Auditor-General for the Northern Territory
Auditing for Parliament

August 2018
Report to the Legislative Assembly

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

ISSN 1323-7128

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

23 August 2018

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits, reviews and assessments conducted during the six months ended 30 June 2018 and I request that you table the report in the Legislative Assembly.

This report presents the results of compliance audits to assess the adequacy of controls over the administration of public monies at all NT Government agencies and entities and a review to assess the adequacy of governance and oversight of cloud services.

The results of audits of financial statements for those entities within the education sector that are required to report on a calendar year basis are presented within this report.

The findings from data analysis conducted upon fuel card transactions at selected agencies and salary overpayments across all NT Government agencies and entities are included within this report.

This report presents findings from performance management system audits relating to the Palmerston Regional Hospital, the Darwin Ship Lift Project and the management of grants awarded by selected NT Government Agencies.

My report contains my findings relating to four matters referred under the *Public Information Act*.

Yours sincerely,

Julie Crisp
Auditor-General for the Northern Territory

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Auditor-General's Overview

Audits Included in this Report

This report outlines the results of 48 separate audits and other tasks completed during the period 1 February 2018 to 31 July 2018. 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;
- Information Technology Audits;
- Performance Management System Audits;
- Data Analysis; and
- *Public Information Act* Referrals.

The report presents the results of reviews that were performed to assess the adequacy of selected aspects of 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. Agency compliance audits are undertaken in accordance with Section 13 of the *Audit Act* and provide support to the audit of the Treasurer's Annual Financial Statement.

Also included are the results of audits of financial statements for those entities within the education sector with a financial year ended 31 December 2017.

The findings from data analysis conducted in relation to salary overpayments at all NT Government agencies and entities and in relation to fuel card transactions at four selected agencies are presented within this report.

During the period 1 February 2018 to 30 June 2018, the performance management systems relating to the management of grant funding arrangements were conducted at three agencies. The status of action taken by two agencies to address the findings from my 2016 audit in relation to the Palmerston Regional Hospital was assessed at two agencies.

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 first report I have provided for tabling within the Legislative Assembly for the year ending 30 June 2019. My last report was tabled during March 2018.

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 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 the 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.

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 or 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 the Agency. 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 Audit, Reviews and Assessments

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Batchelor Institute of Indigenous Tertiary Education

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

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

Audit Opinion

The audit of the financial statements of the Institute for the year ended 31 December 2017 resulted in an unmodified independent audit opinion which was issued on 22 June 2018.

Key Findings

Financial Analysis

Batchelor Institute reported a deficit of $0.2 million (2016: deficit of $6.9 million). This decrease in deficit of approximately $6.7 million is mainly attributable to:

- An increase in revenue of $1.0 million compared to prior year mainly due to increases of:
  - $0.2 million in Australian Government funding;
  - $0.2 million in consultancy and contract revenue;
  - $0.7 million in fees and charges; and
  - $0.4 million in NT Government financial assistance.

  These increases were partially offset by decreases of:

  - $0.2 million in investment revenue; and
  - $0.3 million in other revenue.
- A decrease in expenditure of $5.6 million mainly attributable to Batchelor Institute's response to the liquidity challenges identified during the year resulting in:
  - a decrease of employee related expenses of $3.4 million related to a reduction in full time equivalent employees; and
  - a decrease in other expenses of $2.2 million due to decreases in repairs and maintenance expenditure, administration costs and travel expenditure.

Batchelor Institute of Indigenous Tertiary Education cont…

Notwithstanding the deficit of $0.2 million, Batchelor Institute's net asset position increased at 31 December 2017 from $35.1 million to $35.3 million due to a net increase in asset values of $0.4 million following a revaluation of fixed assets. The increase in net asset position is reflected in:

- increases in receivables and other assets of $1.8 million mainly due to the timing of the receipt of Away From Base and Australian Defence Force revenues;
- a decrease in cash and deposits of $1.8 million due to operating activities and investing activities for property, plant and equipment additions; and
- reduced property plant and equipment balances caused by increased depreciation charges of $1.7 million partially offset by $0.6 million in asset additions and net revaluation increases of $0.4 million; and
- a decrease in total liabilities of $1.1 million reflecting employee provisions reducing by $0.2 million and payables reducing by $1.5 million as a result of cost saving plans being implemented partially offset by an increase in other liabilities of $0.6 million.

Following concerns raised in relation to financial and operational aspects of the Institute, a review was commissioned and completed in November 2017. This review included consideration of governance arrangements, examination of funding and cash flows, analysis of financial reporting and scrutiny, review of the effectiveness of information technology systems and assessment of training options for the governing body, executive and management personnel. The review resulted in a report presenting a number of recommendations to improve existing governance, practices and processes. The Institute is currently implementing the recommendations arising from this review. Whilst recognising the Institute's dependency on continued funding from the Commonwealth and Northern Territory Government, the Institute has also introduced a number of measures including improved internal controls designed to minimise operational costs and improve the timing of cash flows.

Batchelor Institute of Indigenous Tertiary Education cont…

Financial Performance for the year

	2017	2016
	$'000	$'000
Revenue from continuing operations		
Australian Government financial assistance	16,887	16,648
NT Government financial assistance	16,791	16,430
Other revenues	7,064	6,676
Total revenue from ordinary activities	**40,742**	**39,754**
Less expense from ordinary activities		
Employee expenses	(26,182)	(29,626)
Depreciation and amortisation	(1,761)	(1,646)
Other	(13,008)	(15,362)
Total expenses from ordinary activities	**(40,951)**	**(46,634)**
Deficit before income tax expense	**(209)**	**(6,880)**
Income tax expense	-	-
Deficit after income tax expense	**(209)**	**(6,880)**

Batchelor Institute of Indigenous Tertiary Education cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	3,457	5,340
Receivables and other current assets	6,988	5,228
Less current liabilities	(7,348)	(7,806)
Working Capital	**3,097**	**2,762**
Add non-current assets	32,550	33,274
Less non-current liabilities	(334)	(917)
Net Assets	**35,313**	**35,119**
Represented by:		
Reserves	30,741	30,338
Retained earnings	4,572	4,781
Equity	**35,313**	**35,119**

Charles Darwin University

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

Charles Darwin University (the University) is established under the *Charles Darwin University Act*. The University controls the following entities:

- Menzies School of Health Research including the Menzies School of Health Research Foundation Trust;
- CDU Amenities Limited (a company limited by guarantee);
  - Cairns Business College Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
  - Cairns Education Australia Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
  - Cairns Language Centre Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
  - ICHM Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
- Charles Darwin University Foundation, a company limited by guarantee and which acts as trustee of the Charles Darwin University Foundation Trust; and
- Charles Darwin University Charitable Trust.

The financial results of Menzies School of Health Research and the consolidated financial results of the CDU Amenities Limited Group are consolidated within the financial statements of the University. The financial results of the Charles Darwin University Foundation Trust are also consolidated into the financial statements of the University.

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

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

Charles Darwin University cont…

Audit Opinion

The audit of the financial statements of Charles Darwin University for the year ended 31 December 2017 resulted in an unmodified audit opinion which was issued on 27 June 2018.

Key Findings

Financial Analysis

The University (parent entity only) incurred a net deficit of $14.283 million (2016:$21.917 million). Whilst the results for both the reporting and comparative year were deficits, the deficit for the year ending 31 December 2017 represents an improvement of $7.634 million from the prior year.

Fee-paying domestic and international student numbers decreased by approximately 4% affecting the amount of financial assistance received from both Australian and Northern Territory Governments. Significant movements when compared to the prior year's results are presented below.

- Australian Government financial assistance through the Higher Education Loan Program (HELP) decreased by $3.114 million and Northern Territory Government financial assistance decreased by $1.801 million. Course fees and charges decreased by $2.761 million mainly attributed to the decrease in fee-paying onshore overseas students.
- Other revenue decreased by $6.158 million of which $6.016 million represented a decline in income from joint operations (The Heights Durack Project) due to weak demand for real estate. Expenses related to The Heights Durack Project also decreased by $4.188 million (refer comments noted in expenses below).
- An assessment of the useful lives of fixed assets resulted the extension of useful lives for a number of fixed assets and a consequential reduction in depreciation expense. Depreciation expense for the year ended 31 December 2017 was $15.098 million, $7.024 million less than the prior year.
- Other expenses decreased by $7.943 million. This decrease is largely attributable to two areas: a decline in expenses relating to joint operations from $6.551 million in the prior year to $2.363 million in the current year; and a decrease in materials of $4.510 million compared to the prior year.
- Prior year losses of $3.985 million were incurred in relation to the loss on disposal of common areas in respect of The Heights Durack Project.
- Prior year losses of $3.183 million were attributed to discontinued operations and disposal of net assets in respect of the Centre for Remote Health joint venture which was discontinued effective from 1 January 2016. There were no discontinued operations in the current year.

Charles Darwin University cont…

At a consolidated level, the Charles Darwin University group of entities (the Group) incurred a net deficit of $19.527 million (2016: $17.297 million). The analyses of the financial results for each individual entity consolidated within the Group are included within this report. At a summary level, the CDU Amenities Group reported a consolidated deficit of $1.5 million and the Menzies School of Health Research reported a consolidated deficit of $3.4 million.

In the absence of continued financial support from the University, material uncertainty exists which casts significant doubt on the ability of four of the entities to continue as a going concern. As a result, the University has entered into a Deed of Guarantee for the benefit of:

- CDU Amenities Limited:
- Cairns Business College Pty Limited;
- Cairns Education Australia Pty Limited; and
- Cairns Language Centre Pty Limited.

Presented below is a summary of the financial position as at 31 December 2017 and the results of the year then ended for each entity subject to the Deed of Guarantee.

	(Deficit) / Surplus After Income Tax Year Ended 31 December 2017 $	**Equity as at 31 December 2017 $**
CDU Amenities Limited	86,842	(63,280)
Cairns Business College Pty Limited	20,130	72,840*
Cairns Education Australia Pty Limited	(7,727)	(7,466)
Cairns Language Centre Pty Limited	(1,023,918)	(1,008,038)

*Cairns Business College Pty Limited equity of $72,840 reflects a receivable of $86,485 from Cairns Language Centre Pty Limited.

Charles Darwin University cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Revenue from continuing operations		
Financial assistance and grants from the Commonwealth	113,831	117,673
Financial assistance from the NT Government	60,299	62,100
Other revenue (HECS, fees, interest)	88,652	98,274
Total revenue from continuing operations	**262,782**	**278,047**
Less expense from continuing operations		
Employee expenses	(162,881)	(162,290)
Administration, operational and other expenses	(114,184)	(134,491)
Total expenses from continuing operations	**(277,065)**	**(296,781)**
Deficit before income tax	**(14,283)**	**(18,734)**
Income tax expense	-	-
Deficit after income tax	**(14,283)**	**(18,734)**
Loss on disposal of discontinued operation	-	(3,183)
Net result for the year	**(14,283)**	**(21,917)**

Charles Darwin University cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	87,307	94,576
Receivables and other current assets	29,726	29,397
Less current liabilities	(75,131)	(72,559)
Working Capital	**41,902**	**51,414**
Add non-current assets	485,913	474,842
Less non-current liabilities	(5,745)	(5,721)
Net Assets	**522,070**	**520,535**
Represented by:		
Restricted and accumulated funds	287,436	293,733
Reserves	234,634	226,802
Equity	**522,070**	**520,535**

CDU Amenities Limited

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

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

The Company was formed in March 2007 to coordinate support activities for students and student organisations.

The Company controls four subsidiary entities: Cairns Business College Pty Limited; Cairns Education Australia Pty Limited; Cairns Language Centre Pty Limited; and ICHM Pty Ltd.

Audit Opinion

The audit of the financial statements of CDU Amenities Limited for the year ended 31 December 2017 resulted in an unmodified independent audit opinion. That opinion was issued on 21 June 2018.

Key Findings

Financial Analysis

Overall, the Company (parent entity only) incurred an operating surplus (including the results from the discontinued operation) for the year of $86,842 (2016: deficit of $79,789). Whilst the net operational result of the Company (including the loss related to the discontinued operation of $110,235) was a deficit of $138,146 (2016: deficit of $79,789), the Company benefited from a fair value gain on contingent consideration of $225,278 arising as a result of the acquisition of ICHM Pty Ltd.

The summarised financial statements present a single line item reporting the net result of the discontinued operation.

The Company's total operational revenue (including revenue from the discontinued operation of $283,771 as disclosed in Note 20 to the Company's financial statements) decreased to $563,914 (2016: $590,882), resulting from the decrease in grant revenue received from Charles Darwin University (the University) to finance payroll related expenditure.

Total operational expenditure (including expenditure related to the discontinued operation of $394,006 as disclosed in Note 20 to the Company's financial statements) during the year increased to $702,349 (2016: $670,671) primarily due to increased consultancy expenses.

The Company had a net liability position of $63,280 as at 31 December 2017. In comparison, a net liability position of $150,122 was disclosed as at 31 December 2016. From the prior year's reporting date, assets have increased by $975,801 and liabilities increased by $888,959.

CDU Amenities Limited cont…

Explanations relating to significant movements in the statement of financial position are provided below.

- As at 31 December 2016, the University held funds of $260,947 on behalf of CDU Amenities Limited. These funds were applied during the 2017 year to operating and investment activities.
- Investments in subsidiaries increased by $1,245,658 following the acquisition of ICHM Pty Ltd, in 30 January 2017 for consideration of 1,270,925.
- Other liabilities increased by $421,410 reflecting a decrease in grant income received in advance of $275,430 and an increase of contingent consideration of $710,804 associated with the purchase of ICHM Pty Ltd.
- Related party payables increased by $686,951 representing additional loans provided to the Company by the University.

CDU Amenities Limited cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
CDU grant	279	317
Other revenue	225	-
Total Income	**504**	**317**
Less expenditure		
Employee related costs	(170)	(180)
Administration, operational and other expenses	(137)	(84)
Total expenditure	**(307)**	**(264)**
Surplus before income tax expense	**197**	**53**
Income tax expense	-	-
Surplus after income tax expense	**197**	**53**
Loss on disposal of discontinued operation	(110)	(133)
Net result for the year	**87**	**(80)**

CDU Amenities Limited cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	-	-
Receivables and other current assets	2	261
Less current liabilities	(1,550)	(661)
Working Capital	**(1,548)**	**(400)**
Add non-current assets	1,485	250
Less non-current liabilities	-	-
Net Assets	**(63)**	**(150)**
Represented by:		
Accumulated losses	(63)	(150)
Equity	**(63)**	**(150)**

Cairns Business College Pty Ltd

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

Cairns Business College Pty Ltd (the Company) was incorporated in 1987 and became a controlled entity of Charles Darwin University from 11 November 2016 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by Section 41 of the *Charles Darwin University Act*.

The Company was registered as a not for profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company generates revenue by offering courses and other qualifications in tourism, business and hospitality to students. The Company's principal place of business is in Cairns.

Audit Opinion

The audit of the financial statements of the Cairns Business College Pty Ltd for the year ended 31 December 2017 resulted in a qualified independent audit opinion, which was issued on 15 June 2018.

Basis for Qualified Opinion

As discussed in Note 2(a) to the financial report of the Company, the prior period comparative results are not for a full year. The comparative period is from 11 November 2016 (being the date that CDU Amenities Pty Limited purchased the Company) to 31 December 2016. The Company had not maintained sufficient records to enable the preparation of the statement of profit or loss and other comprehensive income or the statement of cash flows prior to the date of acquisition, that being 11 November 2016. There is no exemption in Australian Accounting Standards *AASB 101 Presentation of Financial Statements* from preparing comparative information.

Key Findings

Material Uncertainty Related to Going Concern

The conditions disclosed in Note 2 (c) to the financial report of the Company indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. My opinion was not modified in respect of this matter as adequate disclosure has been provided in the financial report.

Cairns Business College Pty Ltd cont…

In concluding, there is a material uncertainty related to going concern, I evaluated the extent of uncertainty regarding events or conditions casting significant doubt on the Company's assessment of going concern. My approach to this involved:

- evaluating the feasibility, quantum and timing of the Company's plans to address going concern;
- assessing the Company's forecasts of future operations and plans to address going concern; and
- determining the completeness of the Company's going concern disclosures for the principal matters casting significant doubt on the Company's ability to continue as a going concern, the Company's plans to address these matters, and the material uncertainty.

Matters Arising From the Audit

In addition to the above, the following matters were identified during the course of the audit.

- Revenue, expenses, receivables and unearned income of the Company were incorrectly recorded in the books of a related entity, Cairns Language College Pty Limited.
- Revenue was recorded in the incorrect periods and, in some instances, was not supported by evidence consistent with the amounts recorded.
- There was a lack of appropriate documentation to support intercompany loans and intercompany transfers were incorrectly classified as expenses.
- The application of goods and services tax was incorrect in a number of instances.

Financial Analysis

The Company reported a surplus of $20,130 for the year ended 31 December 2017 compared to a surplus of $30,998 for the seven week period ending 31 December 2016. A direct comparison between revenue and expenditure reported in each year is unlikely to provide users of the financial report with meaningful information with which to evaluate the Company's financial performance.

The Company had a net asset position of $72,840 as at 31 December 2017 compared to $52,710 as at 31 December 2016. The increased net asset position is reflected in increases in trade and intercompany receivables of $47,000 and $81,000 respectively. These increases were partially offset by a decrease in cash of approximately $19,000, an increase in liabilities owing to a related party of $60,000 and the inclusion of a payable of $10,000 associated with the audit fee. There was no audit of the financial statements in the prior period.

Cairns Business College Pty Ltd cont…

Financial Performance for the year

	2017 12 Months	2016 7 Weeks
	$	$
Revenue	93,794	32,637
Cost of Sales	(23,880)	-
Other revenues	2,753	3
Administration expenses	(46,025)	-
Other expenses	(6,512)	(42)
Surplus before income tax expense	**20,130**	**32,598**
Income tax expense	-	(1,610)
Surplus after income tax expense	**20,130**	**30,988**

Cairns Business College Pty Ltd cont…

Financial Position at year end

	2017	2016
	$	**$**
Current assets	142,733	54,320
Less current liabilities	(69,893)	(1,610)
Working Capital	**72,840**	**52,710**
Add non-current assets	-	-
Less non-current liabilities	-	-
Net Assets	**72,840**	**52,710**
Represented by:		
Retained surplus	**72,840**	**52,710**
Equity	**72,840**	**52,710**

Cairns Business College Pty Ltd cont…

The Cairns Business College Pty Ltd has commented:

Management acknowledges the findings of this report and notes that from the time of acquisition, the new management team became progressively aware of the deficiencies in the business systems and processes employed by the Company. Management, with the support of Charles Darwin University, has continued to implement new processes and establish robust internal controls to ensure sufficient appropriate records are maintained to support the recording of all financial transactions.

Cairns Education Australia Pty Ltd

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

Cairns Education Australia Pty Ltd (the Company) was incorporated in 1987 and became a controlled entity of Charles Darwin University from 11 November 2016 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by Section 41 of the *Charles Darwin University Act*.

The Company was registered as a not for profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company generates rental income from the sublease of a property. The Company's principal place of business is in Cairns.

Audit Opinion

The audit of the financial statements of Cairns Education Australia Pty Ltd for the year ended 31 December 2017 resulted in a qualified independent audit opinion, which was issued on 15 June 2018.

Basis for Qualified Opinion

As discussed in Note 2(a) to the financial report of the Company, the prior period comparative results are not for a full year. The comparative period is from 11 November 2016 (being the date that CDU Amenities Pty Limited purchased the Company) to 31 December 2016. The Company had not maintained sufficient records to enable the preparation of the statement of profit or loss and other comprehensive income or the statement of cash flows prior to the date of acquisition, that being 11 November 2016. There is no exemption in Australian Accounting Standards *AASB 101 Presentation of Financial Statements* from preparing comparative information.

Key Findings

Material Uncertainty Related to Going Concern

The conditions disclosed in Note 2 (c) to the financial report of the Company indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. My opinion is not modified in respect of this matter as adequate disclosure has been provided in the financial report.

Cairns Education Australia Pty Ltd cont…

In concluding there is a material uncertainty related to going concern, I evaluated the extent of uncertainty regarding events or conditions casting significant doubt on the Company's assessment of going concern. My approach to this involved:

- evaluating the feasibility, quantum and timing of the Company's plans to address going concern;
- assessing the Company's forecasts of future operations and plans to address going concern; and
- determining the completeness of the Company's going concern disclosures for the principal matters casting significant doubt on the Company's ability to continue as a going concern, the Company's plans to address these matters, and the material uncertainty.

Matters Arising From the Audit

In addition to the above, the following matters were identified during the course of the audit.

- Revenue was recorded in the incorrect period.
- There was a lack of appropriate documentation to support intercompany loans.

Financial Analysis

The Company reported a deficit of $7,727 for the year ended 31 December 2017 compared to a surplus of $239 for the seven week period ending 31 December 2016. A direct comparison between revenue and expenditure reported in each year is unlikely to provide users of the financial report with meaningful information with which to evaluate the Company's financial performance.

The Company had a net liability position of $7,466 as at 31 December 2017 compared to a net asset position of $261 as reported at 31 December 2016. The following significant movements were noted:

- Prepaid rent recorded in December 2017 for the month of January 2018 resulted in an increase in prepayments of $26,000, an increase in goods and services tax receivable of $2,600 and an increase in liabilities of $28,600. The net impact on the financial position was $nil.
- Payables increased by approximately $6,000 attributed to audit fees for 2017 payable. There was no audit of the financial statements in the prior period.
- Intercompany payables increased by $2,000 due to an amount payable to a related party, Cairns Language Centre Pty Ltd.

Cairns Education Australia Pty Ltd cont…

Financial Performance for the year

	2017 12 Months	2016 7 Weeks
	$	**$**
Revenue	306,600	41,667
Cost of Sales	(304,100)	(41,667)
Other revenues	18	344
Other expenses	(10,245)	(3)
(Deficit) / surplus before income tax expense	**(7,727)**	**341**
Income tax expense	-	(102)
(Deficit) / surplus after income tax expense	**(7,727)**	**239**

Cairns Education Australia Pty Ltd cont…

Financial Position at year end

	2017	2016
	$	$
Current assets	29,102	363
Less current liabilities	(36,568)	(102)
Working Capital	**(7,466)**	**261**
Add non-current assets	-	-
Less non-current liabilities	-	-
Net Assets	**(7,466)**	**261**
Represented by:		
Retained (deficit) / surplus	(7,466)	261
Equity	**(7,466)**	**261**

Cairns Education Australia Pty Ltd cont…

The Cairns Education Australia Pty Ltd has commented:

Management acknowledges the findings of this report and notes that from the time of acquisition, the new management team became progressively aware of the deficiencies in the business systems and processes employed by the Company. Management, with the support of Charles Darwin University, has continued to implement new processes and establish robust internal controls to ensure sufficient appropriate records are maintained to support the recording of all financial transactions.

Cairns Language Centre Pty Ltd

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

Cairns Language Centre Pty Ltd (the Company) was incorporated in 1987 and became a controlled entity of Charles Darwin University from 11 November 2016 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by Section 41 of the *Charles Darwin University Act*.

The Company was registered as a not for profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company generates revenue by offering English language and hospitality courses to students. The Company's principal place of business is in Cairns.

Audit Opinion

The audit of the financial statements of the Cairns Language Centre Pty Ltd for the year ended 31 December 2017 resulted in a qualified independent audit opinion, which was issued on 15 June 2018.

Basis for Qualified Opinion

As discussed in Note 2(a) to the financial report of the Company, the prior period comparative results are not for a full year. The comparative period is from 11 November 2016 (being the date that CDU Amenities Pty Limited purchased the Company) to 31 December 2016. The Company had not maintained sufficient records to enable the preparation of the statement of profit or loss and other comprehensive income or the statement of cash flows prior to the date of acquisition, that being 11 November 2016. There is no exemption in Australian Accounting Standards *AASB 101 Presentation of Financial Statements* from preparing comparative information.

Key Findings

Material Uncertainty Related to Going Concern

The conditions disclosed in Note 2(c) to the financial report of the Company indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. My opinion was not modified in respect of this matter as adequate disclosure has been provided in the financial report.

Cairns Language Centre Pty Ltd cont…

In concluding there is a material uncertainty related to going concern, I evaluated the extent of uncertainty regarding events or conditions casting significant doubt on the Company's assessment of going concern. My approach to this involved:

- evaluating the feasibility, quantum and timing of the Company's plans to address going concern;
- assessing the Company's forecasts of future operations and plans to address going concern; and
- determining the completeness of the Company's going concern disclosures for the principal matters casting significant doubt on the Company's ability to continue as a going concern, the Company's plans to address these matters, and the material uncertainty.

Matters Arising From the Audit

In addition to the above, the following matters were identified during the course of the audit.

- Revenue and unearned income of Cairns Business Centre Pty Ltd, a related party, were recorded in the books of the Company.
- Revenue was recorded in the incorrect periods and, in some instances, was not supported by evidence consistent with the amounts recorded.
- There was a lack of appropriate documentation to support intercompany loans and intercompany transfers were incorrectly classified as expenses.
- Formal contracts were not available to substantiate personnel expenses including annual leave and associated provisions.

Cairns Language Centre Pty Ltd cont…

Financial Analysis

The Company reported a deficit of $1,023,918 for the year ended 31 December 2017 compared to a deficit of $46,640 for the seven week period ending 31 December 2016. A direct comparison between revenue and expenditure reported in each year is unlikely to provide users of the financial report with meaningful information with which to evaluate the Company's financial performance.

The Company has a net liability position of $1,008,038 as at 31 December 2017 compared to a net asset position of $15,880 as at 31 December 2016. The worsening net liability position is reflected in the following significant movements:

- Trade and other receivables increased by approximately $53,000 as a result of an increase in enrolments towards the end of the 2017 year in comparison to the prior year.
- These increases in asset balances were largely offset by an increase of $73,000 in unearned income (other liabilities) related to the early enrolments affecting trade and other receivables.
- Other assets increased by $33,000 representing prepayments for subscriptions.
- Property, plant and equipment balances decreased by $82,000 being the depreciation charged for the year.
- Deferred tax assets decreased by $41,000 as the deferred tax asset was realised upon the change in the Company's tax status to tax exempt.
- Trade and other payables increased by $150,000 due to increases in pay as you go taxation and superannuation obligations for the full financial year and the recognition of the cost of the audit. There was no audit of the financial statements in the prior period.
- Related party payables increased by approximately $738,000 representing loans provided to the Company from Charles Darwin University and Cairns Business College Pty Ltd.

Cairns Language Centre Pty Ltd cont…

Financial Performance for the year

	2017 12 Months	2016 7 Weeks
	$	$
Revenue	1,503,478	210,674
Cost of Sales	(776,230)	(46,534)
Other revenues	26,015	368
Administration expenses	(132,682)	(8,317)
Building costs	(375,011)	(59,853)
Depreciation	(82,000)	(11,233)
Employee related expenses	(1,058,388)	(116,857)
Other expenses	(94,603)	(4,175)
Deficit before income tax expense	**(989,421)**	**(35,927)**
Income tax expense	(34,497)	(10,713)
Deficit after income tax expense	**(1,023,918)**	**(46,640)**

Cairns Language Centre Pty Ltd cont…

Financial Position at year end

	2017	2016
	$	$
Current assets	385,611	315,009
Less current liabilities	(1,441,553)	(472,967)
Working Capital	**(1,055,942)**	**(157,958)**
Add non-current assets	70,767	193,574
Less non-current liabilities	(22,863)	(19,736)
Net Assets	**(1,008,038)**	**15,880**
Represented by:		
Retained (deficit) / surplus	(1,008,038)	15,880
Equity	**(1,008,038)**	**15,880**

Cairns Language Centre Pty Ltd cont…

The Cairns Language Centre Pty Ltd has commented:

Management acknowledges the findings of this report and notes that from the time of acquisition, the new management team became progressively aware of the deficiencies in the business systems and processes employed by the Company. Management, with the support of Charles Darwin University, has continued to implement new processes and establish robust internal controls to ensure sufficient appropriate records are maintained to support the recording of all financial transactions.

ICHM Pty Ltd

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

ICHM Pty Ltd (the Company) was incorporated in 1997 and became a controlled entity of Charles Darwin University from 30 January 2018 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by Section 41 of the *Charles Darwin University Act*. The Company previously had a reporting date of 30 June hence the comparative results are for the six months ended 31 December 2016.

The Company was registered as a not for profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company offers hospitality courses to students. The Company's principal place of business is in Regency Park, South Australia.

Audit Opinion

The audit of the financial statements of ICHM Pty Ltd for the year ended 31 December 2017 resulted in an unmodified independent audit opinion, which was issued on 18 June 2018.

