and EMT Briefing Reports identified that the Monthly Statistics of IEPS were not consistently reported every month from March 2015.

The key performance measures compiled for reporting to management on a monthly basis include the total IEPS expenditure; new employees; new positions; and total hours worked and claimed against the IEPS. As at 31 May 2017, the cumulative results presented 1,763 new employees; 2,896 new positions; and 846,059 hours worked. Such measures represent record counts since the inception of IEPS. There was no assessment prior to the commencement of IEPS to determine what the Indigenous employment rate was in order to determine to what extent IEPS has improved the participation rate of Indigenous employees, trainees and apprentices. It is possible that many contractors and sub-contractors had Indigenous employees prior to the introduction of the IEPS initiative and may not necessarily have employed additional Indigenous employees. The process of counting Indigenous employees that have not previously been identified to the Agency in the Monthly Statistics does not take this into consideration.

No key performance indicators were identified since the inception of the initiative to measure the effectiveness of the IEPS initiative, or monitor and align the performance of the IEPS initiative to its policy intent. An increase in contracts awarded with an IEPS component does not necessarily align to an increase in employment opportunities.

As at 31 May 2017, the Monthly Statistics reported that the NTG had paid in excess of $40 million through the IEPS initiative. Internal reviews performed by the Agency's Contractor Compliance Unit have identified a number of over and under payments of the IEPS. Any adjustments made to IEPS claims as a result of the identification of erroneous data have not been reflected within the reported $40 million. The indirect costs to the Agency and to Contractors associated with the administration and management of the IEPS initiative have not been monitored, quantified or reported to management.

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Quality of reporting

As noted earlier as a limitation of scope, at the time of the audit fieldwork, management were not able to produce a report listing all of the following three elements:

- projects to which the IEPS applied;
- the value of the IEPS commitment for each project; and
- the IEPS amount paid to date to each contractor for each project.

I was advised that such a report can be generated from AIS and was requested in May or June 2017 however at the conclusion of the audit, the report was still being refined as the user acceptance testing phase identified errors in the reports generated from AIS.

An alternate report requested by the Agency in February / March 2017 was also in the user acceptance testing phase at the time of the audit. This report identifies and extracts individual projects/contracts and their associated categories of cost. The cost within each project / contract associated with the IEPS is separately identified. The development of this report was requested by the Agency to enable improved project / contract management and was not intended to be used for monitoring or reporting upon the IEPS initiative however the report did contain some information fields relating to the IEPS.

Enquiries of management confirmed there were no regular reports presented to executive management detailing anomalies related to IEPS such as overpayments, poor or missing documentation, misinterpretation and incorrect application of IEPS requirements, inaccuracy or inconsistency of results.

Contractor compliance

From the commencement of IEPS in October 2014, the approach to managing the initiative was reactive in that the Agency sought to address issues as they arose with matters selectively reported to senior management depending on the judgement of each employee receiving and responding to individual queries; points of clarification; or complaints.

Under the structure for management of the IEPS established in December 2016, the issues, risks and management concerns relating to IEPS have become more evident. At the time of the audit, my Authorised Auditor sighted email correspondence and memoranda submitted to senior management since the inception of the IEPS initiative which summarised internal and external concerns related to the IEPS and proposed recommendations intended to address the matters raised.

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Monitoring and reporting of anomalies from October 2014 to September 2016

Representatives of the Agency advised that continuous monitoring occurs throughout the process of reviewing and payment of each IEPS claim and that the reporting of the Monthly Statistics facilitates regular monitoring. Matters are raised, reported for consideration, action or noting as considered necessary by the attendees to the EMT meetings.

The communication between contractors and the Agency emphasise that the lack of clarity in relation to implementation of the initiative have resulted in the Agency being financially disadvantaged by paying claims for items not envisaged by the Agency as being eligible for claiming. Whether the action taken by the Contractor was in good faith or otherwise is not a matter for me to consider however in some instances, it would have been appropriate for the Agency to seek legal advice at that time and immediately move to address the shortcomings in the interpretation and implementation of the initiative that could be used to place the Agency at financial disadvantage. Clear communication with all industry participants as to the correct interpretation of the initiative should also have occurred emphasising that unsubstantiated and erroneous claims would not be paid by the Agency.

Agency review of the GST applicable to IEPS claims / reconciliation

The Agency identified that IEPS claims and payments were not being treated consistently for GST purposes and reported this matter to the EMT in March 2016. The Agency engaged an external consulting firm to second personnel to the Agency in order to undertake a review of IEPS payments to determine compliance with Departmental policies and guidelines. The outputs provided by the consultant to DoI on 24 May 2016 included the results of the review and a reconciliation of GST applied to IEPS claims. In addition to the results and the reconciliation, the consultant provided a formal report to the former CEO including key findings on 10 June 2016. The key findings were categorised into the following three categories:

1. GST had been incorrectly applied across numerous payments.
2. There were a substantial number of instances whereby the required documentation to support payment was either missing, inconsistent, incomplete or inadequate.
3. There was a lack of clarity around the specific policy requirements and exclusions both at an Agency and a Contractor level.

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The report provided specific examples to support the key findings. The master data provided to the consultant's personnel to reconcile listed 393 transactions. Of these, according to the consultant's report:

- 91 (23%) progress claims were found to include quantifiable GST errors.
- 70 (18%) progress claims were not supported by an Indigenous Employment Report.
- 73 (19%) progress claims submitted by 30 contractors were found not to agree with the supplied Indigenous Employment Report total.
- Approximately 247 (67%) instances were noted where the gross amount recorded on the Indigenous Employment Report did not fully agree to supporting payslips and/or timesheets and an additional 66 (17%) instances did not have any supporting documentation to cross-check to the claim amount reported on the Indigenous Employment Report.
- In approximately 176 (45%) instances, the total hours claimed on the Indigenous Employment Report did not agree to the payslips / timesheets and an additional 48 (12%) claims were missing any supporting documentation.

Monitoring and reporting of anomalies from December 2016 to date

Following the transfer of responsibility for the management of the IEPS initiative in December 2016, the Contractor Compliance Unit initiated a review of the IEPS initiative which was completed in March 2017. The review found that management practices and the criteria for eligibility to claim the IEPS were so broad that variable interpretations both across and within Civil and Infrastructure contracts were making identification of possible non-conforming or deceptive claims difficult.

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Reviews undertaken by the Contractor Compliance Unit also found that the governance and processes to validate eligibility to claim against the IEPS are weak. Reports resulting from a number of reviews of claims against IEPS undertaken by the Agency through the use of an outsourced service provider during April and May 2017. Consistent findings arising from the reviews include:

- claims have been approved and paid without adequate supporting documentation, such as signed timesheets and payslips;
- mark-ups have been applied on hourly rates and claimed for direct and sub contracted employees;
- over-claims have been identified as a result of recalculation of employee’s recorded hours and hourly rates;
- issues have been identified with the calculation and accuracy of claims against the IEPS;
- contractors have claimed non-claimable items such as Rostered Days Off, public holidays, termination pay and annual leave; and
- claims have been submitted for pay periods outside of the contract period.

Audit Observations – Policy Implementation

My observations in relation to the implementation stage of the IEPS initiative are:

- there was no guidance provided to Agency employees on how to interpret and apply the IEPS initiative including:
  - there was no consistent application of the policy across contractors, contracts or contract variation and interpretation of the policy differed between employees, divisions and regions within the Agency;
  - there were no systems and processes that enabled knowledge sharing in relation to the management and monitoring of the IEPS initiative and there were no practical examples provided for Agency employees to emulate in the management and monitoring of the IEPS initiative; and
  - there was no process for implementing lessons learned or policy / operational changes;

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- there was no training provided to Agency employees on how to manage and monitor the claims associated with the IEPS initiative including:
  - there was no consistent process to check the validity of claim information such as names of contractors' employees and hours worked;
  - there was no process for independent review of manual wages records and reports / summaries;
  - there was no process for receiving and addressing complaints and queries;
  - there was no process for escalating issues;
  - no central contract point or intranet site existed to source current and accurate tools and templates; and
  - there were no checklists of requirements;
- there were no systems that enabled automated record keeping or reporting, as a result there was no mechanism for regular, consistent and centralised reporting to management and the executive;
- there was no guidance, education, training provided to the industry on how to interpret and apply IEPS, consequently, contractors developed and publicly communicated their own interpretation;
- no criteria was identified or documented as to what records the contractor must obtain, maintain, submit and retain to verify whether an employee is Indigenous for the purposes of eligibility to claim IEPS;
- the Agency had been unable to reconcile IEPS claims and payments either internally or with the assistance of an external professional services firm;
- administrative errors noted on IEPS claims resulting in underpayments, overpayments and weaknesses in the process exposing the Agency to increased fraud risk;
- there had been no evaluation of the administrative burden associated with the management of the initiative; and
- there had been long delays in settling claims and consequently in closing projects.

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Policy Review and Evaluation

Review of the Policy and Guidelines

The IPoCPP states that “The Policy and associated documents will be reviewed six months following implementation and thereafter annually.”

Following implementation of the IPoCPP effective from October 2014, the Agency first reviewed the policy during August 2015 and issued a revised policy. The next review was intended for June 2016 however, there has been no evidence of review beyond that which occurred in August 2015.

The Guidelines that were available to staff from February 2015 were updated and made available to Agency personnel in June 2016. My audit identified that updates to the Guidelines were made and dated 22 November 2016, however were not formally endorsed or distributed to staff.

Formal review and assessment of the IEPS initiative – External Consultant Review

There were no formal protocols in place to periodically review or assess the IEPS initiative. During the period under audit the Northern Territory Government, through the Department of Trade, Business and Innovation, engaged an external consultant to conduct an independent evaluation of two procurement related initiatives of the Northern Territory Government, one of which was the IEPS initiative. The program was jointly funded by the Agency, the Department of Trade, Business and Innovation and one further agency having responsibility for the second procurement related initiative subject to review. The Steering Committee tasked with coordinating the independent evaluation included representatives of the Agency. The review was conducted between September 2016 and November 2016 with a “Final Draft” report issued for consideration by stakeholders in November 2016 and the final report being issued in December 2016.

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The purpose of the external review was to evaluate the effectiveness and outcomes in achieving the policy objectives after 12 months of implementation and assess whether the Policy was having a beneficial local impact. The external consultant was also asked to provide analysis, findings, conclusions and recommendations on the policy. The findings of the review were largely based on anecdotal information sourced through consultation with industry. A high level summary of industry concerns provided during consultation sessions relating to the IEPS, as documented in the external consultant's report dated 15 December 2016, include:

- uncertainty over how the provisional sum should be priced into tenders;
- many instances of issues between head contractors and sub-contractors regarding the flow through of reimbursement and instances of head contractors shopping for lower prices that would prove unsustainable in the longer term;
- smaller businesses felt that the policy was having a tangible, beneficial effect and it should apply at all procurement tiers; and
- advice that the policy framework was susceptible to (and was) being taken advantage of, examples were provided of head contractors and others claiming IEPS for non-Indigenous employees and claiming disproportionately high labour rates for Indigenous employees.

The industry feedback, findings and information reported by the consultant are largely consistent with the findings from my performance management system audit. I note the scope of the external review was for a different purpose and hence a number of options presented within the final report from the external consultant for consideration by the Steering Committee conflict with my observations and recommendations based on the work performed during my audit. These include the broadening of the IEPS initiative to include Tier 2 and Tier 3 procurements and removing the requirement for contractors to submit signed timesheets with their claims for IEPS reimbursement. Both options presented considerable financial and reputational risk to the government.

I note there is no evidence to suggest the Agency considered or supported broadening the IEPS initiative beyond Tier 4 and Tier 5 procurements. In October 2016, to address some of the issues identified in the consultant's report, the Agency proposed a reduction in red tape for contractors by reducing the amount of paperwork needed to be submitted with each claim (removing the requirement to provide pay sheets). Whilst this proposal presents some additional risk, the Agency also proposed to increase audit activity and improve guidelines and communication in relation to the IEPS, two measures designed to mitigate some of the risks associated with the IEPS. Action to address the remainder of the options presented was yet to be undertaken at the time of audit fieldwork.

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Policy compliance and enforcement

Specific to policy compliance and enforcement, the stakeholder consultation undertaken by the external consultant highlighted the need for strong and consistent oversight, particularly in relation to IEPS. This supports numerous anecdotes provided to my Authorised Auditor regarding the means by which businesses had circumvented the policy requirements. Whilst many of these reports had not been verified at the time of my audit, they indicate the prevailing view that ambiguity and limited monitoring have exposed the IEPS initiative and the Agency to exploitation.

