Auditor-General for the Northern Territory
Auditing for Parliament

November 2018
Report to the Legislative Assembly

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Auditor-General for the Northern Territory
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The Honourable Speaker of the Legislative
Assembly of the Northern Territory
Parliament House
Darwin NT 0800

29 November 2018

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits, reviews and assessments completed during the four months ended 31 October 2018 and I request that you table the report in the Legislative Assembly.

This report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 19 Northern Territory Government agencies and the results from audits of 20 Territory controlled entities with a financial year ended 30 June 2018.

The results from my audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2018 are also included within this report.

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

In response to questions raised during the Estimates Hearings, I have included in this report an analysis of results from the utilities sector for the years ended 30 June 2018 and 30 June 2014.

My report contains my findings relating to one matter 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 43 separate audits and other tasks completed during the period 1 July 2018 to 31 October 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; and
- Performance Management Systems Audits.

In response to questions raised during the Estimates Hearings, analysis is included in this report of results from the utilities sector for the years ended 30 June 2018 and 30 June 2014. This analysis enables comparison of significant account balances prior to structural separation to the recently ended financial year.

The report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 19 Northern Territory Government agencies. Findings arising from these audits have been reported to the affected agencies to enable them to address identified control weaknesses. The end of year reviews of the Public Account are undertaken in accordance with section 13 of the *Audit Act* and provide support to the audit of the Treasurer's Annual Financial Statement. The focus for these reviews is primarily the end of year financial data consolidated into the Treasurer's Annual Financial Statement. The results of the audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2018 are presented in this report.

Also included are the results of audits of financial statements for those entities with a financial year ended 30 June 2018 where the audits were completed prior to 31 October 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 *Audit Act* provides a legislative requirement for the Auditor-General to report to the Legislative Assembly on at least an annual basis. This is the second report provided for tabling within the Legislative Assembly for the year ending 30 June 2018, the last report was tabled during August 2018.

A number of audits scheduled to be commenced and completed in the period 1 July 2018 to 31 December 2018 are still to be completed. The outcomes of these audits (listed in Appendix 2) will be presented in the next report to the Legislative Assembly.

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

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

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

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

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

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

The Role and Responsibilities of the Auditor-General cont…

Audit of the Treasurer's Annual Financial Statement

Using information about the effectiveness of internal controls identified in the overall control environment review, Agency Compliance Audits including End of Year Reviews and the results of financial statement audits, an audit approach is designed and implemented to obtain assurance that the balances disclosed in the Treasurer's Annual Financial Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

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

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

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

Audits by my Office are conducted in accordance with Australian Auditing Standards. Those standards are issued by the Australian Auditing and Assurance Standards Board, a Commonwealth statutory body established under the *Australian Securities and Investments Commission Act 2001*. Auditing Standards issued by the Board have the force of law in respect of audits of corporations that fall within the ambit of the *Corporations Act 2001*, while the *Audit Act* also requires that the Auditor-General has 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/her Agency has an adequate internal audit capacity. Internal audit is a management tool designed to provide assurance to Accountable Officers that systems and internal controls operating within Agencies are adequate and effective. Internal audit carries out its functions by undertaking audits, reviews and other related tasks for improving the performance of organisations. The Accountable Officer is ultimately responsible for selection of audit topics, risk management and audit frameworks and the delivery of internal audit services.

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.

Australian Auditing Standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* deals with the auditor’s responsibility to communicate key audit matters in the auditor’s report. The purpose of communicating key audit matters is to enhance the communicative value of the auditor’s report by providing additional information to intended users of the financial report to assist them in understanding those matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial report of the current period.

Modified Audit Opinion

Australian Auditing Standard ASA 705 *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 assurance engagements 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 the Auditor-General is 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 the Auditor-General believes that the report is free of material error and that there was nothing that limited the scope of the audit. If any of these conditions should not be met, a 'modified audit opinion' is issued together with an explanation of why a modified audit opinion was issued.

Within this report, the audit opinions, key audit matters and summaries of audit observations 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 in the 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 the achievement of results. These audits are also intended to assist in the 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, a preliminary opinion is issued to the public authority that gave the relevant public information. When preparing the report about the review, any comments provided by the public authority following the preliminary opinion are taken into consideration. The associated reports are included in my reports to the Legislative Assembly.

Reports on the Results of Audits, Reviews and Assessments

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Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

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

The host Agency is the Department of Health.

Audit Opinion

The audit of the Central Australia Health Service for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 10 October 2018.

Audit Observations

Performance Overview

The Central Australia Health Service incurred a net deficit of $21.6 million for the year ended 30 June 2018. An analysis of key balances from the financial statements of Central Australia Health Service over the past four years is presented below.

	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Net deficit	(21,601)	(932)	(4,616)	(28,082)
Add back depreciation	12,393	12,186	10,480	8,757
Net surplus/(deficit) before depreciation	**(9,208)**	**11,254**	**5,864**	**(19,325)**
Total current assets	71,669	76,027	60,690	48,759
Total current liabilities	(85,452)	(79,826)	(73,112)	(59,620)
Working capital deficit	**(13,783)**	**(3,799)**	**(12,422)**	**(10,861)**

Central Australia Health Service cont…

The financial performance and position has deteriorated when compared to the prior year. Cash flow from operating activities, though still positive, has decreased by $9.982 million when compared to the prior year. The continued working capital deficit highlights an increased risk that Central Australia Health Service will be unable to pay its debts as and when they fall due without additional financial support.

Revenue

Total revenue for Central Australia Health Service has increased by approximately $10.2 million from the prior year. Key influences were increased revenue of $15.83 million mainly attributed to increases in Activity Based Funding and National Partnership Payments. This increase was partially offset by a decrease of $5.1 million in sales of goods and services income as a result of lower revenue from cross border patients as less interstate residents received treatment in the Northern Territory than in the prior year.

Expenditure

Total expenditure increased this year by approximately $30.9 million from the prior year. Employee expenses increased by approximately $15.6 million due to demand pressures and recruitment and retention difficulties which have led to high agency labour and overtime costs. Purchases of goods and services increased by approximately $8.8 million from the prior year due to increased shared services costs of $3 million and increased expenditure related to cross border patients of $5.8 million as more Territorians received medical treatment interstate compared to the prior year.

Assets

Total assets decreased by approximately $1.1 million from the prior year reflecting a decrease of $4.8 million receivable in relation to cross border patient charges (consistent with the decrease in related revenue) largely offset by an increase in fixed assets of $3.2 million.

Liabilities

Total liabilities increased by approximately $5.6 million from the prior year reflecting an increase in payables of $5.3 million resulting from the increased expenditure paid in relation to cross border patients.

Equity

Equity decreased by approximately $6.8 million from the prior year as a result of the operating deficit during the 2018 financial year of $21.6 million, partially offset by equity transferred to Central Australia Health Service from the Northern Territory Government of $15.4 million relating to the transfer of buildings.

Central Australia Health Service cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Sale of goods and/or services	216,816	221,954
Current grants and subsidies	186,917	171,091
Other	319	796
Total income	**404,052**	**393,841**
Expenditure		
Employee expenses	(252,463)	(236,854)
Repairs and maintenance	(11,254)	(5,794)
Supplies and services	(132,163)	(123,521)
Depreciation and amortisation	(12,393)	(12,186)
Interest expenses	(35)	(38)
Grants and subsidies	(17,345)	(16,380)
Total expenses from ordinary activities	**(425,653)**	**(394,773)**
Deficit before income tax expense	**(21,601)**	**(932)**
Income tax expense	-	-
Deficit after income tax expense	**(21,601)**	**(932)**

Central Australia Health Service cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	19,447	19,586
Receivables and other current assets	52,222	56,441
Less current liabilities	(85,452)	(79,826)
Working Capital	**(13,783)**	**(3,799)**
Add non-current assets	216,858	213,645
Less non-current liabilities	(753)	(763)
Net Assets	**202,322**	**209,083**
Represented by:		
Accumulated funds	(83,036)	(61,435)
Capital	275,104	259,744
Asset revaluation reserve	10,254	10,774
Equity	**202,322**	**209,083**

Central Australia Health Service cont…

The Central Australia Health Service has commented:

The Service acknowledges the audit findings and will to continue to work in collaboration with the Department of Health to improve systems and controls.