Key Findings

Financial Analysis

The Company reported a surplus of $119,179 for the year ended 31 December 2017 compared to a deficit of $588,521 reported for the comparative six months to 31 December 2016. A direct comparison between revenue and expenditure reported in each year is therefore unlikely to provide users of the financial report with meaningful information with which to evaluate the Company's financial performance.

The Company has a net asset position of $14,169 as at 31 December 2017. In comparison, a net liability position of $105,010 was disclosed as at 31 December 2016. The following significant movements were noted:

- Trade and other receivables increased by $407,693 primarily attributed to an increase in student fees owing as students are invoiced for the second semester at the end of the calendar year.
- Trade and other payables increased by $409,947 partly due to an increase in Higher Education Loan Program (HELP) funding from the Commonwealth Department of Education. The amount of funding is estimated by the Company and recorded as a payable.
- Other liabilities increased by $188,708 mainly attributed to an increase in fees in advance which is related to the student fees recorded within trade and other receivables.
- Related party loans decreased by $400,000 following repayment of a portion of the $800,000 loan owing to the previous owner of the Company.

ICHM Pty Ltd cont…

Financial Performance for the year

	2017 12 months	2016 6 months
	$'000	**$'000**
Revenue	7,730	3,075
Cost of Sales	(2,169)	(944)
Other revenues	245	126
Administration expenses	(304)	(140)
Building costs	(451)	(222)
Depreciation	(138)	(73)
Employee related expenses	(4,092)	(2,052)
Other expenses	(702)	(359)
Surplus before income tax expense	**119**	**(589)**
Income tax expense	-	-
Surplus after income tax expense	**119**	**(589)**

ICHM Pty Ltd cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Current assets	6,128	5,643
Less current liabilities	(6,252)	(6,007)
Working Capital	**(124)**	**(364)**
Add non-current assets	212	258
Less non-current liabilities	(74)	-
Net Assets	**14**	**(106)**
Represented by:		
Retained surplus/(deficit)	14	(106)
Equity	**14**	**(106)**

Charles Darwin University Foundation

Audit findings and analysis of the financial statements for the year ended 31 December 2017

Background

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

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

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

Audit Opinion

The audit of the financial statements of the Foundation and the Trust for the year ended 31 December 2017 resulted in unmodified independent audit opinions for both entities. These audit opinions were issued on 11 May 2018.

Key Findings

Financial Analysis

The Trust's total income for the financial year decreased from $1,969,330 in 2016 to $1,199,247 in 2017. The decrease of $770,083 was due to less donations being received.

The total expenditure of the Trust decreased from $1,388,936 in 2016 to $1,095,161 in 2017. This movement is consistent with the reduction in donations received, with trust donations disbursed during the year reducing when compared to the prior year by approximately $300,000.

The Trust recorded a net surplus of $114,086 in 2017.

Charles Darwin University Foundation cont…

Cash donations

The Trust has determined that it is impractical to establish control over the collection of cash donations received 'over the counter' prior to recording the donation within the Trust's financial recordkeeping system. My understanding is that the only control regarding cash donations received is that a receipt is generated and provided to the donor.

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

Other matters

Scholarships, prizes and special projects funds were dispersed prior to the Foundation receiving the funding from the donor. The audit identified that the income to support an NT Government funded scholarship had been received in arrears over the past three years. There were also a number of individual award balances in arrears demonstrating that the scholarship/prize was provided to the recipient prior to the funding being received from the donor. Whilst acknowledging there is a cash balance available for general scholarships and thus the Trust does not have a deficiency of funds and that nothing in the Trust Deed appears to prohibit an individual Trust Donation Balance being negative, established practice would be that specific funding is received prior to the sponsored award being provided to the recipient of the funding.

Charles Darwin University Foundation cont…

Financial Performance for the year

	2017	2016
	$'000	$'000
Income	**1,199**	**1,969**
Less expenditure		
Trust donations disbursed	(1,084)	(1,383)
Increase/(Decrease) in market value of investment property	10	15
Donations in kind – operational	(5)	-
Other	(6)	(6)
Total expenditure	**(1,085)**	**(1,374)**
Surplus before income tax expense	**114**	**595**
Income tax expense	-	-
Surplus after income tax expense	**114**	**595**

Charles Darwin University Foundation cont…

Financial Position at year end

	2017	2016
	$'000	$'000
Cash and cash equivalents	828	724
Receivables and other current assets	5,106	5,102
Less current liabilities	(14)	(9)
Working Capital	**5,920**	**5,817**
Add non-current assets	573	569
Net Assets	**6,493**	**6,386**
Represented by:		
Investment revaluation reserve	168	175
Retained earnings	6,325	6,211
Total Trust Funds	**6,493**	**6,386**

Charles Darwin University Foundation cont…

The Charles Darwin University Foundation has commented:
The Foundation acknowledges the key findings and notes that actions are underway to address recommendations from this audit.

Cobourg Peninsula Sanctuary and Marine Park Board

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

Background

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

Audit Opinion

The audit of the Cobourg Peninsula Sanctuary and Marine Park Board for the year ended 30 June 2017 resulted in an unmodified independent audit opinion, which was issued on 12 March 2018.

Performance Overview

The audit did not identify any material weaknesses in controls.

Overall, the Board incurred a net surplus of $26,000 in 2017 compared to a net deficit of $17,000 in 2016.

Park income increased by $71,000 from $246,000 in 2016 to $317,000 in 2017. The increase is attributable to: a full year's income from two operational agreements that commenced in June 2016 and May 2016 respectively that increased park income from the prior year by $43,500; additional revenue streams; and filming permits totalling $62,900 in 2017 (nil in 2016).

Three months of income attributable to the 2017 year were incorrectly recorded in the prior year resulting in income being understated by $37,000 in the current year and overstated by the same amount in 2016. The net effect on the financial statements in both years is nil as the income is distributed as payments to traditional owners. The most significant operating expenses relate to the payments to traditional owners which increased by $58,000 from the prior year of $205,000, consistent with the increase in park income.

Total other income increased to $143,000 in 2017 from $123,000 in 2016 mainly due to an increase in services received free of charge relating to two additional employees assigned to the Board's operations during the year and a salary increase as a result of the Enterprise Bargaining Agreement. This increase in income was fully offset by the associated expenditure reflected in the comprehensive operating statement.

Other expenses decreased to $37,000 in 2017 from $68,000 in 2016 due to a one-off transaction in the prior year amounting to $19,000 (nil 2017) and a decrease in depreciation expense of $3,000.

Cobourg Peninsula Sanctuary and Marine Park Board cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Park income	317	246
Payments to traditional owners	(263)	(205)
Other revenue	143	123
Total income	**197**	**164**
Less expenditure		
Operational costs	(171)	(181)
Total expenditure	**(171)**	**(181)**
Surplus/(deficit)	**26**	**(17)**

Cobourg Peninsula Sanctuary and Marine Park Board cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	239	239
Receivables and other current assets	170	84
Less current liabilities	(148)	(91)
Working Capital	**261**	**232**
Add non-current assets	-	3
Less non-current liabilities	-	-
Net Assets	**261**	**235**
Represented by:		
Accumulated funds	261	235
Equity	**261**	**235**

Department of Corporate and Information Services

Governance over Cloud Services

Scope and Objective

The objective of this review was to assess the adequacy of governance and oversight of cloud services promulgated by the Department of Corporate and Information Services (DCIS).

The scope of the review included consideration of adequacy and oversight of cloud service arrangements as established within:

- policies and procedures;
- risk assessment approach and toolkits;
- definition of key architectural standards and patterns;
- cloud vendor management;
- security event logging and monitoring; and
- management of personal cloud services risk.

Background

A review of existing cloud computing policies, standards and guidelines was initiated by DCIS in early 2016. The review and update process was consultative with DCIS initiating contact with impacted stakeholders and relevant working groups and committees. The review and initial updates to the policies, standards and guidelines were undertaken by the Digital Policy Unit and NT Government ICT Security Unit. Updates were made to the policy and standard based on feedback received from DCIS Chief Executive Officer; the DCIS ICT Strategic Working Group and the ICT Leadership Group with the ICT Leadership Group endorsing the policy and standard on 30 January 2017.

Following review of the policy and standard by the ICT Governance Board and the Ministerial ICT Advisory Council, the ICT Governance Board provided formal endorsement of the policies and guidelines on 22 March 2017. Ministerial approval for the Cloud Computing policy, standard and guideline was provided on 18 July 2017 and in July 2017, the Office of Digital Government released the Cloud Computing Policy which provides agencies with guidance on decision making and risk management in relation to procurement of cloud services. The following documents were developed and made available to agencies:

- Cloud Computing Policy;
- Cloud Computing Standard;
- Guidelines for contract negotiations for external Cloud services; and
- ICT1.2: Governance - ICT Policies and Standards.

Department of Corporate and Information Services cont…

Audit Observations

Cloud Computing policy, standard and guideline

The intent of the Cloud Computing policy, standard and guideline is to provide a framework for agencies to ensure they are using computing solutions that best meet business requirements having due regard to benefits and value; risks and mitigating protections and controls. The policy is applicable to all NT Government agencies and Government Owned Corporations and specifies:

- the accountability requirements and controls to enable effective use of cloud computing services;
- the application of the policy to NT Government agency staff or service providers responsible for procuring and/or managing the use of external cloud computing services by the agency; and
- the mandatory requirements for agencies in selecting and using cloud computing services.

The Cloud Computing policy designates responsibility to agency chief executives for:

- applying the Cloud Computing policy and standard within their agency and allocating adequate resources to policy implementation; and
- the decision to adopt an external cloud service in accordance with the requirements of the policy.

The Cloud Computing standard defines the accountability requirements and controls for cloud computing. The standard covers the following key areas:

- process for assessment of cloud computing services as well as considerations for re-using existing cloud services or the NT Government cloud service;
- privacy and confidentiality requirements;
- security requirements;
- administrative requirements; and
- procurement and contract management requirements.

There is a requirement for agencies to maintain a register of external cloud services used.

DCIS also issued a guideline to assist agency chief executives and their staff when selecting an external cloud services provider, including key risks that may arise and mitigation strategies that may be implemented to address the identified risks.

Department of Corporate and Information Services cont…

Engagement with agencies to identify existing cloud services

Following the release of the Cloud Computing policy, standard and guidelines, DCIS surveyed all NT Government agencies to identify and understand the existing external cloud services used by agencies.

The results of the survey were received by DCIS shortly prior to the commencement of this review and DCIS had not yet fully analysed the outcomes or determined the next steps and actions. Based on information provided during the review, 20 agencies provided responses to the survey, with 200 external cloud services identified across these agencies.

Feedback from agencies

As part of my review, consultation occurred with a sample of agencies to ascertain the level of understanding, awareness and application of the Cloud Computing policy, standard and guideline and interaction with DCIS. Positive feedback was provided about the consultation and advice provided by DCIS when agencies engage on an ‘as needs’ basis.

A number of opportunities to further assist agencies with implementation of the policy, standard and guideline were identified by the agencies providing feedback. These included:

- There is limited flexibility and scalability as to how the policy and standard are currently applied. It may be beneficial to apply an initial criteria-based assessment to more quickly determine if the business requirement and cloud service are low risk.
- Formal training and awareness was not provided to agencies when the Cloud Computing policy, standard and guideline were released. It may be beneficial for DCIS to offer formal training and support to agency personnel to enable a better and more consistent understanding of how to complete a risk assessment, what compliance with the Cloud Computing policy and standard means, and why this is important.
- Agencies would benefit from clear direction as to whether the policy and guideline requires assessment of pre-existing external cloud services or only to new cloud services and extensions of existing cloud service contracts. It is acknowledged that, should agencies need to retrospectively review existing cloud services, there will be an impact on resourcing and time required within each agency to undertake this process.

Department of Corporate and Information Services cont…

Recommendations

As a result of my review, I have provided a number of recommendations for consideration by DCIS as the policy, standard and guidelines are further embedded across NT Government.

- Undertake further analysis of the outcomes of the agency survey conducted to better understand and document the cloud services used across-government. This analysis should include identifying common cloud services used across multiple agencies as well as working with agencies to identify presently unknown information about existing cloud services.
- Consider using the outcomes of the agency survey to compile a central register of external cloud services used across NT Government. DCIS has confirmed that the existing Business Application Register will be used to provide a central register for the capture of this data.
- Clearly define and communicate to agencies whether existing cloud services need to be retrospectively reviewed and assessed in line with the Cloud Computing policy and standard or that the policy applies only to new external cloud services procured after the release of the policy and standard on 8 August 2017.
- Consider implementing and delivering formal training and awareness to those agency staff responsible for undertaking cloud services assessments. Training could address the Cloud Computing policy and standard, its background and purpose, what actions constitute compliance and how to conduct a risk assessment.
- Whilst acknowledging that each agency's cloud services could contain unique requirements based on agency needs and that there is potentially no 'one size fits all' approach, in the longer term consideration could be given to the establishment of across-government contracts for cloud services. The application of across-government contracts could reduce the number of duplicate external cloud services in place; increase the ability for the NT Government to drive better value from its contracts and service delivery from vendors; and increase the potential for collaboration across agencies.

Department of Corporate and Information Services cont…

The Department of Corporate and Information Services has commented:

Cloud computing is a model for enabling convenient, on-demand network access to a shared pool of computing resources. This covers a range of ICT related services from infrastructure through to software for 'software as a service'. Each cloud scenario is different, requiring agencies to risk assess the specific cloud deployment details.

Agencies are to record external cloud services in the central Business Application Register to facilitate centralised data capture. Agency information provided in the survey of cloud services will be incorporated in the Register and agencies will be reminded of the need to update the Business Applications Register for both cloud service applications and on-premise applications.

DCIS will consult with agencies to determine whether they have a current need for training on the application and interpretation of the policy, standard and guidelines. Should training needs be identified, DCIS will ensure suitable training is delivered to assist agencies with managing their risks and compliance with the policy and standards.

The question of agencies retrospectively applying the cloud services policy to pre-existing arrangements will be referred to the ICT Leadership Group and ICT Governance Board for consideration and advice in order to inform a decision

Department of Health

Palmerston Regional Hospital – construction progress

Scope and Objective

The primary objective of the audit was to gain an understanding of and assess the performance management systems in place at the Department of Health (DoH) that will enable it to manage the transition from completion of construction to the commissioning and opening of the Palmerston Regional Hospital.

The audit considered the period since the release of my June 2016 Report to the Legislative Assembly to 31 January 2018. The fieldwork supporting this audit was conducted between January 2018 and June 2018.

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In order to gain an understanding of and assess the performance management systems in place to manage the transition from completion of construction to the commissioning and opening of the Palmerston Regional Hospital, sections of this report present the following:

Department of Health cont…

Background

The plan to construct the Palmerston Regional Hospital ("the project") was based upon meeting the requirements of projected future population growth in the greater Darwin region.

The Palmerston Regional Hospital Plan (8 October 2015), prepared by the then Department of Infrastructure (DoI) stated:

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

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

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

The Palmerston Regional Hospital (PRH) is intended to provide Level 3 clinical services which means:

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

The construction of the Project was the subject of a performance management system audit undertaken in 2016. From the time of project initiation, many changes to the Project have occurred. In summary these changes include:

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

Department of Health cont…

The evolution of the project is demonstrated in Table 1.

Table 1: Changes to the Project

	Mark 1 (2009 - 2012)	Mark 2 (2014-2015)	Mark 3 (2015 – time of audit)
Completion	May 2018 (with work commencing in April 2012)	2018 (with work commencing in April 2014)	15 March 2018 and PRH would become operational in the third quarter of 2018 (with work commencing in April 2016)
Cost	$110 million $40 million – NTG $70 million – Commonwealth (included $7m for fixtures, furnishings and equipment (FFE))	$193.9 million (included $17m for FFE)	$150 million $40 million – NTG $110 million – Commonwealth (included $0 for FFE)
Site	Lot 8408 Temple Terrace Farrar	Section 4231 Hundred of Bagot	Section 4231 Hundred of Bagot
Services	60 bed facility	79 bed facility Floor plate of 14,345 square metres 4 levels	116 bed facility Floor plate of 22,421 square metres 2 levels
Delivery Options	Design then Construct	Design then Construct	Managing Contractor Design and Construct
Project Owner / Governance	Jointly undertaken by: DoH (ultimate owner and final operator); and DoI (project management of the construction phase).	DoH had sole carriage of the concept. Reported to Project Development Board, Project Delivery Group, Palmerston Regional Hospital Project Team, Project Working Group	DoH had sole carriage of the concept. Cross Government Project Steering Committee, Project Leadership Team and Project Management Team were established

Department of Health cont…

	Mark 1 (2009 - 2012)	Mark 2 (2014-2015)	Mark 3 (2015 – time of audit)
Notes	By the time of the Northern Territory election in August 2012, 100% design development, full plans and construction tender documentation had been completed however the project was put on hold.	Undertook site assessments on four sites, due to traffic and expansion concerns. It was noted that $4.7 million had already been spent on Lot 8408, with sunk costs estimated at $2.5 million. The new site was approved on 29 April 2013. A cost of between $25 million and $30 million was flagged for headworks.	Reassessment of construction delivery models performed, considering the Public Private Partnership. Design, Build, Operate and Maintain was agreed in November 2014. Due to lack of competitive responses and a reduced delivery timeframe, a Managing Contractor Design and Construct model was adopted in February 2015.

At the time of reporting the findings arising from the 2016 audit, the approved capital cost was $170 million; with an additional budget allocation of $30 million for fixtures, furnishings and equipment (FFE), information and communications technology (ICT) and medical equipment announced by the Chief Minister and the Minister for Infrastructure in a Media Release on 23 May 2016.

At the time of undertaking the fieldwork to support the 2016 audit, PRH was planned to include the following services at the time of opening:

- 100 bed in-patient facility;
- a 16 bay Emergency Department envisaged to be operational 24/7;
- day surgery;
- general medical ward;
- cancer services (integrated with the Alan Walker Cancer Centre at RDH);
- maternity services;
- outpatient clinics;

Department of Health cont…

- administration offices;
- engineering services and energy plant; and
- site services, access, car parking and associated work.

The 2016 audit noted the addition of Geriatric Evaluation and Management (GEM) services and a hydrotherapy pool to be built in 2018/19 to deliver comprehensive rehabilitation services on-site. The project was jointly coordinated by the following Departments at the time of the audit undertaken in 2016:

Table 2: Responsibility in relation to the project

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

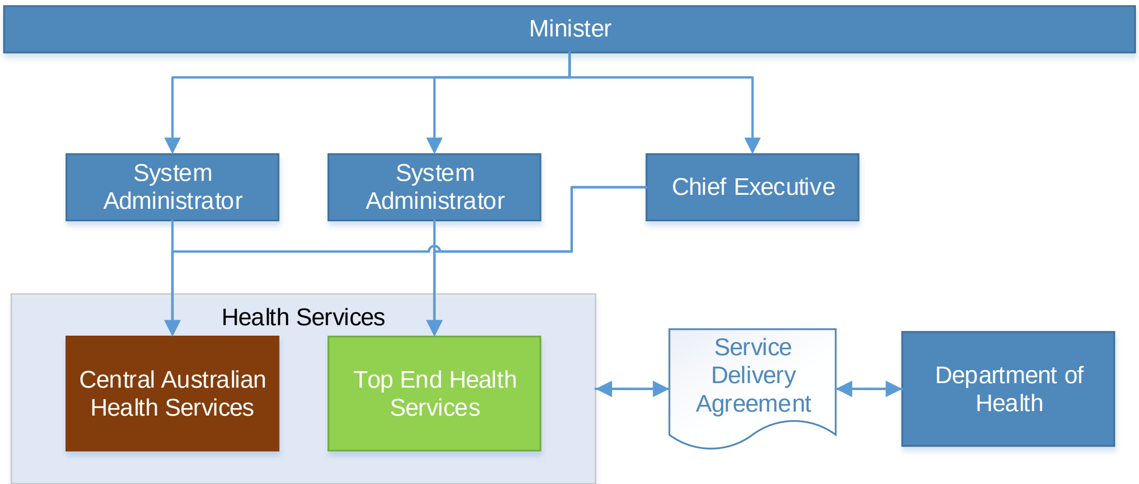
Work performed by the Department of the Chief Minister (DCM), Department of Infrastructure, Planning and Logistics (DIPL) and Department of Trade, Business and Innovation (DTBI) is out of scope for this audit and has not been subject to review.

Following Machinery of Government changes in September 2016, the Office of Major Projects, Infrastructure and Investments was transferred to the newly created DTBI and the division was renamed Strategic Infrastructure and Projects (SIP). Currently, SIP does not oversee or carry any responsibility in relation to the PRH project, however, it was assigned with the task of addressing a number of the recommendations from the 2016 audit of the project. Another change resulting from the Machinery of Government changes was that DoI transferred to the newly created DIPL. DIPL assumed the project manager role for the construction of PRH.

Department of Health cont…

The public health system in the Northern Territory comprises three entities: DoH as System Manager and two health service providers, being Top End Health Service (TEHS) and Central Australia Health Service.

Figure 1: NT Health System Structure



Source: DoH Internal Documentation

The day-to-day running of PRH will be the responsibility of TEHS. Current documentation on the project noted that PRH will provide a range of specialised health care services, including:

- 116 bed in-patient facility;
- emergency department operating 24 hours a day, seven days a week, including an Extended Emergency Medical Management Unit;
- rehabilitation services, including hydrotherapy;
- day surgery;
- inpatient medical and surgical wards;
- maternity services;
- GEM services; and
- outpatient clinics.

Non-clinical support services are to include:

- medical imaging, pathology and pharmacy;
- catering and housekeeping; and
- security, switchboard, medical records and administrative services.

Department of Health cont…

In preparation for opening, the following tasks are required to be undertaken:

- recruitment and training of staff;
- purchasing, moving and installing medical equipment and furniture;
- stocking of general supplies such as rubber gloves, hand towels, cleaning products, linen, stationery, personal protective equipment and medicines;
- testing of equipment, systems and processes, including fire systems, nurse call systems, back-up power and information technology; and
- ensuring that all staff are familiar with the new building, equipment and systems.

Conclusion

The primary objective of the audit was to gain an understanding of and assess the performance management system in place at DoH that will enable it to manage the transition from completion of construction to the commissioning and opening of PRH.

The audit identified that the Agency could implement some improvements in order to demonstrate the systems and process in place are sufficiently adequate as to result in the economic, efficient and effective management of the project as it transitions from the construction phase to the operational phase. I was unable to obtain sufficient appropriate evidence to demonstrate that the financial information produced (both budget and actual) is sufficiently complete and accurate to effectively monitor, manage and report the cost of delivering the project. Recommendations to enhance the effectiveness of management and monitoring of the project were provided to the Agency at the conclusion of the audit.

Recommendations

Opportunities for the Agency to improve its systems and processes are detailed below.

Improve the governance structure and function for a more effective oversight

A number of observations were noted during the audit where processes could be improved so as to strengthen the effectiveness of the governance structure. In order to adequately inform decision-makers, I recommended that:

- clear roles and responsibilities be determined, documented and communicated for each governance body;
- consistent information is reported for all work streams;
- consistent monitoring of risk management be undertaken;
- monitoring and reporting of performance against KPIs for each work stream / governance body be undertaken;

Department of Health cont…

- processes be designed and implemented to ensure the completeness of information being reported;
- record keeping and retention of meeting minutes be improved; and
- alternative means are implemented to ensure information is provided/circulated to the Executive Program Board in the event meetings are cancelled.

Reporting of the comprehensive project cost could be improved

The cost of the project was initially budgeted at $110 million and grew over the life of the project to a budgeted figure of $170 million with a separate budgeted amount of $30 million for costs of commissioning. Projections by my Authorised Auditors at the time of audit fieldwork estimated the total cost of the project at approximately $206 million.

I recommended the full costs of the project be determined and communicated to enable those responsible for governance to effectively monitor and understand the true cost of the project.

The capture of total operating commissioning cost could be improved

In order to effectively manage a project to budget, the budget needs to be as complete and accurate as possible following which monitoring and management of the budget should occur in a timely manner at regular intervals. Statements within budget reports indicated not all costs relating to the project had been captured either at budget level or in actual project costs.

I recommended that those tasked with the governance of this project consider what action is required to ensure all project costs are budgeted for, recorded accurately and completely, monitored, reported and managed throughout the project.

Reporting of the status of the project could be enhanced

Reports produced in accordance with the governance and reporting frameworks do not appear to have been widely circulated to relevant stakeholders and did not provide comprehensive explanations relating to any project delays. There was no evidence as to how the project would be managed if delays were experienced in order to ensure the opening day milestones would met.

I recommended that management review the current reporting structure to identify an optimal structure which ensures sufficient and appropriate reporting to relevant stakeholders.

Department of Health cont…

Collaboration between stakeholders and use of systems and processes could be improved to more effectively manage risks

A number of risk registers were noted during the audit. Review of the work stream registers identified that a consistent template was used, however there were fields in the risk registers that were not completed thereby reducing the effectiveness of the register as a management tool.

I recommended that management assess the various risk registers so as to develop a holistic overarching risk management register ensuring that potential and emerging risks are captured and treated as appropriate.

Documentary evidence of Commonwealth approval of the changes to the planned project outputs and outcomes should be obtained

Following the 2016 audit, I recommended that DoH obtain documentary evidence of Commonwealth approval of the changes to the planned project output and outcomes. At the time of this audit, there was no further documentation available to indicate that the agreement with the Commonwealth Government had been subsequently updated to reflect the changed nature of the project. I again recommended that DoH obtain documentary evidence of Commonwealth approval of the changes to the planned project output and outcomes.

A Service Delivery Agreement between DoH and TEHS should be established and formalised.

At the time of the audit, my Authorised Auditors were advised that the Service Delivery Agreement between DoH and TEHS was not yet in place.

I recommended the establishment of a formal Service Delivery Agreement between DoH and TEHS to ensure clear agreement as to the scope of services and responsibilities of the two parties.

Changes of scope to the project should be clearly documented and formally endorsed

In March 2015, the original scope of services was changed to include rehabilitation and GEM services currently delivered from RDH. Further information regarding how the change of scope came about and the approval process was not readily available at the time of the audit.

I recommended changes in scope to the project be clearly documented and formally endorsed including the rationale for the change of scope and the consideration of costs, benefits and risks arising from the change to ensure the decision-makers are fully informed of the proposed change and any possible or probable impact.

Department of Health cont…

Document management could be improved

At the time of the audit, PRH related documents were not stored in a centralised document management system to ensure the adequacy and completeness of records for the project will be maintained throughout the life of the project. Some framework documents were only able to be provided in draft to my Authorised Auditors.

I encouraged management to review the status of the records attributable to the project with a view to ensuring that these are maintained as required by the Records Management Standards for Public Sector Organisations in the NT and be retained in an platform which is accessible by employees.

Audit Observations

A commitment was first made to construct a new hospital in 2009. My 2016 audit of the project development, concept and design and the procurement bidding/award stage identified shortcomings in planning, the procurement process, budget processes and risk management. This audit considers the performance management system in place at DoH with the project reaching the completion of construction and moving to the commissioning, opening and operating stages.

Figure 2: The Project Lifecycle and Timeline

** Dates updated for delay in construction completion due to Cyclone Marcus*

At the commencement of this audit, the construction of PRH was scheduled for completion by DIPL in March 2018 (handover date). Upon completion of construction, an approximate period of three months was intended for the initial commissioning activities to be undertaken by TEHS prior to PRH being ready to open to the public.

The impact of Cyclone Marcus on 17 March 2018 caused delays to the handover date. Such delays related to a power outage on site requiring machinery to go through a start-up process and recalibration. Delays also resulted from by sub-contractors being unable to recommence work on-site at full capacity following the cyclone.

Department of Health cont…

The handover date for PRH was consequently revised to 30 April 2018, with the exception of completion of construction of a carpark and external landscaping. The completion date for these works was extended to 20 May 2018. The revised date to open PRH to the public was announced as 13 August 2018. The commissioning allows for 12 months for the full scope of services to be available to the public from the practical completion date.

The Commissioning Approach

Prior to February 2016, DoH had the responsibility of operational commissioning activities for PRH. During this time a Functional Brief encompassing high level Models of Care and Clinical Service Profiling was undertaken to guide the requirements for construction and planning of the project.