During the consultations conducted on behalf of the Department of Trade, Business and Innovation, industry participants also raised a range of other issues which they attributed to the IEPS such as additional and purportedly onerous administration of IEPS requirements; increased complexity when pricing tender responses; pricing pressure being applied by prime contractors on sub-contractors; and the inability to achieve the targeted rates of Indigenous employment. Agency representatives made the observation that the announcement of the Policy came as a surprise to industry meaning that business preparedness was initially very low. It is not the role of the Auditor-General to assess the merits of policy and I have conducted no audit procedures to verify the veracity of these claims however I do make the observation that the Agency should assess what impact, if any, introduction of the IEPS has had on the achievement of Value to the Territory notwithstanding the difficulty involved in assigning a monetary value to intangible benefits associated with increased Indigenous employment.

Audit Observations – Policy Review and Evaluation

My observations in relation to the review and evaluation stage of the IEPS initiative are:

- review of the impacts of the Policy were not undertaken as scheduled within the Policy statement;
- the options presented by the external consultant to broaden the IEPS initiative to include Tier 2 and Tier 3 procurements and remove the requirement for contractors to submit signed timesheets with their claims for IEPS reimbursement presented significantly more risk to the Government and were inconsistent with the concerns identified through the community consultation process; and
- the action taken by the Agency to address weaknesses identified by Agency personnel, contractors, external consultants and the internal Contractor Compliance Unit was neither timely enough, nor robust enough, to sufficiently mitigate the risks of fraud and probable financial loss (through either fraud or error) to Government.

Department of Infrastructure, Planning and Logistics cont…

Results of Audit Testing

15 contracts were selected for review with the request of the following information/ document at the time of the audit:

- the Procurement Activity Plan;
- the Request for Tender and any additional documents such as addendums;
- the Response Schedules received;
- the Evaluation / Assessment of the tenders;
- the documentation awarding the contract; and
- a schedule of the IEPS claims made to the end of May 2017.

Not all information in relation to each of the 15 contracts was provided to me prior to the conclusion of the audit fieldwork. I am unable to determine what impact, if any, receipt of the additional information would have had upon the findings presented in this report. Given the magnitude and breadth of the issues identified to date, it is unlikely that the outstanding information would resolve any of the issues and concerns already identified throughout my audit. The Agency may wish to evaluate what additional or improved controls, processes and record keeping systems may need to be implemented to ensure that sufficient appropriate documentation is retained and readily retrievable for inspection in a timely manner.

Noting that, at the conclusion of the fieldwork, no documentation had been received to support six of the 15 selected contracts, the following observations arose from examination of the information provided by the Agency in relation to nine of the 15 selected tenders:

- The Procurement Activity Plan provided was not specific to the works tendered in two instances.
- For four of the contracts, the Procurement Activity Plan provided was not signed as endorsed by the Director Procurement Services.
- There was evidence that one contractor had over claimed against the IEPS.
- There was insufficient documentary evidence to support the claims against the IEPS for three contracts.
- For three contracts, no information relating to claims against the IEPS was provided by the Agency.
- For four contracts, evidence was provided to demonstrate that the Agency has investigated the contractor's compliance with the requirements of the IEPS initiative.

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- For one contract, a listing of payments made under the IEPS was provided by the Agency but there was insufficient documentary evidence to support the claims against the IEPS. The contract was ongoing at the time of my audit thus it is understandable that the IEPS may not have been fully utilised.
- Issues were noted relating to the tender evaluation documents for two contracts.
- The work order issued for one contract was for the price tendered by the contractor in which the contractor had specifically listed IEPS as $120,000. This amount represented 11.23% of the contracted value, notwithstanding 10% being the established limit for the IEPS.
- There is evidence that one contractor was submitting claims for interstate employees rather than Indigenous Territorians.
- In one instance, only one tender response was received and assessed and the tender was subsequently cancelled therefore no information relating to claims against the IEPS was provided by the Agency.
- For one contract selected, copies of the Response Schedules, Tender Evaluation Documents and Notice of Acceptance were not provided by the Agency.

Department of Infrastructure, Planning and Logistics cont…

The Department of Infrastructure, Planning and Logistics has commented:

Thank you for the opportunity to provide agency comment on content from your forthcoming report to the Legislative Assembly, on matters relating to the Department of Infrastructure, Planning and Logistics – Indigenous Employment Provisional Sum.

On 4 August 2017, the Minister for Infrastructure, Planning and Logistics announced the immediate suspension of the Indigenous Employment Provisional Sum (IEPS) scheme. Whilst no new contracts will be issued with the IEPS from 4 August 2017, businesses currently undertaking work under the IEPS are able to complete their current project without changes to the contract conditions. Following this announcement, on 11 August 2017, the Minister directed the Department to increase resourcing for audit and compliance functions with an additional allocation of $500 000 to support this.

With the machinery of government changes in late 2016, the newly amalgamated Department of Infrastructure, Planning and Logistics significantly increased its audit functions and resourcing within the Contractor Compliance Unit (CCU). This additional resourcing increased the Department's capacity for audit and compliance, which provided a greater level of scrutiny for management of construction contracts and an improved audit and compliance capability. This capacity has been further increased with the additional allocation announced in August, bringing the total increase in funding for these activities to almost $1 million.

The CCU has significantly supplemented the agency's contract management framework and has facilitated the review of claims for payment by contractors, in addition to a detailed internal review of the IEPS initiative more broadly across the Department.

The Department has now implemented strict procedural controls and requirements for the independent verification and approval of every ongoing IEPS payment through the CCU's IEPS Verification Unit. Centralisation of the verification function mitigates the risk of misinterpretation or incorrect application of the eligibility criteria and reduces the Department's exposure to any unacceptable level of financial risk associated with the closeout of the IEPS initiative.

Department of Infrastructure, Planning and Logistics cont…

The Department of Infrastructure, Planning and Logistics comments continued:

I agree that the IEPS initiative was developed and implemented without adequate planning, procedural controls or guidance, which has exposed the Department to risk. On this basis an Inter-Agency Taskforce (Taskforce) chaired by myself and comprising of senior representatives from the Solicitor for the Northern Territory, Department of Treasury and Finance, and the Northern Territory Police, Fire and Emergency Services, has been established to oversee the analysis of contracts that included an IEPS and address any potential misuse of the initiative.

Concurrently, the Department has undertaken work to strengthen the IEPS framework and implemented improved governance arrangements that ensure high level of oversight, control and direction in the management and close out of the IEPS initiative. A comprehensive, real time report is now available from ASNEX that accurately covers all projects to which IEPS applied, the value of the IEPS commitment and the IEPS amount paid to date to each contractor for each project.

I have written to contractors advising them that for existing contracts that contain the IEPS, the Department will continue to accept and process submitted IEPS claims in-line with the Conditions of Contract and revised Eligibility Criteria and Indigenous Employment Report. The revised Eligibility Criteria clearly identifies activities/costs which are permitted to be claimed by Contractors. Any non-conforming claims for IEPS payments will not be approved.

The Department has implemented formal reporting requirements and escalation pathways for the Taskforce and management to effectively close out the IEPS, including the ongoing oversight and monitoring of IEPS payment reviews and verification.

I thank you for undertaking the audit and assure you that your findings will be carefully considered in the ongoing development of a new Aboriginal contracting framework, which is set to be implemented in 2018.

Desert Knowledge Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

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

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

Audit Opinion

The audit of Desert Knowledge Australia for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 26 October 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

DKA reported a deficit of $0.8 million in 2016-17 compared to the prior year's deficit of $0.1 million. The deficit is attributed to:

- total income of $1.5 million (2016: $1.7 million) which decreased from the prior year by $0.2 million mainly due to a reduction in tenancy for the period; and
- total expenses of $2.3 million (2016: $1.8 million). The increase in expenses of $0.5 million is mainly due to higher employee costs which are related to the Chief Executive Officer (CEO) position that was filled, as well as the associated recruitment costs. DKA also paid for a new programme in the Ngaanyatjarra Lands which was not run in the prior year, causing an increase in expenditure for the period.

Desert Knowledge Australia cont…

DKA continues to hold a strong net asset position. As at 30 June 2017, the net asset position of DKA is $11.6 million (2016: $12.4 million). The net assets at 30 June 2017 comprised:

- cash and cash equivalents of $1.8 million;
- trade and other receivables of $0.1 million;
- property plant and equipment of $12.6 million; and
- intangible assets of $1 thousand; offset by
- trade and other payables of $0.5 million;
- employee benefits of $58 thousand; and
- rent received in advance of $2.5 million.

Desert Knowledge Australia cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Other income	425	587
Rent received	144	234
Interest revenue	54	50
Grants – Northern Territory Government	845	810
Total income	**1,468**	**1,681**
Expenditure		
Salaries	(738)	(552)
Depreciation and amortisation	(419)	(412)
Board costs	(16)	(18)
Consultants	(150)	(84)
Media/marketing/advertising	(42)	(10)
Motor vehicles	(8)	(15)
Travel	(35)	(12)
Desert Knowledge Precinct	(394)	(350)
Other	(477)	(303)
Total expenditure	**(2,279)**	**(1,756)**
Surplus/(deficit)	**(811)**	**(75)**

Desert Knowledge Australia cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	1,814	2,252
Receivables and other current assets	139	256
Less current liabilities	(634)	(687)
Working Capital	**1,319**	**1,821**
Add non-current assets	12,610	13,029
Less non-current liabilities	(2,377)	(2,487)
Net Assets	**11,552**	**12,363**
Represented by:		
Accumulated funds	7,809	7,809
Capital	3,743	4,554
Equity	**11,552**	**12,363**

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 25 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a surplus of $5.40 million compared to the prior year's surplus of $1.97 million. This was represented by total revenue of $36.96 million for the year ended 30 June 2017 which included the recognition of a capital grant of $16.24 million and gross revenue from land sales of $12.23 million during the year ended 30 June 2017. The land sales represent sales from both industrial and residential developments. While the land sales improved from the previous financial year, the land sales revenue was below budget.

The Corporation's largest operating expenditure item during the year was the impairment loss of $14.85 million related to the multi-user barge ramp. The second most significant item of expenditure relates to the cost of residential and industrial land sold of $6.41 million. The Corporation's employee expenses for the year of $2.64 million slightly reduced in comparison to the prior year (2016: $2.74 million) due to the time lag between resignation and replacement of staff. The Corporation employed 20 full time equivalent employees as at 30 June 2017 (2016: 19 full time equivalent employees).

The Corporation held a strong net asset position of $144.4 million as at 30 June 2017, compared to $139.8 million at 30 June 2016. The Corporation had a secure liquidity position with $39.44 million in cash and a portfolio of land comprising $25.36 million in current land inventory and $110.78 million in non-current land inventory.

Land Development Corporation cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Revenue		
Revenue from land sales	12,230	8,017
Royalties, rents and dividends	2,893	1,868
Community service obligations	3,005	7,960
Capital grants	16,244	-
Other	2,588	1,401
Total revenue	**36,960**	**19,246**
Expenditure		
Cost of land sold	(6,410)	(7,536)
Depreciation and amortisation	(357)	(351)
Employee expenses	(2,639)	(2,739)
Interest	(1,015)	(1,134)
Impairment loss	(14,848)	-
Operational costs	(3,979)	(4,676)
Total expenditure	**(29,248)**	**(16,436)**
Profit/(loss) before income tax expense	**7,712**	**2,810**
Income tax expense	(2,314)	(843)
Profit/(loss) after income tax expense	**5,398**	**1,967**

Land Development Corporation cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	39,435	22,528
Receivables and other current assets	26,823	24,249
Less current liabilities	(29,781)	(25,239)
Working Capital	**36,477**	**21,538**
Add non-current assets	122,888	133,283
Less non-current liabilities	(15,000)	(15,019)
Net Assets	**144,365**	**139,802**
Represented by:		
Capital	54,089	54,089
Reserves	3,727	1,864
Accumulated funds	86,549	83,849
Equity	**144,365**	**139,802**

Legislative Assembly Members' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in unmodified independent audit opinion, which was issued on 27 October 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Fund has total assets of $71.8 million of which $69.0 million relates to investments of the Fund. The Fund experienced strong investment returns for the year which included $3.1 million of distribution income and an increase in the fair market value of investments of $4.6 million. After recognising an income tax benefit of $0.25 million, the net result from superannuation activities after income tax was $7.97 million. Of this, $7.1 million was allocated to member accounts. The net change in member benefits of $8.8 million includes the movement in defined member benefit liabilities resulting from contributions received and benefit payments made as well as the defined member benefit liability value as determined by a qualified actuary each year. Defined member benefit liabilities are determined using demographic assumptions and the valuation methodology of triennial reviews updated annually with current assumptions of future salary and pension growth, and asset-based discount rates.

The operating result after income tax of $9.7 million is reflected directly in the decrease in employer-sponsor receivables of $9.7 million. After recognising benefits paid to members/beneficiaries of $4.5 million, net assets of the fund decreased by approximately $5.2 million.

Legislative Assembly Members' Superannuation Fund cont…

AASB 1056 – Superannuation Entities

The Fund adopted AASB 1056 which was effective from 1 July 2016. Under the new standard the Fund is required to record a liability for defined benefit member liabilities and record an asset for employer-sponsor receivables.