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

Audit Opinion

The audit of the Darwin Waterfront Corporation for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 1 October 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a deficit of $1.13 million compared to prior year's deficit of $0.66 million. The increase in the deficit of $0.47 million primarily resulted from an increase in Territory Operating Payment and Territory Availability Payment expenses and a decrease in Other Income. The decrease in Other Income relates to a refund of $1.5 million received from the concession holder from the accumulated operating surplus of the Darwin Convention Centre last financial year which was a non-recurring event. This decrease was partially offset by an increase in grants received by the Corporation of $0.53 million.

Whilst the Corporation had a negative net working capital position of $2.983 million (2017: $3.846 million), overall the Corporation continues to hold a strong net asset position. The net asset position of the Corporation was $193.5 million (2017: $146.1 million) as at 30 June 2018.

Darwin Waterfront Corporation cont…

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

- **Territory Availability Payment** (TAP) (2018: $3.1 million, 2017: $3.0 million). The TAP is paid quarterly in arrears and covers capital, interest, return on equity (part) and maintenance costs.
- **Territory Operating Payment** (TOP) (2018: $3.7 million, 2017: $3.2 million). The TOP is an operational subsidy paid quarterly in advance and is based on the fixed 25 year budget which can only be increased with the Territory's approval.
- **Territory Efficiency Payment** (TEP) (2018 nil, 2017: nil). The TEP is an annual bonus payment to the Operator of the Darwin Convention Centre where there are demonstrated savings between the actual revenue and expenditure for that operating year and the base business case operating contribution for that year (measured against the subsidy portion of the TOP). The TEP is capped at 35% of the savings where 100% of the key performance measures are met such that the Territory receives 65% of any savings to the operating subsidy.
- **Territory Incentive Payment** (TIP) (2018: $0.8 million, 2017: $0.7 million). The TIP is paid annually and is assessed against the base 2005 business case to encourage the Operator to exceed the levels of performance established in the business case.

Darwin Waterfront Corporation cont…

Financial Performance for the year

	2018	2017
	$'000	$'000
Income		
User charges	3,335	3,288
Operating grants and other contributions	22,147	20,946
Other	838	2,182
Total income	**26,320**	**26,416**
Expenditure		
Territory availability payments	(3,133)	(3,033)
Territory efficiency payments	-	-
Territory incentive payments	(828)	(700)
Territory operating payments	(3,663)	(3,241)
Goyder Park beautification	-	(15)
Agent service arrangements	(916)	(1,052)
Depreciation and amortisation	(4,737)	(4,603)
Employee expenses	(1,207)	(1,080)
Finance costs	(5,110)	(5,253)
Property maintenance	(4,077)	(4,322)
Other	(3,774)	(3,773)
Total expenses from ordinary activities	**(27,445)**	**(27,072)**
Deficit before income tax expense	**(1,125)**	**(656)**
Income tax expense	-	-
Deficit after income tax expense	**(1,125)**	**(656)**

Darwin Waterfront Corporation cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	5,496	1,550
Receivables and other current assets	661	664
Less current liabilities	(9,140)	(6,060)
Working Capital	**(2,983)**	**(3,846)**
Add non-current assets	269,476	225,425
Less non-current liabilities	(72,942)	(75,462)
Net Assets	**193,551**	**146,117**
Represented by:		
Accumulated funds	(29,242)	(28,118)
Reserves	44,360	-
Capital	178,433	174,235
Equity	**193,551**	**146,117**

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

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

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 18 September 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Data Centre Services generated a net surplus before tax of $2.9 million for the year ended 30 June 2018, which was $0.3 million more than the budget estimate of $2.6 million.

Total income of $24.9 million (2017: $25.6 million) decreased from the prior year by $0.7 million. The decrease in income is mainly attributable to a decrease in the price list for midrange and enterprise storage. Total expenses of $20.7 million (2017: $21.4 million) decreased from the prior year by $0.7 million. This decrease in expenditure is predominantly due to a decline in software expenses. In the prior year, Data Centre Services exercised an option to purchase IBM licenses, there was no similar acquisition this year. There has also been an increase in the depreciation expense as a result of asset acquisitions incurred during the year.

Data Centre Services will pay an income tax equivalent of $1.3 million (2017: $1.3 million) and return a dividend of $1.5 million to the Government for the year ended 30 June 2018. A special dividend of $3.0 million was also returned to the Government as a contribution to the Chan Data Centre Relocation Project.

As at 30 June 2018, the net asset position of Data Centre Services was $21.8 million (2017: $23.3 million).

Data Centre Services cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Sale of goods and/or services	24,723	25,354
Other	150	229
Total income	**24,873**	**25,583**
Expenditure		
Operational costs	(11,832)	(13,034)
Employee expenses	(6,653)	(6,568)
Depreciation and amortisation	(1,977)	(1,771)
Impairment losses	(233)	-
Total expenditure	**(20,695)**	**(21,373)**
Surplus before income tax expense	**4,178**	**4,210**
Income tax expense	(1,253)	(1,263)
Surplus after income tax expense	**2,925**	**2,947**
Dividends	(1,462)	(1,473)
Special dividend	(3,000)	-
Net surplus	**(1,537)**	**1,474**

Data Centre Services cont…

Financial Position at year end

	2018	2017
	$'000	$'000
Cash and cash equivalents	6,284	10,817
Receivables and other current assets	6,157	6,329
Less current liabilities	(4,457)	(4,549)
Working Capital	**7,984**	**12,597**
Add non-current assets	13,833	10,657
Less non-current liabilities	-	-
Net Assets	**21,817**	**23,254**
Represented by:		
Accumulated funds	20,351	21,888
Capital	1,466	1,366
Equity	**21,817**	**23,254**

Department of Infrastructure, Planning and Logistics

Indigenous Employment Provisional Sum

Scope and Objectives

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

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

The objectives of the performance management system audit are to:

- provide the Legislative Assembly with an overview of the actions taken by the Department of Infrastructure, Planning and Logistics (DIPL) to address the recommendations arising from the prior audit of the Indigenous Employment Provisional Sum (IEPS) initiative tabled in the November 2017 Legislative Assembly; and
- assess the controls and processes DIPL has in place to manage the investigation, final payments and closure of the IEPS Policy.

The audit covers the period from 1 June 2017 to 31 July 2018 and information dating back to the commencement of the project where required. The fieldwork supporting this audit was conducted between August 2018 and September 2018.

Limitation

I acknowledge that a number of matters have proceeded to court and/or recovery action has commenced in relation to payments of claims with inadequate substantiation. Given the progress of the investigation and the outcome of the matters not yet resolved it is not appropriate for me to comment on specific matters. As such, this report is limited to the chronology, status update and recommendations.

In some instances within this report, I have provided my observations in relation to conflicting duties being held by departmental positions responsible for specific tasks. These observations are premised upon comparison with examples of established and better practice and should not be interpreted or construed as reflecting negatively on the individuals employed in these positions.

Department of Infrastructure, Planning and Logistics cont…

In order to gain an understanding of and assess the performance management systems in place to address the recommendations arising from the prior audit of the IEPS initiative; and to assess the controls and processes DIPL has in place to manage the investigation, final payments and closure of the IEPS Policy; sections of this report present the following:

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Department of Infrastructure, Planning and Logistics cont…

Background

The Department of Infrastructure (DoI) introduced the Indigenous Participation on Construction Projects (IPoCP) in October 2014. The policy aimed to "*provide employment opportunities and build the capacity of Indigenous businesses to successfully share in the delivery of construction projects in the Northern Territory.*" *(DIPL Internal Documentation, August 2017)*

The Indigenous Employment Provisional Sum was established as part of the IPoCP to support the employment of Indigenous persons by a contractor and any sub-contractors in the performance of works. The IEPS was communicated internally on 22 October 2014 and became effective on 15 October 2014.

The IEPS allowed a *"Provisional Sum"* item in the contract schedule. *"A provisional sum is an allowance, in this case estimated by the Agency that is inserted into tender documents for a specific element of the works that is not yet defined in enough detail for tenderers to price"*. *(Designing Building Wiki, 2018)*. The Provisional Sum was intended for Indigenous employment to incentivise contractors to engage Indigenous staff where estimated project values exceeded $500,000. The Provisional Sum could be drawn upon by the contractor through submitting claims throughout the contract period.