In February 2016, responsibility for operational commissioning was delegated to TEHS. This responsibility includes leading and overseeing the operational and clinical commissioning, funding determination for operations and ongoing management of PRH. Personnel within TEHS were considered by DoH to have the required knowledge and skills and the day to day operation of PRH will ultimately rest with TEHS. DoH is the System Manager and is responsible for program coordination and integration of the NT Health PRH project obligations; PRH role delineation; activity type; and determination of PRH activity levels which will be formalised in a Service Delivery Agreement between PRH and TEHS. DoH has a project team working alongside TEHS to assist TEHS with the development of:

- service delivery models;
- workforce strategies to ensure appropriate staffing;
- input from clinical staff into facility infrastructure and technology to enable optimal patient care;
- financial modelling; and
- communication and change management strategies for staff and the community.

At the time of the audit, my Authorised Auditors were advised that the Service Delivery Agreement between PRH and TEHS will be available for the 2018/19 financial year.

TEHS also works with the DoH's Corporate Services Bureau which was re-named to Governance and Business Services in January 2018. TEHS is responsible for designing the service delivery models that will be provided at PRH and taking the steps necessary to ensure that PRH is ready to be opened to the public in 2018, as planned.

Department of Health cont…

Summarised below is the Operational Commissioning Roadmap developed by TEHS to provide a high-level plan encompassing five key phases of operational commissioning within PRH's first year of operation.

1 Establishment - Planned to take five months from October 2016 to February 2017.

This phase establishes the project framework intended to ensure there is a clear scope and agreed objectives and that there exist mechanisms and expertise to support the delivery of the project on time and to budget.

2 Design - Planned to take ten months from March to December 2017.

There are two sub-phases, the first being Service Design which addresses the design of service delivery models for each clinical, non-clinical and service area with regard to patient flows, workforce impacts and the allocation for services and activities. The second sub-phase is Integrated Design where the PRH campus service model is developed to enable all services to effectively collaborate and coordinate delivery of support and services to patients.

3 Validation - Planned to take three months from January 2018 to March 2018.

This phase is intended to confirm and validate the design of the services and operations of PRH prior to implementation.

4 Implementation - Planned to take 12 months for the full scope of services to be available to the public from the practical completion date of 31 March 2018* (split into three sub-phases: Commissioning; Count Down; and Activation).

The Commissioning sub-phase involves undertaking the procurement and recruitment activities and developing and implementing relevant policies and procedures to enable delivery of the operations and commissioning plans. The Count Down sub-phase involves assessing the readiness of PRH to deliver services. The Activation sub-phase represents the opening of PRH to commence the provision of services to the public.

5 Operations - Planned to take 12 months when the implementation phase is completed.

This phase involves the monitoring and review of the operations of PRH in the first full year of operation.

** The dates have not been updated for delays encountered due to Cyclone Marcus*

Source: DoH Internal Documentation

Department of Health cont…

TEHS is undertaking a staged approach to the opening of PRH to allow time for services and systems to be safely established. Upon opening of PRH, full non-clinical support services, diagnostic services and administration will be available and provided. Table 3 presents the planned delivery of services in three phases from the opening date.

Table 3: The staged service to be rolled out at PRH

Phase 1 – Services on opening (Revised to 13 August 2018)	
Emergency Department	▪ 14 acute/fast track treatment bays plus two resuscitation bays for stabilisation prior to transfer to RDH, mental health and paediatrics areas. ▪ 24 hour capacity for initial diagnostic and treatment, ambulance bay. ▪ Critical care/after-hours support for all other hospital clinical service areas.
Surgery	▪ Day surgery, at least one operating theatre, pre-operations, three stage recovery with eight beds and eight chairs. ▪ High Volume Short Stay model with the aim to concentrate on planned surgical day cases.
Ambulatory Care Centre	▪ Outpatients opening with seven general consulting rooms plus three allied health specialty rooms.
Antenatal Care	▪ Full antenatal services (no birthing services on opening), dedicated ante-natal clinic. ▪ Collaborative care service model. ▪ Relocation of maternity team (currently at RDH) to PRH.
Rehabilitation	▪ Full rehabilitation service including 24 inpatient beds, combination of twin and single rooms. ▪ Short term goal oriented service patient courtyard, gym/therapy area, lounge and dining room. ▪ Transfer of existing service from RDH plus an increase of eight beds to a total of 24.
Extended Emergency Management Unit	▪ Dedicated eight bed short stay unit managed by the emergency department. ▪ Assessment, diagnosis and management of patients with acute issues where the predicted length of stay is greater than four hours but less than 24 hours.

Department of Health cont…

Phase 2 – Services opening within first 12 months	
Full Ambulatory Care Centre Service	▪ Increased from seven to 11 general consulting rooms and total of five allied health specialty rooms. ▪ Increased telehealth access, audiology, Ear, Nose and Throat services, cardiology stress test, respiratory, pathology.
Geriatric Evaluation Management (GEM)	▪ Short term goal oriented service for older Territorians. ▪ Transfer of four inpatient beds from RDH plus an increase of eight beds initially to a total of 12.
Extended Surgery	▪ Extend existing day surgery to eight 23 hour care bays, outpatient and pre-admission clinics. ▪ Target elective surgery access improvement strategies. ▪ Two operating theatres and two procedure rooms with same day, overnight stay and in patient bed capacity for the surgical services.
Wards	▪ Up to 28 beds, targeting medical and surgical capacity and includes a separated maternity service. ▪ Post-natal service for new mothers requiring additional care and support. ▪ 24 hour on site access to skilled nurses, supported by a range of doctors, allied health and visiting specialists during standard operating hours.
Phase 3 – Future services subject to additional workforce requirement	
Maternity	▪ Birthing services added.
Medical Procedure	▪ Services to expand to include six 23-hour care bays for medical procedures such as infusions and transfusions, trial of void, bone marrow biopsy, abdominal paracentesis, aspirations and biopsies.
Wards	▪ Wards to expand to include additional beds to a total of 44 beds.
Transit Centre	▪ 10 spaces with short term area for suitable patients awaiting admission, discharged or between services.
Full Emergency Department	▪ Expand to include an additional six acute treatment bays. Total of 22 bays including resuscitation.
GEM	▪ Expanded by an additional 12 beds, bringing total GEM to 24 beds.

Source: DoH Internal Documentation

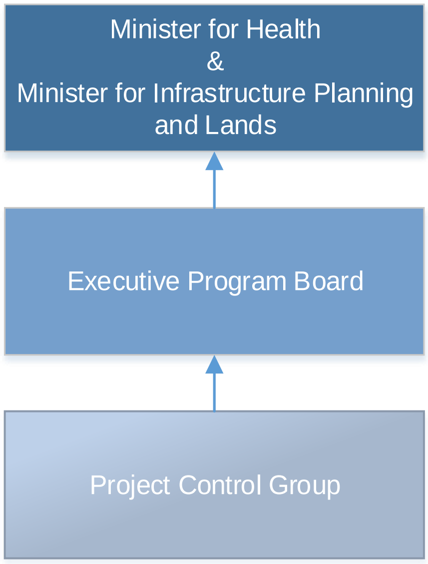
Department of Health cont…

The availability of Rehabilitation services and GEM services was not included in the original scope. In March 2015, Rehabilitation services and GEM services were planned to be relocated from RDH and added to the scope of PRH in consultation with the Office of Major Projects, Infrastructure and Investments (DCM), the Chief Operating Officer of TEHS, and the Chief Executive Officer of DoH. Further information regarding how the change of scope came about and the approval process was not readily available at the time of the audit.

Governance Structure

As noted in the 2016 audit, a Cross Government Project Steering Group (PSG) was in place to oversee the delivery and commissioning of PRH with membership representing the agencies of DoH, DIPL and DTF. DTBI was a part of the PSG as an invited attendee. From 1 July 2017, the PRH Executive Program Board assumed this function and a number of smaller governance bodies were established to provide leadership and management oversight over the PRH Health, Construction and Interagency Work Programs as demonstrated in Figure 3.

Figure 3: PRH Core Project Governance Structure (from 1 July 2017)



Source: DoH Internal Documentation

The key governance bodies and their role in the project are outlined below.

Executive Program Board (EPB)

The EPB provides leadership and decision making oversight to the project based upon a Whole of Government perspective of the three work programs discussed subsequently in this report, those being the Health Work Program, the Construction Work Program and the Inter-Agency Work Program.

Department of Health cont…

The EPB involves DoH and DIPL as project delivery agencies with the DTF and DTBI having key responsibilities relating to the funding and implementation of strategic projects respectively. All four agencies have representation on the board.

The Terms of Reference for the EPB could not be located or provided for review at the time of the audit. My Authorised Auditors were advised the EPB is expected to meet on a monthly basis however meeting minutes were not able to be provided to evidence that all meetings had occurred.

Project Control Group (PCG)

The PCG is responsible for the management of project delivery including activities to meet the health, construction and interagency specific work program obligations; strategies to address project wide risks and issues; management of scope changes; stakeholder engagement; media and communications strategies; project cost management; resolution of disputes; and ensuring robust project support functions.

The detailed functions, roles and responsibilities were outlined in the PCG Terms of Reference as approved by the EPB. My Authorised Auditors were advised that PCG meetings are held monthly however meeting minutes were not able to be provided for all months requested.

Project Management Office (PMO)

To provide critical project management oversight, governance reporting, advice and program assurance for the operational commissioning of PRH, two PMO were established as part of TEHS PRH governance structure:

- Independent Project Management Office reporting directly to the PRH Project Board. The team includes an independent consultant engaged under the Northern Territory Procurement Policy; and
- Project Management Office reporting directly to the PRH Operational Commissioning Project Control Group.

Both PMO functions are coordinated by external consultants.

Other governance bodies

The TEHS Senior Leadership Team meets on a monthly basis however no details of the Senior Leadership Team were noted in the PRH Operational Commissioning Framework document or the Northern Territory Palmerston Regional Hospital Project Interagency Governance Framework. Minutes recorded at the Senior Leadership Team meetings were not provided at the time of the audit thus I was unable to establish what role the Senior Leadership Team have in ensuring the successful commissioning of PRH.

Department of Health cont…

The PRH Commissioning Leadership Group (CLG) meets fortnightly or as required. The CLG had a draft Terms of Reference that was endorsed pending changes. The draft Terms of Reference identifies that the purpose of the CLG is to "*provide leadership, decision making and coordination across the work streams to ensure the operational commissioning objectives are achieved*".

Framework and Key Policies and Procedures

To manage the operational commissioning of PRH, a number of documents were developed. Table 4 summarises these key documents and their purpose.

Table 4: Key framework documentation

Document Name	Purpose
Operational Commissioning Roadmap (Draft copy provided)	Guides the PRH Operational Commissioning Project.
Operational Commissioning Framework V2.1 (Final)	Sets the strategic direction for the project, describes the governance arrangements; the approach to operational commissioning; and high level timelines for deliverables and outcomes.
90 Day Operational Commissioning Plan Overview V1.4 (Final)	Provides an overview of the planning and specific activities required for PRH to be commissioned (preparation of facility and staff) for the commencement of services. The document is intended to inform key stakeholders of the broad range of activities contained in the operational commissioning Master Schedule and illustrate the interconnectedness between those activities and the requirement for timely execution to achieve a safe hospital opening.
Campus Services Model v.08	Identifies integration points, common elements and interdependencies between the proposed PRH services to inform how PRH will operate as a sub-campus of an integrated service with RDH.
Go/No-Go Criteria & Checklist Framework V0.3 (Draft)	The objective of the Go/No-Go process is to deliver a "Declaration of Readiness" to the Chief Executive of DoH for endorsement prior to commencing clinical operations at the new PRH and the move of Rehabilitation and GEM patients from the RDH to PRH.

Department of Health cont…

Only draft versions of the Operational Commissioning Roadmap and Go/No-Go Criteria & Checklist Framework were provided. My Authorised Auditors were advised that these were the final versions however had not been updated with the “final” watermark/stamp.

Monitoring and Reporting

As identified above, a series of documents have been developed that outline the framework and governance to oversee the project. Table 5 outlines the reporting framework established in each key document and the reporting performed.

Table 5: Reporting framework

Document Name	Reporting Framework	Reporting
Operational Commissioning Roadmap (Draft copy provided)	Outlines the approach being taken to the operational commissioning of PRH encompassing the five key phases (including each sub-phase within each category) described in Table 3.	A reporting template was noted in the project plan. No reporting on the roadmap was identified.
Operational Commissioning Framework V2.1 (Final)	Has eight work streams each with a work stream Executive Sponsor and a Senior Project Manager who works within the project team to support the Sponsor. Each work stream has a PCG chaired by the Executive Sponsor.	Dashboard reporting on the eight work streams shows the percentage of the task completed. Reported to the PMO.
90 Day Operational Commissioning Plan Overview V1.4 (Final)	The PRH 90 Day Operational Commissioning Plan (the Plan) shows the core activities to be undertaken between practical completion and handover of PRH to the day of opening for services. The Plan identifies 20 sub-plans, each plan owner and due date.	No reporting identified.
Campus Services Model v.08	No reporting framework identified.	No reporting identified.
Go/No-Go Criteria & Checklist Framework V0.3 (Draft)	Establishes assessment categories and criteria with benchmarking activities. It establishes five steps to determine Go/No-Go decision processes that are proposed as Pass/Fail Assessment for Proof of Readiness.	As at 27 June 2018, 7 weeks out from PRH opening date, no Go/No-Go review had occurred.

Department of Health cont…

The reports produced as a result of the reporting framework did not, at the time of audit fieldwork, appear to have been widely circulated to relevant stakeholders and did not provide comprehensive reasoning for any project delays or proposed actions to mitigate the impact of delays to ensure the opening day milestones would met. The reporting available within the set framework did not provide assurance that the project will deliver all the required services identified in framework within the requisite timeframe.

Timely reporting is critical as the project approaches the PRH opening date (scheduled, at the time of the audit for 13 August 2018). As at 27 June 2018, the Go/No-Go Framework was not finalised.

Other reporting

My Authorised Auditors were provided with minutes of the CLG receiving work stream reporting. Reports for several months were not able to be located and provided for review at the time of audit. Review of the Highlight Reports by work stream received by the CLG demonstrated that reporting was largely activity-based rather than evidence-based reporting against predetermined Key Performance Indicators. Reporting of cost against budget was only included in the ICT and Infrastructure Highlight Reports and reporting against forecasting was limited to only the Infrastructure Highlight Report.

Cost and Contributions by the Northern Territory

At the time of reporting the findings arising from the 2016 audit, the approved capital cost of PRH was $170 million with an additional budget allocation of $30 million for FFE, ICT and medical equipment announced by the Chief Minister and the Minister for Infrastructure in a Media Release on 23 May 2016. The project costs are allocated between Construction Cost and Commissioning Cost. The whole of project cost to construct and commission PRH was still not available at the time of this audit. The budget and cost structure is:

Group 1: Budget and execution is DIPL's responsibility.

Group 1 covers the construction cost. During the Parliamentary Estimates Hearing process in June 2018, representatives of DIPL advised that the construction of PRH "*was delivered on-budget, which was the $170m set aside for the project. That has covered everything except for some of the fit-out that the Department of Health has chosen to undertake themselves*".

Group 2: Budget is the responsibility of DoH, execution is managed by DIPL.

Group 2 costs mainly relate to additional construction undertaken at the request of DoH. No clear reporting against the budget or explanations supporting actual expenditure was noted.

Group 3: Budget and execution is DoH's responsibility.

Group 3 comprises the costs of commissioning.

Department of Health cont…

Construction Cost

The original funding provided by the NT Government and Commonwealth for the project was $169.8 million. DIPL reported a forecast construction cost of $172.0 million as at April 2018 including costs associated with additional FFE of $1 million where responsibility for construction was transferred from DoH to DIPL for the allocation of Theatre and Internet Protocol Television items. These items were either changed from Group 3 (cost budgeted and executed by DoH) to Group 2 (cost budgeted by DoH and executed by DIPL) or requested in response to an increase in the scope of services provided.

Table 6: Total forecast construction cost (April 2018)

Breakdown of Construction Cost	$
Total approved funding	169,800,000
Additional FFE spend	1,001,980
Reallocation of out of scope and FFE spend if required	1,211,853
Total forecast spend:	**172,013,743**

Source: DoH Internal Documentation

Commissioning Costs

From the financial information available, TEHS has a budget of $36.7 million for the operational commissioning costs. An expense report from April 2018 noted the annual budget for commissioning was $23.5 million with a total projected actual spend of $25.5 million, $2 million over budget.

Table 7: PRH Commissioning, ICT and FFE Expense Summary (April 2018)

Expense Type	2017-18		
	Full Year Budget ($)	Projected Full Year Expense ($)	Variance ($)
Commissioning and Activation Costs	8,000,000	10,000,000	(2,000,000)
FFE	11,200,000	19,380,000	0
ICT	2,300,000	2,300,000	0
Clinical Systems Implementation Planning	2,030,833	2,030,833	0
Total	**23,530,833**	**25,530,833**	**(2,000,000)**

Source: DoH Internal Documentation

Department of Health cont…

The April 2018 report noted that *"The balance of the ICT and FFE capital funding was rolled over to next financial year to cover invoices that will be submitted then and some deferred purchases."*

The reports noted that actual expenditure overruns were due to the early on boarding of staff, stocking of consumables and other set up costs exceeding the approved funding.

Further overspends occurred of $1.8 million in 2016/17 and $2.3 million in 2015/16. It was noted that *"project management and costs transferred from DoH to TEHS in 2015/16 without any budget".*[1] The Operational Commissioning cost overruns have been required to be absorbed within the overall TEHS budget.

The content of the report indicates that not all commissioning costs relating to the project are being fully or accurately captured as project costs thus the reported commissioning costs are incomplete.

Total Project Cost

Apart from the financial information separately provided by DIPL for construction and TEHS for commissioning, no consolidated financial/budget reports presenting whole of project costs were available.

The table below presents key financial information pertaining to the cost of PRH (as documented in the body of this report), in an attempt to summarise the total known costs of constructing and undertaking the operational commissioning of PRH at the time of the audit fieldwork.

Table 8: Summary of Costs

Cost Type	Budgeted ($)	Projected Total Cost ($)
Construction cost	169,800,000	169,800,000
Additional construction related FFE spend	1,001,890	1,001,890
Reallocation of out of scope and FFE spend if required	1,211,853	1,211,853
Operational Commissioning: implementation / set up	36,700,000	25,530,833
Operational Commissioning cost in 2016/17	4,300,000	6,094,840
Operational Commissioning cost in 2015/16	Not applicable	2,315,205
Total calculated total Project Cost	**213,013,743**	**205,954,621**

Note: Detailed financial information on the construction cost was not sought from DIPL hence I am unable to confirm the cost of headworks is included in the construction cost.

[1] Palmerston Regional Hospital Executive Program Board, Attachment 4.1A Operational Commissioning Status Report, December 2017

Department of Health cont…

The total projected cost of approximately $206 million significantly exceeds the initial $110 million budget allocated to the project noting there remains future expenditure to be captured in the 2018/19 financial year.

The table below presents a summary of publicly announced budgeted costs attributable to PRH.

Table 9: Summary of Budgets over the life of the project

Year	Budgeted ($)
Mark 1 – 2009 to 2012 (included $7 million for FFE)	110,000,000
Mark 2 – 2014 to 2015 (included $17 million for FFE)	193,900,000
Mark 3 – 2015 – 2017 (Excluded FFE cost)	150,000,000
Total funding publicised – 2017	210,000,000

It was recognised in the 2016 audit that variations of the commitment to construct PRH resulted in sunk costs being absorbed either directly by an Agency or against the PRH budget however these costs were not readily identifiable. Examples of such sunk costs include:

- a portion of the design cost incurred in 2011 that could not be carried forward and utilised within the current design of PRH;
- professional consultancy costs incurred by DoH; and
- clinical consultancy costs arising as a result of the clinical services and functional brief changing from the initial engagement in 2011.

The true cost of the entire project cannot be determined and reported.

Cost monitoring by EPB

Based on review of the information presented to the EPB and consideration of the minutes of the meetings held in August 2017 and December 2017, it is my view that the financial information provided to the EPB was inadequate to enable the EPB to monitor and manage the cost of delivering the project.

Department of Health cont…

<u>Other financial information provided by TEHS</u>

The operational funding of PRH includes a budgeted allocation from the NT Government of $25 million for 2016/17 and recurring funding of $25 million for full operation from 2017. This excludes block funded services. No funding was approved for one-off start-up costs prior to the official PRH opening. These costs are estimated to be approximately $5 million and are intended to be sourced from the operational funding.

A cost model for PRH's full operation has been developed based upon the existing Service Model and taking into consideration the staged approach to delivering services from PRH. The budget identifies there are insufficient funds to cover the operation of PRH.

Contracts and Agreements

Procurement of FFE is undertaken/led by the Project Team in accordance with the specific procurement plan developed by a third party consultant. All other procurement activities related to PRH follow the NT Government's procurement processes. Most contracts relating to the PRH project have concluded.

My Authorised Auditors noted one period contract was not recorded in contract listing. The absence of this record indicates the contract listing is incomplete and records management processes may require improvement.

TEHS reports the financial performance, being actual expenditure, estimates, accruals and forecasts related to contracts and agreements. Non-financial performance against contracts is monitored separately through DoH's procurement team. At the time of the audit fieldwork, no reviews of contractor performance against contract requirements had been undertaken in relation to the operational commissioning of PRH.

Document Management and Record Keeping

PRH and DoH use the Northern Territory Government's Electronic Documents Record Management system. TEHS uses TRIM files and shared drives. The storage of records and governance documents is not consistent with the Records Management Standards for Public Sector Organisations in the NT.

Department of Health cont…

The Department of Health has commented:

Department of Health note the findings of the audit and have improved on its processes by:

- *Making significant effort to improve the governance, oversight and capture of operating cost of the project for example: improving reporting of performance against approved budget, enhancing identification of project costs incurred to date and identification of future project costs to be incurred prior to wind up of the project.*
- *Implementing detailed project reporting with regular reviews undertaken by the Operating Commissioning Control Group.*
- *Using a consolidated risk register encompassing emerging and potential risks, treatments and actions as appropriate.*

In addition, storage of all PRH related documents will be reviewed to ensure compliance with NT Records management standards for Public Sector Organisations. This will include transfer of documents to a centralised document management system as required.

The Service Delivery Agreement for 2018/19 will include agreements as to the scope of services and responsibilities of the Department and the Top End Health Service.

Department of Trade, Business and Innovation

Palmerston Regional Hospital – Implementation of recommendations from the Public Accounts Committee hearing

Scope and Objective

The objective of this performance management system audit was to evaluate the actions taken by the Department of Trade, Business and Innovation (DTBI) to address the recommendations arising from the audit entitled 'Selected Agencies – Palmerston Regional Hospital' and reported upon in my June 2016 Report to the Legislative Assembly to the extent those recommendations applied to DTBI. The audit fieldwork was conducted in February 2018 and considered the processes in place at DTBI as at 31 January 2018.

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In addressing the objective, my Authorised Auditors reviewed the documentation and controls in place at DTBI and tested the processes and procedures in place to address the recommendations arising from the audit entitled 'Selected Agencies – Palmerston Regional Hospital'. My report on this audit is structured as follows:

Department of Trade, Business and Innovation cont…

Background

I undertook an audit entitled 'Selected Agencies – Palmerston Regional Hospital' in 2016. Findings from the audit were included in my June 2016 Report to the Legislative Assembly. The objective of that audit was to provide the Legislative Assembly with an overview of the project to construct the Palmerston Regional Hospital (PRH) up to the appointment of the Managing Contractor, as evidenced by the signed contract, and an assurance that the processes leading to the awarding of contracts associated with construction and contract management of PRH were undertaken in accordance with the procurement framework at that time, which included the:

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

The procurement framework mentioned above was replaced by a new Northern Territory Procurement Governance Policy and Procurement Rules introduced on 1 July 2017.

The audit findings resulted in a number of recommendations, some of which were primarily applicable to the Office of Major Projects, Infrastructure and Investments (OMPII). At the time of the 2016 audit, OMPII was a business unit within the Department of the Chief Minister. Following Machinery of Government changes in September 2016, OMPII was transferred to the newly created DTBI and the division was renamed Strategic Infrastructure and Projects (SIP). As a result, responsibility for addressing the recommendations primarily applicable to OMPII transferred to DTBI.

In February 2017, the Public Accounts Committee requested representatives from DTBI; the Department of Infrastructure, Planning and Logistics; and the Department of Health to appear before the Public Accounts Committee and report upon the actions taken to address the recommendations contained within my June 2016 Report to the Legislative Assembly. Responses to the recommendations were provided to the Public Accounts Committee by DTBI.

Department of Trade, Business and Innovation cont…

Conclusion

DTBI has invested considerable time and effort in developing the draft NT Project Development Framework (NTPDF) together with supporting templates and guidance information. Elements of these documents will substantially address the findings and recommendations from the 2016 audit as reported in my June 2016 Report to the Legislative Assembly however there are some opportunities to refine the supporting templates and guidance information and to introduce across-government training in relation to the draft NTPDF if endorsed in its current form.

Recommendations

I have suggested recommendations to the Agency that may contribute to improvements in the Agency's systems and processes.

Management consider alternative solutions to address the findings from the 2016 audit

The general response to the Public Accounts Committee in February 2017 from SIP was "*policies and processes for the identification, prioritisation, selection and delivery of future major projects are being reviewed and will be formalised*". Formalisation of the "*policies and processes*" is subject to the draft NTPDF being endorsed. Existing policies and procedures have not been amended. In the event that the draft NTPDF is not endorsed, alternative solutions will be required to address the findings and recommendations from the 2016 audit.

Develop and formalise a process and timeline to implement the NTPDF

At the time of the 2018 audit, there was no formal documented process or timeline describing how the draft NTPDF will be implemented across-government in the event endorsement is received. A documented process and timeline will support consideration of available resources enabling commitment to a realistic timeline and facilitate implementation of the NTPDF across-government in an efficient and effective manner. I recommended that a plan and timeline be documented to support the proposed implementation of the draft NTPDF.

Opportunities exist to improve the guidance information supporting the draft NTPDF

Advice provided to key decision-makers should be independent, based upon an accurate representation of the facts and as comprehensive as possible. Although review of the Strategic Business Case Template and the Detailed Business Case Template noted guidance information was incorporated in its document structure, there is a risk that users will interpret some of the guidance inconsistently potentially impacting the quality of the documentation provided to adequately inform decision-makers. I recommended that consideration be given to refining the draft templates to reduce the risk that guidance may be interpreted inconsistently within agencies and across-government.

Department of Trade, Business and Innovation cont…

Development of a communication plan and training program to support the NTPDF

It is important for users to understand the purpose of the draft NTPDF and how the templates are to be used. I recommended the provision of across-government communication and training to ensure the framework and guidance are consistently understood and the templates are being consistently and effectively applied by agencies.

Guidance on setting KPIs could be improved

A table within the Detailed Business Case Template incorporates guidance information designed to ensure outcomes are relevant, measurable and achievable. An opportunity to provide clarity and to improve the documentation would be to incorporate examples of baseline measures and adopt established practice relating to the establishment of KPIs using the 'SMART' concept. SMART is an abbreviation for the five conditions of a sound KPI, those being that a KPI should be Specific; Measurable; Achievable; Relevant; and Time-phased[2].

I recommended that the draft templates be further refined to:

- include guidance information on the establishment of KPIs for use in the planning and evaluation of a project; and
- provide clarity and consequently reduce the risk that guidance may be interpreted inconsistently within agencies and across-government.

Develop Territory Specific guidance material on Public Private Partnerships

I recommended that specific guidance material relating to public private partnerships be developed to complement the draft NTPDF when it is implemented. The guidance material will also promote a standard approach and consistent application to Tier 1 projects.

[2] *Source: "The KPI S-M-A-R-T Rule" http://www.lltcorp.com/content/kpi-s-m-r-t-rule. Accessed on 07/03/2018*

Department of Trade, Business and Innovation cont…

Audit Observations

The roles and responsibilities of SIP are to:

- initiate, coordinate and facilitate private investment in major NT Government led projects;
- lead the NT Government's coordination, facilitation and delivery of major private sector projects;
- oversee the Major Project Status Policy Framework and facilitate delivery of private sector projects awarded Major Project Status; and
- lead the development and implementation of policies and processes which secure a transparent and accountable approach to NT Government infrastructure assessment, prioritisation and investment.

At the time of the audit entitled 'Selected Agencies – Palmerston Regional Hospital' in 2016, OMPII's role was to coordinate the delivery of private investment in NT Government facilitated projects. OMPII's involvement in overseeing the construction of PRH was therefore unusual as PRH had been committed to be developed as a standard NT Government capital works project. The OMPII's responsibility to the PRH project at the time of the 2016 audit was to:

- facilitate communications and inter-departmental coordination;
- Chair the Project Steering Committee;
- Undertake Ministerial liaison as required;
- monitor the progress of the PRH project; and
- clarify project expectations.