In contrast to prior years, the Fund is now required to present five financial statements, being the Statement of Financial Position as at 30 June 2017, the Income Statement, Statement of Changes in Members' Benefits, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended together with a summary of significant accounting policies and other explanatory notes.

The Fund has also restated prior year comparatives to reflect the requirements of the new standard. The financial impacts affecting the balances as at 30 June 2016 resulting from adoption of the standard were the recognition of an employer sponsor receivable of $11.86 million and the recognition of defined member liabilities of $76.99 million of which $65.13 million was previously recognised as "net assets available to pay benefits".

Legislative Assembly Members' Superannuation Fund cont…

Abridged Income Statement

	2017	2016
	$'000	**$'000**
Income		
Interest and distributions	3,127	2,738
Changes in net market value of investments	4,597	(2,709)
Total income	**7,724**	**29**
Other expenses	(10)	(10)
Expenditure	**(10)**	**(10)**
Net results from superannuation activities before income tax expense	**7,714**	**19**
Income tax benefit	253	263
Net results from superannuation activities after income tax expense	**7,967**	**282**
Net benefit allocated to member accounts	(7,096)	(7,073)
Net change in member benefits	8,795	1,518
Operating result after income tax	**9,666**	**(5,273)**

Legislative Assembly Members' Superannuation Fund cont…

Abridged Statement of Changes in Member Benefits

	2017	2016
	$'000	**$'000**
Member contributions	22	37
Member surcharge contributions	45	-
Territory contributions	1,000	1,000
Total contributions received	**1,067**	**1,037**
Income tax on contributions	(150)	(150)
Benefits paid	(4,465)	(4,424)
Net member benefits	**(3,548)**	**(3,535)**

Legislative Assembly Members' Superannuation Fund cont…

Abridged Statement of Financial Position

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	462	263
Investments	69,043	64,825
Employer-sponsor receivables	2,193	11,859
Tax asset	103	149
Total assets	**71,801**	**77,096**
Less non-member liabilities	(59)	(107)
Net assets available for member benefits	**71,742**	**76,989**
Defined benefit member liabilities	**71,742**	**76,989**

Defined benefit member liabilities comprise the Territory-financed defined benefit.

Motor Accidents (Compensation) Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

Effective 1 January 2015 the insurance business (excluding the Motor Accidents Compensation Fund) of the Territory Insurance Office (TIO) was sold to Allianz Australia Insurance Ltd (Allianz) and the banking business sold to People's Choice Credit Union.

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

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

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

Three audit tasks were undertaken in relation to the Commission since 1 July 2017. These were:

- the audit of the financial statements for the year ended 30 June 2017;
- the audit of the Annual Return to the Treasurer for the year ended 30 June 2017; and
- the annual review of compliance with prudential standards issued by the Australian Prudential Review Authority (APRA).

Audit Opinion – Financial Statements

The audit of the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 28 September 2017.

Key Findings

Analysis of the Audited Financial Statements

The Commission generated a surplus of $90.44 million for the year ended 30 June 2017 compared to a deficit of $11.59 million in the previous financial year. The turnaround in the result is primarily due to a $194.31 million reduction in claim expenses.

Motor Accidents (Compensation) Commission cont…

Net claims incurred include the net movement of outstanding claim provision and reinsurance and other recoveries. The reduction in net claims incurred was due to changes made to valuation assumptions used, lower discount rates and experience adjustments applied to claims development over the past year. It was also impacted by the reduction of claims handling expenses following a review of the cost of administering claims and the basis of allocating those costs to outstanding claims.

The Commission recognised financial investment income of $21.74 million during the year compared to $36.78 million in the year ended 30 June 2016. The Commission's investment returns are generated from its investments in discounted securities, unit trusts and bonds. The positive results from its investments in discounted securities and unit trusts were partially offset by a decline in the value of its investments in Commonwealth and State bonds.

Review of Work Performed by the Commission's Appointed Actuary

The work performed by the Commission's appointed actuary in relation to the Commission's outstanding claims valuation as at 30 June 2017 was also reviewed during the course of this audit.

Audit Opinion – Annual Return

The annual return has been prepared by the Commission for the purpose of fulfilling the reporting requirements of the Commission under the *Motor Accidents (Compensation) Commission Act 2014,* the *Motor Accidents (Compensation) Commission Act Determination 1/2016,* the *Territory Insurance Office Determination 1/2014* and the Prudential Standards. I issued an unmodified independent audit opinion as a result of my audit of the Annual Return on 31 October 2017.

Review Opinion - Prudential Review

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

The former Treasurer issued *MACC Determination 1/2016* on 11 July 2016 following a review of the applicability of the APRA standards. This review was conducted as a result of the sale of the Territory Insurance Office and the establishment of the Commission. The new Determination took effect on 11 July 2016 and superseded *TIO Determination 1/2014* on that date.

A number of previously existing requirements are no longer imposed on the Commission as a result of *MACC Determination 1/2016*.

Motor Accidents (Compensation) Commission cont…

For the purposes of the *TIO Determination 1/2014* and *Motor Accidents (Compensation) Commission Act Determination 1/2016*, the Auditor-General has been deemed to be the 'appointed auditor' consistent with the requirements imposed upon general insurers that are subject to direct supervision by APRA. Accordingly, I conducted reviews of the Commission's functions during the year ended 30 June 2017 to assess the extent to which the Commission met the requirements of the APRA prudential standards.

Following the review I issued a qualified review report to the Commissioner of the Motor Accidents (Compensation) Commission. The qualifications primarily relate to non-compliance with *TIO Determination 1/2014* and the *Motor Accidents (Compensation) Commission Act Determination 1/2016* which was in effect as at 30 June 2017 and during the year then ended.

Non-Compliance with Prudential Standards

My review procedures identified a number of instances where the Commission did not comply with the *Motor Accidents (Compensation) Commission Act 2014* and *TIO Determination 1/2014* which remained in effect until 10 July 2016. As a result, my opinion is qualified in relation to the identified non-compliance. It will be necessary for the Commission to update its policies, procedures and processes to reflect *MACC Determination 1/2016* as soon as practicable to ensure compliance with the revised requirements.

Comprehensive Review of and Risk Management Frameworks

The Commission must ensure that compliance with, and effectiveness of, the risk management framework is subject to review by internal and/or external audit at least annually. I have been unable to obtain evidence that compliance with, and the effectiveness of, the Commission's risk management framework has been subject to such review.

Fit and Proper Person

The Commission must provide revised information to the Treasurer within 28 days of any change or new appointment of a responsible person. It was noted during my review that the Commission appointed a new responsible person for accounting and reporting after the previous holder resigned in January 2017. At the time of my report, I was not able to obtain documentary evidence that Treasurer was notified of the change within the required period.

Solvency Ratio Calculation

The *MACC Determination 1/2016* states that the Commission's target solvency shall be based on a ratio of assets and liabilities and the target solvency range shall be 100%-160%. The solvency ratio included in the quarterly and annual returns reported to the Treasurer was based on the previous solvency ratio calculation methodology. As a result, the Commission has not complied with the reporting requirements outlined in its Internal Capital Adequacy Assessment Process Summary.

Motor Accidents (Compensation) Commission cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Compulsory third party contributions	84,658	82,296
Insurance and other recoveries	(2,735)	71,060
Finance revenue	21,737	36,780
Property revenue	4,772	5,720
Other	385	316
Total income	**108,817**	**196,172**
Expenditure		
Insurance expense	(9,731)	(10,433)
Net claims expense	12,195	(182,112)
Road safety program grants	(4,594)	(3,573)
Other	(16,246)	(11,642)
Total expenditure	**(18,376)**	**(207,760)**
Surplus/(deficit) before income tax expense	**90,441**	**(11,588)**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**90,441**	**(11,588)**

Motor Accidents (Compensation) Commission cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	21,378	65,008
Receivables and other current assets	601,149	522,183
Less current liabilities	(111,869)	(118,438)
Working Capital	**510,658**	**468,753**
Add non-current assets	159,594	163,194
Less non-current liabilities	(475,018)	(527,154)
Net Assets	**195,234**	**104,793**
Represented by:		
Retained earnings	195,234	104,793
Equity	**195,234**	**104,793**

Northern Territory Government and Public Authorities Employees' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in unmodified independent audit opinion, which was issued on 27 October 2017.

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 Fund has total assets of $1,538.9 million of which $961.9 million relates to employer-sponsor receivables. The Fund experienced strong investment returns for the year of 10.63% (2016: 1.66%). This reflected $37.9 million of distribution income and an increase in the market value of investments of $23.9 million. After deducting income tax expense of $5 million, the net result from superannuation activities after income tax was $56.6 million. Of this, $55.8 million was allocated to member accounts. The operating result after income tax of $0.8 million is reflected in the increase in unallocated surplus for defined contribution members.

The value of defined benefit member liabilities is determined by a qualified actuary each year using demographic assumptions and the valuation methodology of triennial reviews updated annually with current assumptions of future salary growth, and asset-based discount rates. The value determined for the year ended 30 June 2017 was $961.9 million, a decrease of $96.5 million from the prior year. This is reflected directly in the decrease in employer-sponsor receivables of $96.5 million.

AASB 1056 – Superannuation Entities

The Fund adopted AASB 1056 which was effective from 1 July 2016. Under the new standard the Fund is required to record a liability for defined benefit member liabilities and record an asset for employer-sponsor receivables. In contrast to prior years, the Fund is now required to present five financial statements, being the Statement of Financial Position as at 30 June 2017, the Income Statement, Statement of Changes in Members' Benefits, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended together with a summary of significant accounting policies and other explanatory notes.

The Fund has also restated prior year comparatives to reflect the requirements of the new standard. The financial impacts affecting the balances as at 30 June 2016 resulting from adoption of the standard were the recognition of an employer sponsor receivable of $1,058.3 million and the recognition of defined member liabilities of $1,058.3 million of which $929.8 million was previously recognised as "net assets available to pay benefits".

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

Abridged Income Statement

	2017	2016
	$'000	**$'000**
Income		
Interest and distributions	37,967	32,395
Changes in net market value of investments	23,857	(34,069)
Sundry income	-	16
Total income	**61,824**	**(1,658)**
Other expenses	(222)	(583)
Expenditure	**(222)**	**(583)**
Net results from superannuation activities before income tax expense	**61,602**	**(2,241)**
Income tax (expense)/benefit	(5,044)	4,937
Net results from superannuation activities after income tax expense	**56,558**	**2,696**
Net benefit allocated to defined contribution members accounts	(55,816)	(1,730)
Operating result after income tax	**742**	**966**

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

Abridged Statement of Changes in Member Benefits

	2017	2016
	$'000	**$'000**
Member contributions	30,072	69,428
Territory contributions	75,184	74,185
Total contributions received	**105,254**	**143,613**
Income tax on contributions	(1,899)	(4,707)
Benefits paid	(135,807)	(542,234)
Net benefits paid	**(32,450)**	**(403,328)**

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

Abridged Statement of Net Assets

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	1,857	1,843
Investments	573,793	545,439
Employer-sponsor receivables	961,860	1,058,316
Other receivables	1,355	5,110
Total assets	**1,538,865**	**1,610,708**
Less non-member liabilities	(4,324)	(3,852)
Net assets available for member benefits	**1,534,541**	**1,606,856**
Total member liabilities	(1,530,657)	(1,603,715)
Net assets	**3,884**	**3,141**
Total equity	**3,884**	**3,141**

Member liabilities comprises the member's accumulation account and, where applicable, a Territory-financed (defined benefit member) component.

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 25 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission has reported an operating surplus of $1 million for the year ended 30 June 2017. This result represents a significant increase from the operating surplus recognised in the prior year of $0.26 million.

There has been an overall increase in revenue of $2.87 million predominantly due to increases in Northern Territory Government grants of $1.05 million, Commonwealth grants of $0.43 million, and other grants of $1.38 million. Expenditure has increased by $2.13 million mainly due to an increase in employee expenditure of $1.1 million and increases in legal and administrative expenses of $0.8 million and $0.23 million respectively.

Northern Territory Legal Aid Commission cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Grants – Northern Territory Government	6,810	5,757
Grants – Commonwealth	6,630	6,199
Grants – other	1,651	270
Rendering of services	254	199
Other	242	291
Total income	**15,587**	**12,716**
Expenditure		
Administration	(1,468)	(1,238)
Employee expenses	(8,798)	(7,698)
Legal	(2,767)	(1,968)
Depreciation and amortisation	(171)	(108)
Other	(1,386)	(1,446)
Total expenditure	**(14,590)**	**(12,458)**
Surplus/(deficit)	**997**	**258**

Northern Territory Legal Aid Commission cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	3,566	1,187
Receivables and other current assets	878	1,956
Less current liabilities	(1,682)	(1,440)
Working Capital	**2,762**	**1,703**
Add non-current assets	1,169	1,082
Less non-current liabilities	(311)	(384)
Net Assets	**3,620**	**2,401**
Represented by:		
Reserves	3,189	2,130
Retained earnings	431	271
Equity	**3,620**	**2,401**

Northern Territory Major Events Company Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 Supercar Championship, BASSINTHEGRASS and Finke Desert Race.