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

The IEPS and IPoCP have been managed by DIPL since inception.

An audit entitled *"Indigenous Employment Provisional Sum Initiative"* was undertaken by the Northern Territory Auditor-General's Office in 2017. Findings from the audit were included in the November 2017 Auditor-General's Report to the Legislative Assembly. The objective of that audit was to provide the Legislative Assembly with:

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

(NTAGO, November 2017)

Department of Infrastructure, Planning and Logistics cont…

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

The following conclusions were presented on the processes and systems in place to manage the IEPS:

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

At the time of my audit, there had been in excess of $40 million paid through Agency contracts under the IEPS. At the time of finalising this report, the information provided by the Agency identified the IEPS applicable to awarded contracts as approximately $87 million (as reported through ASNEX (Asset Systems) from information recorded in the AIS (Asset Information System)). At the time of the audit fieldwork, the information extracted from the APRO (Agency Procurement Requisition Online) tendering system suggested the IEPS attributable to all awarded and open tenders as at 6 June 2017 was approximately $126 million. The information contained in each of the two reports had not, at the time of writing this report, been reconciled by the Agency. The absence of effective controls has and is exposing the Agency to significant financial risk and there is evidence to suggest that some contractors have deliberately claimed payments under the IEPS to which they were not entitled.” (NTAGO, November 2017)

Department of Infrastructure, Planning and Logistics cont…

The recommendations, as they appeared in the Auditor-General's November 2017 Report are listed below:

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

(NTAGO, November 2017)

DIPL representatives have provided advice on the current status of the 2017 audit recommendations as captured in Agency Response to 2017 Audit Recommendations.

The Minister for Infrastructure, Planning and Logistics announced in a media release dated 4 August 2017 that *"Following advice received from the Department of Infrastructure, Planning and Logistics relating to potential widespread fraud of the IEPS, the Government has suspended the scheme, effective immediately".*

Department of Infrastructure, Planning and Logistics cont…

On 23 November 2017 the Minister for Infrastructure, Planning and Logistics announced in a Media Release that *the "recommendations made by the Auditor-General have been acted upon by the Department of Infrastructure, Planning and Logistics (DIPL), and will be taken into account when a new Aboriginal employment initiative is developed."* The announcement advised that:

- $500,000 was to be allocated *"to ensure a greater level of scrutiny in construction contract procurement across the Agency.*
- *It was these strengthened audit and compliance systems that picked up the problems that we acted upon - this is a good sign the changes are working.*
- *A cross-Government working group is also developing a new policy in consultation with business and industry to drive Aboriginal employment initiatives.*
- *Matters arising from the IEPS are currently under investigation by Northern Territory Police."*

As my 2017 audit was largely concluded prior to the suspension of the IEPS, some of the recommendations from the 2017 audit are no longer relevant to the IEPS Policy unless it is reinstated. The recommendations remain valid to the extent that the IEPS remains applicable to a number of contracts already issued and in progress but not yet completed.

The current audit considers the performance management systems DIPL has in place to manage the IEPS post the suspension and to manage the investigation of claims for payment against the IEPS.

Department of Infrastructure, Planning and Logistics cont…

Conclusion

The 2017 audit identified the absence of effective controls, exposing the Agency to significant financial risk. There was evidence to suggest that some contractors had deliberately claimed payments under the IEPS to which they were not entitled.

Observations from my 2018 audit demonstrate that DIPL have enhanced the controls relating to the verification of claims against the IEPS within contracts. The increased controls are specific to payments made in relation to the IEPS payments and applicable only to actions performed within the IEPS Investigation Team. Notwithstanding these increased controls, the audit identified a number of processes where controls could be further improved.

When considering the current progress of the IEPS investigation, there is a significant risk that the resources allocated to the verification of past claims against the IEPS are not sufficient and the opportunity for DIPL to recover overpayments in a timely manner will be negatively impacted.

Responses to breakdowns and weaknesses in controls have been limited to investigating past and current claims against the IEPS with the prioritisation of current claims for payment. The extent to which identified shortcomings in controls related to verification of payments, contract management and document management and associated risks may impact other processes not specific to IEPS have not been assessed at an Agency level. Controls at the wider project management level remain unchanged. As a result, the Agency may continue to be exposed to financial risk.

The audit identified that the Agency could implement improvements in order to demonstrate the Agency objectives are being achieved economically, efficiently and effectively.

Recommendations to enhance the effectiveness of management and monitoring of payments of claims against the IEPS Policy and contract management more broadly have been reported below.

Department of Infrastructure, Planning and Logistics cont…

Recommendations

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

Independence of IEPS Investigation Team could be enhanced

I recommended management consider the structural positioning and reporting lines of the IEPS Investigation Team to ensure the IEPS Investigation Team is, and is seen to be, independent of the processes being investigated and from those processes considered business as usual. Structural separation and clear reporting lines support the independence and objectivity of those involved in an audit or investigative role.

Contractor performance reviews process requires improvement

I was advised that DIPL personnel are presently working with the Department of Corporate and Information Services (DCIS) to implement a new process designed to facilitate the timely and accurate assessment and reporting of contractor performance. I recommended that DIPL ensure the design and implementation of the new process supports efficient completion and reporting of performance assessments and enables meaningful reports to be extracted that effectively contribute to future tender assessments. I further recommended that the new and changed processes, together with training on how to use the system, be effectively communicated to all personnel involved in contract management.

Prioritisation of workload and resourcing of the IEPS Investigation Team requires revisiting

An exercise was conducted within DIPL to prioritise the investigation process focussing on those contracts presenting greater risk to the Agency. The exercise resulted in enhanced verification of current claims and a structured process for investigating past claims. As at 31 July 2018, 93 percent of claims submitted after August 2017 had been reviewed compared to 10 percent of contracts completed before August 2017. There were three positions in the Investigation Team of which one has not been filled. There is no independent review of the data extracted from contracts and maintained by the Investigation Team. I recommended management review the prioritisation of workload and the current resourcing of the IEPS Investigation Team and take necessary steps to mitigate the risk that overpayments of claims against the IEPS will not be recovered in a timely manner.

Costs associated with the IEPS Investigation are not separately identified

Costs associated with the IEPS investigation are not being captured separately. I recommended costs associated with conducting the IEPS Investigation be captured separately from other costs and monitored, noting that specific funding was appropriated to DIPL to *"ensure a greater level of scrutiny in construction contract procurement across the Agency".*

Department of Infrastructure, Planning and Logistics cont…

The IEPS Review Procedure has not been approved and communicated

An IEPS Review Procedure was created on 2 February 2018 and amended on 20 February 2018. At the time of my audit the document remained as a draft. I recommended the IEPS Review Procedure be reviewed and formally approved by the Inter-Agency Taskforce (IAT).

Improve the governance structure for more effective oversight

The IAT formed in August 2017 is responsible for reviewing the findings of the IEPS Investigation Team relating to claims against the IEPS paid prior to August 2017. The following observations were noted during the audit:

- Prior to the commencement of my 2018 audit, the IAT had not met for five months despite the terms of reference requiring the IAT to meet fortnightly. I have been advised that IAT members subsequently agreed to meet as required however this decision was not documented nor were the terms of reference updated;
- No written conflict of interest declarations were submitted by IAT members;
- The IAT had not approved the draft IEPS Review Procedure;
- The IAT includes personnel with operational responsibilities pertaining to the IEPS thus creating a perception that the objectivity and independence may be impaired.

I recommended the governance structure and the effectiveness of the IAT be considered and strengthened. Actions suggested to address this recommendation could include:

- Holding regular scheduled meetings as required by the terms of reference applicable to the IAT or updating the terms of reference to reflect the changed requirements.
- Obtaining and retaining written conflict of interest declarations from each IAT member and requiring a verbal conflict of interest declaration to be a standard agenda item at the commencement of each meeting.
- Taking into consideration conflicts of interest (including conflicting duties and responsibilities), assessing and confirming, as appropriate, the membership of the IAT.
- Approving the IEPS Review Procedure.
- Determining what progress reporting is required to adequately inform the IAT and considering what action may be required to address delays in progress.