Currently, SIP does not hold any operational or oversight responsibility in relation to the PRH project however is assigned with the task of addressing a number of the recommendations within my June 2016 Report to the Legislative Assembly. These recommendations related to matters that covered the planning, development and execution of major projects more broadly across-government.

To address the recommendations, two options were considered by DTBI. One option was to maintain/modify the existing approach toward project development. This option was not considered the preferred option as it was deemed unlikely to result in material changes in outcomes. The second option was to develop a high level framework for project development that requires a greater level of accountability and enforcement.

Department of Trade, Business and Innovation cont…

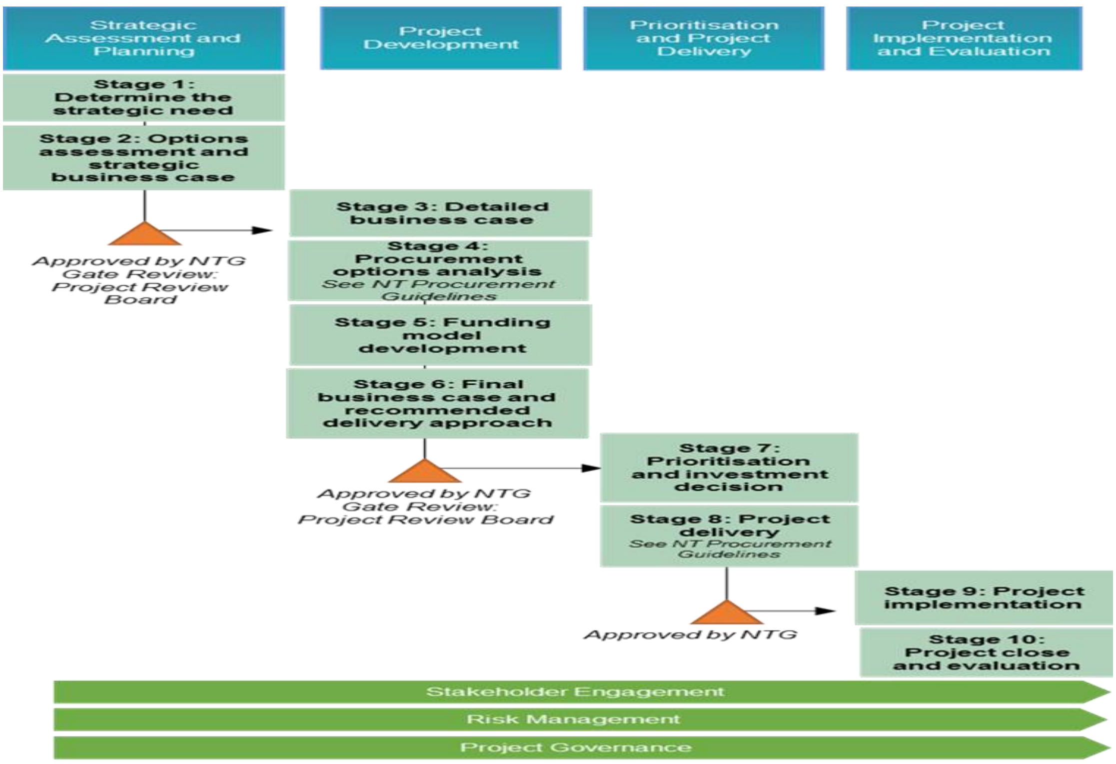
The second option was selected and SIP developed a draft NTPDF to provide a structured approach to project development, from initially determining the strategic need through to project development and evaluation of the government investment. SIP is responsible for the development and implementation of the draft framework.

The draft NTPDF establishes a four phase process that requires the development of the following documents:

- Strategic Business Case;
- Detailed Business Case;
- Risk and Issues Register;
- Highlight (Progress) Reports; and
- Benefits Realisation Register.

Templates have been developed to assist in the development of the strategic and detailed business cases. The draft NTPDF does not extend to providing specific guidance on project management and contract management, as these aspects are addressed under the new Northern Territory Procurement Governance Policy and Procurement Rules introduced on 1 July 2017. Diagram 1 provides an overview of the NTPDF's structured approach.

Diagram 1: NTPDF's structured approach



Source: DTBI Internal Documentation

Department of Trade, Business and Innovation cont…

DTBI has advised that the draft NTPDF addresses the recommendations made in the 'Selected Agencies – Palmerston Regional Hospital' audit.

At the time of the 2018 audit, formal circulation of the draft NTPDF including the draft detailed guidance material to across-government agencies was expected to be considered for endorsement in March 2018. No alternative approach had been developed at the time of the audit fieldwork to address the recommendations in my June 2016 Report to the Legislative Assembly should the release and application across-government of the NTPDF not be endorsed.

Should the suite of the draft NTPDF documents be endorsed, options for promulgation of the NTPDF would include:

- **Option 1:** The development of a stand-alone Treasurer's Direction similar to Treasurer's Direction Information and Communication Technology Section ICT 2.1 ICT investments;
- **Option 2:** Implement NTPDF under the Procurement Code as part of the Procurement Framework applicable to tiers valued at or over $50 million; or
- **Option 3:** Incorporate NTPDF under the existing Treasurer's Direction for Capital Works.

An assessment reviewing the challenges, benefits and approach to implementing the draft NTPDF has been undertaken, with DTBI's recommended approach being a standalone Treasurer's Direction (Option 1). There is currently no formal documented process or timeline outlining how the draft NTPDF will be implemented across-government. DTBI representatives advised the framework, strategic business case template and detailed business case template have been developed and are to be presented for endorsement. Assuming receipt of such endorsement, DTBI have advised it will develop a whole-of-government implementation plan, refine the templates and implement training and testing to encourage adoption and commitment to the NTPDF from internal and external parties. At the time of the audit fieldwork, there was no established timeframe to implement the draft NTPDF. Representatives of SIP have advised that the timeline is dependent upon endorsement of the NTPDF. Initially the NTPDF was intended for completion by 1 July 2018.

The "Major Project Status" Policy Framework was last updated in June 2017 however no existing underlying policies and procedures have been updated.

Department of Trade, Business and Innovation cont…

Current Status

An assessment of the current status for each recommendation assigned to SIP from the 2016 audit is provided below.

Table 1: DTBI Palmerston Regional Hospital – Implementation of Recommendations Assessment

#	2016 Audit Recommendation	Assessment of Current Status
1	*"In order to adequately inform decision-makers, planning for future major projects should be undertaken that includes:* ▪ *identifying the service need and possible options to meet the desired outcome;* ▪ *defining criteria for project success;* ▪ *analysing the costs, risks, benefits of various options;* ▪ *comprehensively assessing the whole-of-life financial effect of the project options; and* ▪ *comprehensively determining future operational costs that are documented and submitted to the ultimate decision-makers involved in the budgetary process."*	These items are addressed in stage two of the framework with the Strategic Business Case Template and Detailed Business Case Template requiring the service need, needs analysis and strategic need to be identified. Both templates require a delivery model analysis to identify how the project will be delivered, funded and how risks will be managed.
2	*"Following from the above, a comprehensive business case should be developed for future major projects. The business case should document the advantages, disadvantages, costs, benefits, risks and consequences of each available option."*	The draft NTPDF establishes a structured approach to project development which includes a requirement for the preparation of a Strategic Business Case (see Stage 2 in Diagram 1) followed by a Detailed Business Case (see Stage 3 in Diagram 1). Templates for both business cases have been drafted.

Department of Trade, Business and Innovation cont…

#	2016 Audit Recommendation	Assessment of Current Status
3	*“Planning should involve the early identification and involvement of key departments that are expected to have responsibility throughout the project.”*	The draft NTPDF requires agencies to engage with relevant stakeholders, including other NT Government departments, throughout the project. On review of the framework, it was noted that agencies are only *“encouraged to utilise the NTPDF project status”*. The Detailed Business Case Template requires a communication management plan to be documented that can be customised depending on the size and complexity of each project.
4	*“Key performance indicators should be established for use in the planning, evaluation and delivery of all future major projects.”*	Proposed project outcomes are to be identified clearly within the Strategic Business Case Template. In the Detailed Business Case Template, the project’s objective and proposed outcomes are to be clearly identified. Guidance information is provided to ensure outcomes are relevant, measurable and achievable. Stage 10 *“Project Close and Evaluation”* (refer to Diagram 1) of the draft NTPDF requires projects to be evaluated by delegated officers to determine whether the outcomes sought are being achieved. The draft NTPDF Benefits Realisation Template is to be used for this purpose.

Department of Trade, Business and Innovation cont…

#	2016 Audit Recommendation	Assessment of Current Status
5	*"Procedures should be put in place to facilitate compliance with Northern Territory and National Guidelines as they relate to the evaluation of public infrastructure projects in the context of a Public Private Partnership."*	Throughout the draft NTPDF and business case templates, agencies are required to give consideration to the appropriateness of inviting expressions of interest to enter into a Public Private Partnership for all Tier 1 projects consistent with the National Public Private Partnership Guidelines and Territory specific guidance material. At the time of the audit, further Territory specific guidance material on Public Private Partnerships had not been issued.
6	*"Consideration should be given to the development of procedures and processes relating to the provision of information to key decision-makers. Such processes should require the retention of documentation which evidences the rationale for key decisions, including decisions that subsequently change the approach to delivering the project. Documentary evidence should be maintained of stakeholder acceptance of changes to the planned project outputs and outcomes."*	The draft NTPDF outlines a process for managing variations to account for any changes to project scope, budget, quality or timeline and requires variations to be supported by adequate justification and appropriate approval. In addition, the business case templates also require the documentation of governance structures for the project's development and delivery. The documented governance structure will also form the basis or define the approval body of the project.

Department of Trade, Business and Innovation cont…

#	2016 Audit Recommendation	Assessment of Current Status
7	*"Governance processes should be established which ensure sufficient appropriate documentary evidence is retained to demonstrate that all project costs, not only the construction costs, are reported to, and reviewed regularly by, the Project Steering Committee to enable monitoring of progress towards achieving the project objectives and ensure budgetary impacts can be effectively evaluated."*	The draft NTPDF requires projects to be actively monitored to ensure the delivery of outcomes within the established budget. Investments are to be evaluated at the conclusion of the project, to determine whether the outcomes sought were achieved.
8	*"Systems and/or processes should be established to ensure risks, including Agency and shared risks, relating to across-government projects are identified, monitored and reviewed on a continuous basis."*	The draft NTPDF establishes a requirement to undertake appropriate risk management analysis. The Strategic Business Case Template requires high-level identification of key project risks is to be undertaken. The Detailed Business Case Template contains more detailed guidance on the identification and assessment of project risks and the development of a risk management plan.
9	*"A robust evaluation of the design, implementation and effectiveness of Agency procurement controls should be undertaken on a regular basis in order to ensure the existing controls effectively mitigate risks associated with procurement such as achieving value for money, ensuring transparency and equity surrounds the procurement process and that the security of procurement activity is maintained."*	This recommendation is separately addressed by the new Northern Territory Procurement Governance Policy and Procurement Rules introduced on 1 July 2017. No audit work was undertaken in relation to the Procurement Governance Policy and Procurement Rules during this audit.

Department of Trade, Business and Innovation cont…

The Department of Trade, Business and Innovation has commented:

The development of the Northern Territory Project Development Framework (NTPDF) and associated guidance material seeks to address the recommendations made by the Auditor-General in the audit of the Palmerston Regional Hospital as well as audits by previous Auditors-General into major projects. The NTPDF aims to support decision-making processes in project prioritisation, selection and funding through improving the evidence base on which decisions are made.

DTBI accepts the Auditor-General's recommendations in relation to improvements to the draft NTPDF and templates and has incorporated the comments into current draft documents. The documents continue to be refined to improve clarity and usability pending approval of the framework and its implementation. Additional consultation has also occurred with government stakeholders since the audit to ensure that the NTPDF is fit-for-purpose in the Northern Territory context.

DTBI notes the recommendation to develop and formalise a process and timeline to implement and communicate the NTPDF across government. All aspects of the NTPDF, including the design, scope, application, implementation approach and timing, remain subject to Government consideration and approval.

Guidance material on Public Private Partnerships will be updated by the relevant agency

Department of Trade, Business and Innovation

Darwin Ship Lift and Marine Maintenance Project

Scope and Objective

The objective of the Ship Lift and Marine Maintenance Project (the Project) audit was to assess the performance management system/s in place at the Department of Trade, Business and Innovation (DTBI) that enable it to manage the Project.

The audit covers the period from the announcement of the Project in October 2015 through to 31 January 2018. The fieldwork supporting this audit was conducted between January 2018 and June 2018.

This audit covers the performance management system in place for the Project as managed by SIP. It does not extend to the greater Marine Industry Park or to the work performed by the Land Development Corporation (LDC).

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In addressing the objective, my Authorised Auditors reviewed the documentation and controls in place at DTBI and tested the processes and procedures in place that applied to the Project. My report on this audit is structured as follows:

Department of Trade, Business and Innovation cont…

Background

Since 2009, the NT Government has been exploring the development of a Marine Industry Park. The Marine Industry Park is part of the wider East Arm Logistics Precinct. From 2012 to 2015, LDC continued to plan and develop the park and in 2015, finalised the Marine Industry Park's master plan. The Marine Industry Park is made up of a number of areas, each with different intended uses. The key areas include:

- Common User Area
- Multi-User Barge Ramp
- Marine Maintenance Area
- Marine Services Area
- Marine Logistics Area
- Marine-related Development
- Strategic Industrial Land

Developing the Marine Industry Park is estimated to cost in the vicinity of $1 billion and the geographical footprint is over 150 hectares. LDC commissioned the Common User Area including the Multi-User Barge Ramp in September 2016.

The Marine Maintenance Area is intended to provide key infrastructure for ship building and maintenance. As part of the development of the Marine Maintenance Area, it is intended that a ship lift will be built. A ship lift is a platform structure that is able to lift a vessel in or out of the water and is considered by those involved in the development of the Marine Industry Park as an essential piece of infrastructure to support the function of the Marine Industry Park, enabling repairs and maintenance to be undertaken on large vessels in dry dock.

In October 2015, the NT Government announced the development of the Ship Lift and Marine Maintenance Infrastructure (the Project). A media release on 28 October 2015 announced that the NT Government would invest in a *"ship lift as part of the early stages of development of the Marine Industry Park if the Federal Government commit to ship servicing of its naval and border protection fleet in Darwin. If supported by Canberra, the Northern Territory Government could go to market seeking commercial partners early next year with construction to commence as early as 2017."*[3]

3 *NTG Media Release. (28 October 2015). New ship lift facility could position Darwin as marine. Adam Giles (Chief Minister of the Northern Territory).*

Department of Trade, Business and Innovation cont…

The development of the ship lift and associated park is anticipated to drive local industry, create local jobs and promote Darwin's position as a hub for marine maintenance and servicing. Darwin already has a number of ship lift facilities, however none are designed to accommodate and lift large vessels and they are not strategically located at East Arm which has been determined through planning undertaken by LDC as the best location for supporting this industry.

In December 2015 the NT Government announced the new Darwin Ship Lift facility had been granted major project status. In the same report it was announced that *"the facility will be designed to accommodate boats more than 90 metres in length, including the new fleet of patrol vessels currently being procured by the Defence Force"*[4]. As a major project, the facility development was planned to be overseen by the Office of Major Projects, Infrastructure and Investments (OMPII) with investment from the Department of Chief Minister through an open market process.

Following Machinery of Government changes in September 2016, OMPII was transferred to the newly created DTBI and the division was renamed Strategic Infrastructure and Projects (SIP).

On 6 February 2016 a request for Expressions of Interest (EOI) was sought for the development of the Ship Lift and Marine Maintenance Precinct. It called for all private sector proponents to lodge proposals by 29 February 2016.

On 15 March 2016 the NT Government announced that evaluation of the Expressions of Interest resulted in a shortlisting of five proponents. The five shortlisted proponents were invited to proceed to the detailed Request for Proposal (RFP) phase.

On 15 August 2016 the then Chief Minister announced the preferred proponent had been chosen and negotiations would begin with the preferred proponent.

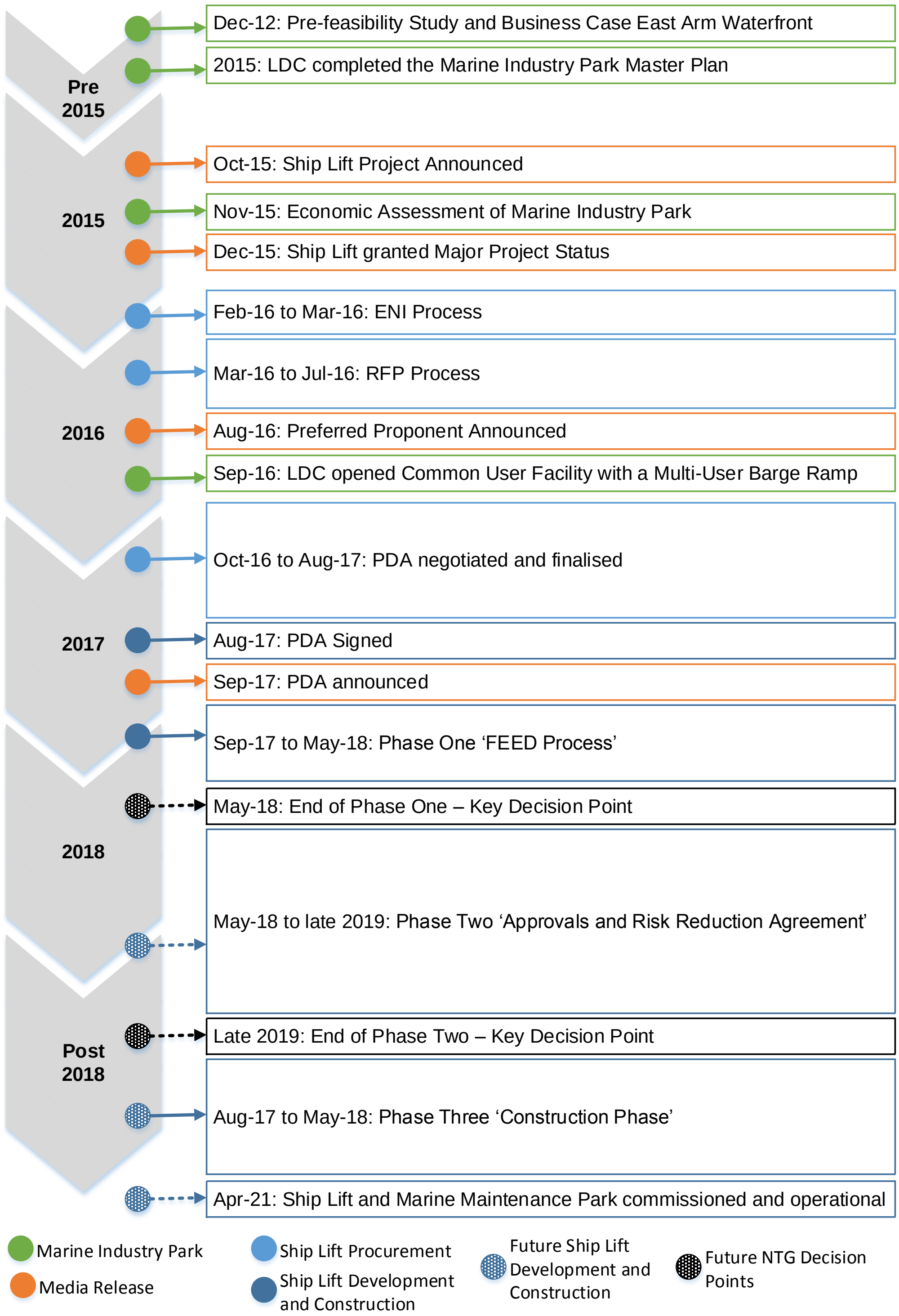
A Project Development Agreement (PDA) to deliver the Project was announced on 21 September 2017 between the Territory, the preferred proponent and its parent entity as guarantor. The PDA was signed on 1 August 2017. Based on the PDA, the proposed multi-user Ship Lift will:

- be capable of lifting vessels out of the water for dry docking and maintenance works;
- have a common user area, being a hardstand area available for ship repair and maintenance works; and
- have the capacity to lift the Defence new fleet, the offshore patrol vessels.

4 *NTG Media Release. (4 December 2015). New Darwin ship lift facility granted major project status. Adam Giles (Chief Minister of the Northern Territory).*

Department of Trade, Business and Innovation cont…

Figure 1: Marine Maintenance and Ship Lift Development Timeline



Department of Trade, Business and Innovation cont…

Conclusion

The objective of the audit was to assess the performance management system in place at the Agency that enable it to manage the Project.

It is my opinion that a robust competitive process was undertaken by DTBI to seek and evaluate the responses from private sector proponents at each stage of the competitive process. The governance documents, assessments, reports and documentation maintained by the evaluation committee were comprehensive.

My opinion in relation to my assessment of the performance management system at the Agency that enable it to manage the Project should not be interpreted as a conclusion related to the probity of the processes leading to the announcement of the preferred proponent.

Systems and processes are in place at the Agency to manage the Project.

The audit identified that the Agency has some opportunities to enhance processes and systems relating to the Project.

Recommendations

Recommendations to enhance the effectiveness of the performance management system have been reported below.

Enhance financial analysis

Two cost benefit analyses were sought by LDC in relation to the Marine Industry Park as a whole. At the time of audit fieldwork, no cost benefit analysis had been performed by the Territory to determine the effects of increasing the Territory's investment to $100 million or the risks and benefits associated with accepting terms proposed by the preferred proponent that were not consistent with those terms initially established prior to issuing the Request for Proposals.

It would be prudent for the Territory to recalculate the net present value and undertake an updated cost benefit calculation to reflect key decisions including, but not limited to, levels of NT Government funding, variations to the length of the lease periods relevant to the Project and transactions relation to the contribution of land within the Marine Industry Precinct.

I recommended the Agency consider updating the assessment of the cost benefit analysis attributable to the development of the Marine Maintenance Precinct including the Ship Lift in order to inform the decision to proceed or not to proceed with the Project at the conclusion of Phase One.

Department of Trade, Business and Innovation cont…

Competitive process could be enhanced to enable a more robust outcome

The Evaluation Committee documented a range of concerns regarding the adequacy of responses in addressing the requirements of the Project during the EOI and RFP phases. This indicates that information provided to the market may not have been sufficient and/or that the timeframes allowed for proponents to respond to the competitive process were too short.

I recommended the Agency consider the reasons why there were shortcomings in responses and whether future processes could/should be adjusted as a result.

Review the location of the Ship Lift and Marine Maintenance Precinct

The location of the ship lift proposed by the preferred proponent presents a risk that the Territory's objectives may not be realised in an effective or efficient manner.

I recommended the operational and related financial implications of the proposed location of the ship lift be evaluated to ensure the ultimate location enables the Territory's objectives to be realised in an effective or efficient manner.

Clarify the terms and scope when engaging a Probity Advisor

The role of the Probity Advisor as defined in the Probity Plan was to ensure that fairness and impartiality was observed throughout the competitive process and that the criteria were consistently applied to all proposals.

A probity report, referenced as the Final Probity Report, was signed on 14 July 2014 in line with the RFP recommendation from the Executive Committee. A subsequent probity letter detailing the end of the competitive process was subsequently issued on 21 June 2017.

The Final Probity Report was issued up to the date of the Evaluation Committee's report.

Representatives of DTBI have clearly stated that the conclusion of the Probity Advisor cannot be extended beyond the conclusion of the evaluation process however the correspondence received from the Probity Advisor on 21 June 2017 causes confusion in this regard as it suggests the Probity Advisor was involved beyond the evaluation process and during the negotiation process.

I recommended the scope of work to be undertaken by the Probity Advisor together with the applicable criteria for evaluation and the level of assurance sought be clearly defined in the letter of engagement with the Probity Advisor and reiterated in the final opinion / report of the Probity Advisor to avoid confusion.

Adequate time required for decision making

The competitive process commenced on 6 February 2016 and concluded on 16 July 2016. The EOI was open for 21 working days. The RFP was open for 111 days. For both the EOI and RFP, the Evaluation Committee assessed the responses from proponents, documented the evaluation processes and results and produced a final evaluation report within ten working days.

The time taken to review the proposals could result in a perception that the assessment of proposals was not undertaken in a sufficiently robust manner. I acknowledge the advice from management that the time taken was sufficient to support the RFP Evaluation Committee's recommendation. Additional time may have allowed for deficiencies in submissions from proponents to be further investigated with the proponents.

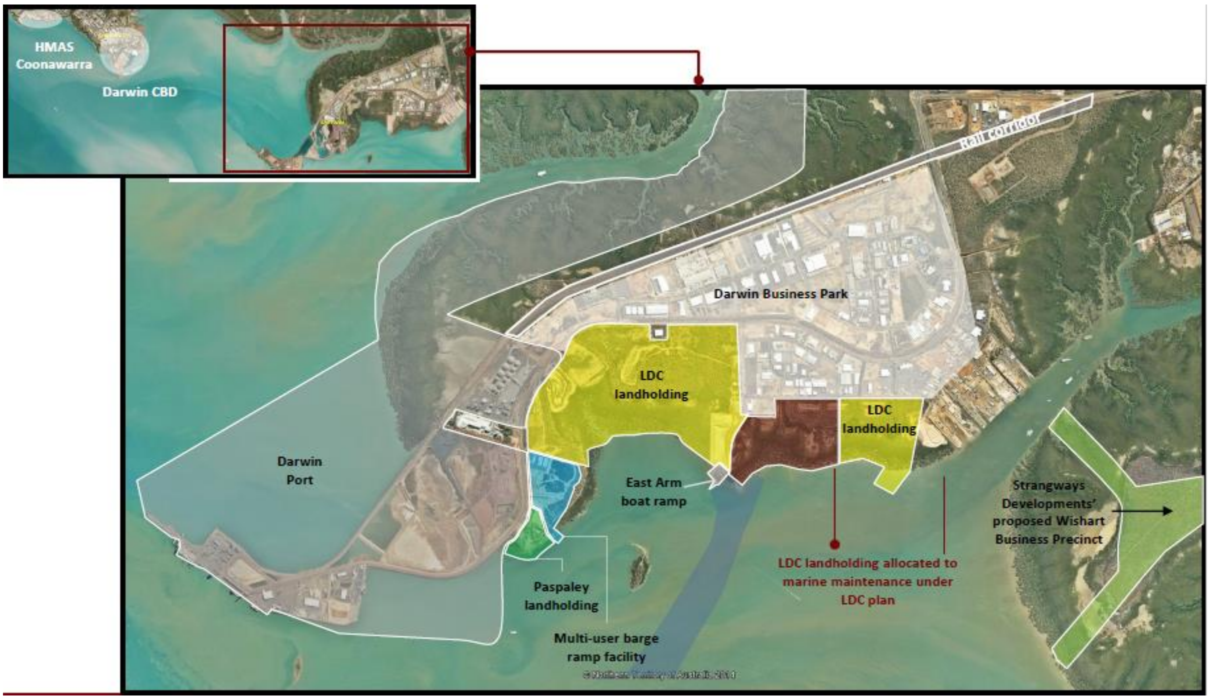
I recommended sufficient time be provided for the evaluation process enabling the NT Government to undertake any clarification steps necessary to achieve optimal results for the Territory.

Audit Observations

Conceptual and planning phases

The Project, being the construction of Ship Lift and Marine Maintenance Infrastructure, is a part of a larger project being the Marine Industry Park Project. The Marine Industry Park Project was initiated through work performed by LDC. LDC is the Northern Territory Government's strategic land developer. LDC's primary role is to provide commercial land and investment opportunities to the market to boost growth and development. LDC is working to establish an entire waterfront precinct at East Arm Peninsula.

Figure 2: East Arm Area Map



Source: DTBI Internal Documentation

Department of Trade, Business and Innovation cont…

Development of the East Arm Peninsula began in early 2010 when LDC commissioned a multi-national advisory and design consultancy firm which specialises in transport, property, utilities and environmental sectors to perform a pre-feasibility study into the East Arm Waterfront Precinct. The study included an initial market assessment, detailed engineering assessment and detailed economic and financial assessment.