Audit Opinion

The audit of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 25 September 2017.

Key Findings

Performance Overview.

The Company reported a surplus for the year of $0.2 million (2016 surplus: $0.3 million). Total income increased by $1.55 million from the prior year and total expenses increased by $1.67 million from the prior year. Additional grant monies received for the year of $1.2 million were fully offset by additional related expenditure of $1.2 million. Aside from these increases, there were no significant movements in core revenues earned, which increased by $0.3 million from the prior year or core expenses incurred, which increased by $0.4 million compared to the prior year.

Northern Territory Major Events Company Pty Ltd cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Government grants	13,284	11,765
Other	4,282	4,252
Total income	**17,566**	**16,017**
Expenditure		
Employee expenses	(1,966)	(1,738)
Depreciation	(18)	(14)
Other	(15,374)	(13,935)
Total expenditure	**(17,358)**	**(15,687)**
Surplus before income tax expense	**208**	**330**
Income tax expense	-	-
Surplus after income tax expense	**208**	**330**
Dividends	**-**	**-**
Net surplus	**208**	**330**

Northern Territory Major Events Company Pty Ltd cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	11,815	6,957
Receivables and other current assets	1,334	1,700
Less current liabilities	(11,984)	(7,718)
Working Capital	**1,165**	**939**
Add non-current assets	82	100
Less non-current liabilities	-	-
Net Assets	**1,247**	**1,039**
Represented by:		
Event reserve	489	287
Retained profits	758	752
Equity	**1,247**	**1,039**

Northern Territory Police Supplementary Benefit Scheme

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 there were 37 members (47 in 2016) and 192 pensioners (183 in 2016).

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 2017 resulted in an unmodified independent audit opinion, which was issued on 27 October 2017.

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 $0.2 million to $2.1 million (2016: $2.3 million) primarily due to the decline in active members. Total benefits paid by the fund increased by $0.3 million from the previous year due to an increase in the number of exiting members. This increase in benefits paid was partially offset by investment income and member contributions of $0.3 million and $0.1 million respectively.

AASB 1056 – Superannuation Entities

AASB 1056 is a new standard, effective 1 July 2016, that replaced *AAS 25 Financial Reporting by Superannuation Plans*.

Management have assessed that the Scheme does not meet the definition of a superannuation entity contained within AASB 1056. Accordingly the financial statements of the Scheme for the year ended 30 June 2017 were not prepared in accordance with the requirements AASB 1056, but were instead prepared in accordance with the requirements of *AASB 101 Presentation of Financial Statements*.

Northern Territory Police Supplementary Benefit Scheme cont…

Abridged Statement of Changes in Net Assets

	2017	2016
	$'000	**$'000**
Income		
Interest	1	1
Distribution from investment	214	-
Movement in net market value of investments	76	32
Member revenue	69	82
Total income	**360**	**115**
Expenditure		
Benefits		
Refunds of accumulated contributions	-	(26)
Payment of accumulated contributions to the Territory	(576)	(276)
Other expenses	(7)	(2)
Total expenses	**(583)**	**(304)**
Revenue less expenses before income tax expense	**(223)**	**(189)**
Income tax expense	(7)	(2)
Change in net assets	**(230)**	**(191)**

Northern Territory Police Supplementary Benefit Scheme cont…

Abridged Statement of Net Assets

	2017	2016
	$'000	$'000
Cash and cash equivalents	55	50
Investments	2,428	2,539
Total assets	**2,483**	**2,589**
Less liabilities	(392)	(267)
Net assets	**2,091**	**2,322**
Vested benefits		
Member financed	2,082	2,290
Employer financed	69,742	75,969
Total vested benefits	**71,824**	**78,259**
Net assets as a percentage of vested benefits	**2.9%**	**3.0%**

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 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 27 September 2017.

Northern Territory Treasury Corporation cont…

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The borrowing program for the year ended 30 June 2017 was $527 million compared to $33 million for the year ended 30 June 2016. Funds were raised throughout the financial year mainly through issuance of a new benchmark bond series. Matured debt was $533 million of which $6 million was repaid following retirement of outstanding loans by the Central Holding Authority. The outstanding loans receivable as at 30 June are:

	2017	2016
	$'millions	**$'millions**
Central Holding Authority	2,337	2,440
Power and Water Corporation	1,148	1,113
NT Home Ownership	202	211
Territory Generation	200	180
Department of Housing	74	76
Land Development Corporation	20	20
Total	**3,981**	**4,040**

The borrowings portfolio reduced by $25 million from prior year to $3,966 million mainly due to the repayment of fixed interest security borrowings. Outstanding borrowings at 30 June were:

	2017	2016
	$'millions	**$'millions**
Fixed Interest Securities	3,663	3,676
Territory Bonds	86	91
Migration Linked Bonds	1	1
Credit Foncier Loans	216	223
Total	**3,966**	**3,991**

Northern Territory Treasury Corporation cont…

Income after tax for the year was $15 million compared to $17 million in 2016. 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 in line with the decrease in total borrowings.

The Corporation achieved a 2.54% cost of borrowing in line with the low interest rate environment throughout the year.

Northern Territory Treasury Corporation cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Interest	213,749	238,408
Other	822	822
Total income	**214,571**	**239,230**
Expenditure		
Interest	(190,982)	(212,829)
Administration	(2,222)	(2,269)
Total expenditure	**(193,204)**	**(215,098)**
Surplus before income tax expense	**21,367**	**24,132**
Income tax expense	(6,410)	(7,240)
Surplus after income tax expense	**14,957**	**16,892**

Northern Territory Treasury Corporation cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Total assets	4,056,115	4,085,056
Less total liabilities	(4,034,485)	(4,063,426)
Net Assets	**21,630**	**21,630**
Represented by:		
Contributed capital	21,630	21,630
Equity	**21,630**	**21,630**

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

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

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

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

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 15 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet produced a net surplus before tax of $10.1 million for the year ended 30 June 2017, consistent with the prior year net surplus of $9.9 million.

Total revenue of $42.96 million (2016: $41.83 million) increased from the prior year by $1.13 million. This has mainly been caused by a $0.8 million rise in revenue from vehicle lease rentals, due to the revised monthly lease rates, which increased by an average of two percent. There was a $0.4 million increase in disposal income, as a result of an increase in the number of vehicles sold during the year. The increase in goods and service income and disposal income was offset by a decline in interest revenue of $0.1 million, as a result of a lower average cash at bank balance and declining interest rates.

Total expenses of $32.8 million (2016: $31.9 million) increased from the prior year by $0.9 million. Expenditure has increased as a result of a $0.3 million rise in motor vehicle expenses due to the increased workload within recoverable works in addition to a $0.2 million rise in information technology charges with the development of the internal billing invoice system. There was an increase in the annual depreciation charge of $0.2 million from the prior year caused by a $3.6 million increase in the year-end asset value due to additions during the year.

NT Fleet cont…

NT Fleet will pay an income tax equivalent of $3 million and return a dividend of $3.5 million to government for the year ended 30 June 2017.

NT Fleet continues to hold a strong net assets position. As at 30 June 2017, the net assets position of NT Fleet were valued at $116.2 million (2016: $112.7 million), comprising:

- cash and deposits of $23.9 million;
- receivables and prepayments of $0.8 million and $0.1 million respectively;
- assets held for sale of $1.4 million;
- property plant and equipment of $99.5 million; offset by
- payables and deferred revenue totalling $2.6 million;
- employee provisions of $0.5 million; and
- tax payable of $3.0 million and a dividend payable of $3.5 million.

NT Fleet cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Revenue from vehicle lease rentals	39,015	38,206
Gain on disposal of assets	3,375	2,954
Other revenues	565	668
Total income	**42,955**	**41,828**
Expenditure		
Operational costs	(12,858)	(12,336)
Employee expenses	(2,883)	(2,752)
Depreciation and amortisation	(17,076)	(16,851)
Total expenditure	**(32,817)**	**(31,939)**
Surplus before income tax expense	**10,138**	**9,889**
Income tax expense	(3,041)	(2,967)
Surplus after income tax expense	**7,097**	**6,922**
Dividends	(3,548)	(3,461)
Net surplus	**3,549**	**3,461**

NT Fleet cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	23,925	24,013
Receivables and other current assets	2,422	3,121
Less current liabilities	(9,649)	(10,331)
Working Capital	**16,698**	**16,803**
Add non-current assets	99,535	95,949
Less non-current liabilities	-	(97)
Net Assets	**116,233**	**112,655**
Represented by:		
Accumulated funds	115,668	112,119
Capital	565	536
Equity	**116,233**	**112,655**

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 and Community Development.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 8 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Home Ownership recorded a net deficit before tax of $5.2 million for the year ended 30 June 2017, which was an improvement over the net deficit for the prior year of $7.2 million.

Total revenue of $12.1 million (2016: $11.8 million) increased from the prior year by $0.3 million primarily as a result of an additional $1.2 million in Community Service Obligation funding. This additional funding has been offset by a decline in interest revenue of $0.9 million, reflecting lower interest rates, reduced loan advances balances and a reduced cash balance.

Total expenses of $17.3 million (2016: $19.0 million) decreased from the prior year by $1.7 million due to the reduction in the loss on revaluation of shared equity investments by $1.1 million, in addition to a decline in borrowing costs of $1.3 million primarily a result of a reduction in outstanding loans.

NT Home Ownership cont…

NT Home Ownership continues to maintain a strong net asset position. As at 30 June 2017, the net asset position of NT Home Ownership was $21.8 million (2016: $27.0 million), comprising:

- cash and deposits of $3.0 million;
- advances of $163.5 million; and
- shared equity investments of $58.5 million; offset by
- payables of $0.9 million; and
- borrowings of $202.2 million.

NT Home Ownership cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Sales of goods and services	3	7
Interest revenue	8,602	9,500
Community Service Obligations	3,445	2,264
Total income	**12,050**	**11,771**
Expenditure		
Employee expenses	(241)	(235)
Administration fees	(1,878)	(1,748)
Borrowing costs	(9,817)	(11,144)
Loss on revaluation of investments	(3,819)	(4,880)
Loss on disposal of investments	(376)	(187)
Other expenses	(1,137)	(764)
Total expenditure	**(17,268)**	**(18,958)**
Surplus/(deficit) before income tax expense	**(5,218)**	**(7,187)**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**(5,218)**	**(7,187)**

NT Home Ownership cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	2,988	8,181
Receivables and other current assets	2,957	3,050
Less current liabilities	(6,655)	(9,467)
Working Capital	**(710)**	**1,764**
Add non-current assets	219,027	227,478
Less non-current liabilities	(196,507)	(202,214)
Net Assets	**21,810**	**27,028**
Represented by:		
Accumulated funds	(935)	4,283
Capital	22,745	22,745
Equity	**21,810**	**27,028**

NT Home Ownership cont…

The NT Home Ownership has commented:
NT Home Ownership was pleased to receive an unmodified audit report with no findings.

Power and Water Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

The Power and Water Corporation (the Corporation) is the primary provider of electricity distribution services, and the sole provider of water and sewerage services in the Northern Territory. Through its subsidiary, Indigenous Essential Services Pty Ltd, the Corporation is the primary provider of electricity in remote areas of the Northern Territory.

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

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

Audit Opinion

The audit of the Power and Water Corporation for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 29 September 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

Property, plant and equipment

I note that management has undertaken significant work to rectify the issues relating to property, plant and equipment, which resulted in a qualified audit opinion for the year ended 30 June 2016. I have obtained sufficient appropriate audit evidence to support the valuation, validity, completeness, existence, accuracy and classification of the consolidated entity's property, plant and equipment balance as reported in the statement of financial position as at 30 June 2017 and I have issued an unmodified independent audit opinion on the year ended 30 June 2017 accordingly.

The fixed asset registers as at 30 June 2015, 30 June 2016 and 30 June 2017 have been reconciled to the general ledger and to the underlying asset management system. Restatements have been included in the comparative balances disclosed in the financial statements in order to reflect corrections to errors in the prior years. The value of consolidated property, plant and equipment was reduced by $446.8 million in 2015 and $90.95 million in 2016. The loss after tax increased by $128.9 million in 2015 and $39.5 million in 2016, mainly due to impacts on depreciation, impairment and loss on disposal.

Power and Water Corporation cont…

In addition, restatements to balances within the Corporation's subsidiary, Indigenous Essential Services, have resulted in adjustments to grant income which should be recognised in the profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs which the grants are intended to compensate in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. As improved historical cost depreciation data for the years ended 2015 and 2016 is now available, revenue has increased by $22.9 million in 2015 and $7.3 million in 2016 in the restated financial statements.