Department of Infrastructure, Planning and Logistics cont…

Monitoring and reporting on strategic outcomes

The level of IEPS available under each contract was determined based on the value of the contract rather than being directly related to a required output (e.g. level of Indigenous employment). There is however an unrelated requirement for contractors to produce and adhere to an Indigenous Development Plan which documents the action that will be taken by the contractor during project delivery to increase employment and sub-contracting opportunities for Indigenous people and Indigenous-owned entities. These contractual requirements for Indigenous employment remain, notwithstanding the suspension of the IEPS Policy, however there is evidence that the intended employment actions are not always delivered by the contractor, or, for circumstances outside the control of the contractor, are unable to be delivered.

DIPL have recently announced a strategic aim of *"Maximising Aboriginal employment and business involvement in the design and delivery of Government's infrastructure program".* To ensure strategic outcomes are met, I recommended management consider how the contractors and the Agency will measure achievement of the desired strategic outcome and what evidence will be required to demonstrate progress against the desired strategic outcome.

Processes and controls to verify claims for payment prior to payment require enhancing across the Agency

Observations from my 2018 audit demonstrate that DIPL have enhanced the controls relating to the verification of claims against the IEPS within contracts. The increased controls are specific to payments made in relation to the IEPS payments and applicable only to actions performed within the IEPS Investigation Team. While most of the deficiencies in processes and controls related directly to the IEPS, it is possible that control weaknesses may exist in relation to other contract management and payment processes within the Agency.

I recommended management conduct a risk assessment of the likelihood and consequence that similar control breakdowns and weaknesses may exist and impact the Agency more broadly and, from this assessment, develop and implement a plan for corrective action.

Department of Infrastructure, Planning and Logistics cont…

Document management across DIPL requires improvement

Data pertaining to the IEPS is determined from reviewing individual contracts and the data is then maintained by the IEPS Investigation Team in an excel spreadsheet created by the IEPS Investigation Team. The management of large amounts of data manually in excel is subject to human error, difficult to scrutinise and report upon and is exposed to increased security risk. Key documentation for contracts was recorded inconsistently with different naming conventions. In a number of instances, DIPL personnel were unable to provide procurement and contractual documentation to my Authorised Auditor upon request or in a timely manner.

Documentary records should be:

- created within a managed framework;
- captured within an appropriate records management system;
- obtainable and accessible for as long as they are required;
- secure; and
- disposed of systematically and in accordance with Northern Territory Government Records Management Policy.

I recommended the following controls be implemented when relying upon manual processes to capture and report data:

- development of process documentation and instructions around the collection and storage of data;
- implementing quality assurance reviews of the data;
- limiting access to source data maintained in excel; and
- introducing processes to regularly back-up the data files.

Management of risks to the Agency

Discussions with DIPL personnel, review of correspondence and contractual documentation identified instances of resistance from employees and contractors when requested by management to implement improved processes and controls designed to improve the management of IEPS claims and payments.

I recommended management take action to clearly communicate employee responsibilities to ensure all personnel are acting in a manner that supports continuous improvement and effective risk management. This may require additional effort by the Agency to clearly document and communicate the approved processes for negotiating disputes or requests to vary special or uncommon conditions within contracts.

Department of Infrastructure, Planning and Logistics cont…

Audit Observations

Suspension of the IEPS Policy

The immediate suspension meant that from 4 August 2017 no new contracts would include the IEPS. Following the suspension DIPL developed an approach to address the removal of the IEPS depending on the stage of the procurement. Based on contractual obligations, existing contracts including the IEPS in the contract were to be honoured. Additional resources were allocated to manage the existing contracts including the IEPS.

Structure and Responsibilities for the IEPS

Roles and Responsibilities

Following the suspension of the IEPS, the roles and responsibilities were updated in response to the issues identified. Based on the new division of roles and responsibilities, IEPS oversight was centralised to one unit including responsibility for:

- policy development;
- provision of guidance to operational staff and contractors;
- authorisation of payments;
- conducting quality assurance reviews; and
- undertaking audits and investigations.

While the investigation activities are allocated to a separate team within the unit, the independence of the Investigation Team may be, or be seen to be, impaired as the Investigation Team is structurally located within the unit which has operational responsibility for interpretation and application of the IEPS. For an investigation team to be, and be seen to be, objective, established practice is to implement structural separation from business operations.

Policy

The IEPS Policy and guidelines have been updated after the suspension of the IEPS to address recommendations raised in the internal investigation and my earlier audit. The latest versions of both documents include more guidance on how to implement the policy in an effort to gain more consistency in the application of the IEPS.

Department of Infrastructure, Planning and Logistics cont…

Operational Processes

The contractual provision for the IEPS was mandatory for all construction/works tenders with an estimated value at $500,000 and above (tier 4 and 5) and was included in the contract through the addition of a special condition within the contract. The IEPS provided the contractor with financial support for Indigenous employment obligations.

The Indigenous employment obligations are a separate requirement from the IEPS, with a separate special condition in the contract. When the IEPS was removed, the Indigenous employment obligation remained. Indigenous employment obligations are included in contracts issued prior to the introduction of the IEPS and following the suspension of the IEPS. The targets are monitored through the use of an Indigenous Development Plan.

The IEPS and Indigenous employment obligations form part of the Value for Territory assessment within the standard tender evaluation process. The proposal and response schedule for the successful contractor then forms the contract.

During the course of the contract, if any instances of non-compliance are noted, it is the Project Manager's role to communicate the non-compliance to the contractor and ensure corrective action is taken. Formal feedback is also provided using the Contractor Performance Review form that is to be completed by DIPL at the completion of each contract. Poor performance and compliance breaches are to be taken into consideration when assessing the contractor's responses to future tenders.

During this audit, several instances were identified where the Contractor Performance Review had not been performed on completed projects. DIPL advised they are aware of the issues and limitations in the Contractor Performance Review process and identified that the process is not always completed in a timely manner thus it is difficult to take into consideration when assessing responses to subsequent tenders. DIPL are working with DCIS to develop a new Contractor Performance Review process. To date there have been issues with the process not meeting the requirements resulting in delays in implementing the new process.

Department of Infrastructure, Planning and Logistics cont…

Investigation Process and Resourcing

On 11 August 2017, the Northern Territory Government provided additional funding of $500,000 to DIPL to increase resourcing to support the audit and compliance functions after the identification of suspected fraudulent claims against the IEPS by a number of businesses.

DIPL established two new teams, being the:

- **IEPS Verification Team:** responsible for reviewing and validating all IEPS claims submitted from August 2017.
- **IEPS Audit and Investigation Team:** responsible for reviewing all claims submitted prior to August 2017.

DIPL has prioritised the resourcing of the IEPS Verification Team to ensure all current IEPS claims are verified in a timely manner prior to payment. Analysis of the performance results as at 31 July 2018 demonstrated 93 percent of claims submitted after August 2017 had been subject to review. Ten percent of contractors where the contract was entered into prior to August 2017 had been reviewed. At the time of the commencement of my audit, DIPL representatives advised that the Agency was ready to move resources to the IEPS Audit and Investigation Team to review claims submitted prior to August 2017. At the time of my audit, the IEPS Verification Team and IEPS Audit and Investigation Team had been amalgamated to form one team, named the IEPS Investigation Team. DIPL have allocated three full time supernumerary positions to the IEPS Investigation Team.

The IEPS Investigation Team remains within an operational unit that is responsible for the day to day management of the IEPS. When conducting an investigation within an organisation, operational and reporting structures must be in place to facilitate confidentiality and to allow the investigators to operate independently of the day to day business operations.

The combination of knowledge and experience held by the individual leading the IEPS Investigation Team appears appropriate. This individual is supported by one other team member with the third position remaining vacant. DIPL are currently recruiting to fill the vacant position.

Whilst acknowledging the difficulty in attracting appropriately qualified individuals to temporary roles such as these, it would be appropriate for DIPL to determine the minimum skillset required to ensure the IEPS Investigation Team is able to effectively deliver upon its mandate.

My Authorised Auditors attempted to review the costs associated with the IEPS investigation however as the costs associated with the IEPS investigation are not captured separately, it was not possible to examine the costs of the investigation process to date as part of this audit.