The resultant report (the Pre-feasibility Report) is comprehensive and provides multiple modelled simulations. The report identifies a preferred model that includes seven Sub-Precincts, being:

- *"Marine Maintenance: A large land area required by the key foundation customers also requiring major wharf infrastructure, and likely to generate significant benefits for the Precinct as a whole in the form of higher land prices through their demand for services, making the Precinct attractive for service organisations.*
- *Strategic Industrial Land: This is land similar in characteristics to the land the Corporation sells and leases now. It is not at the waterline and thus requires less development cost before it can be sold.*
- *Common User Area: This is the large hardstand area adjacent to the Marine Supply Base to be used on a short-term basis for storage, preparation, and other similar tasks.*
- *Marine Services: This is a marine development, providing storage and services for two companies who have expressed an interest in the Precinct as a base for their commercial fleet of vessels serving the offshore oil and gas industry.*
- *Marine Related Development: This is essentially the same as Strategic Industrial Land above, except that it is positioned along the waterfront, and thus requires partial land reclamation and coastal defence, making it more costly.*
- *Marine Logistics: This is a purpose-built sub-precinct aimed at an intermodal facility similar to that operated by Toll in Frances Bay.*
- *Area C: This is a small parcel of land in Hudson Creek which has limited commercial use due to the high costs of any dredging to the site and the highly limited amount of available land."*[5]

5 *Pre-feasibility Report*

Department of Trade, Business and Innovation cont…

Figure 3: Preferred Marine Industry Park Layout based on Pre-feasibility Report

Source: Pre-feasibility Report

For the preferred option the Pre-feasibility Report included basic cost information for each precinct and suggestions as to whether the NT Government or a private sector proponent would be best positioned to fund the development.

The Pre-feasibility Report anticipated that a ship lift would form part of the Marine Maintenance precinct, this is in line with the outcomes of the Project. The economic analysis for the Project in isolation has not been modelled, as on its own it is not viable, however coupled with the downstream activities of ship building, repairs and maintenance provided by planned participants located at the Marine Industry Park, the economic modelling presented within the Pre-feasibility Report is positive.

The report included a cost benefit ratio considering only direct economic benefits. This resulted in a cost benefit ratio less than one. Where the cost benefit ratio is less than one, the costs of a project outweigh the benefits from investing in the project. In this instance, the Territory was estimated to generate a financial return of 65 cents for every dollar spent.

Department of Trade, Business and Innovation cont…

Whilst a commercial approach would generally see investment only in projects with a direct cost benefit ratio exceeding one, the public sector also takes into consideration the expected social and broader economic returns. It is not always possible to attribute a monetary value to anticipated social and broader economic returns. The Pre-feasibility Report highlights that, once second round economic impacts were considered, the ratio would improve.

The Pre-feasibility report predicted two key economic impacts to occur:

- "*Firstly, the Precinct makes the oil and gas industry more efficient, as service vessels no longer need to steam as far for maintenance and repairs. This is a relatively small effect.*
- *The second effect is through bringing into the market a large chunk of new industrial land, which attracts relatively high-value industries to Darwin. Most importantly, this attracts large numbers of new, skilled workers.*"

A revised ratio with the second round economic impacts was not provided within the report.

The Pre-feasibility Report provided key requirements for the development to ensure the success of the Marine Industry Park. The requirements were to:

- develop the Marine Maintenance precinct first, noting this should only go ahead when a Marine Maintenance private sector proponent is willing fund the development of the precinct;
- identify foundation customers; and
- not sell or lease (except on a short-term basis) land within the precinct, because of the opportunity costs involved.

In response to the economic decline in the shipping and marine industry globally, another Economic Assessment of the Marine Industry Park was commissioned by LDC and completed by a professional services firm in November 2015. The Economic Assessment presented the economic value of the Marine Industry Park in two parts: an Economic Impact Analysis and a Cost Benefit Analysis. The focus of the Economic Assessment applied to the entire Marine Industry Park and not the Project alone and the results were consistent with those presented in the Pre-feasibility Report from 2012 with a cost benefit ratio less than one that can be improved by including secondary economic activity.

Department of Trade, Business and Innovation cont…

Major Project: Ship Lift and Marine Maintenance Precinct

The ship lift itself is infrastructure that is pivotal to the success of the Marine Industry Park. Existing ship lifts in Darwin are not large enough to service vessels in excess of 62.5 metres. There is a Defence owned ship lift based at HMAS Coonawarra, Larrakeyah. The two Darwin-based privately owned ship lifts are located in Frances Bay and East Point, rather than at East Arm. The largest existing ship lift is situated at Frances Bay. The longer term development of the East Arm Precinct would see the relocation of marine activities from Frances Bay to East Arm. There are also two privately owned light dry dock facilities supported by slipways, located at Frances Bay and Cullen Bay.

In late 2015, the NT Government announced funding for the construction of the Project at the Marine Industry Park with the then Chief Minister approving the Project to be granted major project status. As a major project, the control and management of the Project shifted from LDC to OMPII (now SIP). The role of SIP is to facilitate the delivery of major private sector projects that are supported by the NT Government. Despite this being an NT Government initiated project, the NT Government and DTBI agreed to classify construction of the Project as a Major Project. LDC continues to be responsible for the delivery of the Marine Industry Park in its entirety.

The proceeds of the Port of Darwin lease transaction in late 2015 enabled the Territory to offer up to $100 million to support the Project. Post this announcement, as part of the evaluation process, the NT Government's external technical advisor undertook a high level desktop assessment into the costing of the Project. It was estimated that if the Territory were to design and deliver the project, the estimated costs would be in the vicinity of $240 million to $270 million. Annual ongoing operating costs are estimated to be approximately $8 million.

The Pre-feasibility Report recommended the development of the Marine Maintenance precinct should not proceed if private sector proponents willing to meet the development cost were unable to be identified. No valuation basis was provided to support the value of $100 million available for the Project as announced by the Chief Minister in 2015 as the decision to offer up to $100 million was premised upon the availability of funds rather than the cost of the project. No cost benefit modelling was performed, before or after the announcement, to determine the effect on return that would result from the decision to invest up to $100 million.

Department of Trade, Business and Innovation cont…

From the time SIP took ownership of the Project, Agency representatives have been in communication with Defence to determine and understand their marine maintenance requirements. The existing ship lifts in Darwin are not of adequate size and functionality to accommodate Defence vessels. Currently Defence vessels are being serviced in southern states which entails a minimum five day voyage for vessels operating North of Australia at the time servicing is required. The market analysis had scoped the size and functionality of the ship lift to accommodate existing naval vessels however it subsequently became apparent that Defence was likely to acquire larger offshore processing vessels hence the size and functionality of the ship lift changed to accommodate the large vessels.

I note that both Defence and Australian Border Force are reluctant to provide any commitment in writing to Darwin-based servicing prior to the Ship Lift Facility being constructed, an operator being identified and a pricing structure put in place. Originally the NT Government stated that the Territory would invest in a *"ship lift as part of the early stages of development of the Marine Industry Park if the Federal Government commit to ship servicing of its naval and border protection fleet in Darwin."*[3]

My Authorised Auditors were advised that the NT Government had agreed to remove the requirement to obtain Defence and Australian Border Force support and to proceed with the Front-End Engineering and Design (FEED) process, irrespective of having no written commitment. I view the removal of the requirement as reasonable.

Department of Trade, Business and Innovation cont…

Procurement Process

The SIP used a competitive process involving EOI, RFP and Binding Agreement Phases (competitive process) to select a proponent for development of the Project on the basis that such an approach would enable the Territory to benefit from private sector knowledge and capabilities to optimise development of the Project.

An Evaluation Committee was formed to oversee the process. The terms of reference for the EOI and the RFP required the Evaluation Committee members to be free from conflicts of interest. The Final Probity Report stated that potential conflicts of interests were dealt with appropriately and none of the proponents raised any probity concerns with regard to the Project.

To ensure the competitive process was handled appropriately, an evaluation plan was developed to ensure all EOI's and RFP's were assessed objectively and without bias. The Evaluation Committee received input from an Advisory Committee including specialists in defence, commerce and law. The EOI and RFP evaluations were undertaken with an independent Probity Advisor attending all meetings.

The NT Government announced on 4 February 2016 that the EOI phase would be open to the public from 6 February 2016 to 29 February 2016.

The EOI outlined that the Project is *"intended to include delivery of the common user ship lift, landside infrastructure and dredging services to support the creation of a new major industry dedicated to marine services at East Arm (Ship Lift and Marine Maintenance Precinct). Landside infrastructure is expected to include:*

- *hard stand for fabrication and maintenance facilities, warehouses, offices, car parking;*
- *multiple dry berths for short term and long term visitation;*
- *buildings for office space, training and logistics support; and*
- *utilities services and security."*[6]

The EOI did not include specific requirements for the ship lift (e.g. length and weight capacity) or the Marine Maintenance Precinct (e.g. number of dry and wet berths) despite prior research being conducted to identify the needs of key defence and local customers. I acknowledge that the decision not to include specific requirements was a deliberate decision by DTBI intended to encourage innovative responses to the EOI.

6 . *DTBI Internal Documentation*

The following evaluation criteria were established:

Table 1: EOI Evaluation Criteria

Weighting	Evaluation Criteria
30%	a clear understanding of the Territory's objectives, the ability to achieve the Territory's objective and development vision for the Project
5%	financial capacity to undertake the Project
5%	experience, capability and capacity to plan, design, construct and commission infrastructure of comparable scale and complexity of the Project
5%	experience, capability and capacity to operate and maintain the Project to the highest standards and deliver services at a competitive price
5%	capability to bring design and innovation which maximises opportunities presented by the Project and development
5%	a plan for committing appropriate personnel and resources to the Project to meet the Project timetable
20%	the strategy to minimise the Territory's exposure to risk and its contribution to the Project
5%	proponent's commitment to working with stakeholders
20%	a commitment to maximising NT industry participation throughout the life of the Project for a range of local developers, contractors, suppliers and workers (including Indigenous participation)

Source: DTBI Internal Documentation

Members of the Evaluation Committee independently scored each proponent’s submission to the EOI with a rating between one and ten for each criterion. The Evaluation Committee then met and consolidated the scores with the Evaluation Committee reaching consensus following discussion over the relative merits of the EOI Submissions.

Of the 13 expressions of interest received, five proponents were shortlisted by the Evaluation Committee. There was no predetermined number of proponents who could be shortlisted however the Evaluation Committee records demonstrate the five highest scoring proponents all scored 50% or higher against the total available 100% score. The highest four scores were within 1.5% of each other, the fifth had a score of 50%.

On 14 March 2016, the then Chief Minister announced five shortlisted proponents would be invited to participate the in RFP.

Department of Trade, Business and Innovation cont…

The RFP was released to the five shortlisted proponents on 16 March 2016 with binding proposals due to be lodged on 4 July 2016.

In the first two weeks following release of the RFP:

- Proponent 1 withdrew from the RFP Phase with one party to Proponent 1's consortium joining the Proponent 7 consortium as a member; and
- Proponent 4 withdrew from the RFP Phase with one party to Proponent 4's consortium joining the Proponent 7 consortium as a subcontractor.

The withdrawal of two proponents left only three proponents to bid.

The RFP evaluation process occurred using four equally weighted criteria.

Members of the Evaluation Committee independently scored each proponent's submission to the RFP with a rating between one and ten for each criterion. The Evaluation Committee then met and consolidated the scores based on the committee reaching a consensus following discussion over the relative merits of the RFP submissions.

Each proposal was very different in what it proposed to be delivered, how the Project would be financed and the proposed costing. Of the submissions, development costs for the site ranged from $100 million (excluding the construction of a ship lift of sufficient size and functionality) to $443 million (excluding the construction of a ship lift of sufficient size and functionality) notwithstanding the NT Government had publically announced that total contributions would be capped at $100 million.

A copy of the signed evaluation report was provided to me for inspection and was signed by five of the six members of the Evaluation Committee and dated 14 July 2016. The sixth member was unavailable to physically sign the final report as the sixth member was on leave however an email from the sixth member at the conclusion of the RFP evaluation was produced and accepted as evidence of agreement with the content of the recommendation.

The evaluation and decision making timeframe relating to the EOI occurred within ten working days and within seven days for the RFP. I was advised that there was a concentrated effort by the Evaluation Committee and the advisors to conclude the evaluation process efficiently. Whilst acknowledging that both evaluation committees were assisted by an advisory panel, the timeframe for evaluation appears relatively short. Notwithstanding the timeframe, the recommendation reports completed by each evaluation committee were comprehensive and identified the key features, benefits and shortcomings of each response.

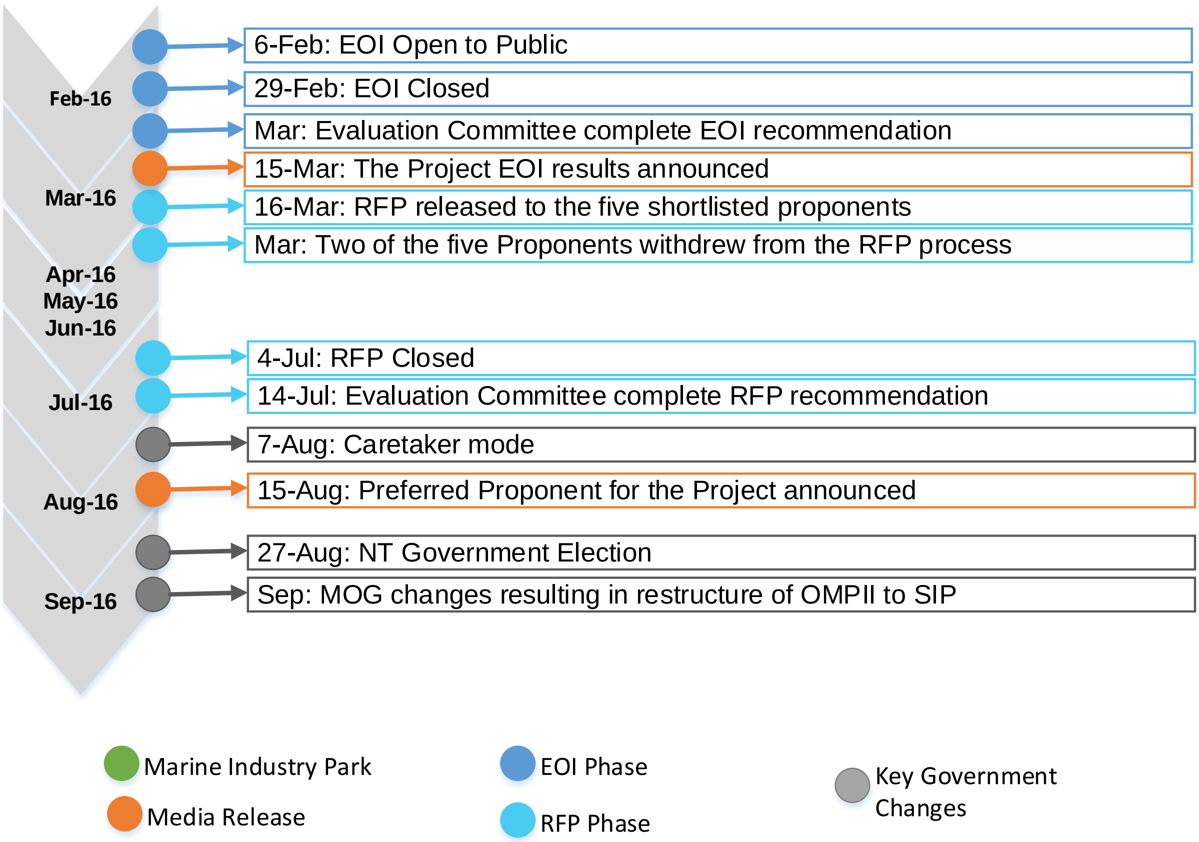
On 15 August 2016 the NT Government announced through a media release that a preferred proponent had been selected and negotiations would commence.

Department of Trade, Business and Innovation cont…

To date no valuation has been performed to determine the value of the land involved in the Project. Representatives of DTBI have advised that the decision to make available (through sale or lease) any land will be a decision for the Minister responsible for Planning at the time the decision is required to be made. I have further been advised by representatives of DTBI that decisions relating to the timeframe for returning the infrastructure to the preferred proponent will not be made until the conclusion of Phase One.

Evidence-based evaluation of the costs and benefits to the Territory as well as future business modelling will need to be undertaken by the NT Government during Phase One to demonstrate that the critical areas are adequately addressed prior to any decision to proceed with the Project. The chronology of the decision making process is presented below.

Figure 4: Detailed Procurement Timeline



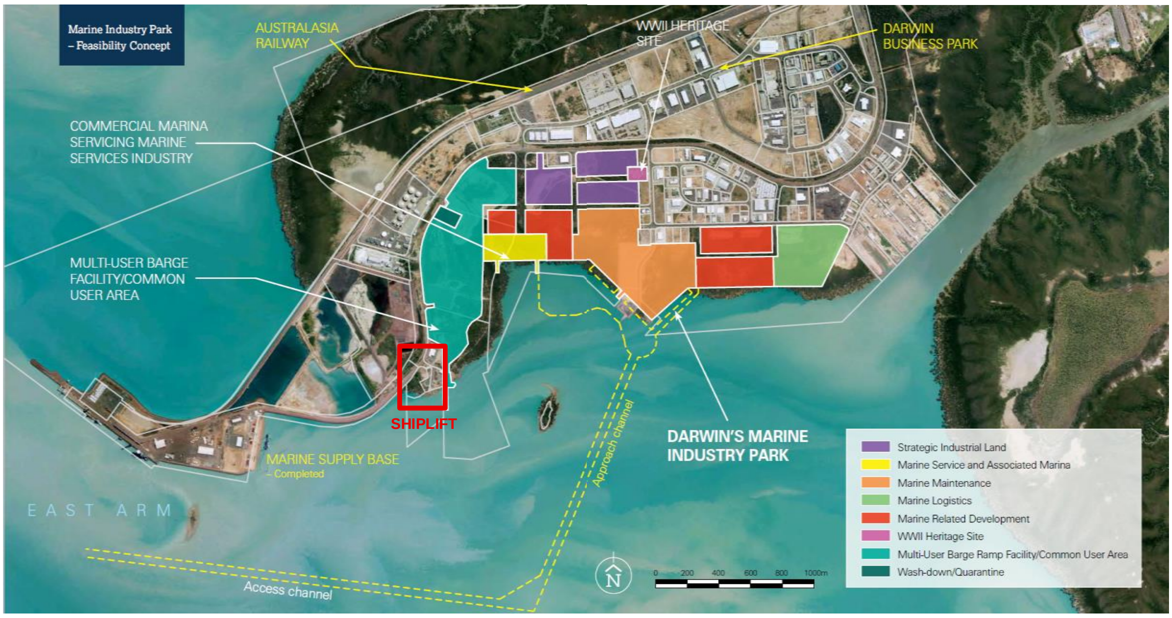
Department of Trade, Business and Innovation cont…

The project is currently in Phase One. During Phase Two, should it proceed, I have been advised DTBI will undertake more robust modelling of the financial and economic impacts of the project and determine an appropriate financial structure to support the project.

Any allocation of freehold or leasehold land and the accounting treatment for leases providing a right of access will need to be considered in determining the value associated with the Project as the cost to the Territory of transferring land to a successful proponent was not included in the earlier cost benefit analysis. I was advised by representatives of DTBI that no value related to land transactions has been provided for as part of the $100 million contribution announced by the then Chief Minister.

The Pre-feasibility Report explored six different options for the location of the Marine Industry Park. Each entailed different positioning of key strategic areas to assess the overall impact of each to determine which model would provide the largest overall benefit. The Pre-feasibility Report emphasised that access to common user infrastructure and similarly grouped services being located in close proximity to each other was critical to the success of the Marine Park. Consequently the position common to all options was that the ship lift would be surrounded by key Marine Service providers to best utilise the infrastructure. The preferred option in the Pre-feasibility Report is demonstrated in Figure 5 which locates the ship lift within the Marine Maintenance precinct (orange area).

Figure 5: LDC Marine Industry Park Master Plan



Source: DTBI Internal Documentation

Department of Trade, Business and Innovation cont…

The Pre-feasibility Report outlined the importance of the Marine Maintenance (orange shaded area) Industry having direct access to the Ship Lift and identified the Common User Area (aqua shaded region) to be considered fixed and unlikely to be repurposed due to its desirable location close to the Marine Supply Base and also because LDC has commenced developing the area as a common user hardstand.

The area outlined in red is the ship lift location presently identified on the '*InvestNT*' site sponsored by the NT Government. As this location is not consistent with the position presented in the preferred option, there is a risk that the Territory's objectives may not be realised in an effective or efficient manner.

Contracts and agreements

In August 2017, the PDA was signed between the NT Government and the preferred proponent. The legal parties that this agreement relates to are the Territory, the preferred proponent and a related party guarantor. The PDA relates only to Phase One of the Project. Review of the PDA did not identify any escalation clauses.

The Project is structured in three phases. The signing of the PDA initiated the first phase of the Project. Phase One incorporates the FEED process. This process was expected to be a nine month process beginning on 1 September 2017 and concluding on 30 May 2018. I note that Phase One had not been completed at the date of drafting this report. The objective of Phase One is to:

- develop an appropriate project design;
- develop a cost estimate of the Project; and
- perform the appropriate site due diligence works.

Following completion of Phase One, a decision will be made whether or not to proceed with Phase Two. Phase Two represents the Approvals and Risk Reduction Agreement process. Should Phase Two proceed, it is expected to take between 12 and 18 months to complete. The objective of Phase Two is to prepare a robust Project budget, reduce any potential risks and finalise the design, including undertaking and concluding environmental impact studies.

Phase Three represents the construction phase of the Project. It is envisaged by DTBI that a decision to enter or cease Phase Three will occur in late 2019. This phase, should it proceed, is expected to begin in December 2019 with construction expected to take between 12 and 18 months. Should Phase Three proceed, the commission and operation of the Ship Lift and Marine Maintenance Park is anticipated to occur in April 2021.

Department of Trade, Business and Innovation cont…

The total financial risk to the Territory constitutes the contribution of $100 million, the value of any land contributed by the Territory (unquantified) and the costs incurred by the Territory during Phase One, Phase Two and Phase Three (unquantified).

It would be prudent for the Territory to recalculate the net present value and undertake an updated comprehensive cost benefit analysis and risk assessment at the conclusion of each of these phases to appropriately inform any decision to proceed with or withdraw from the Project.

The preferred proponent's Project Manager provides weekly and monthly reporting to SIP and overall financial performance is discussed in detail during the joint Project Control Group (PCG) meetings held between SIP and the preferred proponent. SIP is not utilising any internal technology based project management system to coordinate delivery of the Project. The Project Manager is responsible for maintaining all project management related documentation. SIP maintains electronic document filing where all Project related data and information is compiled and stored including reporting provided by the Project Manager.

Copies of all invoices and FEED expenses are provided to SIP with all FEED related expenses paid equally by both parties. SIP assesses the expense information and the Financial Data and Project Management System Reports provided by the Project Manager. Costs are checked by three DTBI staff members and the Agency's Technical Advisor to ensure they are appropriate and relevant. DTBI has ten business days to undertake this review and to raise any queries with the preferred proponent. The Agency delegate will then approve the monthly payment on behalf of the Territory. The consideration of how best the funding should be spent to deliver the required outcomes occurs during the PCG meetings, as both parties have access to the financial data.

Governance and Oversight Groups

During the early stages of the Project, (the EOI and RFP phases), a project specific Steering Committee was established. The primary focus of the Steering Committee was to oversee the delivery of the Project through a competitive public process. The Steering Committee has responsibility for approving the probity plans and evaluation plans and making policy decisions on key matters. The Steering Committee reported to the Major Project Sub-Committee.

Committees that reported directly to the Steering Committee during the competitive process of the Project included the:

- Evaluation Committee whose role was to evaluate and recommend proponents for advancement to the subsequent phases in the competitive process; and the
- Advisory Committee whose role was to evaluate responses from proponents and provide observations to the Evaluation Committee.

Department of Trade, Business and Innovation cont…

The Major Project Sub-Committee exists to provide oversight for all major projects in the Northern Territory. This allows the committee to have a holistic view of all active and planned major projects and understand how projects potentially interact with each other. This single committee approach is intended to better align to the government's strategic priorities of fostering economic development and creating jobs.

Following the signing of the PDA with the selected preferred proponent, two PCGs were formed.

The first PCG is an internal government group that first met in October 2017. It includes representatives from the Department of Chief Minister, Department of Treasury and Finance, Department of Infrastructure, Planning and Logistics, Department of Environment and Natural Resources and DTBI. The purpose of this PCG is to meet and discuss identified risks and identify potential actions to be taken to fully or partially mitigate these risks. As at 31 January 2018, this PCG had met twice being in October 2017 and November 2017.

The second PCG group involves representatives from DTBI and the preferred proponent. It has met every month since it was established in September 2017. The PCG is comprised of the General Manager of SIP and the Chair representing the preferred proponent. Where it is deemed appropriate, additional representatives from DTBI and the preferred proponent are invited to attend meetings. The purpose of this PCG is to discuss, in detail, the progress of the Project and related budgeting in addition to considering any potential issues and or risks that have arisen throughout the FEED process. As at 31 January 2018, this PCG had met four times to discuss the progress throughout the early stages of the FEED.

Both PCGs have associated terms of reference. The terms of reference for the internal PCG is a standalone document. The terms of reference from the Agency and the preferred proponent are established within the PDA.

Department of Trade, Business and Innovation cont…

Probity Process

A Probity Advisor from a local professional services firm was appointed. A probity plan was developed for both the EOI stage (February 2016) and the RFP stage (June 2016). The role of the Probity Advisor, as defined in the Probity Plan, was to evaluate whether fairness and impartiality was observed throughout the competitive procurement that the criteria were consistently applied to all proposals and to provide assurance that the competitive process:

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

The Probity Advisor was involved in all stages of the competitive process. As part of the probity process, a Final Probity Report was issued on 14 July 2016 (the day the Evaluation Committee signed the RFP Evaluation report) following the conclusion of the RFP phase.

The findings within the Final Probity Report are that the level of compliance with regard to the approved probity plans was adequate; that the Evaluation Committee followed the evaluation procedures as described in the EOI and RFP Evaluation Plans; and that potential conflicts of interests were dealt with appropriately. The Final Probity Report noted that *"The NTG project team and the NTG's Commercial Advisors had regular informal contact with Proponents and potential Proponents. We did not have visibility over this contact and cannot attest to the probity of this contact."*[7] The Probity Advisor noted this as a limitation on the scope of the probity work performed as the overall conclusion can be formed only on what is known, observed by or verified by the Probity Advisor.

The overall conclusion drawn by the Probity Advisor was that, subject to the limitations outlined in the report, nothing came to Probity Advisor's attention that would cause the Probity Advisor to believe that that the Evaluation Committee had undertaken the process to assess the proponents who responded to the EOI and RFP other than with due regard to probity.

7 *Merit Partners, 14 July 2016, Report of Probity Advisory Service provided for the Ship Lift and Maritime Industries Project*

Department of Trade, Business and Innovation cont…

The conclusion in the Final Probity Report references the recommendation made by the Evaluation Committee. My Authorised Auditors were advised that the appointment and responsibility of the Probity Advisor ceased at the conclusion of the evaluation process. Any subsequent negotiations and decisions are outside the scope of engagement of the Probity Advisor. Consequently the conclusion of the Probity Advisor cannot be extended to the ultimate decision to enter negotiations with the preferred proponent.

In addition to the Final Probity Report dated 14 July 2016, a letter detailing the end of the competitive process was subsequently issued on 21 June 2017. The letter clarifies that the Territory and the preferred proponent had been in negotiations since July 2016 and that the negotiations had been concluded as at 21 June 2017. The letter did not provide an opinion.

Management and Record Keeping

DTBI has not established any specific management or record keeping systems or processes to support the Project. If there are amendments or updates to contracts or agreements, the updated versions are stored electronically and communicated to appropriate parties. A single hard copy of each contract and agreement is retained securely at DTBI.

The data security processes in place, both electronic and physical appear reasonable and appropriate. From observations made during the audit, data management appears consistent with other government agencies and all confidential data was password protected.

Department of Trade, Business and Innovation cont…

The Department of Trade, Business and Innovation has commented:

DTBI notes that with the FEED stage of the project nearing conclusion, there is now greater clarity on design specifications and associated costs. Given this, more detailed market, economic and financial analysis of the ship lift project and Government's potential $100M commitment can be undertaken.

DTBI will consider recommendations relating to information provided to the market and timeframes provided for response to market processes. DTBI also notes the recommendation on clearer scoping of the probity advisor role and level of assurances sought. The outcomes of these considerations will be reflected in future market process documentation.

The Auditor-General recommends that the operational and related financial implications of the proposed location of the Ship Lift be evaluated to ensure that the ultimate location enables the Territory's objectives to be realised in an effective and efficient manner. DTBI notes this recommendation and will build consideration of possible alternative siting options into the market, economic and financial analysis process.