Onerous Contract

Management have prepared a model to determine the net present cash flows from the life of the gas contracts held by the Corporation. As at 30 June 2017, the model demonstrated that the expected economic costs of two of these contracts was expected to outweigh the expected benefits to be derived. As a result, these contracts have been assessed as onerous under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and a provision of $42.1 million has been recognised in the Statement of Financial Position for the year ended 30 June 2017.

My Authorised Auditors have conducted procedures to verify the inputs used in the model, reviewed the assumptions and recalculated the outputs of the model. As a result of these procedures, I am satisfied that the provision for onerous contract accurately represents the Corporation's best estimate of the present value of the future outlays that the Corporation is presently obligated to make under non-cancellable onerous contracts, less revenue expected to be earned on those contracts. The estimate may vary as a result of any new sales agreements the Corporation enters into and the volatility in the market price of gas.

Power and Water Corporation cont…

Financial Performance for the year of the Corporation

	2017	2016 Restated
	$'000	$'000
Income		
Sale of goods and services	453,394	459,261
Rendering of services	76,082	70,112
Finance revenue	1,140	647
Other	76,754	90,431
Total income	**607,370**	**620,451**
Expenditure		
Raw materials and consumables used	(186,077)	(189,890)
Finance costs	(45,698)	(44,897)
Repairs and maintenance expenses	(55,856)	(62,364)
Employee expenses	(82,039)	(83,699)
External service agreements	(25,196)	(23,256)
Depreciation and amortisation	(103,966)	(116,999)
Impairment of non-current assets and onerous contract provisions	(54,867)	(60,040)
Other expenditure	(51,220)	(80,337)
Total expenditure	**(604,919)**	**(661,482)**
Profit/(loss) before income tax expense	**2,451**	**(41,301)**
Income tax (expense)/benefit	(737)	11,412
Profit/(loss) after income tax expense	**1,714**	**(29,619)**

Power and Water Corporation cont…

Financial Position at year end of the Corporation

	2017	2016 Restated
	$’000	**$’000**
Cash and cash equivalents	95,090	56,984
Receivables and other current assets	111,674	124,738
Less current liabilities	(389,621)	(133,039)
Working Capital	**(182,857)**	**48,683**
Add non-current assets	2,182,062	1,881,609
Less non-current liabilities	(1,020,046)	(1,117,965)
Net Assets	**979,159**	**812,327**
Represented by:		
Retained profits	604,835	603,120
Contributed equity	34,336	34,336
Asset revaluation reserve	339,988	174,871
Equity	**979,159**	**812,327**

Indigenous Essential Services Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

Indigenous Essential Services Pty Limited (the Company) 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. The Company is a proprietary company (limited by shares) pursuant to the *Corporations Act 2001* that is controlled by Power and Water Corporation (PWC). PWC is a Government Owned Corporation pursuant to the Northern Territory's *Government Owned Corporations Act 2001*.

PWC guarantees the solvency of the Company and provides corporate support for all management and accounting services.

Audit Opinion

The audit of Indigenous Essential Services Pty Ltd for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 29 September 2017.

Key Findings

As a wholly owned and controlled subsidiary of PWC, the Company is fully reliant on PWC as its service provider. PWC provides personnel, systems, policies, processes and controls and employees of PWC make all management decisions about day to day activities.

I have previously highlighted the importance of recognising the Company as a separate legal entity to ensure effective management of circumstances that affect the Company but do not directly affect the parent entity, PWC. These circumstances include the challenges of remote operations and governance matters such as the implications of not complying with *Corporations Act 2001*. The Company 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 Company remains reliant on the reports that are generated by PWC from its systems for decision making purposes.

Performance Overview

Property, plant and equipment

I note that management of PWC has undertaken significant work to rectify the issues relating to property, plant and equipment which resulted in a qualified audit opinion on the Company's financial statements for the year ended 30 June 2016. I have obtained sufficient appropriate audit evidence to support the valuation, validity, completeness, existence, accuracy and classification of the entity's property, plant and equipment balance as reported in the statement of financial position as at 30 June 2017 and accordingly, I issued an unmodified independent audit opinion for the year ended 30 June 2017.

Indigenous Essential Services Pty Ltd cont…

The Company's fixed asset registers as at 30 June 2015, 30 June 2016 and 30 June 2017 have been reconciled to the general ledger and to the underlying asset management system. Restatements have been included in the comparative balances disclosed in the financial statements in order to reflect corrections to errors in the prior years. The value of property, plant and equipment was reduced by $49,418,460 in 2015 and $64,207,432 in 2016. The deficit for the year was increased by $14,788,973 in 2016, mainly due to impacts on depreciation arising from reduced remaining useful lives of assets and losses recorded on disposal.

Indigenous Essential Services Pty Ltd cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Revenue from sale of goods	36,466	39,402
Government grants	78,067	81,014
Revenue from rendering of services	3,096	3,061
Other revenues	2,290	2,515
Total income	**119,919**	**125,992**
Expenditure		
Raw materials and consumables	(30,853)	(32,301)
Employee expenses	(18,528)	(18,405)
Repairs and maintenance	(16,336)	(16,637)
Corporate allocation costs	(5,970)	(14,258)
Agents – community contract fees	(10,199)	(9,748)
Depreciation and amortisation	(64,472)	(69,757)
Finance costs	(290)	(173)
Other costs	(20,433)	(19,937)
Total expenditure	**(167,081)**	**(181,216)**
Surplus/(deficit)	**(47,162)**	**(55,224)**

Indigenous Essential Services Pty Ltd cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	49,651	26,833
Receivables and other current assets	5,736	10,940
Less current liabilities	(68,716)	(54,441)
Working Capital	**(13,329)**	**(16,668)**
Add non-current assets	737,984	776,440
Less non-current liabilities	(18,567)	(6,523)
Net Assets	**706,088**	**753,249**
Represented by:		
Retained earnings	221,460	254,115
Asset revaluation reserve	484,628	499,134
Equity	**706,088**	**753,249**

Indigenous Essential Services Pty Ltd cont…

Indigenous Essential Services Pty Ltd has commented:

System Checks of transactions and balances reported

Throughout the 2016-17 year, changes were made to incorporate the IES Business Unit Accountant wholly into IES, most notably with the Business Unit Accountant being located at IES's offices and reporting to IES management.

Processes for the verification of transactions and their validity to IES are undertaken; any transactions with questions on validity are challenged and reviewed to ensure they are appropriately allocated. Additionally, significant Profit and Loss accounts have monthly reconciliations completed by the IES Business Unit Accountant and are reviewed along with the monthly Balance Sheet reconciliations. Further checks, outside of the system are conducted as to the accuracy of balances in the monthly management reports.

Responsibility for budgeting and forecasting has also been shifted to IES management, in conjunction with the IES Business Unit Accountant, throughout the 2016-17 year as operational decisions and responsibility lies with IES management.

Power Generation Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 29 September 2017.

Key Findings

Performance Overview

The 2016/17 financial year was Territory Generation's third year of trading. For the 12 months ended 30 June 2017, of the total revenue of $300 million (2016: $313 million), $295 million (2016: $307 million) was from the sale of electricity to retail distribution companies.

The decrease in revenue from the prior year is primarily due to a combination of reduced electricity demand and increased competition within the wholesale electricity market.

The decrease in revenue did not translate into a decrease in costs with total expenditure increasing by $12 million to $301 million in 2017 from $289 million in 2016. Management advised that this was mainly attributable to the System Control directives to use less efficient generators to provide increased ancillary services to improve system reliability. As a result, despite the decrease in revenue, after allocating depreciation, employee expenses and administrative overhead costs related to the generation of energy, the cost of energy remained steady for the current year at $260 million (2016: $260 million). After excluding the cost of energy, total remaining expenditure increased by $11 million from the prior year, with the increase primarily attributed to increased employee and administrative expenses.

Capital expenditure for the 12 months to 30 June 2017 was $84 million compared to $59 million reported in the previous year. The increase was due to continued works on life expansion and upgrade programs at the Owen Springs and Tennant Creek Power Stations.

Overall, the net loss after tax for the year was $0.6 million (2016: net profit $17 million).

Total assets increased from $522 million as at 30 June 2016 to $530 million as at 30 June 2017. The increase of $8 million was primarily due to the construction work being undertaken at Owen Springs and Tennant Creek Power Stations largely offset by a reduction in cash and cash equivalents.

Power Generation Corporation cont…

The increase of $3 million in total liabilities to $306 million as at 30 June 2017 from $303 million in 2016 was due to an increase in borrowings and trade and other payables which was partially offset by a decrease in taxes payable.

The movement in equity from $218 million at the beginning of the year to $225 million as at 30 June 2017 resulted from equity of $15 million being contributed during the 2017 year partially offset by a return of dividends paid during the year of $8.4 million.

Power Generation Corporation cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Sales revenue		
Electricity sales	294,612	306,605
Gas sales	211	2,082
Interest revenue	760	713
Other revenue	4,539	3,322
Total income	**300,122**	**312,722**
Expenditure		
Cost of energy	(259,884)	(258,970)
Administrative expenses	(29,175)	(20,891)
Finance costs	(8,422)	(7,590)
Other expenses	(3,185)	(1,051)
Total expenditure	**(300,666)**	**(288,502)**
Profit/(loss) before income tax expense	**(544)**	**24,220**
Income tax expense	(10)	(7,507)
Profit/(loss) after income tax expense	**(554)**	**16,713**

Power Generation Corporation cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	23,740	78,866
Receivables and other current assets	60,731	56,267
Less current liabilities	(95,133)	(65,515)
Working Capital	**(10,662)**	**69,618**
Add non-current assets	445,539	386,588
Less non-current liabilities	(210,380)	(237,905)
Net Assets	**224,497**	**218,301**
Represented by:		
Retained earnings	25,797	34,708
Reserves	107	-
Contributed equity	198,593	183,593
Equity	**224,497**	**218,301**

Power Retail Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Background

Power Retail Corporation trading as Jacana Energy (the Corporation) 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 2017 resulted in an unmodified independent audit opinion, which was issued on 10 October 2017.

Key Findings

The audit did not identify any material weaknesses in controls.

Performance Overview

The financial year ended 30 June 2017 was the Corporation's third year of trading. For the 12 months ended 30 June 2017, total revenue was $505 million compared to $516 million in the previous year. Revenue included Community Service Obligations of $78 million (2016: $59 million) which increased by $19 million. This increase in Community Service Obligation funding results from discussions with the Department of Treasury and Finance.

Overall expenses excluding tax were $495 million (2016: $509 million). Expenses comprise cost of sales of $478 million (2016: $491 million) and operating expenses of $18 million (2016: $18 million). Cost of sales decreased by $13 million from the prior year as a result of lower generation costs reflecting reduced energy consumption attributed to an increased uptake of renewable energy sources and cooler weather together with the impact of competition entering the retail electricity market.

Overall, the net profit after tax for the year ended 30 June 2017 was $7 million compared to $5 million for the year ended 30 June 2016.

As reflected on the Statement of Financial Position, total assets increased from $143 million as at 30 June 2016 to $153 million as at 30 June 2017 reflecting an increase in cash and cash equivalents due to timing differences of payments and an increase in property, plant and equipment attributed to the capitalisation of Pronto and Retail Operating System computer equipment. These upward movements were partially offset by a decrease in trade and other receivables due to a reduction in related party balances as at 30 June 2017.

Power Retail Corporation cont…

Total liabilities also increased by $6 million from $80 million in the prior year. The increase was attributed to an increase in provision for renewable energy certificates to meet obligations with the Clean Energy Regulator coupled with an increase in customer's prepaying their energy bills.

The movement of net assets from $63 million at the beginning of the year to $67 million as at 30 June 2017 was achieved partly as a result of the profit of $7 million in the current year.

Power Retail Corporation cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Sale of goods	424,777	452,268
Community Service Obligations	77,809	59,365
Interest revenue	802	1,750
Other income	1,496	2,722
Total income	**504,884**	**516,105**
Expenditure		
Energy cost of sales	(477,727)	(491,202)
Depreciation	(55)	(6)
Employee expenses	(7,150)	(5,740)
External service agreements	(4,241)	(5,623)
Other expenses	(6,172)	(6,360)
Total expenditure	**(495,345)**	**(508,931)**
Profit/(loss) before income tax expense	**9,539**	**7,174**
Income tax expense	(2,862)	(2,153)
Profit/(loss) after income tax expense	**6,677**	**5,021**

Power Retail Corporation cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	60,812	55,078
Receivables and other current assets	83,884	84,305
Less current liabilities	(85,672)	(80,168)
Working Capital	**59,024**	**59,215**
Add non-current assets	8,433	4,045
Less non-current liabilities	(126)	(95)
Net Assets	**67,331**	**63,165**
Represented by:		
Accumulated funds	19,665	15,499
Capital	47,666	47,666
Equity	**67,331**	**63,165**

Selected Agencies

End of Year Reviews

Review Objective and Scope

The objective of the end of year review 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 agencies' 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 TAFS by the Department of Treasury and Finance.