Department of Infrastructure, Planning and Logistics cont…

The IEPS investigation process is documented in the IEPS Review Procedure. The document clearly outlines the current status, the review process to be undertaken and roles and responsibilities pertaining to the IEPS investigation process. The IEPS Review Procedure was created on 2 February 2018 and amended on 20 February 2018. At the time of the audit, the IEPS Review Procedure remained in draft.

An exercise was conducted within DIPL to prioritise the investigation process focussing on those contracts presenting greater risk to the Agency. The exercise resulted in enhanced verification of current claims and a structured process for investigating past claims. Due to the large number of issues identified within in past claims, a decision was made that all claims prior to August 2017 are to be investigated by the IEPS Investigation Team rather than just those claims considered of highest risk. The investigation process then commenced with those contracts presenting the highest risk of financial loss to the Territory. The change in the investigation process to review 100% of claims (rather than a subset of claims) has not been updated in the IEPS Review Procedure. The finalisation of the current draft and any changes require approval from the IAT.

Governance

The IAT was established *"to conduct an analysis of irregularities with theIndigenous Employment Provisional Sum which is a component of the IPoCP with a view to determining whether inappropriate use of the IEPS has occurred and if so to determine the appropriate course of action." (DIPL Internal Documentation, 2 March 2018)*

The IEPS Investigation Team has responsibility for reviewing past claims and current claims against the IEPS. The IAT is responsible for determining the action to be taken based on the results from the reviews undertaken by the IEPS Investigation Team. Actions from the IAT to date have been to:

- refer the matter back to DIPL to undertake appropriate action to recover potential overpayments; and
- refer the matter to Northern Territory Police where the claim is suspected of involving deceptive behaviour.

The terms of reference require meetings of the IAT to *"be held fortnightly until otherwise agreed at the meeting."* At the time my audit commenced in August 2018, the IAT had not met for five months. I have been advised that IAT members subsequently agreed to meet as required however this decision was not documented nor were the terms of reference updated to reflect the decision.

Department of Infrastructure, Planning and Logistics cont…

Based on a review of the meeting minutes, no written conflict of interest declarations were submitted by IAT members. The minutes of meetings held in October 2017 and March 2018 record no requests to advise known conflicts of interest or confirmation that no conflicts existed, notwithstanding new members joining the committee.

One position appointed to the IAT represents a managerial role within DIPL with operational responsibility for projects to which the IEPS applied. At the time of my audit, the position also had structural responsibility for the unit that both manages the IEPS on contracts including interpretation of the criteria applicable to the IEPS and the IEPS Investigation Team. As an IAT member, the individual holding the position is also required to assess actions in relation to claims paid through his/her operational unit and assess the information, findings and progress of the IEPS Investigation Team. I consider this combination of roles to be not compatible as it presents risks relating to conflict of duties and the threat of self-review. As noted at the beginning of this report, my comments in relation to the conflicting roles attributed to this position should not be interpreted as reflecting upon the conduct or performance of the individual holding the position.

Data and Records

Strategy, Measuring and Reporting

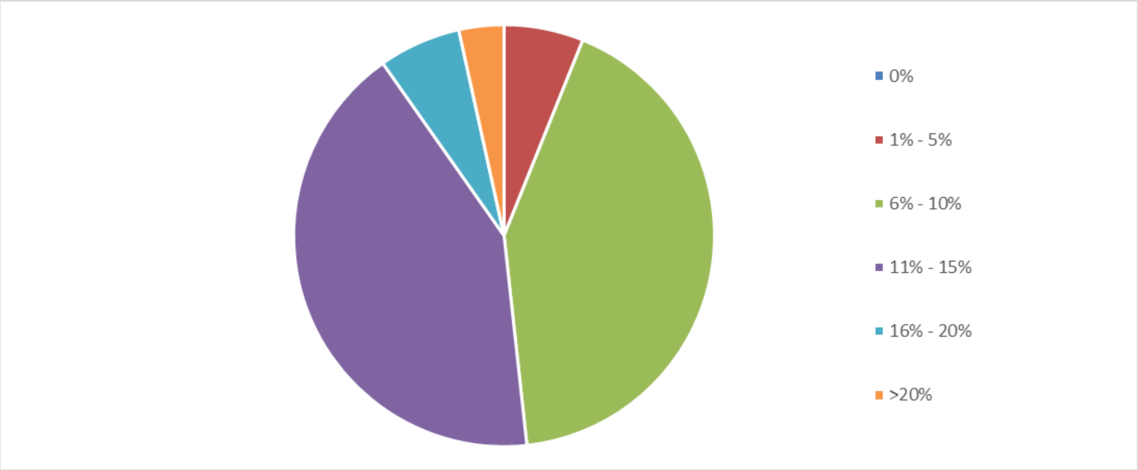
The overarching strategic outcome of the IEPS was to support the IPoCP Policy with the aim of providing employment opportunities for Indigenous people and building the capacity of Indigenous businesses to successfully participate in the delivery of construction projects in the Northern Territory. While the provision of IEPS to support Indigenous employment and the Indigenous employment obligations of the successful tenderer requirement were both included in requests for tender and the responses, the two elements are separate initiatives and were treated separately in the contractual arrangements. The level of the IEPS was not aligned with a required level of Indigenous employment.

Numerous instances were observed where the IEPS and Indigenous employment requirements agreed in the proposal and contract were varied during the execution of the contract. The changes made to the IEPS or Indigenous employment levels were not related, with changes often made to one condition without any change to the other condition.

Department of Infrastructure, Planning and Logistics cont…

As identified in my previous audit, the value of the IEPS allocated to each contract was subjective and there was insufficient guidance, process and checks in place to ensure it was applied consistently.

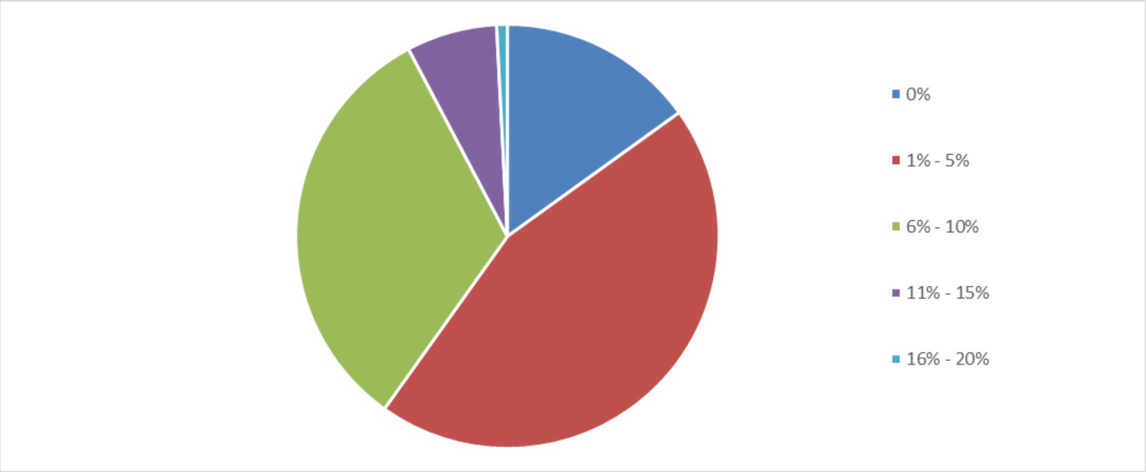
Figure 1 IEPS Allocated (updated for contract variations) as a percentage of contract value (updated for contract variations)



(DIPL Internal Documentation, 16 August 2018)

The above chart demonstrates the IEPS allocated to each contract as a percentage of the contract value. The variation in IEPS allocated demonstrates that the percentage was not applied consistently. The chart below presents paid contract and IEPS values including contract variations.

Figure 2 IEPS Paid (updated for contract variations) as a percentage of contract value (updated for contract variations)



(DIPL Internal Documentation, 16 August 2018)

Department of Infrastructure, Planning and Logistics cont…

In 2018/19 Budget Paper No. 3, DIPL included the key strategic issue *“Maximising Aboriginal employment and business involvement in the design and delivery of Government’s infrastructure program”*. Budget Paper No. 3 presented an Indigenous Development Plan audit target of 94%.

It would be appropriate for DIPL to review the strategic goals and measures to ensure they are measurable and realistic.