The Auditor-General recommends that more time be allocated to evaluating submissions to enable clarification steps necessary to achieve optimal results to be undertaken.

DTBI is conscious of the need to balance timely responses to submissions and ensuring that every opportunity is afforded proponents to clarify submissions. However, it is also mindful of the fine line between clarification of matters outlined in a submission and the raising of new matters not already covered in the submission, the latter being contrary to probity and transparency principles. DTBI's position is that sufficient time is always provided to the evaluation process and, as the Report notes, there is no evidence to indicate that evaluation timeframes for the project resulted in deficiencies to Government competitive processes.

Menzies School of Health Research

Audit findings and analysis of the financial statements for the year ended 31 December 2017

The Menzies School of Health Research (the School) was established under the *Menzies School of Health Research Act* in 1985 and operates as a medical research institute within the Northern Territory. The School is deemed to be controlled by Charles Darwin University by virtue of Section 11(1) of the *Menzies School of Health Research Act* which, at the time of the audit, specified that the Vice-Chancellor of the University will be a member of the School's Board, and that five Board members, but no more than nine Board members, will be appointed by the Council of the Charles Darwin University.

Audit Opinion

The audit of the financial statements of Menzies School of Health Research for the year ended 31 December 2017 resulted in an unmodified independent audit opinion, which was issued on 28 March 2018.

Key Findings

Financial Analysis

I draw attention to the deficit that Menzies has incurred for the year under audit. Whilst I acknowledge that the deficit may represent timing differences, I have recommended that Menzies review what action, if any, may be required to contain costs in response to the declining income.

Menzies reported a deficit of $3.4 million (2016: $3.9 million surplus). This decrease in surplus (of approximately $7.3 million) has resulted from the combination of reduced income and increased expenditure.

Income decreased by approximately $6 million compared to the prior year due to decreases of:

- $2.3 million in Australian Government financial assistance;
- $4.6 million in NT Government funding, and
- $0.4 million in Fees and Charges; partially offset by increases of:
- $0.9 million in Consultancy and Contract Research; and
- $0.4 million in Other Revenue and Investment income.

The increase in expenditure of $1.2 million was largely attributable to an increase in employee related expenses, a contributing factor being the annual increase in salaries of employees incorporated into the Enterprise Bargaining Agreement, together with anticipated fluctuations in full-time equivalent staff as well as an increase in the number of part time and full time staff.

Menzies School of Health Research cont…

Menzies net asset position at 31 December 2017 had decreased by $3.4 million to $60.1 million predominantly reflecting decreases in:

- cash and cash equivalents of $8.2 million, of which $7.2 million was invested through the parent entity, Charles Darwin University and reported in the statement of financial positon within “other financial assets” with $1.0 million representing a reduction in actual cash balances; and
- property, plant and equipment and intangible assets of $0.7 million and $1.7 million respectively.

Menzies School of Health Research cont…

Financial Performance for the year

	2017	2016
	$'000	**$'000**
Income		
Financial assistance from the Commonwealth	13,408	15,674
Financial assistance from the NT Government	5,162	9,787
Other revenue (fees, interest, consultancy)	18,527	17,624
Gain on disposal of assets	(1)	8
Total Income	**37,096**	**43,093**
Less expenditure		
Employee expenses	(24,904)	(23,335)
Administration, operational and other expenses	(15,566)	(15,897)
Total expenditure	**(40,470)**	**(39,232)**
Surplus before income tax	**(3,374)**	**3,861**
Income tax expense	-	-
Surplus after income tax expense	**(3,374)**	**3,861**

Menzies School of Health Research cont…

Financial Position at year end

	2017	2016
	$'000	**$'000**
Cash and cash equivalents	2,474	10,646
Receivables and other current assets	33,045	25,982
Less current liabilities	(5,127)	(5,140)
Working Capital	**30,392**	**31,488**
Add non-current assets	30,062	32,427
Less non-current liabilities	(404)	(494)
Net Assets	**60,050**	**63,421**
Represented by:		
Reserves	7,657	6,832
Retained earnings	52,393	56,589
Equity	**60,050**	**63,421**

Menzies School of Health Research cont…

The Menzies School of Health Research has commented:

Menzies Management is deeply aware of the sustainability challenges it faces in an ever increasing competitive research environment, and has implemented core revenue growth strategies (as outlined in our strategic plan Menzies 2021) whilst also carefully monitoring and managing costs.

Whilst we believe it is important to note that Menzies achieved a cumulative net operating surplus before depreciation and amortisation expenses (excluding gain/(loss) on disposal of assets) for the past three years (refer table below), further explanation regarding Menzies results follows:

1. *Menzies income is predominantly for the conduct of multi-year research, and is recorded as income in the year it is received, though expenditure related to that income may occur in future years. As such, the mismatch between income and expenditure can result in research surpluses in one year as income is received, and research deficits in subsequent years as expenditure is incurred.*

   This is true for the one-off funding of $5M received from the Northern Territory Government in 2016 to fund research that delivers strong economic and health return for the Territory. This funding, received in 2016 and recorded as income in full in that year, is to be expended effectively and appropriately in future years to strategically support research activity to deliver economic and health returns for the Northern Territory. Restricting expenditure in line with current year or future year revenue would represent a highly inappropriate strategy in respect of expending this type of funding.

   Management expects that with the introduction of AASB 15 Revenue from Contracts with Customers in 2019, revenue and expenditure will be much more closely aligned.

2. *Depreciation and amortisation is recognised in Menzies accounts annually for assets that were granted in previous years. This again highlights a mismatch between income and expenditure. It also, with respect to amortisation, represents $4.87M of cost over 3 years that, whilst appropriately recognised in accordance with Accounting Standards, does not result in an actual outflow of cash or other resources, except to the extent that an intangible asset is diminished. Menzies amortisation cost relates solely to the right of use of the John Mathews Building (Building 58), Royal Darwin Hospital Campus. This asset, which has been recognised on Menzies Balance Sheet, is under a long-term peppercorn lease arrangement where nominal rent of $1 per year may be charged.*

Menzies School of Health Research cont…

The Menzies School of Health Research comments continued:

The following table demonstrates that:

1. *Even after adjusting for one-off funding and gain/(loss) on assets, income has not diminished over the past three years;*
2. *That the year on year increase in expenditure is relevant given the requirement to spend down on prior year surpluses to the extent that those surpluses are committed to particular activities (refer to example provided above with respect to one-off funding of $5M); and*
3. *That, excluding depreciation and amortisation, Menzies has sustained operating surpluses in two of the past three years, and an overall three year surplus of $2M.*

Year	***Income*** excl one-off funding and gain/(loss) on assets)	***Depreciation***	***Amortisation***	***All other expenses***	***Operating result*** Before Dep'n and Amortisation
2015	36,774,248	(875,947)	*(1,490,058)*	*(35,364,131)*	*1,410,117*
2016	*38,085,462*	*(866,646)*	*(1,690,000)*	*(36,675,749)*	*1,409,713*
2017	*37,097,216*	*(887,823)*	*(1,690,000)*	*(37,892,554)*	*(795,338)*
Total	***111,956,926***	***(2,630,416)***	***(4,870,058)***	***(109,932,434)***	***2,024,492***

Selected Agencies

Agency Compliance Audits

Audit Objectives and Scope

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

Background

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

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

Selected Agencies cont…

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

- Aboriginal Areas Protection Authority;
- Department of 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

Whilst none of the exceptions identified in the audits were indicative of pervasive weaknesses leading to material misstatements of the Treasurer's Annual Financial Statements, a number of issues were raised as a result of the audits including:

- lack of compliance with Procurement Rules;
- source documents not being readily available for audit scrutiny;
- deficiencies in controls over fixed assets and incomplete registers of property, plant and equipment;
- non-compliance with NT Government travel requirements;
- incomplete registers of financial interests, contingencies, guarantees and indemnities;
- lack of internal audit capacity accompanied by weaknesses in internal audit functions;
- non-compliance with the Treasurer's Directions pertaining to Information and Communications Technology;
- inadequate processes in place to identify reciprocal and non-reciprocal income; and
- Accounting and Property Manuals that did not fully comply with Treasurer's Directions.

A limited number of findings arose due to the requirements of some Treasurer's Directions being redundant in the contemporary operating environment of the NT Government. I recognise these do not represent material risks to the NT Government and consequently have not raised them within this report acknowledging that the Department of Treasury and Finance (DTF) are currently reviewing and updating the Treasurer's Directions. I have recommended to those affected agencies that they communicate such findings to DTF to assist in informing the review of existing Treasurer's Directions.

Selected Agencies cont…

The Department of Housing and Community Development has commented:

The department agreed with the findings and will continue to address any deficiencies in processes and has committed to implementing robust operational processes to enhance controls in support of compliance. The department has undertaken a proactive approach at self-evaluation and management of potential issues leading to non-compliance. Continuous improvement efforts and development of controls assists the vital work guaranteeing compliance and reflects openness and transparency of operations.

The Department of Infrastructure, Planning and Logistics has commented:

Thank you for your letter dated 3 August 2018 which include a summary of your findings related to the Department *of Infrastructure, Planning and Logistics to be tabled in the August 2018 Report to the Legislative Assembly. The Department accepts the audit findings and is addressing the recommendations.*

The Department of Tourism and Culture has commented:

The Department of Tourism and Culture acknowledges the single finding in relation to contingent liability register record expiry dates. The three records have been corrected.

The Department of Trade Business and Innovation has commented:

The Department acknowledges the key findings and continues to educate staff on travel compliance.

The Department of Treasury and Finance has commented:

As noted by the Auditor-General, the Department of Treasury and Finance is reviewing and updating Treasurer's Directions, in close consultation with agencies, to assist in improving agencies' control and compliance arrangements.

Northern Territory Police, Fire and Emergency Services has commented:

The Northern Territory Police, Fire and Emergency Services acknowledges the finding of the Agency Compliance Audit and has taken the necessary action to address identified issues.

Selected Agencies

Grants Management System

Scope and Objective

The objectives of the Grants Management System audit were to:

- assess the performance management system/s in place at the Department of Corporate and Information Services (DCIS) that enable it to manage the design and implementation of the across-government technology-based grants management system; and
- gain an understanding of the performance management systems that selected agencies have in place to enable management to assess whether grant funding provided to external parties are being achieved efficiently, effectively and with economy.

In the context of this audit, the following definitions of these characteristics are generally accepted:

- “Economy” means the acquisition of the appropriate quality and quantity of resources at the appropriate times and at the lowest cost.
- “Efficiency” means the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- “Effectiveness” means the achievement of the objectives or other intended effects of activities at a program or entity.

The second part of the audit focused on two agencies: the Department of Chief Minister (DCM) and the Department of Tourism and Culture (DTC). The audit covered the period from 1 July 2016 to 31 December 2017. The fieldwork supporting this audit was conducted between February and March 2018. Reviewing processes in place for managing grants at the two agencies provides context around the current processes and controls in place relating to grants management.

Background

Current Grant Management Systems

Each NT Government agency is presently individually responsible for management of grants paid by that agency to external parties. This responsibility includes the development and implementation of policies, procedures and processes supporting business operations related to the payment and administration of grants as well as the development and implementation of supporting systems (technology-based or manual systems).

Selected Agencies cont…

GrantsNT System

In the 2014/2015 financial year, grants totalling $966 million were provided by the NT Government to individuals, associations, businesses and non-government organisations. Four different technology-based grants management systems are used across the NT Government however the majority of agencies manage grants through manual processes, paper-based records, spreadsheets and outdated small databases. Across the NT Government, there exists no consistent reporting solution for the management of grants.

The GrantsNT project was initiated in 2014. Initiation was based on a review of Grants Management Systems after DCIS was unable to easily extract and provide information on NT Government agencies' grant programs and the distribution of grants funding. The review identified that the way grants are managed is inefficient and ineffective, consequently DCIS started to collate information in order to determine business needs and identify proposed solutions.

According to the DCIS review, these disparate arrangements result in a range of inefficiencies, including being time-intensive for the grant applicant and resource-intensive for agencies to process and administer. Existing processes are prone to human error due to a lack of programmed ICT checks and oversight. Agencies experience difficulty reconciling grant activity with expenditure and there is an inability to generate meaningful reports on grants issued across the NT Government.

DCIS conducted extensive investigation into possible solutions including existing grants management systems, programs being utilised in other jurisdictions and off-the-shelf solutions. None were found to have the functionality required to meet the requirements identified as necessary by NT Government agencies. Following this evaluation process, DCIS elected to develop a grants management system (GrantsNT) tailored to meet the requirements of the NT Government, using local ICT vendors and leveraging existing systems.

DCIS developed a Business Case in 2015 to deliver the GrantsNT system for the NT Government. The proposal was for a standardised package to be implemented in all 23 agencies, except the Department of Health (DoH) and Territory Families (TF), where an electronic grants management system was in the process of being implemented. Machinery of Government changes reduced the number of agencies to 15 in September 2016. A key driver for the Grants NT project is that it provides a centralised single source for grants data. As a result the Government announced an increase in scope to include the DoH and TF to implement a centralised grant system across-government.

The increase in the scope of work resulted in the estimated total cost for the project increasing from $1.394 million to an approved $3.436 million. The increase was funded from within DCIS, and my Authorised Auditors were advised that any budget deficits associated with the program are also to be met by DCIS from existing resources.

Selected Agencies cont…

Northern Territory Government agencies are scheduled to migrate onto the GrantsNT system commencing in July 2018. At the time of the audit there was no time frame for when each agency will be transferred to the new system.

Each agency selected for audit has its own processes for managing grants. DCM currently has manual systems and processes within its business units to administer and manage grants. DTC currently has an electronic grants management system used to administer grants called Grants Tracker however it is not used consistently throughout the business units within DTC.

Conclusion

The primary objective of the Grants Management System audit was to assess the performance management system/s in place at DCIS that enable it to manage the design and implementation of the across-government GrantsNT system. The evidence provided during the audit demonstrated that DCIS has developed a robust performance management system to enable it to manage the design and implementation of the across-government GrantsNT system. The audit identified some opportunities to enhance the performance management system.

The second objective of the Grant Management System audit was to gain an understanding of the performance management systems that selected agencies have in place that enable management to assess whether grant funding provided to external parties are being achieved economically, efficiently and effectively. There are a number of improvements required at those agencies selected for testing in order to demonstrate that each agency has developed and implemented systems and processes that enable management to assess whether grant funding provided to external parties is being applied effectively, with regard to efficiency and economy, and in a way that will assist the agency to achieve its stated outcomes.

Recommendations

Recommendations to enhance processes in place to manage the design and implementation of the across-government GrantsNT system were identified. Given the stage of the project, it would be prudent to focus upon ensuring the efficient implementation of the GrantsNT system. With the implementation of a new technology-based information system, it would be timely to develop and implement a consistent grants management policy across-government and, to the extent possible, consistent across-government procedures, processes and guidance.

As detailed below, a number of recommendations have been identified to enhance agency systems and processes designed to ensure grants are being managed efficiently, effectively and with economy.

Selected Agencies cont…

Grant management is centralised

Development of centralised policy, process, systems and templates across all NT Government agencies will assist in achieving more streamlined and transparent grants administration processes and in turn improved reporting and targeting of grant programs for government.

I recommended the GrantsNT Steering Committee consider and communicate the advantages and disadvantages of introducing centralised requirements in relation to management of grants by all agencies including consideration of which central agency would be best placed to hold responsibility for managing the requirements.

Clearly defined process and responsibilities developed for implementation of GrantsNT

NT Government agencies are scheduled to migrate onto the GrantsNT system commencing in July 2018. At the time of the audit there was no timeframe on when each agency will be transferred to the new system.

Noting that, at the time of the audit fieldwork, DCIS were developing a co-ordinated across-government approach for implementation to the GrantsNT system, all NT Government agencies will need to develop a plan for implementation that provides sufficient time and resources. I recommended that agencies work closely with DCIS to ensure an appropriate across-government approach is developed that meets the needs of the agencies as well as addressing centralised reporting and management capabilities.

Establish processes that allow visibility of grants information between agencies

Visibility of grants information within and between agencies will provide an overview of the grants released and may increase the economy of the grants administration system by reducing unintended duplicate funding. Visibility of outstanding acquittals in other business units will provide a control against funding non-compliant applicants. I recommended that reporting be established that allows visibility of grants paid by individual agencies and across-government.

Selected Agencies cont…

Establish standards processes and controls used within each agency

At the time of the audit, there was an absence of consistent policies, procedures and processes within and across agencies. Whilst I recognise that each grant program will differ in the specific set of requirements it has, a consistent framework provides useful guidance to individuals and supports the achievement of minimum requirements. An effective framework would establish process and controls throughout the life of the grant and should address the following areas:

- process for establishing a grant;
- guidance for reviewing risk and establishing controls;
- guidance and templates for assessment of grant applications;
- guidance on how to monitor each applicant's compliance with grant conditions and actions to take on non-compliance;
- requirements for monitoring and reporting, internally and externally;
- development of procedures to reconcile internal records; and
- training requirements.

I recommended that consistent grant procedures be implemented or enhanced and mandated across agencies with regular monitoring and revision as required to remain effective.

Ensure controls are in place to verify the completeness and accuracy of grants paid in the general ledger

Established practice is to reconcile the grant payments recorded within the general ledger balance to an external source of truth to verify the completeness and accuracy of the grants. I noted there is currently no single source for recording grant agreements and related payments other than in the Government Accounting System (GAS). It is recommended that a reconciliation between payments scheduled in accordance with approved grant agreements and GAS be performed on a regular basis. This process will be assisted by the effective implementation of GrantsNT.

Enhance monitoring and reporting

Performance and financial reporting assists the monitoring of activities that have been funded through the provision of grant payments. Ensuring external parties are appropriately using funds is essential to the economy of the grants administration process. I recommended performance indicators be established and implemented prior to the commencement of funded programs to provide targeted outcomes for the funding recipient to meet. Monitoring throughout the project life enables corrective action to be identified early and addressed by an agency and increases the likelihood that the funding recipient will meet the intended outcomes of the grant program.

Selected Agencies cont…

Strategic alignment of grant outputs with agency outcomes

The purpose of each grant should align to an agency's outcomes, key performance indicators and strategic plan. I recommended that grant programs which do not clearly meet the agency's strategic objectives be reconsidered. This will increase the effectiveness of the budget provided for grant funding. Regular review should allow guidelines for all grants to be reviewed and updated to promote consistency.

Improvements in documentation

It was noted that appropriate documentation was not maintained to evidence approval for all grant applications and the nature and type of documentation maintained was inconsistent. I recommended documentation be maintained to evidence the decision to approve or reject a grant application thus ensuring transparent decision-making and increasing the efficiency of the grant approval process.

Audit Observations

The following observations were noted in relation to the overall management of the GrantsNT system during the conduct of audit procedures at DCIS:

Planning

The Business Case is well presented and appropriately detailed. The structure includes:

- Outputs/Benefits
- Solution Analysis
- KPI's/Measurements
- Agency Roles
- Timeline
- Costing
- Risk Review
- Governance Requirements
- Quality Assurance

This structure clearly outlines what the project is expected to deliver. In addition there were strong version control practices in place.

Governance

A robust Governance framework was implemented at the commencement of the project and actively applied throughout the project. The project's key committees have:

- an appropriate composition of independent and internal members;
- a signed Terms of Reference;
- adequately maintained minutes; and
- met regularly.

Selected Agencies cont…

Communication and Agency Involvement

Extensive consultation was undertaken with agencies managing grants, other NT Government stakeholders and grant recipients across a range of non-government sectors, as part of the Requirements Definition and System Architecture phase. DCIS facilitated continuous communication with the agencies to ensure appropriate commitment to the system was obtained. Ongoing stakeholder consultation is planned throughout the development and implementation phases via the establishment of internal and external reference groups.

The GrantsNT Steering Committee is responsible for overseeing the analysis, development and implementation of the GrantsNT system and providing guidance on the direction and scope of the project. The Steering Committee also carries responsibility for governing the development of the end-to-end grants management system, encompassing publication, application, assessment, approval, payment, acquittal and reporting. This will ultimately enable the GrantsNT system to contribute to improved efficiency and economy.

The Steering Committee is comprised of senior representatives with authority to make decisions in relation to the direction of the project on behalf of their agency. Representatives include senior personnel from DCIS; DCM; DoH; DTC and the Department of Trade, Business and Innovation.

Reporting

The GrantsNT project is well managed, with performance being measured and monitored on a continual basis through fortnightly and monthly reporting to ensure accountability. At the time of the audit, the project was on time and within budget.

Quality Assurance

An Independent Quality Assurance Consultant was used to assess the management and implementation of the project. The Project Management team were open to the feedback received and actively responded to recommendations. Responses to recommendations were prepared and updates were carried through to the Business Case. Updates from previous versions of the Business Case were clearly marked in the revised version of the Business Case to show where updates and improvements has been made allowing users to understand how the recommendations had been actioned.

Cost and Budgets

The budget is well managed, and the communication between Project Management Office and Chief Financial Officer appears effective and efficient. As a result of this, the increase in scope was funded without applying for additional funding.

Selected Agencies cont…

Migration to GrantsNT

NT Government agencies are scheduled to migrate onto the GrantsNT system commencing in July 2018. At the time of the audit there was no time frame for when each agency will be transferred to the new system. Some of the challenges envisaged by the agencies during the implementation have been documented below.

- The initial workload at each agency will be significant. There will be an initial learning curve within the agencies with some grant management processes requiring to be re-developed.
- For agencies with an existing technology-based system, there is concern as to how the data will be maintained within the two systems during cutover.
- Agencies will need clarity as to the reporting capability of GrantsNT as agencies will be reliant on the system to meet reporting obligations. Agencies also need to understand how reporting capability will be affected if all current grants are not entered into the system.
- Processes will need to be established to enable reconciliation between financial records relating to grant payments maintained within GrantsNT and GAS.

DCIS representatives have advised they are developing a co-ordinated across-government approach for implementation to the GrantsNT system. A best practice implementation plan would include:

- a timeline for when agencies will transition to the GrantsNT System;
- pre-work requirement for an agency to undertake to prepare for the transition;
- key data requirements for inputting a new grant into the system; and
- a manual/instruction booklet on how to use the new system.

The plan was not developed at the time of the audit thus it has not been subject to audit.

Selected Agencies cont…

Grants Management within NT Government Agencies

This section of the report addresses findings from the audit as they relate to the selected agencies.

Currently grants management for NT Government agencies is partially centralised. High level requirements for grants are maintained by the Department of Treasury and Finance. Grant guidelines are maintained through DCM. Systems are currently being centralised through DCIS. It is noted that agencies are currently not mandated to use the guidelines or system. Policy, processes and templates are the responsibility of each agency with inconsistent practices observed between agencies and also between divisions within the same agency. Inconsistent policies and templates across agencies create:

- difficulty in maintaining a centralised system due to varying requirements;
- inconsistent reporting due to inconsistent data; and
- reduced efficiency and increased cost due to the duplication in managing different grants policies and processes within each agency.

The audit confirmed that, notwithstanding the existence of policy and guidance within individual agencies, processes and controls in place to manage grants are inconsistent between agencies and across business units within agencies. Grants management practices were inconsistent between:

- differing types of grant releases;
- individual employees tasked with the management or awarding of grants; and
- individual grants.

In some instances, agencies are dependent upon corporate knowledge maintained by individual employees in relation to management of grants rather than documented policies, processes and procedures.

Whilst the GrantsNT system will assist in improving the overall performance management systems for grants, the implementation or enhancement of procedures and processes within agencies will be required to ensure grant programs and funding provided to external parties is managed efficiently and effectively and with economy to meet the outcomes attributable to the agency.

Selected Agencies cont…

The table below presents a summary of matters identified during the assessment of processes in place for management of grants within the selected agencies.

Grant Stage	Assessment
Establishment	Grant programs were appropriately established and approved however it was not evident that all grant programs directly aligned with the outcomes of the agency.
Application and Assessment	Both manual and electronic systems are used to receive grant applications. The processes for assessing grant applications were inconsistent between grants, between agencies and between business units within agencies. Scrutiny of applications and applicants was inconsistent and, in some instance, insufficient. Appropriate documentation was not maintained as evidence of approval of grant applications and the level and type of documentation was inconsistent. Based on a sample of grants selected for testing, there was evidence that payments for grants were approved and awarded grants were supported by a documented grant agreement. There is no established means for communication within agencies or between agencies in relation to applicants that have breached grant conditions. A number of instances were noted where a decision was made to award a grant to an applicant following earlier rejection of the grant application due to the application not aligning with the objectives of the grant program. Appropriate documentation to support the change in decision was not maintained.
Monitoring	Monitoring processes were predominantly performed manually and monitoring practices were inconsistent within and across agencies. Performance indicators and reporting requirements are not consistently included within every grant agreement.
Reporting	There was no single source of information outside GAS to identify grants. Consequently, there is limited visibility of grants information within and between agencies. There is no central monitoring of how grant expenditure (and associated outcomes) has impacted the performance of business units as measured against their established key performance indicators.

Selected Agencies cont…

The Department of Corporate and Information Services has commented:

The Department of Corporate and Information Sen/ices (DCIS) notes the audit findings recognising the robust performance management systems DCIS has maintained to co-design, develop and implement the new digital GrantsNT solution for government.

System development is now completed, with positive feedback received from the non-government sector, and the implementation phase commences next quarter. A comprehensive implementation plan has been developed in consultation with agencies and endorsed by the inter-agency GrantsNT Steering Committee.

Audit matters relating to grants administration, framework and policy do not involve DCIS.

The Department of the Chief Minister has commented:

The department has recognised and commenced a whole of government grants framework with associated policies, documents and templates which is a complex and significant piece of work to be delivered.

The Department of Tourism and Culture has commented:

The Department of Tourism and Culture acknowledges the findings and will continue to prepare for the transition to the whole of government GrantsNT system. The Department will also continue to work with stakeholder groups in the establishment of a government Grant Management Framework and standards and to further streamline grant management processes.

Selected Agencies

Fuel cards

Background

The objective of this analysis was to examine transactions using fuel cards for fuel purchases that were undertaken by the Central Australia Health Service, Department of Environment and Natural Resources, Department of Primary Industry and Resources and the Top End Health Service (the Agencies) between 1 July 2017 and 28 February 2018 in order to identify any transactions that displayed unusual characteristics or characteristics that might suggest the existence of fraud, and to provide information about those transactions to the Agencies' management for review and follow-up. Fuel cards issued to officers of the Agencies, and pool vehicles were included in the analysis.

Overall Assessment

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

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

Key Findings

The following table outlines the number of fuel cards identified as being in use at some time during the period 1 July 2017 and 28 February 2018.

Agency	Fuel Cards
Central Australia Health Service	194
Department of Environment and Natural Resources	136
Department of Primary Industry and Resources	137
Top End Health Service	287

Acceptable error rate

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

Selected Agencies cont…

There were a significant number of anomalous transactions recorded by the Agencies as outlined below:

Agency	Transaction Errors	Population	% of errors at Agency level
Central Australia Health Service	651	3,135	21%
Department of Environment and Natural Resources (DENR)	698	2,453	28%
Department of Primary Industry and Resources	436	1,823	24%
Top End Health Service	728	5,473	13%

- Anomalous information included:
  - the driver failing to provide an odometer reading;
  - the console operator not recording the odometer reading provided;
  - the accounts department of the fuel supplier not providing the odometer reading on the invoice; or
  - the fuel card not allowing the odometer reading to be recorded.
- Incorrect odometer readings, such as a reading lower than the previous reading or an apparently incorrect reading. Possible reasons for this include:
  - the driver misreading the odometer;
  - the driver guessing the reading;
  - the console operator mishearing the reading; or
  - the console operator mistyping the reading.

Central Australia Health Service

Vehicles Unable to be Analysed

Of the 194 fuel cards, 13 had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken. There were five fuel cards allocated for multi-vehicle use and 11 other fuel cards where there was insufficient data to permit a reasonable analysis to be performed because sufficient correct odometer readings were not provided.

Selected Agencies cont…

Analysis and error rate

53 fuel cards had what appeared to be correct odometer readings for more than 95 per cent of the transactions. I consider an error rate of less than 5 per cent to be reasonable.

80 fuel cards had missing or incorrect odometer readings for between 6 and 25 per cent of the transactions. I consider this to be reasonable (taking into account the probability of some console operator error occurring), however I recommended that the users of the fuel card for these vehicles be reminded of the need to provide accurate odometer readings to the fuel supplier.

For the 61 remaining fuel cards, errors were identified on more than 26 per cent of the transactions. Even taking into account the probability of some console operator or supplier error, I find this to be an unacceptable error rate.