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, each Authorised Auditor was asked to provide representation to my Office at the completion of each review that the reviewed 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 19 agencies:

- Aboriginal Areas Protection Authority;
- Department of Corporate and Information Services;
- Department of Education;
- Department of Environment and Natural Resources;
- Department of Health;
- Department of Housing and Community Development;
- Department of Infrastructure, Planning and Logistics;
- Department of Primary Industry and Resources;
- Department of the Attorney-General and Justice;
- Department of the Chief Minister;
- Department of the Legislative Assembly;
- Department of Tourism and Culture;
- Department of Trade, Business and Innovation;
- Department of Treasury and Finance;
- Northern Territory Electoral Commission;
- Northern Territory Police, Fire and Emergency Services;
- Office of the Commissioner for Public Employment;
- Ombudsman's Office; and
- Territory Families.

Selected Agencies cont…

Key Findings

Reviews conducted at most agencies identified no material or significant weaknesses in controls.

Number of Agencies	Number of Issues raised
12	0
1	1
4	3
1	4
1	6

Matters Identified

The following matters were noted across a number of agencies:

- Deficiencies were identified with the revaluation of some assets due to outdated unit rates being applied during the revaluation as a result of the agency's use of a draft report as the source of the unit rate.
- Some agencies had not assessed building projects in progress at balance date to determine what amounts represented repairs and maintenance and therefore should be expensed rather than capitalised.
- Reconciliation and review processes could be improved.
- Payment of salaries including management of overpayments of salaries to employees could be improved.
- The methodology for determining the provision for doubtful debts should be reviewed.
- Instances were noted of agencies' non-compliance with their Accounting and Property Manual and legislated requirements.
- Instances were identified of incorrect accounting for refunds and Goods and Services Tax.
- Rebates were not processed in a timely manner resulting in an overstatement of gross debtors.

Selected Agencies cont…

The Department of Corporate and Information Services has commented:

The Department of Corporate and Information Services (DCIS) maintains a focus on improving business processes, including processes to mitigate payroll overpayments through automation, system alerts, transaction validation and enhanced reporting for agencies. DCIS is engaging with the agencies audited to identify causal factors and to find ways to help improve internal processes.

The Department of Housing and Community Development has commented:

The Department has accepted the findings and will continue to improve its processes to better meet requirements.

The Department of the Legislative Assembly has commented:

The Department of Legislative Assembly notes the Audit Opinion of the Auditor-General in relation to Department's Compliance audit 'that accounting and control procedures were found to be generally satisfactory."

The audit identified two issues relating to the DLA's Outstanding Purchase Orders and Fixed Asset Register requiring attention. The Department notes the recommendations and will commence a program to address them.

Northern Territory Police, Fire and Emergency Services has commented:

The Northern Territory Police, Fire and Emergency Services is pleased to note that no significant matters were detected during the course of the End of Year Review and that the Agency's accounting and control procedures were found to be satisfactory.

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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.

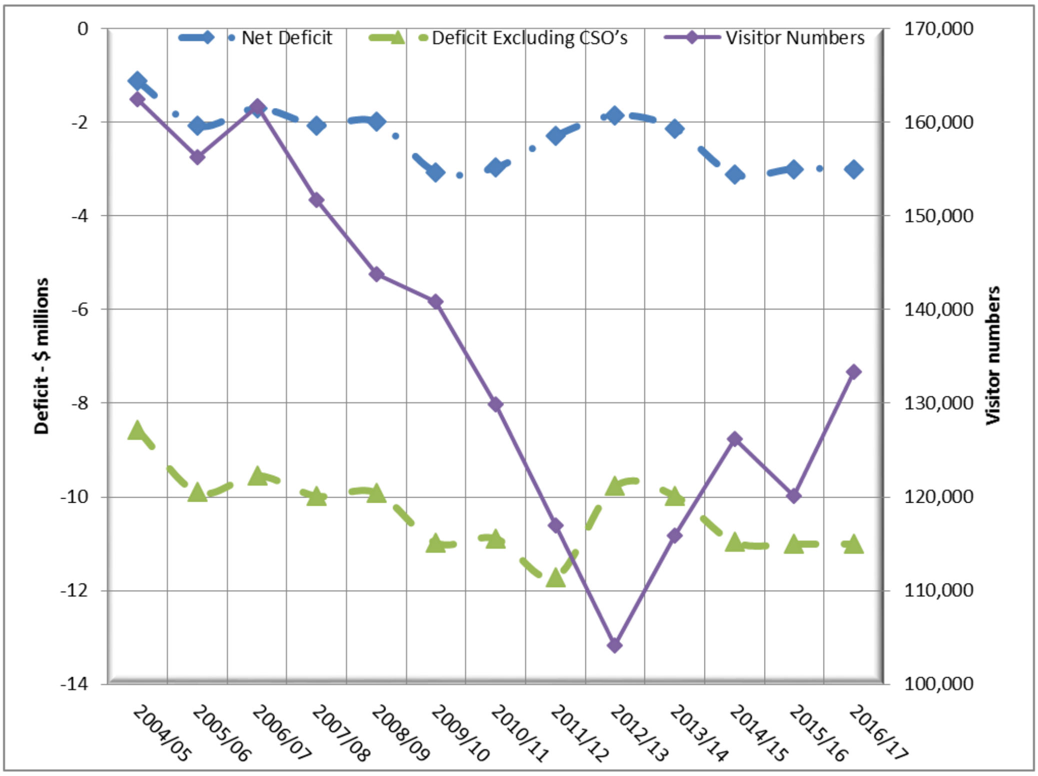
The host Agency was the Department of Tourism and Culture.

Audit Opinion

The audit of the Territory Wildlife Parks for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 29 September 2017.

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 to enable it to manage its cash flow requirements. Information in the following table and graph was sourced from the published Annual Reports of the Department of Tourism and Culture 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	(10,642)	120,073
2016/17	(2,868)	7,824	(10,692)	133,327

Performance Overview

Operating losses

Territory Wildlife Parks incurred an operating loss of $2.9 million this year (2016: $2.8 million). This 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 2017, total current liabilities of $1.3 million (2016: $1.2 million) exceeded total current assets of $0.8 million (2016: $0.6 million). This resulted in negative working capital as at 30 June 2017 of $0.5 million (2016: $0.5 million). Negative working capital is an indicator of the potential for financial failure in the future. Without support from the Northern Territory Government, Territory Wildlife Parks will not be likely to have sufficient available funds to meet its financial obligations as they fall due and as such, the going concern basis of accounting may no longer be appropriate. My audit opinion was premised on the expectation that such funding will continue.

Territory Wildlife Parks cont…

Negative Cash Flows from Operating Activities

Territory Wildlife Parks has also been reporting negative cash flows from operating activities over the past few years, including $0.7 million in 2017 (2016: $0.9 million)

Negative cash flows from operating activities are considered an indicator that Territory Wildlife Parks does not have sufficient cash to cover operational expenses which casts doubt in relation to the applicability of the going concern assumption.

Territory Wildlife Parks cont…

Financial Performance for the year

	2017	2016
	$'000	$'000
Income		
Community Service Obligations	7,824	7,824
Sales of goods and services	3,273	2,709
Other revenues	65	58
Total income	**11,162**	**10,591**
Expenditure		
Employee expenses	(7,163)	(6,727)
Depreciation and amortisation	(2,028)	(1,995)
Other expenses	(4,839)	(4,687)
Total expenditure	**(14,030)**	**(13,409)**
Deficit	**(2,868)**	**(2,818)**

Territory Wildlife Parks cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	501	387
Receivables and other current assets	301	224
Less current liabilities	(1,323)	(1,149)
Working Capital	**(521)**	**(538)**
Add non-current assets	38,634	33,660
Less non-current liabilities	-	-
Net Assets	**38,113**	**33,122**
Represented by:		
Accumulated losses	(26,994)	(24,126)
Contributed equity	27,274	25,719
Asset revaluation reserve	37,833	31,529
Equity	**38,113**	**33,122**

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

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 2017 resulted in an unmodified independent audit opinion, which was issued on 2 October 2017.

Key Findings

Correction of prior year error

During the audit of the financial statements of the Service for the year ended 30 June 2016, it was brought to management's attention that there was inadequate documentation of management's consideration of the accounting treatment relating to a facility gifted to the Service from Menzies School of Health Research (Menzies).

During the financial year ended 30 June 2017, the Service obtained accounting advice from a professional services firm and performed an assessment of the accounting treatment of the gifted facility. Management concluded that the prior year's accounting treatment of the gifted facility from Menzies was not correct. As the error related to a reporting period prior to 30 June 2016 (the comparative reporting period), the Balance Sheet as at 1 July 2015 was restated in accordance with *AASB 101 Presentation of Financial Statements* with the following impacts:

- building assets increased by \$8.44 million and accumulated depreciation by \$0.06 million to record the additional costs of the gifted building that were not previously recognised; and
- other current liabilities increased by \$1.41 million and other non-current liabilities by \$26.38 million to recognise the fair value of the rental revenue received in advance as at 30 June 2015.

Top End Health Service cont…

The financial statements were also misstated for the year ended 30 June 2016 due to the flow on effect of the error impacting the year ended 30 June 2015. Correcting the error resulted in the restatement of the 2016 comparative financial statements with the following impacts:

- other current liabilities increased by $1.41 million and other non-current liabilities by $24.97 million to recognise the liability balances of the rental revenue received in advance as at 30 June 2016;
- accumulated funds reduced by $26.38 million (being $19.41 million in 2015 and a further $6.97 million in 2016);
- other income reduced by $6.97 million; and
- the net deficit increased by $6.97 million.

Prior year balances referred to in the financial analysis below are based on the restated balances for the year ended 30 June 2016 as disclosed in the financial statements of the Service for the year ended 30 June 2017.

Performance Overview

Revenue

Total revenue for the Service has increased by approximately $120.11 million (15%) from the prior year.

The increase of Current Grants and Subsidies Income ($73.2 million) was mainly attributed to a $51.23 million increase in NT Block Funding including the inward transfer of the Oral Health and Hearing Program and Cancer Screening Services from the Department of Health (DoH) and an increase of $19.51 million in Commonwealth funded programs. This included funding for the Highly Specialised Drugs Program and Transition Care and Remote Aboriginal Investment Program.

The increase of sales of goods and services income ($47.21 million) was largely due to the increased cross border accrued revenue of $11.52 million and an increase in NT and Commonwealth Activity Based Funding. Activity Based Funding received in the year ended 30 June 2016 was $293.04 million and for the year ended 30 June 2017 was $329.16 million, an increase of $36.12 million.

Expenditure

Total expenditure increased by approximately $91.70 million (11%) from the prior year. Employee expenses increased by $55.68 million due to the transfer of the Oral Health and Hearing Program and Cancer Screening Services from DoH to the Service. Other significant accounts that contributed to higher expenses include agency service arrangements, cross border patient charges, medical/dental supply and services, depreciation and current grants expense.

Top End Health Service cont…

Other comprehensive income

Other comprehensive income relates to changes in the asset revaluation reserve. The current period deficit is a result of a $7.20 million net revaluation decrement on land and buildings resulting from a revaluation during the year. In the prior year there was a net revaluation increment of $22.58 million.

Assets

Total assets decreased by approximately $12.82 million (2%) from the prior year. The decrease was primarily caused by the decrease in property, plant and equipment, cash and deposits and prepayments, which were slightly offset by increased receivables.

Property, plant and equipment decreased by $8.24 million, mostly attributable to the $7.20 million net revaluation decrement on land and buildings. Prepayments decreased by $4.38 million primarily reflecting one prepayment of $4.80 million as at 30 June 2016. An equivalent invoice was not received and therefore no advance payment was made prior to 30 June 2017. Cash and deposits decreased by $3.16 million due to the net deficit in the current year.

Receivables have decreased during the period by $2.48 million. This is mostly attributed to a decrease in cross border accrued revenue charges of $1.13 million compared to the prior year.

Liabilities

Total liabilities for the year increased by $10.18 million (6%) from the prior year reflecting increases in payables of $5.74 million and provisions of $5.45 million.

The increase in payables is due to an overall increase in accrued expenditure including the liability for cross border patient expenses. This is consistent with the ten percent increase in the value of purchased goods and services. The provision for employee benefits increased consistent with the increase in employees. The movement in employee related balances was mainly related to the transfer of the Oral Health and Hearing Program and Cancer Screening Services from DoH to the Service. The Service employed 4,130 employees at 30 June 2017 (2016: 3,861 employees).

Equity

Equity for the Service decreased by $23.00 million (5%) from the prior year reflecting:

- a decrease in accumulated funds of $43.22 million attributable to the current year net deficit; and
- a decrease in asset revaluation reserve of $7.20 million; partially offset by
- an increase in capital of $27.42 million from equity injections and completed Work in Progress (WIP) transfers.