System and Data Management

There is no system in place that records the contracted value of the IEPS or the available balance against which claims can be made either by contract or in total. IEPS payments are maintained in the AIS. A listing of contracts containing the IEPS, the value of the provisional sum allocated, the payments made and current available balance is recorded and monitored manually in the spreadsheet created and maintained by the IEPS Investigation Team.

As the IEPS data is not maintained within an established information technology system, the IEPS Investigation Team has to collate the data manually to estimate the remaining commitment against the IEPS.

Figure 3 IEPS data

	Commencement of 2017 Audit	Completion of 2017 Audit	August 2018
IEPS Contracted	$87 million	$126 million	$124,531,901
IEPS Paid	excess of $40 million	NA	$57,598,956
IEPS Available But Not Yet Paid	NA	NA	$22,314,307

Department of Infrastructure, Planning and Logistics cont…

The following difficulties were noted when analysing the information collated and presented by the IEPS Investigation Team:

- The IEPS allocated to a contract is not recorded in any system and therefore has to be determined from manual examination of each contract;
- The IEPS can be altered through contract variations and it is common for Tier 4 and 5 contracts to have a significant number of contract variations. Any amendments to the IEPS have to be determined from manual examination of each contract variation.
- It was recently identified by the IEPS Investigation Team that a report of payments of claims against the IEPS generated from ASNEX was incorrect as the report did not include manual journal correcting entries. A new report has been sourced and was used by the IEPS Investigation Team to determine the values reported in Figure 3.
- '*IEPS Paid*' and '*IEPS Available But Not Yet Paid*' often required correction due to the incorrect treatment of GST.
- The '*IEPS Available But Not Yet Paid*' balance may vary depending on the stage of completion of the contract, as additional claims can be made up to the Final Certificate date, notwithstanding the contract requiring the monthly submission of invoiced claims against the IEPS. Given the size of the contracts involved, it may take more than a year from practical completion to the final completion date. The IEPS Investigation Team used the Practical Completion Date to calculate the '*IEPS Available But Not Yet Paid*' balance of $22.3 million. Legal advice identified the correct date to use is the "Final Certificate Date", however a report is not readily available to extract the required data using the Final Certificate Date. Using the Certificate Date to generate the value of '*IEPS Available But Not Yet Paid* ' is likely to increase the balance of '*IEPS Available But Not Yet Paid* '. Personnel of the IEPS Investigation Team have advised the worksheet will be updated and an analysis of affected contracts will be conducted and any contracts requiring investigation as a result will be actioned.

The management of large amounts of data manually in excel is subject to human error and may result in information that is difficult to robustly scrutinise and challenging to extract meaningful reports from.

Department of Infrastructure, Planning and Logistics cont…

Notwithstanding the limitations associated with the manual collation of the data, review of the data identified a number of matters:

- Eight contracts with a total IEPS value of $2.4 million were identified with acceptance dates after the suspension of the IEPS scheme of 4 August 2017. DIPL advised a small amount of contracts were assessed and approved when the abolishment of the scheme was announced and the removal of IEPS could not be negotiated.
- Contracts were identified as *"Nil IEPS / IEPS Removed"*, which means the IEPS Investigation Team does not need to complete an audit for that contract. My Authorised Auditor identified 14 contracts recorded as "*Nil IEPS / IEPS Removed*" which contained IEPS totalling $1.6 million and one contract with a claim against IEPS of $34 thousand which was paid prior to August 2017. DIPL advised the contracts have been reviewed and seven have been reclassified for audit, the remaining seven do not require an audit as there is no IEPS claims against the contract.
- 24 contracts were identified where the *"IEPS Claims Paid Prior to August 2017"* are recorded as negative amounts. Personnel within the IEPS Investigation Team advised that they were aware of this and it is error that will be corrected.
- 19 contracts were identified where IEPS payments totalling $4.4 million exceeded the total contracted value of $2.1 million. During my audit, personnel of the IEPS Investigation Team reviewed the 19 anomalies and found many resulted from data input errors. In most instances, the IEPS allocated had been increased through contract variations which had not been identified and recorded on the spreadsheet. Personnel of the IEPS Investigation Team advised that checks of the values within the spreadsheet are performed including reconciliation to claims and payments recorded in the system. Of the 19 anomalies above, three contracts represented actual overpayments of claims against the IEPS.

Department of Infrastructure, Planning and Logistics cont…

As part of the audit, my Authorised Auditor selected a sample of 15 contracts to review the supporting documentation. The designated DIPL personnel were not able to provide all required documentation to support the contracts in a timely manner. As a result the IEPS Investigation Team used its resources to locate the documentation. The documentation provided was recorded inconsistently with different naming conventions.

From the samples the following issues were noted:

- Two instances where tenders awarded in September 2017 included an IEPS despite the IEPS being abolished on 4 August 2017.
- One instance where a tender awarded in October 2014 before IEPS was applicable was subsequently varied to include an IEPS. As a result the contract did not include any of the IEPS conditions. The IEPS amendment was made via a hand written note on a change order.
- In three instances, designated personnel were unable to provide a copy of the Supervisor's Contract Copy. In these instances, a separate copy of the tender, response and contract conditions were provided.
- For six contracts, the contract was completed however the Contractor Performance Review was not performed.
- In three instances, the final certificate had not been issued for completed contracts. The final certificate is only issued when all aspects of the contract are finalised. At the time of preparing this report, DIPL advised the final certificate has been issued for two of the three contracts.
- Payments had been incorrectly coded to IEPS.
- DIPL personnel were unable to provide the service order and appointment letters documentation for one contract.
- There were two instances where the contract did not include one of the standard IEPS conditions.

Department of Infrastructure, Planning and Logistics cont…

IEPS Investigation Reporting and Results

The IEPS Investigation Team provide monthly reports to the Chief Executive on the status of:

- the review and validation all IEPS claims submitted from August 2017; and
- the investigation on all claims submitted prior to August 2017.

The reporting clearly identifies the total number of reviews required, reviews outstanding and reviews performed including the outcome of the review.

Control Breakdown and Risk Assessment

My Authorised Auditor performed a detailed review on a number of contracts leading to the following observations in relation to contract management:

- The decision making hierarchy is not evident for resolving internal disputes. DIPL personnel advised that roles and responsibilities clarifying the final decision maker and channels for raising disputes are not always clear.
- On one occasion, confidential and sensitive information was inappropriately provided to contractors.
- Whilst noting that the process for verifying claims for payment from contractors became significantly more complex as a result of the introduction of the IEPS, it is possible that the ability to easily verify contractors' claims may also be impaired where non-standard contract terms and conditions apply, consequently non-compliance with contract conditions may not be detected.
- Existing processes may need to be enhanced to ensure correct and appropriate advice is sought to inform improved decision making.
- Adequate systems and processes may not be in place to manage contractual requirements relating to Aboriginal employment resulting in contractual undertakings not being met.

While DIPL have responded to the control breakdowns relating to the IEPS Policy, the actions taken have been limited to IEPS processes only and with responsibility upon the IEPS Investigation Team to provide a quality assurance process that claims by contractors were valid and accurate. I consider it may be beneficial for the Agency to conduct an assessment of the extent to which risks in relation to contract management and verification and payment of claims exist across the Agency and the extent to which associated mitigating controls are designed, implemented and operating effectively. Such an assessment would enable DIPL to either strengthen controls if required or support management's conclusion that the control weaknesses specific to IEPS do not affect the broader business operations of DIPL.

Department of Infrastructure, Planning and Logistics cont…

Fraud Controls

The Fraud Risk Triangle presents three conditions that must be present for a fraud to be perpetrated. These conditions are:

- Motivation – *"Incentives and pressures that motivate an individual to commit a fraudulent act."*
- Opportunity – *"Opportunities or perceived opportunities that provide an individual with some assurance that a fraud act can be committed without being detected."*
- Rationalisation – *"Attitudes or rationalisations that enable an individual to internally justify the performance of a fraudulent act."*

Motivation and rationalisation are human factors and are less able to be mitigated through the introduction of controls therefore the focus by the agency must be on identifying the opportunities for fraud and implementing controls to reduce the opportunity for fraud to occur.