Other findings

In relation to the 3,135 individual transactions recorded against the fuel cards:

- One Puma fuel card had a fuel purchase that was higher than the reported fuel capacity of the vehicle (capacity of 80 litres, purchased 100 litres). Representatives of Central Australia Health Service advised that the fuel card was used to refuel one of two vehicles that was used for a serious medical emergency and that the vehicle had a fuel capacity of 180 litres.
- Analysis of the recorded odometer readings identified that three Puma fuel cards were used for a vehicle other than the vehicle to which they were allocated.
- There were no instances where it appeared that incorrect fuel was purchased.
- There were 47 instances where less than 15 litres of fuel were recorded as having been purchased but these appear to be ‘topping up’.

Department of Environment and Natural Resources

Vehicles Unable to be Analysed

Of the 136 fuel cards, seven had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken. There were two fuel cards allocated for multi-vehicle use; three fuel cards were used for small machinery use in remote areas and to fill 200 litre drums to fuel assets such as boats, quadbikes and generators; and 11 other fuel cards where there was insufficient data to permit a reasonable analysis to be performed because sufficient correct odometer readings were not provided.

Six vehicles were identified in the NT Fleet report as not being allocated to the Agency. Some of these were also not recorded as registered in the NT Vehicle Registration website, however for these vehicles, fuel purchases had been invoiced to the Agency’s fuel account during the period analysed.

Selected Agencies cont…

Representatives of the Agency provided possible explanations as to why these vehicles were not showing in the NT Fleet vehicle report. These explanations are presented below.

- The vehicle's registration number has changed, and the fuel card may not have been updated to the new registration details.
- The vehicle was disposed or replaced or gifted; however the analysis identified fuel purchases after the date of disposal of the vehicle.
  - DENR Vehicle 027 was disposed on 28 November 2016 and replaced with DENR Vehicle 009 (with its own fuel card) however, fuel purchases totalling $8,800 were identified from 1 July 2017 to 28 February 2018, after the date of disposal of DENR Vehicle 027. I note that the replacement vehicle, being DENR Vehicle 009 with its own fuel card, purchased fuel to the value of $5,592 during that time period.
  - DENR Vehicle 060 was disposed on 13 March 2013 and replaced with Vehicle DENR Vehicle 060a (reportedly using the fuel card that was allocated to DENR Vehicle 060), however no vehicle with the registration number identified for DENR Vehicle 060a was recorded in the NT Fleet records provided to my Office.
  - DENR Vehicle 110 was disposed on 18 November 2013. This Department has indicated that DENR Vehicle 110 was purchased outright by Bushfires NT for gifting to a 'brigade' (external volunteers body) and was replaced with DENR Vehicle 110a. This replacement vehicle (DENR Vehicle 110a) however is identified within NT Fleet records as having been allocated to another Department since 14 October 2016. Fuel purchases of $1,146 were made from 29 September 2017 to 20 November 2017 by the fuel card associated with DENR Vehicle 110 that was reported as disposed on 18 November 2013. It therefore appears that fuel purchases have been made for a vehicle that was disposed of in 2013 or a vehicle allocated to another Department.
  - DENR Vehicle 117 was disposed on 27 April 2017 and was not replaced however three fuel purchases totalling $97 were recorded from 14 September 2017 to 10 November 2017.
  - DENR Vehicle 125 was disposed on 13 October 2011 and not replaced but instead gifted to a 'brigade' by the Department. This fuel card had fuel purchases of $11,638 (totalling 8,380 litres) recorded between 2 July 2017 and 28 February 2018 that were invoiced to the Department's fuel account. Odometer readings recorded for this vehicle were not accurate and therefore an analysis of whether the fuel card was being used by more than one vehicle was not possible. This registration number was also not recorded as registered in the NT Vehicle Registration website.

- DENR Vehicle 129 is not recorded within NT Fleet records provided to my Office and the Department indicated that it was disposed on 20 December 2012 through outright purchase by one of the Department's business units for gifting to a 'brigade'. This fuel card had fuel purchases of $1,323 from 2 October 2017 to 19 November 2017 that were invoiced to the Department's fuel account. This registration is showing in the NT Vehicle Registration website for a Toyota Hilux SR.

Analysis and error rate

40 fuel cards had what appeared to be correct odometer readings for more than 95 per cent of the transactions. I consider an error rate of less than 5 per cent to be reasonable.

53 fuel cards had missing or incorrect odometer readings for between 6 and 25 per cent of the transactions. I consider this to be reasonable (taking into account the probability of some console operator error occurring), however I recommended that the users of the fuel card for these vehicles be reminded of the need to provide accurate odometer readings to the fuel supplier.

For the 43 remaining fuel cards, errors were identified on more than 26 per cent of the transactions. Even taking into account the probability of some console operator or supplier error, I find this to be an unacceptable error rate.

Other findings

In relation to the 2,453 individual transactions recorded against the fuel cards:

- Seven fuel purchases occurred outside of the Northern Territory (all occurred in Kununurra, Western Australia). The Department has indicated that these vehicles were used for drilling projects.
- There were 26 fuel purchases that appeared to be significantly higher than the reported fuel capacity of the vehicle. Specifically:
  - DENR Vehicle 063 was refuelled with over 110 litres on two occasions when the tank capacity is recorded as 76 litres. On one occasion, the vehicle was refuelled with 227 litres.
  - DENR Vehicle 081 was refuelled with over 120 litres on ten occasions when the tank capacity is recorded as 80 litres. On one occasion, the vehicle was refuelled with 146 litres.
  - DENR Vehicle 087 was refuelled with over 180 litres on three occasions when the tank capacity is recorded as 140 litres. On one occasion, the vehicle was refuelled with 242 litres.

   - DENR Vehicle 127 was refuelled with over 110 litres on four occasions when the tank capacity is recorded as 76 litres. On one occasion, the vehicle was refuelled with 118 litres.
   - DENR Vehicle 128 was refuelled with over 120 litres on three occasions when the tank capacity is recorded as 80 litres. On one occasion, the vehicle was refuelled with 227 litres.
   - DENR Vehicle 136 was refuelled with over 110 litres on four occasions when the tank capacity is recorded as 76 litres. On one occasion, the vehicle was refuelled with 124 litres.

  If these vehicles have been retro-fitted with long range tanks, the records at NT Fleet should be adjusted accordingly to reflect the enhanced fuel capacity.

  Fuel purchases higher than the reported fuel capacity of the vehicle could also be due to filling fuel containers for field work as advised by representatives of the Department.

- There were 150 low quantity fuel purchases of regular ULP and/or premium ULP when the usual fuel for those vehicles is diesel. The Department has advised that these instances could be due to a number of reasons:
   - Fuel for water pumps on vehicles and fuel for bug mitigation;
   - Fuel for quad bikes for remote gauging station work;
   - Fuel for water sampling boats; and
   - Fuel used to fill containers for field work.

  The following are some examples of these purchases:

   - DENR Vehicle 003 made two purchases on 25 August 2017. The first purchase was for 10.84 litres of regular ULP and the second purchase was for 77.65 litres of diesel.
   - DENR Vehicle 006 made ULP purchases on 12 October 2017 being for 12.94 litres of regular ULP and 132.98 litres of diesel.
   - DENR Vehicle 111 made ULP purchases on 13 February 2018 being for 23.49 litres of regular ULP and 25.89 litres of Diesel.
   - DENR Vehicle 012 purchases include many purchases of ULP at the same time as purchase of diesel. The ULP purchases range from 1.17 litres to 26.74 litres.

Selected Agencies cont…

Department of Primary Industry and Resources

Vehicles Unable to be Analysed

Of the 137 fuel cards, eight had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken. There was one fuel card allocated to a boat and seven other fuel cards where there was insufficient data to permit a reasonable analysis to be performed because sufficient correct odometer readings were not provided.

Analysis and error rate

40 fuel cards had what appeared to be correct odometer readings for more than 95 per cent of the transactions. I consider an error rate of less than 5 per cent to be reasonable.

58 fuel cards had missing or incorrect odometer readings for between 6 and 25 per cent of the transactions. I consider this to be reasonable (taking into account the probability of some console operator error occurring), however I recommended that the users of the fuel card for these vehicles be reminded of the need to provide accurate odometer readings to the fuel supplier.

For the 39 remaining fuel cards, errors were identified on more than 26 per cent of the transactions. Even taking into account the probability of some console operator or supplier error, I find this to be an unacceptable error rate.

Other findings

In relation to the 1,823 individual transactions recorded against the fuel cards:

- Four Puma fuel cards had fuel purchases that appeared to be higher than the reported fuel capacity of the associated vehicles. Representatives of the Agency subsequently provided evidence of the correct fuel capacity of these vehicles. As a result of this confirmation, these purchases were found not to be anomalous.
- One fuel card was allocated to a vehicle that was not initially recorded as belonging to either the Agency or to the NT Government. Representatives of the Agency advised that this plate number had been stolen and therefore was replaced with a new plate number. This was confirmed to be a vehicle leased to the Department.
- There were no instances where it appeared that incorrect fuel was purchased.
- There were 25 low quantity fuel purchases (less than 15 litres) recorded during the period analysed.

Selected Agencies cont…

- All of the queries raised with Agency personnel were provided with adequate responses and explanations. The Department has also advised that fuel card holders providing rounded and incorrect odometer readings have been reminded of their responsibilities to provide accurate odometer readings at all times.

Top End Health Service

Vehicles Unable to be Analysed

Of the 287 fuel cards, ten had incurred only one fuel purchase throughout the period under analysis and there were no exceptions identified in relation to the odometer reading related to those purchases, therefore no further analysis was undertaken. There were 12 fuel cards allocated to auxiliary items such as mowers and other small equipment used for hospital ground maintenance, and 11 other fuel cards where there was insufficient data to permit a reasonable analysis to be performed because sufficient correct odometer readings were not provided. There were also four fuel cards that were allocated to short term hire vehicles and an ambulance no longer used.

Analysis and error rate

118 fuel cards had what appeared to be correct odometer readings for more than 95 per cent of the transactions. I consider an error rate of less than 5 per cent to be reasonable.

109 fuel cards had missing or incorrect odometer readings for between 6 and 25 per cent of the transactions. I consider this to be reasonable (taking into account the probability of some console operator error occurring), however I recommended that the users of the fuel card for these vehicles be reminded of the need to provide accurate odometer readings to the fuel supplier.

For the 60 remaining fuel cards, errors were identified on more than 26 per cent of the transactions. Even taking into account the probability of some console operator or supplier error, I find this to be an unacceptable error rate.

Other findings

In relation to the 5,473 individual transactions recorded against the fuel cards:

- There were five fuel purchases that appeared to be significantly higher than the reported fuel capacity of the vehicle. The Top End Health Service advised that all of these fuel purchases were used to fill jerry cans for hospital grounds maintenance. Some of the purchases were also used to fill jerry cans for cyclone preparations and during hospital renovations.
- Two fuel cards were used for a vehicle other than the vehicles that the fuel cards were allocated to.
- There were four instances where less than 96 litres of fuel were recorded as having been purchased but these appear to be ‘topping up’.

Selected Agencies cont…

The Central Australia Health Service has commented:

Central Australia Health Service provide regular communications in relation to the use and management of fuel cards. Fuel card usage reports are regularly received from the Department and are interrogated to validate transactions, identify anomalies and identify any remedial action required.

The Department of Environment and Natural Resources has commented:

The department has both standard commercial vehicles, modified fit for purpose vehicles with long range fuel tanks, boats, ATV, drilling equipment, small machinery and generators all utilising department fuel cards. The department undertakes a significant amount of remote field work, and also has a drilling unit that travels within the Northern Territory, and also Western Australia, to undertake drilling contracts.

In reviewing the analysis provided within the report the department is comfortable that there are operational explanations for findings and observations outlined in the report; but acknowledges that the registers require review and updating (both NT Fleet registers and fuel card registers); and internal processes could be strengthened.

This review has identified improvements that the department will implement such as:

- *Updating NT Fleet records to include long range fuel tanks on vehicle;*
- *Ensuring that as new vehicles are ordered a subsequent new fuel card is ordered;*
- *Working with NT Fleet ensuring returned vehicles also include the return and cancelling of the allocated vehicles fuel card;*
- *Review of the agencies register of fuel cards and subsequent cancelling of fuel cards that were allocated to a previously returned vehicle, and the operational requirements for generic or new fuel cards to be issued to meet fleet and operational needs;*
- *Investigating a solution to capture non-vehicle fuel purchases which do not have odometers; such as for boats, ATV, jerry cans etc.;*
- *Internal promotion of the requirement of odometers to be provided on all occasions; and*
- *Internal promotion of best practice when using fuel cards.*

The undertaking of the improvements above will allow the operational fuel usage of the department to be reflective of associated registers and data.

Selected Agencies cont…

The Top End Health Service has commented:

Regular reviews and monitoring of fuel card usage across Top End Health Service's workforce and sites is undertaken by Corporate Support Services, NT Health. Any irregularities are investigated with explanations sought, documented and reported to Management. Controls are improved as a result of these findings.

Selected Agencies

Salary Overpayments

Background

The objective of this assessment was to provide an analysis of salary overpayments that were identified between 1 July 2017 and 31 January 2018 in order to provide information about those transactions to the entities' management for review and follow up.

The Payroll Overpayments Database (ePOD) was developed primarily for the purposes of Fringe Benefits Tax reporting and to monitor repayment plans relating to salary overpayments. This analysis is based upon the ePOD02 report (provided by the Department of Corporate and Information Services (DCIS)). The entities where overpayments were identified within the ePOD02 report were:

- Batchelor Institute of Indigenous Tertiary Education
- Central Australia Health Service
- 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 and Planning
- 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 Legal Aid Commission
- Northern Territory Police, Fire and Emergency Services
- Power and Water Corporation
- Power Generation Corporation
- Power Retail Corporation
- Territory Families
- Territory Wildlife Parks
- Top End Health Service

Selected Agencies cont…

Limitation of Scope

The items reported within the ePOD02 report are manually entered into ePOD, thus the input of a particular salary overpayment relies on DCIS personnel following internal procedures. Items are added, or not added, to ePOD based on the criteria set out in the ePOD internal procedures as detailed under Key Findings. Salary overpayments recouped within the fortnight, or where there has been an immediate undertaking by the payee to return the money, are classed as 'salary adjustments' not 'overpayments' thus they are not captured within ePOD.

One instance of where DCIS personnel followed internal procedures to not include a salary overpayment of $487,254 on the ePOD02 report occurred on 21 September 2017. This overpayment, whilst financially significant was not included within the ePOD02 report due to the employee giving an immediate undertaking to return the overpayment, and consequently was not included in the data for the purpose of undertaking this analysis. I acknowledge this action was in accordance with the ePOD internal procedure criteria. DCIS identified that the cause of the overpayment was a combination of two different human errors, those being the erroneous initial data entry and a subsequent failure to adequately address the resultant exception report. The exception report constitutes a system generated Transaction Message Report that advised that this payment was anomalous with an alert for the reviewer to check. A Senior Payroll Officer at DCIS checked the message within the Transaction Message Report however the payment was processed with the employee subsequently being paid $492,176.00, instead of $4,921.76. DCIS further advised that due to the quantum of the overpayment, the payee, who worked remotely with no relief colleague, needed to physically attend their bank in an urban centre to authorise the return of funds to the NT Government thus there was a delay in the return of the overpayment. The overpayment was returned in full on 16 October 2017 when the payee was able to present at the closest branch of the bank.

As a result, it should be noted that the analysis presented here, and to the 23 other NT Government entities, is based on ePOD (via the ePOD2 report) and therefore does not include analysis of all salary overpayments identified by DCIS during the relevant time period.

Overall Assessment

My review of the data related to salary overpayments highlights the necessity for the entity to be vigilant at all times and to ensure that all salary amendments are notified to DCIS in a timely manner. As the overpayment affects the entity, the entity has a responsibility to ensure financial loses are recovered in timely manner. Each entity should work with DCIS to analyse trends and identify strategies to reduce overpayments e.g. irregular workplace attendance recording and notification.

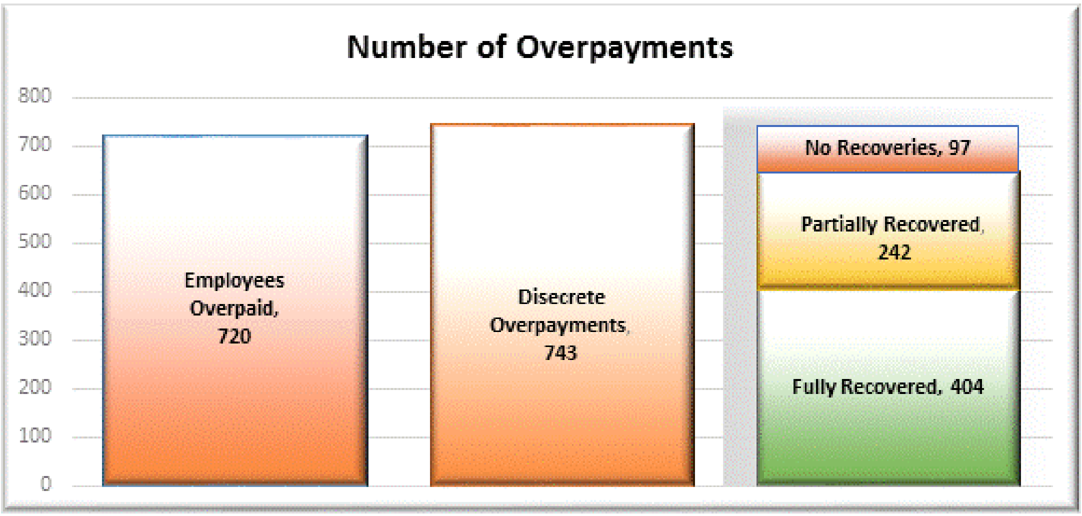
Selected Agencies cont…

The fact that the assessment has identified items as reported in the key findings below does not mean that there are no other matters of which the entities should be aware in meeting their responsibilities, nor does this report absolve them from taking appropriate action to meet their responsibilities. It should be noted that this assessment did not constitute an audit.

Key Findings

The ePOD02 report details that 720 individual employees had one, or more, overpayments identified between 1 July 2017 and 31 January 2018. There were 743 discrete overpayments totalling $1,676,576 with 404 of these ($646,839) being fully recovered and 242 ($262,450) being partially recovered by 31 January leaving $767,287 outstanding at 31 January 2018. There were 97 discrete overpayments against which no recoveries had been recorded at 31 January 2018.

Graph 1: Number of Overpayments



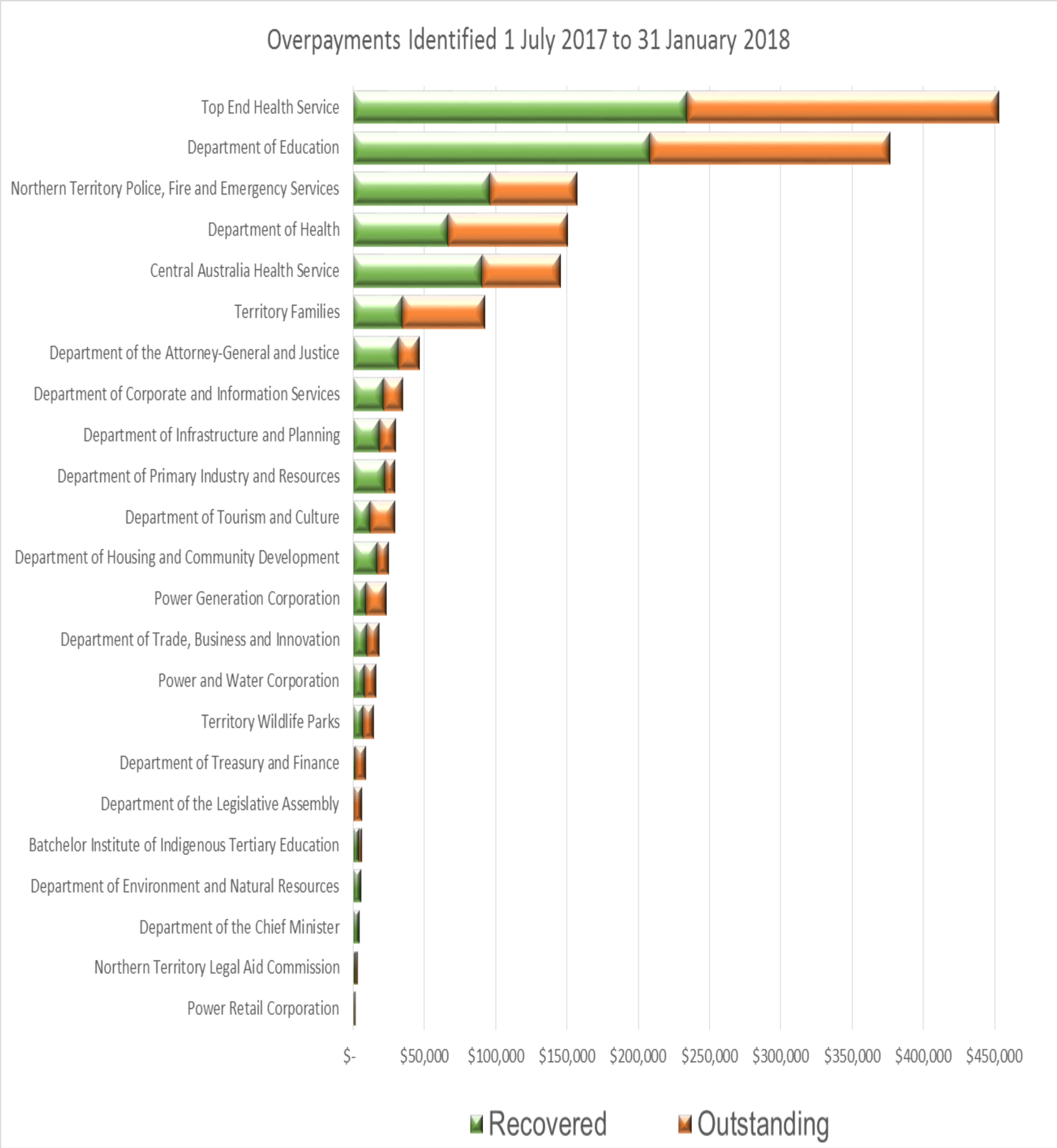
The following six agencies incurred higher than average salary overpayments during the period.

	Overpayment	Recovered	Outstanding
Top End Health Service	$452,754	$234,676	$218,078
Department of Education	$376,749	$208,365	$168,384
Northern Territory Police, Fire and Emergency Services	$157,114	$96,006	$61,108
Department of Health	$150,638	$66,708	$83,930
Central Australia Health Service	$145,440	$90,583	$54,857
Territory Families	$92,445	$34,771	$57,674

Selected Agencies cont…

The value of overpayments detailed within the ePOD02 report, by agency, is presented in Graph 2.

Graph 2: Overpayments identified by agency

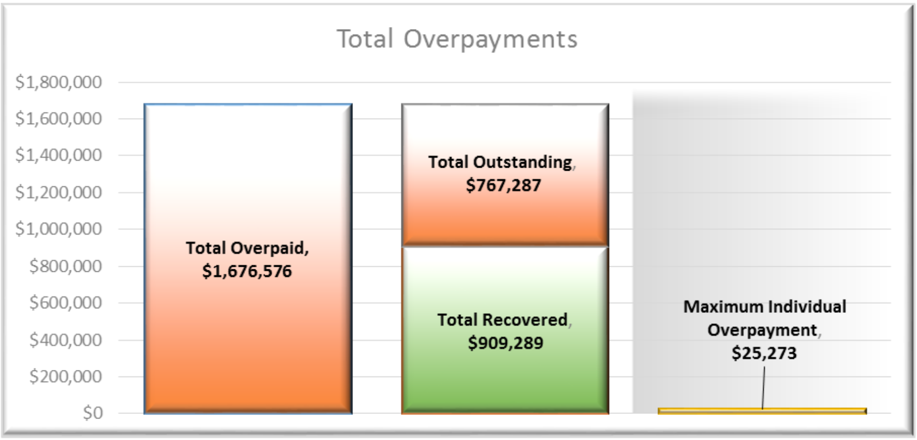


Selected Agencies cont…

The largest overpayment (in one transaction) was $25,273 dated 24 July 2017 with nil reported as being recovered by the entity as at 31 January 2018. The overpayment was recorded as being due to "*having personal leave with pay processed in error whilst on leave without pay*" with "*payroll*" being identified as the source of the error.

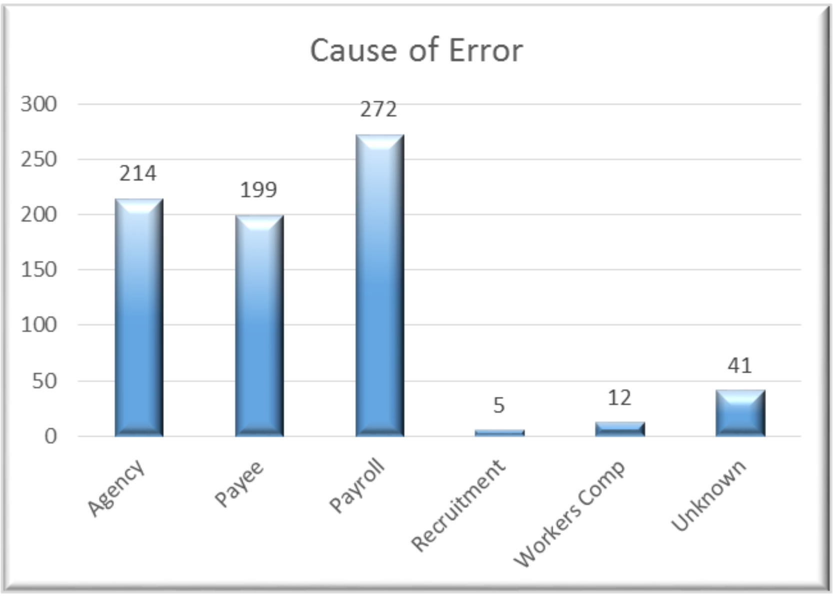
Graph 3 presents the total amount outstanding and the total amount recovered that was recorded within the ePOD02 report.

Graph 3: Overpayments identified 1 July 2017 to 31 January 2018



The cause of the errors were categorised as: Agency, Payee, Payroll, Recruitment, Workers Compensation and Unknown. As can be seen from Graph 4 most errors result from Agency, Payee or Payroll errors.

Graph 4: Cause of Error



Selected Agencies cont…

Examples of the notation for Agency related errors include:

- “General Policing Allowance being paid during recreation leave”;
- “continue to be paid after resignation date”;
- “late notification of resignation resulting in an overpayment”;
- “paid while on leave without pay”;
- “a temporary full time contract created in error”;
- “sick leave at half pay submitted late; and sick leave exceeded 1 week of without medical certificate”; and
- “no entitlement to higher duties as a Classroom Teacher”.

Examples of the notation for Payee related errors include:

- “personal leave without a medical certificate exceeding 4th shift entitlement”;
- “paid whilst on personal leave without pay”;
- “personal leave taken with insufficient entitlement”;
- “insufficient entitlements to recreation leave”;
- “exceed 5 days sick leave without medical certificate”;
- “absent without authority”; and
- “being paid during periods of personal leave without pay”.

Examples of the notation for Payroll related errors include:

- “paid salary whilst on leave without pay”;
- “due to change in long service leave entitlement after audit request from the Agency. The Audit discovered lower entitlements to long service leave than originally processed which meant that part-time long service leave and leave without pay were processed”;
- “LWOP - did not attend work prior to resignation date”;
- “pay not stopped whilst on Maternity leave without pay”;
- “leave being entered incorrectly and you being paid recreation leave at full pay when you were not entitled to it”;
- “commenced at fulltime hours but worked 32 hrs per week”;
- “having personal leave with pay processed in error whilst on leave without pay”; and
- “remote incentive allowance is not payable during study leave”.

Selected Agencies cont…

Examples of the notation for Recruitment related errors include:

- “being paid whilst on stand down without pay”; and
- “being incorrectly commenced as a full time employee instead of part time employee.

Examples of the notation for Workers Compensation related errors include:

- “late submission of external earnings”; and
- “the Workers Compensation entitlement paid was more than Salary due”.

Those payments where the reason was classified as “Unknown” were not accompanied by descriptions.

Selected Agencies cont…

The Department of Corporate and Information Services has commented:

In considering salary overpayments, it is helpful to note the context of NTG payroll operations. DCIS processes over 1.2 million payroll transactions annually for the NTPS, with system requirements necessitating manual processing for a substantial number of transactions. A diverse and intricate array of NTPS employment conditions and entitlements across many employee classifications generates substantial work demands and complexity. The salary overpayment total represents around 0.2% of the NTG's annual payroll, with overpayments primarily caused by timing delays and human error.

ePOD reporting and criteria to identify salary adjustments and overpayments are in place for operational purposes. DCIS will examine opportunities to improve the electronic capture and reporting of adjustments and overpayments.