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.
- Management of overpayments of salaries to employees could be improved and the associated methodology for determining the provision for doubtful debt should be reviewed.
- The working capital deficit position has worsened from prior years.

Top End Health Service cont…

Financial Performance for the year

	2017	Restated 2016	2016
	$'000	$'000	$'000
Income			
Sales of goods and/or services	387,281	340,069	340,069
Current grants and subsidies	518,704	445,506	445,505
Other revenues	2,140	2,438	9,410
Total income	**908,125**	**788,013**	**794,984**
Expenditure			
Employee expenses	(538,838)	(483,157)	(483,157)
Repairs and maintenance	(20,061)	(19,372)	(19,372)
Supplies and services	(325,559)	(295,674)	(295,674)
Depreciation and amortisation	(28,540)	(25,671)	(25,671)
Interest expense	(192)	(188)	(188)
Current grants and subsidies	(37,415)	(33,701)	(33,701)
Other expenses	(743)	(1,890)	(1,890)
Total expenditure	**(951,348)**	**(859,653)**	**(859,653)**
Surplus/(deficit) before income tax expense	**(43,223)**	**(71,640)**	**(64,669)**
Income tax expense	-	-	-
Surplus/(deficit) after income tax expense	**(43,223)**	**(71,640)**	**(64,669)**

Top End Health Service cont…

Financial Position at year end

	2017	Restated 2016	2016
	$'000	**$'000**	**$'000**
Cash and cash equivalents	2,506	5,666	5,666
Receivables and other current assets	47,453	48,874	48,875
Less current liabilities	(140,768)	(129,439)	(112,590)
Working Capital	**(90,809)**	**(74,899)**	**(58,049)**
Add non-current assets	538,283	546,523	546,523
Less non-current liabilities	(27,568)	(28,719)	(19,186)
Net Assets	**419,906**	**442,905**	**469,288**
Represented by:			
Accumulated funds	(157,214)	(113,991)	(87,608)
Asset revaluation reserve	167,263	174,460	174,460
Capital	409,857	382,436	382,436
Equity	**419,906**	**442,905**	**469,288**

Top End Health Service cont…

The Top End Health Service has commented:

The Service acknowledges the audit findings and will continue working with the DoH System Manager to further improve its systems. To address the key observations identified, the Service is committed to implementing the following measures:

- *Potential opportunities are being explored to refine the basis of the cross-border accrual methodology.*
- *Effort has been undertaken to clear historical staff overpayments and the development of the myResign module in the whole of government myHR system in 2017-18 year is expected to minimise recurrences in future. The doubtful debt provision methodology is also being reviewed and updated.*
- *Some of the contributing factors of the Service's working capital deficit position in the 2016-17 and prior years were due to large one-off transactions relating to hospital ward redevelopment and unfunded project costs of the Palmerston Regional Hospital as well as the impact of the increased cost of service delivery in the health and welfare sector. Development of cost savings strategies is anticipated to alleviate the working capital position in future years.*

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2017

Audit Opinion

This report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2017. 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

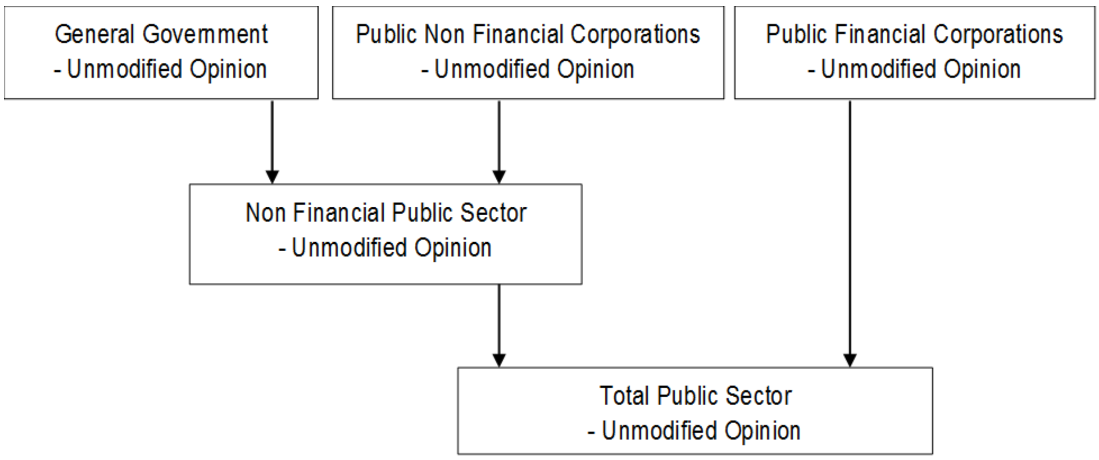


Table 1 outlines the key reporting elements of the Northern Territory.

Table 1: Northern Territory Government reporting entity

General Government Sector	Public Non Financial Corporations	Public Financial Corporations
Includes: All government departments; Other administrative units such as the NT Police, Fire and Emergency Services and the Office of the Commissioner for Public Employment; and Other entities that provide services that are mainly non-market in nature, for the collective consumption by other Agencies or by the community. This sector also includes the results of the Motor Accidents (Compensation) Commission.	*Comprises:* Power and Water Corporation and its subsidiary Indigenous Essential Services Pty Ltd; Power Retail Corporation (trading as Jacana Energy); Power Generation Corporation (trading as Territory Generation); and Land Development Corporation.	*Comprises:* Northern Territory Treasury Corporation

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 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.

Treasurer's Annual Financial Statement cont…

Audit Opinion

My audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 12 October 2017.

The purpose and structure of my audit report on the TAFS

My audit report on the TAFS was signed on 12 October 2017 and is set out from page 17 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 my opinion and the elements of the TAFS upon which I am forming an opinion.

The audit report 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.

The audit report also details the nature and extent of the audit work. I indicate that my audit was conducted in accordance with Australian Auditing Standards, which includes 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.

Treasurer's Annual Financial Statement cont…

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.

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.

Treasurer's Annual Financial Statement cont…

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

What the audit opinion does not provide

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

My audit of the Public Account 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

My comments and findings on the most recent audits I have conducted in relation to individual entities within the Total Public Sector are reported separately within this report. Accordingly, 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 2017 when compared with the prior year. The Net Operating Balance for the year ended 30 June 2017 was a deficit $77.0 million, a decrease of $363.1 million when compared to the surplus of $286.1 million reported for the year ended 30 June 2016. Total revenues decreased by $306.7 million when compared to the previous year. Revenue sources contributing the largest decreases were in grants revenue ($185.5 million), sale of goods and services income ($69.2 million) and other revenue ($27.8 million).

Whilst total revenues declined by $306.7 million from the prior year, total expenses were $54.2 million higher than the prior year indicating opportunities may exist where spending could be restrained in the current economic environment. The largest component of expense growth related to employee expenses (an increase of $113.5 million). This increase was largely offset by decreases in superannuation expenses ($29.5 million), interest expense ($22.9 million) and other operating expenses ($23.8 million).

The Fiscal Balance result also decreased, from a deficit of $30.3 million for the year ended 30 June 2016 to a deficit for the year ended 30 June 2017 of $466.4 million. The Fiscal Balance demonstrates that an additional $73.0 million was invested last year in the net acquisition of non-financial assets (2017: $389.4 million, 2016: $316.4 million).

Treasurer's Annual Financial Statement cont…

The financial position of the General Government Sector, as measured by Net Debt, deteriorated by $417.4 million for the year reflecting the following significant changes:

- a decrease in cash of $339.7 million;
- a decrease in investments, loans and placements of $131.9 million; partially offset by
- a decrease in borrowings of $104.8 million.

Net Financial Worth improved by $393.9 million when compared with the position at 30 June 2016 to negative $3,886.9 million demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities increased by $185.2 million for the year reflecting the change in Net Financial Worth of $393.9 million then adjusted by the $208.7 million increase in equity assets, being the value of investments in other public sector entities.

Three adjustments have been made to the prior year's comparative financial information as discussed below.

Power and Water Corporation

The adjustment to the financial statements of Power and Water Corporation (PWC) and its subsidiary Indigenous Essential Services Pty Ltd (IES) was in relation to property, plant and equipment. IES is consolidated into PWC, a 100% owned Government Owned Corporation (Public Non Financial Corporation) of the NT Government and consequently is reported within the Total Public Sector for the TAFS. The 2016 audit opinion for IES was qualified in respect of this issue and the PWC consolidated audit opinion was also qualified on the basis that IES is a material component of the group. The restatement to property, plant and equipment of IES was required because the reported balances in 2016 were based on a fixed asset register that did not reconcile to the asset management system. In addition, IES undertook a review of infrastructure assets located on leased Indigenous land during the year ended 30 June 2017, which resulted in the useful life of some assets being reduced to comply with AASB 117 Leases. As a result, the net carrying amount of non financial assets was reduced by $90.9 million as at 30 June 2016 and the operating result for the year ended 30 June 2016 was decreased by $62.0 million; due mainly to impacts on depreciation, impairment and loss on disposal.

Treasurer's Annual Financial Statement cont…

AustralAsia Railway Corporation

The adjustment to the financial statements of the AustralAsia Railway Corporation (AARC) was to correct a prior period error in relation to the valuation of a loan receivable from the concession holder. The results of AARC are reported within the General Government Sector for the TAFS. In 2001, the Northern Territory Government extended a loan to the concession holder in relation to the AustralAsia Railway. This loan was initially recognised as a liability in the Statement of Financial Position at its present value of $0.423 million with an associated capital grant expense of $24.577 million being recorded in the Statement of Financial Performance. Following the receipt of updated accounting advice by the Department of Treasury and Finance, it was determined that the loan receivable originally provided was undervalued by $24.6 million. The comparative balances as at 30 June 2016 and for the year then ended have been restated retrospectively to reflect the uplift in the fair value of the loan with a corresponding increase in net worth.

Top End Health Service

In 2012, Top End Health Service (TEHS) and Menzies School of Health Research (Menzies) entered into an agreement granting Menzies the right to construct a building at their cost on TEHS land. On completion, the building was gifted to TEHS in exchange for Menzies acquiring the right to use the building at $1 peppercorn rental per annum over a lease term of 20 years. TEHS subsequently recorded the fair value of the building and equivalent income in the years ended 30 June 2015 and 30 June 2016 respectively. Accounting advice subsequently sought and received by TEHS identified that TEHS should have recognised the fair value of the building as rent received in advance which should then be recognised as income proportionately over the life of the lease term of 20 years. The correction of this error has resulted in a net reduction to accumulated funds and an increase to unearned income of $26.3 million.

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Performance

	2017	2016
	$'million	$'million
Taxation revenue	609.8	608.4
Grants	4,497.1	4,682.6
Sales of goods and services	366.3	435.5
Interest income	97.2	101.8
Dividend and income tax equivalent income	76.5	97.3
Other	247.6	275.4
Total revenues	**5,894.5**	**6,201.1**
Employee expenses	(2,267.2)	(2,153.7)
Other operating expenses	(1,416.7)	(1,440.4)
Depreciation	(335.5)	(322.6)
Superannuation expense	(313.8)	(343.3)
Interest expenses	(212.0)	(234.9)
Other property expenses	(2.1)	(2.0)
Grants and subsidies	(1,424.3)	(1,420.4)
Total expenses	**(5,971.4)**	**(5,917.3)**
Transactions from discontinuing operations	-	2.3
Net operating balance	**(77.0)**	**286.1**
Other economic flows	65.8	(44.3)
Operating result	**(11.2)**	**241.8**
Net operating balance	**(77.0)**	**286.1**
Less net acquisition of non financial assets	(389.4)	(316.4)
Fiscal balance	**(466.4)**	**(30.3)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Position

	Balance at 30 June 2017	Movement for 2016/17	Balance at 30 June 2016
	$'million	**$'million**	**$'million**
Cash and deposits	284.0	(339.7)	623.7
Advances paid	171.4	(6.6)	178.0
Investments, loans and placements	2,074.9	(131.9)	2,206.8
Deposits held	(416.9)	(55.6)	(361.3)
Advances received	(281.9)	11.6	(293.5)
Borrowings	(2,992.6)	104.8	(3,097.4)
Net debt	**(1,161.2)**	**(417.4)**	**(743.8)**
Other non-equity financial assets	386.3	(10.6)	396.9
Equity assets	2,236.4	208.7	2,027.7
Superannuation liabilities	(3,676.2)	587.7	(4,263.9)
Other employee entitlements and provisions	(624.0)	(32.1)	(591.9)
Other non-equity liabilities	(1,048.3)	57.7	(1,106.0)
Net financial worth	**(3,886.9)**	**393.9**	**(4,280.8)**
Less: Equity assets	(2,236.4)	(208.7)	(2,027.7)
Net financial liabilities	**(6,123.3)**	**185.3**	**(6,308.6)**
Net carrying amounts of non financial assets	14,951.6	998.4	13,953.2
Equity assets	2,236.4	208.7	2,027.7
Net worth	**11,064.6**	**1,392.3**	**9,672.3**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Abridged Statement of Changes in Equity