It is important to consider fraud perpetrators in a broader context. Fraud may be perpetrated by those within an organisation (internal fraud), by those external to an organisation (external fraud) and through collusion between internal and external parties (collusion). Fraud controls need to be designed and implemented to prevent and detect fraud perpetrated by each of these three sources.

The Australian National Audit Office Fraud Control in Australian Government Entities Guide March 2011 (page 27) describes the following four key fraud control strategies which, if designed appropriately, implemented and effective, should significantly mitigate the risk of fraud:

- "*Fraud prevention – those strategies designed to prevent fraud from occurring in the first instance.*
- *Fraud detection – strategies designed to discover fraud as soon as possible after it has occurred.*
- *Fraud response – systems and processes that assist an Agency to respond appropriate to an alleged fraud when it is detected.*
- *Fraud monitoring, reporting and evaluation – strategies to provide assurance that legislative responsibilities are being met, as well as promoting accountability by providing information that demonstrates compliance with specific fraud control strategies."*

Each of these elements must be actively managed and have clear responsibility allocated within the Agency to be effective. The results of this audit indicate that it would be timely for management to assess the risks and controls relating to fraud prevention and fraud monitoring and take action as considered necessary to sufficiently mitigate any identified risks.

Department of Infrastructure, Planning and Logistics cont…

IEPS Key Events Chronology

Date	Event
15 Oct 2014	DoI introduced the IPoCP.
22 Oct 2014	Agency employees advised that IEPS would become effective from 15 October 2014 and apply to all Tier 4 and Tier 5 construction procurement activities released.
Oct 2014	First tender released containing the IEPS.
Oct - Nov 15	Factsheet entitled Indigenous Participation on Construction Projects Implementation Notes was developed yet not widely released throughout the Agency.
Jan 2015	Agency received first contractor claim for payment against the IEPS.
Feb 2015	Agency made first payment to a contractor against the IEPS.
17 Feb 15	IEPS Policy amended to permit only claims for wages of Indigenous people and to exclude claims for training or percentage mark-ups for Indigenous employment and training (first revision).
17 Feb 15	Guidelines for the IEPS were released to all Agency personnel.
7 Apr 2016	Guidelines for the IEPS were revised (first revision).
1 Jun 2016	Guidelines for the IEPS were revised (second revision).
Jul 16	Safety and Compliance Unit was established.
Sep 16	Machinery of Government changes resulted in the formation of the new Agency, DIPL.
Sep 16	The Northern Territory Government, through the Department of Trade, Business and Innovation, engaged an independent consultant to review two programs designed to increase Indigenous employment opportunities, one of which was the IEPS.
Nov 16	Anomalies were identified in claims submitted from one contractor.
Dec 16	The Department of Trade, Business and Innovation received the final report from the independent consultant's review of the IEPS.

Department of Infrastructure, Planning and Logistics cont…

IEPS Key Events Chronology cont…

Date	Event
Feb 17	DIPL Investigation Team finalised a review into anomalies in claims submitted by a contractor. DIPL notified relevant parties of potential deceptive behaviour.
Mar 17	DIPL Investigation Team commenced further reviews into contractor claims against the IEPS.
1 Mar 2017	Abolishment of the IEPS was considered, the preferred option to continue with the IEPS Policy with the updated eligibility criteria and all existing and new contracts were endorsed.
31 May 2017	Records show that over $40 million had been paid to contractors under the IEPS (identified in 2017 audit).
9 Jun 2017	Records show that over $126 million had been contractually provided for IEPS payments to contractors (identified in 2017 audit).
Jun 2017	NT Auditor-General conducted an audit pertaining to the IEPS.
4 Aug 2017	DIPL identified further contractors where the IEPS claims were indicative of potential deceptive behaviour. DIPL notified relevant parties of potential deceptive behaviour.
4 Aug 2017	Minister for Infrastructure, Planning and Logistics suspended the IEPS due to potential widespread fraud.
4 Aug 2017	Guidelines for the IEPS were revised (third revision).
4 Aug 2017	IPoCP was revised (second revision).
8 Aug 2017	DIPL Chief Executive provided blanket approval to the Procurement Division to: ▪ Remove the IEPS from current request for tenders via release of addenda. ▪ Negotiate the removal of the IEPS from all current and relevant procurement assessments.
14 Aug 2017	The Procurement Division wrote to each tenderer advising the removal of IEPS from the project and provided tenderers with the opportunity to resubmit their lump sum on the basis of consequential cost impacts.

Department of Infrastructure, Planning and Logistics cont…

IEPS Key Events Chronology cont...

Date	Event
Aug 2017	DIPL increased resourcing for audit and compliance functions. An additional $500,000 was provided by the Northern Territory Government for this purpose.
Aug 2017	IEPS Investigation Team was established.
29 Aug 2017	An email was distributed advising of new IEPS Eligibility Criteria and informing that contractors are required to complete the IEPS Eligibility Criteria, Reporting Template and Statutory Declaration. Contractors were also provided with contact details should they have further questions.
30 Aug 2017	Letter were sent to all contractors participating in the IEPS.
31 Aug 2017	IAT formed, first meeting held.
3 Sep 2017	Records show that $87 million had been paid to contractors under the IEPS Policy (identified in 2017 audit)
15 Sep 2017	Second IAT meeting held.
26 Sep 2017	Legal advice received in relation to the IEPS.
31 Oct 2017	Third IAT meeting held.
31 Oct 2017	Guidelines for the IEPS were revised (fourth revision).
Nov 2017	NT Auditor-General IEPS audit results tabled.
17 Jan 2018	Legal Advice received in relation to the IEPS.
2 Mar 2018	Fourth IAT meeting held.
Mar 2018	DIPL identified further contractors where the IEPS claims were indicative of potential deceptive behaviour.
Jun 2017	IPoCP was revised (third revision).
8 Aug 2018	NT Auditor-General commenced Audit of IEPS.
Aug 2018	IPoCP was revised (fourth revision).
Aug 2018	Guidelines for the IEPS were revised (fifth revision).

Department of Infrastructure, Planning and Logistics cont…

IEPS Key Events Chronology cont...

Date	Event
15 Aug 2018	IAT Meeting booked for 24 August.
24 Aug 2018	Fifth IAT meeting held.
Aug 2018	DIPL identified further contractors where the IEPS claims were indicative of potential deceptive behaviour.

Department of Infrastructure, Planning and Logistics cont…

Agency Response to 2017 Audit Recommendations

DIPL have provided the following responses detailing action taken to address the findings from my 2017 audit:

#	Recommendation	Action taken by DIPL
1	It is recommended that management reviews the current Policy and Guidelines to provide further guidance and assistance to employees on the IEPS (or equivalent).	The Department's IEPS Verification Team, established in August 2017, is responsible for reviewing any remaining IEPS claims submitted by the Contractor and providing verification of eligibility to the Project Manager for payment of the claim. The IEPS Verification Team liaise with staff and contractors to ensure that supporting documentation is provided for all claims against the scheme. Guidelines outlining application of IEPS claims has been provided to all contract management staff. The Department's IEPS Audit and Investigations Team is responsible for reviewing all IEPS claims paid prior to August 2017. This Team provides reports to the Inter-Agency Taskforce. The Department has developed a procedure covering activities of the IEPS Audit and Investigations Team. These procedures detail the processes in reviewing IEPS claims paid prior to the suspension of the IEPS and includes the audit and Inter-Agency Taskforce referral, recovery of overpayments, payment for under claims, referrals for Police Investigation, and fraud risk assessment.

Department of Infrastructure, Planning and Logistics cont…

#	Recommendation	Action taken by DIPL
2	It is recommended that management establishes appropriate performance measures to enable effective monitoring of contractor performance against and compliance with the IEPS Policy (or equivalent).	The Department's IEPS Verification Team reviews all IEPS claims against Conditions of Contract and the IEPS eligibility criteria. The IEPS Verification Team ensures a consistent application of the policy across the Department. The IEPS Verification Team ensures that payments against the IEPS are only approved when sufficient documentation is provided and is within eligibility criteria. No claims against the IEPS are verified by the IEPS Verification Team without the required supporting documentation. The Department's CCU continues to review and assess Indigenous Development Plans and conduct audits on these plans. The Contractor is required to address non-conformances identified during audit and these findings are recommended to contribute to the Contractor Performance Report at the cessation of the project.
3	It is recommended that the Agency's holistic contract management framework includes policies and procedures to support managing the IEPS Policy (or equivalent).	On 14 November 2017, the Department wrote to all current contractors and provided the strengthened IEPS eligibility criteria. The Department has made available to the public IEPS information on the internet to reflect the requirements for IEPS claims. The Department's CCU meets with staff and contractors when requested to discuss the IEPS eligibility criteria and approval for payment against the scheme. The Department is assisting with the development of the new Aboriginal Contracting Framework and is bringing lessons learnt from the IEPS policy to this development work.