An internal business process review was undertaken following the large salary error noted. Actions were identified to strengthen processes and reduce the risk of overpayments through human error, which are mostly implemented. Actions include:

- *re-examination of high-value salary payments for 2017-18 up to the audit, with all confirmed as accurate*
- *reporting enhancements for payroll exception and control reports, considering parameters, source data, presentation and information content*
- *system enhancements for messages, alerts and confirmation actions*
- *process enhancements for manual transaction certification, workflow and additional independent checking*
- *refresher training for payroll staff with audit control responsibilities.*

A Shared Sen/ices Assurance and Improvement governance committee has been established to oversight implementation of actions, consider further system, process and reporting improvements and coordinate internal compliance programs

The Central Australia Health Service has commented:

Central Australia Health Service has implemented a range of actions to prevent and manage salary overpayments. Some of those activities include improved use of 'My Resignation' function in MyHR, monthly review meetings and reporting, employment of a Debt Recovery Manager, improved collections, monitoring of recoveries and implementation of repayment plans. The processes are oversighted by a Debt Recovery Committee with input from the Department of Corporate and Information Services.

Selected Agencies cont…

The Department of Health has commented:

NT Health (the Department and the Health Services) Sustainability Reform Program aims to address findings from a recent internal audit of clinical payroll processes across NT Health, which includes overpayments. In addition, the delegation to decrease the mandatory 10% deduction for the recovery of overpayments sits with the CFO; this deduction is under review and is currently being circulated for feedback. It is expected Workers Compensation overpayments will be less frequent with the new claims manager contract, noting however payroll processing is still through Department of Corporate and Information Services.

The Department of Housing and Community Development has commented:

The department agreed to be vigilant at all time to ensure that salary amendments we notified to DCIS in a timely manner. The department understands it has a responsibility to ensure financial losses are recovered in a timely manner. The department will work with DCIS to analyse trends and identify strategies to reduce overpayments.

The Department of Infrastructure, Planning and Logistics has commented:

Thank you for your letter dated 3 August 2018 which include a summary of your findings related to the Department of *Infrastructure, Planning and Logistics to be tabled in the August 2018 Report to the Legislative Assembly. I appreciate the opportunity to comment, however I wish to make no comment at this time.*

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

The department acknowledges the audit findings and advises that it will continue in its efforts to address causes of overpayments in consultation with DCIS and is progressing recovery of outstanding overpayments in accordance with established processes.

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 salary overpayment of one staff member and recognises the need for vigilance in this area. The Department will improve monitoring as a consequence.

Selected Agencies cont…

The Department of Tourism and Culture has commented:

The Department of Tourism and Culture acknowledges the findings and will continue to work with the Department of Corporate and Information Services to reduce the incidence of overpayment.

The Department of Trade, Business and Innovation has commented:

DTBI advises that of the seven incidents of staff salary overpayment, only one is outstanding at 30 June 2018, and that staff member is adhering to a repayment plan.

The Department of Treasury and Finance has commented:

The Department of Treasury and Finance has used the assessment results to improve its internal controls.

Northern Territory Police, Fire and Emergency Services has commented:

The Northern Territory Police, Fire and Emergency Services is developing a strategy and action plan to enhance the governance of salary overpayments.

Territory Families has commented:

Territory Families has introduced a range of remedial measures to improve the timely entering and approval of leave which is the predominate cause of overpayments in the Agency.

Territory Wildlife Parks has commented:

Territory Wildlife Parks acknowledges the findings and will continue to work with the Department of Corporate and Information Services to reduce the incidence of overpayment.

Selected Agencies cont…

The Top End Health Service has commented:

To improve payroll controls that will specifically address the issue of overpayment, Top End Health Service (TEHS) will continue to proactively work with Cost Centre Managers to build capability, raise awareness and improve on payroll processes to reduce errors that may cause salary overpayments. In addition, TEHS is working collaboratively with the Debt Recovery Unit at Department of Corporate and Information Services, to ensure continuous improvement and proactive identification and recovery of salaries overpaid.

When causes of salary overpayments are identified, action is taken to reduce recurrence and recover salary overpayments, within the statute of limitation.

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 four matters referred since my March 2018 Report to the Legislative Assembly.

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

Referral of a complaint to the Auditor-General – Email relating to GST Funding

The allegation was that an email with the subject line "A message from the Chief Minister" provided to all Northern Territory government employees on 29 May 2018 from the Chief Minister contravened the provisions of the Act, in particular Sections 6(2)(a) and 6(2)(b). The referral was accompanied by with an attachment of the email in question.

The email contained information discussing the budget and further information relating to hydraulic fracturing, infrastructure, revitalising Darwin and Alice Springs and other information. The allegation referred specifically to the following sentences in relation to the budget:

> "*Treasurer Nicole Manison recently handed down her second NT Budget which aims to deliver more jobs, more people and a long term investment in children and the next generation. But we are also making sure we are spending within our means at a critically difficult time for the Territory. In the past 12 months the NT has had more than $800 million a year cut from our GST allocation. In a budget of around $7 billion, that is a massive hit to our finances.*"

Review of Allegation

I have considered the content of the letter I received and the accompanying email and sought information from the Department of Treasury and Finance in conducting my review. An extract from the Department's response is presented below:

> "*…the statement contained in the Chief Minister's email of 29 May 2018 to the public service regarding GST cuts of $800 million a year is consistent with the estimated annual average reduction over the 2018-19 budget forward estimates period, comparing projections at the time of the 2016 Pre-Election Fiscal Outlook to projections subsequently published in the 2017-18 and 2018-19 Budgets.*"

It is not a requirement for the Pre-Election Fiscal Outcome Report dated 18 August 2016, Budget Paper 2 2017-18 or Budget Paper 2 2018-19 to be audited and I have not undertaken an audit of the reported figures. I have however confirmed the numbers used in the calculations presented below to those sources of information and am satisfied that the value of $800 million has been determined as the average difference per annum between the GST allocation presented in the Pre-Election Fiscal Outcome (commonly referred to as the PEFO) Report dated 18 August 2016 and the GST allocation presented in Budget Paper 2 2018-19.

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

The calculations supplied by the Department of Treasury and Finance are presented below.

GST revenue reductions since 2016 PEFO

GST Projections	2017-18	2018-19	2019-20	2020-21	2021-22	4 Year cumulative
	Estimate	Budget	Forward Estimate			$0
	$M	$M	$M	$M	$M	$M
2016 PEFO	3 306	3 474	3 699	3 883	4 095	
2017-18 Budget	2 909	3 030	3 150	3 302	3 462	
Variation from 2016 PEFO	- 397	- 444	- 549	- 581	- 633	- 1 971
2018-19 Budget	2 901	2 713	2 811	2 937	3 071	
Variation from 2017-18 Budget	- 8	- 317	- 339	- 365	- 391	- 1 412

GST Reductions Since PEFO	2017-18	2018-19	2019-20	2020-21	2021-22	4 Year cumulative	Per Annum Average
	Estimate	Budget	Forward Estimate				
	$M	$M	$M	$M	$M	$M	$M
2017-18 Budget	-397	-444	-549	-581		-1 971	
2018-19 Budget	n.a	-317	-339	-365	-391	-1 412	
Total	**-397**	**-761**	**-888**	**-946**	**-391**	**-3 383**	**-846**

I am therefore of the view that the information was not deliberately presented as misleading or factually inaccurate and thus has not contravened Section 6(2)(b) of the Act.

The information contained within the email was not referenced to where a recipient of the information could verify the stated value of $800 million or confirm that the information is based upon unaudited budgetary information rather than an average reduction in actual GST allocations received over a five-year period. Consequently my opinion is that the information presented has contravened section 6(2)(c) of the Act in that the information did not clearly distinguish a statement of facts from a statement of comments.

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

Conclusion

In forming my opinion, I have considered the content of the referral received, reviewed the email and reviewed information provided to me by the Department of Treasury and Finance. I have now concluded my enquiries.

My opinion is that the information presented has contravened section 6(2)(c) of the *Public Information Act* in that the information did not clearly distinguish a statement of facts from a statement of comments albeit I am of the view that the information was not deliberately presented as misleading or factually inaccurate.

Recommendation

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

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

As the email was distributed on 29 May 2018, it is not pragmatic to recommend the email be recalled therefore I make no recommendation to withdraw the public information or make changes to the content of the public information.

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

Referral of a complaint to the Auditor-General – Email entitled "*New Tools to Assist Police*"

On 3 July 2018, a Member of the Legislative Assembly referred to the Auditor-General an email distributed by the Minister for Police, Fire and Emergency Services. The email contained a message to recipients, a photograph of the Minister for Police, Fire and Emergency Services, accompanied by two individuals, and a copy of a media release announcing the awarding of a contract over a four year period for the replacement of the existing Police Real-Time Online Management Information System (PROMIS). The referrer alleged the content of the email contravened the provisions of the Act, in particular Section 6(2)(d), in that the content of the information is an advertisement that includes an image of the holder or occupier of the office of a minister.

The message within the email is presented below:

> "*Good Afternoon. Police officers are being given all the tools they need to undertake the tough job they have. This includes a long awaited replacement to their core ICT system that supports policing in the Territory. Program 'SerPro' will help support frontline police officers by significantly improving access to police records digitally right across the Territory in real time, regardless of location and enable use on mobile devices. This will result in officers spending less time at desks and more time on the streets to better enable them to prevent crime and anti-social behaviour. For more information, see below.*"

Review of Allegation

Section 4(1) of the Act mandates that the provisions of the Act do not apply to media releases thus, when considering whether the public information is in contravention of the Act, the relevant content within the email comprises the message and the image.

After examining the content of the email, including the message and the image of the Minister, I formed the view that the public information did not meet the criteria required by the Public Information Regulations, those criteria being that public information given by a public authority must meet at least one of the following criteria:

(a) the information serves to do any of the following:

- (i) maximise compliance with the laws of the Territory;
- (ii) achieve awareness of a new or amended law;
- (iii) improve public safety or personal security;
- (iv) encourage responsible behaviour;

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

(v) preserve order in the event of an emergency;

(vi) promote awareness of rights, responsibilities, duties or entitlements;

(vii) encourage usage of, or familiarity with, government products or services;

(b) the purpose of the information is to do any of the following:

(i) report on performance in relation to government undertakings;

(ii) communicate functions of government (for example, education campaigns, recruitment, community engagement, expressions of interest, future plans);

(iii) communicate on matters of social cohesion, civic pride, community spirit or tolerance.

The content of the email contravenes Section 3 of the Public Information Regulations.

In addition, I have listed below some specific elements from the referred email content that I have determined have contravened the provisions of the Act and/or the Regulations.

Element	Determination
"*Program 'SerPro' will help support frontline police officers by significantly improving access to police records digitally right across the Territory in real time, regardless of location and enable use on mobile devices. This will result in officers spending less time at desks and more time on the streets to better enable them to prevent crime and anti-social behaviour.*"	Contravention of *Public Information Act* Section 6(2)(c) in that this element is not clearly distinguished as a statement of facts or a statement of comments. There are no facts presented or referenced within the email to substantiate the comment that the introduction of the new system will result in officers spending less time at desks and more time on the streets.

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

Element	Determination
The email contained a message to recipients, a photograph of the Minister for Police, Fire and Emergency Services accompanied by two individuals.	Contravention of *Public Information Act* Section 6(2)(d) in that the content of the information is an advertisement that includes an image of the holder or occupier of the office of a minister. The email contained a message to recipients, a photograph of the Minister for Police, Fire and Emergency Services accompanied by the Police Commissioner and another individual, and a copy of a media release announcing the awarding of a contract for the replacement of the existing PROMIS. It is reasonable to interpret the inclusion of the image as a contravention of Section 6(2)(d) when considering the provisions of Section 6(5) and Section 6(6). These provisions allow for the Auditor-General to determine that the Act is not contravened if: the primary audience for the giving of public information resides outside of the Territory; the Auditor-General is satisfied that the use was intended to increase the effectiveness of the communication; or the information is given to the public in a time of emergency. The information was provided to Territorians as the primary audience. I am not satisfied the inclusion of the photograph was intended to increase the effectiveness of the communication and the information was not provided in a time of emergency.

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

Response from Public Authority

"I and my staff take compliance with the Public Information Act seriously.

The email you refer to was sent in the honest belief that its contents were in compliance with the act, namely:

- *It was a report on performance in relation to a Government undertaking (Section 3 Public Information regulations).*
- *That the comments were uncontentious statements of fact (Section 6(2)(c)).*
- *That the email is not an advertisement under the Act and therefore an image of the Minister is not a contravention of Section 6(2)(d).*

However I accept your determination and have put in place measures to ensure compliance with the Act as you have interpreted it."

Conclusion

Following from the above I concluded that the following provisions of the Act were contravened:

- Section 6(2)(c); and
- Section 6(2)(d).

I further concluded that the content of the email failed to meet the criteria specified in Section 3 of the Public Information Regulations.

Recommendation

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

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

Given my conclusions above, I made no recommendations in relation to the public information given.

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

Referral of a Complaint to the Auditor-General – Email entitled "*Uber arrives in the Territory*"

On 4 July 2018, a Member of the Legislative Assembly referred to the Auditor-General an email distributed on behalf of the Minister for Infrastructure, Planning and Logistics. The email contained a message to recipients, a photograph of the Minister for Infrastructure, Planning and Logistics, accompanied by two individuals, and a copy of a media release announcing the commencement of services delivered in the Northern Territory by Uber. The referrer alleged the content of the email contravened the provisions of the Act, in particular Section 6(2)(d), in that the content of the information is an advertisement that includes an image of the holder or occupier of the office of a minister.

The message within the email is presented below:

> "*Today I announced that ride-sharing application Uber will begin operating in the Northern Territory next month. Uber joins fellow rideshare application Hi Oscar and delivers again on our major election commitment to bring these transport options to the Territory. We listened to what Territorians wanted and we delivered. Uber's arrival is great news for Territorians and great news for the local economy. Please see the media release below for further information.*"

Review of Allegation

Section 4(1) of the Act mandates that the provisions of the Act do not apply to media releases thus, when considering whether the public information is in contravention of the Act, the relevant content within the email comprises the message and the image.

After examining the content of the email, including the message and the image of the Minister, I formed the view that the public information did not meet the criteria required by the Public Information Regulations, those criteria being that public information given by a public authority must meet at least one of the following criteria:

(a) the information serves to do any of the following:

- (i) maximise compliance with the laws of the Territory;
- (ii) achieve awareness of a new or amended law;
- (iii) improve public safety or personal security;
- (iv) encourage responsible behaviour;

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

(v) preserve order in the event of an emergency;

(vi) promote awareness of rights, responsibilities, duties or entitlements;

(vii) encourage usage of, or familiarity with, government products or services;

(b) the purpose of the information is to do any of the following:

(i) report on performance in relation to government undertakings;

(ii) communicate functions of government (for example, education campaigns, recruitment, community engagement, expressions of interest, future plans);

(iii) communicate on matters of social cohesion, civic pride, community spirit or tolerance.

The content of the email contravenes Section 3 of the Public Information Regulations.

In addition, I have listed below some specific elements from each of the referred email content that I have determined have contravened the provisions of the Act and/or the Regulations.

Element	Determination
"*Uber joins fellow rideshare application Hi Oscar and delivers again on our major election commitment to bring these transport options to the Territory.*"	Contravention of *Public Information Act* Section 6(2)(a) in that the content of the message to recipients includes a statement emphasising party political interests.
"*We listened to what Territorians wanted and we delivered. Uber's arrival is great news for Territorians and great news for the local economy.*"	Contravention of *Public Information Act* Section 6(2)(c) in that this element is not clearly distinguished as a statement of facts or a statement of comments. There are differing views as to whether the commencement of services by Uber is great news for Territorians. Examples of conflicting opinions have been expressed by Territorians within the taxi industry. There are no facts presented or referenced within the email to substantiate the comment that the commencement of services by Uber is great news for the local economy.

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

Element	Determination
The email contained a message to recipients, a photograph of the Minister for Infrastructure, Planning and Logistics accompanied by two individuals.	Contravention of *Public Information Act* Section 6(2)(d) in that the content of the information is an advertisement that includes an image of the holder or occupier of the office of a minister. An advertisement is, as defined by the Oxford dictionary, "*a notice or announcement in a public medium promoting a product, service, or event or publicizing a job vacancy*." Whilst it may be argued that the message within the email does not constitute an advertisement, it does promote ride-sharing and name the two private sector entities delivering such services in the Territory. It is reasonable to interpret the inclusion of the image as a contravention of Section 6(2)(d) when considering the provisions of Section 6(5) and Section 6(6). These provisions allow for the Auditor-General to determine that the Act is not contravened if: the primary audience for the giving of public information resides outside of the Territory; the Auditor-General is satisfied that the use was intended to increase the effectiveness of the communication; or the information is given to the public in a time of emergency. The information was provided to Territorians as the primary audience. I am not satisfied the inclusion of the photograph was intended to increase the effectiveness of the communication and the information was not provided in a time of emergency.

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

Response from Public Authority

"I and my staff take compliance with the Public Information Act seriously.

The email you refer to was sent in the honest belief that its contents were in compliance with the Act, namely: it was a report on performance in relation to a Government undertaking (Section 3 Public Information regulations).

- *It did not seek to promote party political interests, (Section 6(2)(a)).*
- *That the comments were uncontentious statement of fact when taking the Territory as a whole Section 6(2)(c)).*
- *That the email is not an advertisement under the Act and therefore an image of the Minister is not a contravention of Section 6(2)(d).*

However I accept your determination and have put in place measures to ensure compliance with the Act as you have interpreted it."

Conclusion

Following from the above I concluded that the following provisions of the Act were contravened:

- Section 6(2)(a)
- Section 6(2)(c); and
- Section 6(2)(d).

I further concluded that the content of the email failed to meet the criteria specified in Section 3 of the Public Information Regulations.

Recommendation

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

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

Given my conclusions above, I made no recommendations in relation to the public information given.

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

Referral of a Complaint to the Auditor-General – Email entitled "*More Jobs and Safer Communities: Palmerston Police Station Underway*"

On 16 July 2018, a Member of the Legislative Assembly referred to the Auditor-General an email distributed on behalf of the Minister for Police, Fire and Emergency Services. The email contained a message to recipients, two photographs, one image and a copy of a media release entitled "*More Jobs and Safer Communities: Palmerston Police Station Underway*". Photograph one depicts the construction site for the new Palmerston Police Station with work underway. Photograph two depicts the Minister for Police, Fire and Emergency Services and the Member for Brennan accompanied by two individuals at the construction site. The image is an artist's impression of the front entrance of the completed Palmerston Police Station. The referrer alleged the content of the email contravened the provisions of the Act, in particular Section 6(2)(d), in that the content of the information is an advertisement that includes an image of the holder or occupier of the office of a minister.

The message within the email contained three key statements:

> *"Construction of the new Palmerston Police Station is underway and delivering local jobs for Territorians.*
>
> *This police station will feature a 24-hour watch house meaning officers no longer have to drive into the CBD to process offenders - this will result in more police on the beat.*
>
> *It will also feature an Emergency Operation Centre that will act as a hub for emergency responders during critical incidents - including cyclones, floods and bushfires."*

Review of Allegation

Section 4(1) of the Act mandates that the provisions of the Act do not apply to media releases thus, when considering whether the public information is in contravention of the Act, the relevant content within the email comprises the message and the images.

After examining the content of the email, including the message and the image of the Minister, I formed the view that the public information did not meet the criteria required by the Public Information Regulations, those criteria being that public information given by a public authority must meet at least one of the following criteria:

(a) the information serves to do any of the following:

  (i) maximise compliance with the laws of the Territory;

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

(ii) achieve awareness of a new or amended law;

(iii) improve public safety or personal security;

(iv) encourage responsible behaviour;

(v) preserve order in the event of an emergency;

(vi) promote awareness of rights, responsibilities, duties or entitlements;

(vii) encourage usage of, or familiarity with, government products or services;

(b) the purpose of the information is to do any of the following:

(i) report on performance in relation to government undertakings;

(ii) communicate functions of government (for example, education campaigns, recruitment, community engagement, expressions of interest, future plans);

(iii) communicate on matters of social cohesion, civic pride, community spirit or tolerance.

The content of the email contravenes Section 3 of the Public Information Regulations.

In addition, I have listed below some specific elements from each of the referred email content that I have determined have contravened the provisions of the Act and/or the Regulations.

Element	Determination
"*Construction of the new Palmerston Police Station is underway and delivering local jobs for Territorians.* *This police station will feature a 24-hour watch house meaning officers no longer have to drive into the CBD to process offenders - this will result in more police on the beat"*	Contravention of *Public Information Act* Section 6(2)(c) in that this element is not clearly distinguished as a statement of facts or a statement of comments. There are no facts presented or referenced within the email to substantiate the comments that the construction of the Palmerston Police Station is *"delivering local jobs for Territorians"* and *"will result in more police on the beat"*.

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

Element	Determination
The email contained a photograph of the Minister for Police, Fire and Emergency Services and the Member for Brennan accompanied by two individuals at the construction site.	Contravention of *Public Information Act* Section 6(2)(d) in that the content of the information is an advertisement that includes an image of the holder or occupier of the office of a minister. An advertisement is, as defined by the Oxford dictionary, "*a notice or announcement in a public medium promoting a product, service, or event or publicizing a job vacancy*." Whilst it may be argued that the message within the email does not constitute an advertisement, it does promote the services intended to be delivered from the completed project. It is reasonable to interpret the inclusion of the image as a contravention of Section 6(2)(d) when considering the provisions of Section 6(5) and Section 6(6). These provisions allow for the Auditor-General to determine that the Act is not contravened if: the primary audience for the giving of public information resides outside of the Territory; the Auditor-General is satisfied that the use was intended to increase the effectiveness of the communication; or the information is given to the public in a time of emergency. The information was provided to Territorians as the primary audience. I am not satisfied the inclusion of the photograph was intended to increase the effectiveness of the communication and the information was not provided in a time of emergency.

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

Response from Public Authority

"I and my staff take compliance with the Public Information Act seriously.

The email you refer to was sent in the honest belief that its contents were in compliance with the act, namely:

- *It was a report on performance in relation to a Government undertaking (Section 3 Public Information regulations);*
- *That the comments were uncontentious statements of fact Section 6(2)(c));*
- *That the email is not an advertisement under the Act and therefore an image of the Minister is not a contravention of Section 6(2)(d).*

However, I accept your determination and have put in place measures to ensure compliance with the Act as you have interpreted it.""

Conclusion

Following from the above I concluded that the following provisions of the Act were contravened:

- Section 6(2)(c); and
- Section 6(2)(d).

I further concluded that the content of the email failed to meet the criteria specified in Section 3 of the Public Information Regulations.

Recommendation

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

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

Given my conclusions above, I made no recommendations in relation to the public information given.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 28 February 2018

Financial Statements for the year ended 31 December 2016

	Date 2016 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 31 December 2016	Date of Audit report year ended 31 December 2015
Charles Darwin University Charitable Trust	Not required	25 May 18	N/A

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
Cobourg Peninsula Sanctuary and Marine Park Board	10 May 18	12 March 18	14 November 16

Not required – Financial statements are not required to be tabled
N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 28 February 2018 cont…

Financial Statements for the year ended 31 December 2017

	Date 2017 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 31 December 2017	Date of Audit report year ended 31 December 2016
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	22 June 18	16 June 17
Cairns Business College Pty Ltd	Not required	15 June 18	N/A
Cairns Education Australia Pty Ltd	Not required	15 June 18	N/A
Cairns Language Centre Pty Ltd	Not required	15 June 18	N/A
CDU Amenities Limited	Not required	21 June 18	4 May 17
Charles Darwin University	Not yet tabled	27 June 18	4 May 17
Charles Darwin University Charitable Trust	Not required	25 May 18	N/A
Charles Darwin University Foundation (a company limited by guarantee)	Not required	11 May 18	21 March 17
Charles Darwin University Foundation Trust	Not required	11 May 18	21 March 17
ICHM Pty Ltd	Not required	18 June 18	N/A
Menzies School of Health Research	Not yet tabled	28 March 18	8 March 17

Not yet tabled – as at 30 June 2018
Not required – Financial statements are not required to be tabled
N/A – Not applicable

Appendix 1: Audit Opinion Reports Issued Since 28 February 2018 cont…

Financial Statements for the year ended 31 December 2017

	Date 2017 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 31 December 2017	Date of Audit report year ended 31 December 2016
Menzies School of Health Research Foundation (a company limited by guarantee)	Not required	29 March 18	N/A

Acquittals or other returns for the year ended 31 December 2017

	Deadline for submission of Audited Financial Statements	Date of Audit report year ended 31 December 2017	Date of Audit report year ended 31 December 2016
Charles Darwin University Higher Education Research Data Collection	30 June 18	25 June 18	19 June 17
Department of Trade, Business and Innovation – Summary AVETMISS Financial	14 July 18	29 June 18	16 June 17

Not required – Financial statements are not required to be tabled
N/A – Not applicable

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Appendix 2: Status of Audit Activity

In addition to the routine audits, primarily being end of year audits of agencies and audits of financial statements, the following audits and reviews were identified in my March 2018 Report to the Legislative Assembly as scheduled to be conducted during the six months to 30 June 2018:

Department of Corporate and Information Services

Grants Management System	Refer page 133
Governance over Cloud Services	Refer page 59

Department of Health

Palmerston Regional Hospital – Construction Process	Refer page 64

Department of the Chief Minister

Grants Management System	Refer page 133

Department of Tourism and Culture

Grants Management System	Refer page 133

Department of Trade, Business and Innovation

Darwin Ship Lift and Marine Maintenance Project	Refer page 100
Palmerston Regional Hospital – Implementation of Recommendations from Public Accounts Committee Hearing	Refer page 88

Selected Agencies

Fuel Cards	Refer page 144

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Appendix 3: Proposed Audit Activity in the Six Months Ending 31 December 2018

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

Department of Environment and Natural Resources

Evaluation of Performance Management System

Department of Housing and Community Development

Procurement Compliance

Department of Infrastructure, Planning and Logistics

Indigenous Employment Provisional Sum

Department of Tourism and Culture

Evaluation of Performance Management System

Department of Trade, Business and Innovation

Luxury Hotel Development and Water Theme Park

Department of Treasury and Finance

Infrastructure Development Fund

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Appendix 4: Agencies not subject to audit relating to the year ended 30 June 2018

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

For activities relating to the financial year ended 30 June 2018 audits have been, or are intended to be, conducted at all Agencies.

The annual financial statements of the Office of the Auditor-General are subject to independent audit in accordance with Section 27 of the *Audit Act*. The audit of the financial statements is scheduled to commence in late August 2018.

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Appendix 5: Abbreviations

AASB	Australian Accounting Standards Board
CBD	Central Business District
CLG	Commissioning Leadership Group
CSH	Corporate Services Bureau
DCIS	Department of Corporate and Information Services
DCM	Department of the Chief Minister
DENR	Department of Environment and Natural Resources
DIPL	Department of Infrastructure, Planning and Logistics
DoH	Department of Health
DoI	Department of Infrastructure
DTBI	Department of Trade, Business and Innovation
DTC	Department of Tourism and Culture
DTF	Department of Treasury and Finance
EOI	Expressions of Interest
EPB	Executive Program Board
ePOD	Payroll Overpayments Database
FEED	Front-End Engineering and Design
FFE	Fixtures, furnishings and equipment
GAS	Government Accounting System
GEM	Geriatric Evaluation and Management
GST	Goods and Services Tax
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loan Program
HMAS	Her Majesty’s Australian Ship
ICT	Information and Communications Technology
KPI	Key Performance Indicator
LDC	Land Development Corporation

Appendix 5: Abbreviations cont…

LWOP	Leave Without Pay
NT	Northern Territory
NTPDF	NT Project Development Framework
OMPII	Office of Major Projects, Infrastructure and Investments
PCG	Project Control Group
PDA	Project Development Agreement
PEFO	Pre-Election Fiscal Outcome
PMO	Project Management Office
PRH	Palmerston Regional Hospital
PROMIS	Police Real-Time Online Management Information System
PSG	Cross Government Project Steering Group
RDH	Royal Darwin Hospital
RFP	Request For Proposal
SIP	Strategic Infrastructure and Projects
SMART	Specific; Measurable; Achievable; Relevant; and Time-phased
TEHS	Top End Hospital Service
TF	Territory Families
ULP	Unleaded Petrol
VET	Vocational Education and Training

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