2016/17	Equity at 1 July $'million	Comprehensive Result $'million	Equity at 30 June $'million
Accumulated funds	**1,920.3**	**(11.2)**	**1,909.1**
Transfers from reserves	-	18.3	18.3
Other movements directly to equity	-	560.5	560.5
Total accumulated funds	**1,920.3**	**567.7**	**2,487.9**
Reserves			
Asset revaluation surplus	6,338.4	630.1	6,968.5
Investments in public sector entities revaluation surplus	1,395.7	193.7	1,589.4
Other reserves	18.0	0.8	18.8
Total reserves	**7,752.1**	**824.6**	**8,576.7**
Total equity at end of financial year	**9,672.4**	**1,392.3**	**11,064.6**
2015/16			
Accumulated funds	1,963.1	241.8	2,204.9
Transfers from reserves	-	113.3	113.3
Other movements directly to equity	-	(398.0)	(398.0)
Total accumulated funds	**1,963.1**	**(42.8)**	**1,920.3**
Reserves			
Asset revaluation surplus	6,172.9	165.5	6,338.4
Investments in public sector entities revaluation surplus	1,621.7	(226.0)	1,395.7
Other reserves	0.6	17.3	18.0
Total reserves	**7,795.2**	**(43.2)**	**7,752.1**
Total equity at end of financial year	**9,758.4**	**(86.0)**	**9,672.4**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Performance

	2017	2016
	$'million	**$'million**
Taxation revenue	598.8	598.1
Grants	4,513.6	4,693.7
Sales of goods and services	928.3	1,006.7
Interest income	97.2	101.6
Other	279.0	301.3
Total revenues	**6,416.9**	**6,701.4**
Employee expenses	(2,383.6)	(2,266.1)
Other operating expenses	(1,822.0)	(1,840.8)
Depreciation	(529.9)	(536.6)
Superannuation expense	(327.9)	(354.4)
Interest expenses	(250.6)	(272.0)
Other property expenses	(3.1)	(2.0)
Grants and subsidies	(1,201.5)	(1,156.8)
Total expenses	**(6,518.4)**	**(6,428.8)**
Transactions from discontinuing operations	-	2.0
Net operating balance	**(101.6)**	**274.6**
Other economic flows	34.2	(139.8)
Operating result	**(67.4)**	**134.8**
Net operating balance	**(101.6)**	**274.6**
Less net acquisition of non financial assets	(446.7)	(388.5)
Fiscal balance	**(548.4)**	**(113.9)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Position

	Balance at 30 June 2017	Movement for 2016/17	Balance at 30 June 2016
	$'million	**$'million**	**$'million**
Cash and deposits	284.0	(339.7)	623.7
Advances paid	171.4	(6.6)	178.0
Investments, loans and placements	2,074.9	(131.9)	2,206.8
Deposits held	(81.5)	2.3	(83.8)
Advances received	(221.5)	8.1	(229.6)
Borrowings	(4,414.4)	18.6	(4,433.0)
Net debt	**(2,187.2)**	**(449.2)**	**(1,738.0)**
Other non-equity financial assets	429.1	(54.5)	483.6
Equity assets	-	-	-
Superannuation liabilities	(3,676.2)	587.7	(4,263.9)
Other employee entitlements and provisions	(683.2)	(34.7)	(648.6)
Other non-equity liabilities	(1,241.3)	66.6	(1,307.9)
Net financial worth	**(7,358.8)**	**115.8**	**(7,474.6)**
Less: Equity assets	-	-	-
Net financial liabilities	**(7,358.8)**	**115.8**	**(7,476.6)**
Net carrying amounts of non financial assets	18,423.4	1,276.5	17,147.0
Equity assets	-	-	-
Net worth	**11,064.6**	**1,392.3**	**9,672.3**

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 at 30 June
2016/17	**$’million**	**$’million**	**$’million**
Accumulated funds	**2,640.1**	**(67.4)**	**2,572.7**
Transfers from reserves	-	114.2	114.2
Other movements directly to equity	-	562.0	562.0
Total accumulated funds	**2,640.1**	**608.8**	**3,248.9**
Reserves			
Asset revaluation surplus	7,014.3	782.7	7,797.0
Asset realisation surplus	-	-	-
Other reserves	18.0	0.8	18.8
Total reserves	**7,032.2**	**783.5**	**7,815.8**
Total equity at end of financial year	**9,672.3**	**1,392.3**	**11,064.6**
2015/16			
Accumulated funds	**2,778.8**	**134.8**	**2,913.6**
Correction of prior period errors	-	(38.8)	(38.8)
Transfers from reserves	-	169.7	169.7
Other movements directly to equity	-	(404.4)	(404.4)
Total accumulated funds	**2,778.8**	**(138.7)**	**2,640.1**
Reserves			
Asset revaluation surplus	6,979.0	35.3	7,014.3
Other reserves	0.6	17.3	18.0
Total reserves	**6,979.6**	**52.6**	**7,032.2**
Total equity at end of financial year	**9,758.4**	**(86.0)**	**9,672.3**

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), and its associated Regulations, which came into effect in 2010 and was subsequently amended effective 14 February 2017, 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:

- an Assembly member;
- the holder or occupier of any of the offices of a Minister, the Speaker, the Leader of the Opposition or any other office of the Legislative Assembly;
- the holder or occupier of an office established by or under a law of the Territory;
- person appointed or engaged to perform work for a public authority;
- an Agency;
- a body (whether incorporated or not) established by or under a law of the Territory;
- body corporate to which one or both of the following apply:
  - the capital of the body corporate is owned by one or more public authorities;
  - one or more public authorities have a total of more than one-half of the voting power in the management of the body corporate;
- a body corporate that is a subsidiary of a public authority (whether or not through any interposed entity).

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

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 office of the Auditor-General;
- a local government council;
- Jacana Energy;
- the Power and Water Corporation;
- Territory Generation; and
- a person or body prescribed by regulation.

The definition of what constitutes public information is equally broad and is defined in section 4(1) of the Act 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 given to members of the electorate of an Assembly member if the preparation and giving of the information is funded by an allowance payable to the Member for the electorate under a law of the Territory;
- a media release of a Member of the Legislative Assembly; and
- information prescribed by regulation.

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, with regard to the Public Information Regulations.

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

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;
- does not clearly distinguish a statement of facts from a statement of comments; or
- is an advertisement that includes an image of the holder or occupier of the office of a Minister.

Section 6(2A) of the Act requires the Auditor-General to determine the Act has been contravened in relation to particular public information if the Auditor-General is satisfied the content of the information does not meet the criteria prescribed by regulation for the giving of information. Section 6(3)(b) of the Act requires the Auditor-General to have regard to any requirement or prohibitions prescribed by regulation for the giving of public information.

There have been no matters referred since my August 2017 Report to the Legislative Assembly.

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Appendices

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Appendix 1: Audit Opinion Reports Issued Since 30 June 2017

Financial Statements for the year ended 30 June 2017

	Date 2017 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2017	Date of Audit report year ended 30 June 2016
Board of the Museum and Art Gallery of the Northern Territory	Not yet tabled	30 September 17	6 October 16
Central Australia Health Service	19 October 17	2 October 17	27 September 16
Darwin Waterfront Corporation	Not yet tabled	27 September 17	23 September 16
Data Centre Services	18 October 17	15 September 17	3 October 16
Desert Knowledge Australia	Not yet tabled	26 October 17	23 November 16
Indigenous Essential Services Pty Ltd	Not required	29 September 17	30 September 16
Land Development Corporation	Not yet tabled	25 September 17	23 September 16
Legislative Assembly Members' Superannuation Fund	Not yet tabled	27 October 17	29 September 16
Motor Accidents (Compensation) Commission	18 October 17	28 September 17	26 October 16
Northern Territory Government and Public Authorities Employees' Superannuation Fund	Not yet tabled	27 October 17	3 October 16
Northern Territory Grants Commission	17 October 17	25 September 17	30 September 16
Northern Territory Legal Aid Commission	Not yet tabled	25 September 17	3 October 16
Northern Territory Major Events Company Pty Ltd	Not required	25 September 17	15 September 16

Not yet tabled – as at 31 October 2017
Not required – Financial statements are not required to be tabled

Appendix 1: Audit Opinion Reports Issued Since 30 June 2017 cont…

	Date 2017 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2017	Date of Audit report year ended 30 June 2016
Northern Territory Police Supplementary Benefit Scheme	Not required	27 October 17	29 September 16
Northern Territory Treasury Corporation	18 October 17	27 September 17	27 September 16
NT Fleet	18 October 17	15 September 17	3 October 16
NT Home Ownership	17 October 17	8 September 17	5 September 16
Power and Water Corporation	18 October 17	29 September 17	30 September 16
Power Generation Corporation	19 October 17	29 September 17	29 September 16
Power Retail Corporation	19 October 17	10 October 17	30 September 16
Territory Wildlife Parks	19 October 17	29 September 17	30 September 16
Top End Health Service	19 October 17	2 October 17	29 September 16
Treasurer's Annual Financial Statement	17 October 17	12 October 17	17 October 16

Not required – Financial statements are not required to be tabled

Appendix 1: Audit Opinion Reports Issued Since 30 June 2017 cont…

Acquittals or other returns for the year ended 30 June 2017

	Deadline for submission of Audited Financial Statements	Date of Audit report year ended 30 June 2017	Date of Audit report year ended 30 June 2016
Health Pool Funding Acquittal	30 September 17	12 September 17	9 September 16
Local Government Financial Assistance Acquittal	Not specified	25 September 17	30 September 16
Motor Accidents (Compensation) Commission Annual Return	31 October 17	31 October 17	2 November 16
Natural Disaster Relief and Recovery Arrangements	31 March 18	24 October 17	7 March 17

Not specified – No deadline specified

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Appendix 2: Status of Audit Activity

Listed below is the status of non-routine audits and review identified as not yet complete in my August 2017 report to the Legislative Assembly:

Northern Territory Police, Fire and Emergency Services

Managing the Mental Health of Police	Not yet completed

Selected Agencies

Governance Framework – Lighthouse	Not yet completed

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits and reviews, were identified in Appendix 3 of my August 2017 Report to the Legislative Assembly as being scheduled for the period:

Department of Corporate and Information Services

Asset Management System	Not yet completed

Department of Health

Evaluation of performance management systems	Not yet completed
eBilling system	Not yet completed

Department of Housing and community Development

Tenancy Management System	Not yet completed

Department of Infrastructure, Planning and Logistics

Berrimah Farm Redevelopment	Not yet completed
Indigenous Employment Provisional Sum	Refer page 38

Department of Primary Industry and Resources

Evaluation of performance management systems	Not yet completed

Department of the Attorney-General and Justice

Licensing and Compliance System	Not yet completed

Appendix 2: Status of Audit Activity cont…

Department of Trade Business and Innovation	
Darwin Ship Lift	Deferred
Department of Treasury and Finance	
Revenue Systems	Not yet completed
Territory Families	
Evaluation of performance management systems	Not yet completed

Appendix 3: Abbreviations

AARC	AustralAsia Railway Corporation
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
AIS	Asset Information System
APRA	Australian Prudential Review Authority
APRO	Agency Procurement Requisition Online
ASNEX	Asset Systems Nexus
CE	Chief Executive
CEO	Chief Executive Officer
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DIPL	Department of Infrastructure, Planning and Logistics
DKA	Desert Knowledge Australia
DoH	Department of Health
DoI	Department of Infrastructure
EMT	Executive Management Team
FMA	*Financial Management Act*
GBD	Government Business Division
GFS	Australian Bureau of Statistics Government Financial Statistics
GST	Goods and Services Tax
IDS	Infrastructure Delivery Support
IEPS	Indigenous Employment Provisional Scheme
IER	Indigenous Employment Report
IES	Indigenous Essential Services Pty Ltd
IPoCPP	Indigenous Participation on Construction Projects Policy
LAMS	Legislative Assembly Members' Superannuation Scheme
MACC	Motor Accidents (Compensation) Commission
MAGNT	Board of the Museum and Art Gallery of the Northern Territory

Appendix 3: Abbreviations cont…

Menzies	Menzies School of Health Research
NT	Northern Territory
NTAGO	Northern Territory Auditor-General's Office
NTG	Northern Territory Government
PAP	Procurement Activity Plan
PAYG	Pay As You Go
PMS	Performance Management System
PPE	Property, Plant and Equipment
PRS	Project Reporting System
PWC	Power and Water Corporation
TAFR	Treasurer's Annual Financial Report
TAFS	Treasurer's Annual Financial Statement
TAP	Territory Availability Payment
TEHS	Top End Health Service
TEP	Territory Efficiency Payment
TIO	Territory Insurance Office
TIP	Territory Incentive Payment
TOP	Territory Operating Payment
WIP	Work in Progress

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