Department of Infrastructure, Planning and Logistics cont…

#	Recommendation	Action taken by DIPL
4	The quality and accuracy of information recorded and reporting to stakeholders could be improved.	The Department’s CCU provides monthly reports to Executive on all functions of the Unit including plan assessments, audits conducted, and reviews of past and present IEPS claims. For 2018-19 these reports have been condensed into a four page dashboard style report which summarises the activities conducted by the Unit. The Unit also provides more regular and detailed reporting to senior management to identify individual projects that require action. While the current reporting system has produced detailed reporting, the Department is reviewing its reporting system with the work unit to ensure the continued and ongoing accuracy of information and reporting. Database options will be considered as part of this review.
5	It is recommended that management attends to the control weaknesses that exist in relation to the IEPS Policy (or equivalent) as they affect the procurement process.	The Department has established an IEPS unit that conducts full verification of current IEPS claims. Claims are reviewed with a consistent approach from a centralised point. Payments are not made against the IEPS without verification of claims from this unit. The IEPS Team utilise the Strengthened IEPS Eligibility Criteria and legal advice to verify claims. All staff within the IEPS Team are kept abreast of legal interpretations and eligibility to claim against the IEPS. Strengthened IEPS Eligibility Criteria have been communicated to DIPL staff and copies were mailed to contractors in November 2017. The IEPS Team actively works with Project Managers to respond to contractors in relation to IEPS claims.

Department of Infrastructure, Planning and Logistics cont…

#	Recommendation	Action taken by DIPL
6	The Agency is encouraged to establish formal reporting protocols in relation to the IEPS (or equivalent).	The Department's CCU provides monthly reports to Executive on all functions of the Unit including plan assessments, audits conducted, and reviews of past and present IEPS claims. The Unit also provides more regular and detailed reporting to senior management to allow staff to identify particular projects and address outstanding actions. The Department procedures for reviewing IEPS claims paid prior to the suspension of the scheme detail the reporting requirements to the Inter-Agency Taskforce. The Department submits a report to the Inter-Agency Taskforce which details the audit findings and provides recommendations. These recommendations can include referral to Police for investigation, referral to the Department for further action, or no further action. The Department meets fortnightly with the Northern Territory Police as part of their fraud investigations to contribute to active investigations and to share information on audit findings.

Department of Infrastructure, Planning and Logistics cont…

#	Recommendation	Action taken by DIPL
7	The Agency would benefit from establishing a formal process for escalating concerns, complaints and allegations arising from weaknesses within the Agency's performance management system.	It is noted that the Auditor General's comments about improvements to the Agency's performance management system relate to procedures in place prior to the suspension of the IEPS. With the suspension of the IEPS in August 2017, formal reporting processes have been established to escalate matters to executive and the IEPS Verification Team. Moreover, the Department has introduced two new policies: 1. In July 2018, the Department finalised a *Complaint Handling Policy* which outlines to external stakeholders and clients the process for lodging a complaint with the Department. 2. The Department has developed a *Fraud and Corruption Control Policy and Reporting Procedure*. Rollout of the policy is being supported with whole of agency training on this topic which was delivered in August 2018. This includes explaining processes for staff to report any wrong doing to the Department's Audit and Risk Management Unit.

Department of Infrastructure, Planning and Logistics cont…

#	Recommendation	Action taken by DIPL
8	Consideration should be given to enhancing the recordkeeping systems and processes in place at the Agency.	The Department's CCU has established internal operational procedures and has enhanced reporting on all activities. The CCU keeps electronic records of all IEPS audit and payment related documents in the whole of government records management system, HP Record Manager (HPRM). This is part of the Department's Electronic Document Records Management approach which ensures information is held confidentially and is available to be searched electronically as required. HPRM is also used to file procurement and contract information. In addition to this, the department will implement standardised document naming conventions as a component of its Project Management Office to ensure ease of access to contract information. In addition, while the current reporting system has produced detailed reporting, the Department is reviewing its reporting system with the work unit to ensure the continued and ongoing accuracy of information and reporting. Database options will be considered as part of this review.

Department of Infrastructure, Planning and Logistics cont…

The Department of Infrastructure, Planning and Logistics has commented:

Thank you for the opportunity to provide comment on your report to the Legislative Assembly on matters relating to the Indigenous Employment Provisional Sum (IEPS) in this your second audit of the scheme.

Your previous report noted deficiencies in implementation of the IEPS program which commenced in 2014 and was suspended after three years in August 2017. Much has been done since your 2017 audit and the Department is now working quickly to implement recommendations from your 2018 audit and appreciates the information provided in this report.

With over $57 million worth of IEPS payments made under the scheme, the size of the audit and investigation workload is significant and is likely to form an ongoing part of the Department's functions for a number of years. Considering this longer term view, the governance arrangements, resourcing and procedures established in the preceding 15 months provides an important foundation on which the Department can strengthen existing controls associated with audit and investigation of the IEPS.

With regard to recommendations you have made, the following is noted.

- ***IEPS Team*** *- The Department has implemented a change in reporting lines with the IEPS Investigation Team now forming part of the Corporate Services Division and is referred to as the IEPS Audit and Investigation Unit. From the end of November 2018, three full-time staff members will form part of this unit, with a fourth member to be recruited early 2019.*
- ***Contractor performance review*** *- The Department is working with the Department of Corporate and Information Services to develop a technology based solution to support the timely and accurate assessment and reporting of contractor performance. This change aims to deliver efficiencies in reporting across the Department on completion of system enhancements.*
- ***Prioritisation of workload*** *-The early prioritisation of IEPS claims has meant that the majority of high risk contracts have been reviewed. The Department will be reviewing IEPS claims in light of recent advice that the Final Certificate Date is deemed as the date from which the statutory limitation period of three years commences.*
- ***IEPS costs*** *- A new cost centre has been created to capture all costs associated with the IEPS investigation comprising personnel and operational costs. For 2017-18 over $500,000 was spent on personnel and on costs.*

Department of Infrastructure, Planning and Logistics cont…

The Department of Infrastructure, Planning and Logistics comments continued:

- ***IEPS review procedure*** *- The internal Departmental IEPS Review Process was reviewed and endorsed by the Inter-Agency Taskforce (IAT), with IAT approval not considered necessary to finalise the document. However recent changes in the review of IEPS claims and changes to reporting lines necessitates the need to update the document. This will be provided to the IAT for review at their next meeting.*
- ***Governance structure*** *- Meeting frequency for the IAT was verbally revised to be 'as required'. While fortnightly meetings occur between departmental officers and the Police, the IAT as a Governance Group are not required to meet until there are matters put before it for decision. IAT members were asked at the first meeting to declare any conflicts of interest and submit a declaration or make a verbal declaration to the Chair if required. In all subsequent meetings, the agenda includes a standing item for Declarations of Conflicts of Interest. These responses will be noted in future Minutes and a request for written Conflict of Interest Declarations from IAT members has been sought.*
- ***Monitoring and reporting strategic outcomes*** *- The Department continues to audit Aboriginal employment achievements against commitments made by contractors within their tender process. The Department also works with the Department of Trade, Business and Innovation on the development of an Aboriginal Contracting Framework which will consider a whole of government approach to maximise Aboriginal employment and business involvement in delivery of government works.*
- ***Document management*** *- The Department is reviewing its reporting system to ensure the continued and ongoing accuracy of information and reporting. Database options will be considered as part of this review. Naming conventions and using TRM will be promoted as part of enhancements being made to the Department's Project Management Office templates.*
- ***Processes for verifying claims for payment*** *- The Department has now implemented a Fraud and Corruption Control Policy and has delivered whole of agency information sessions to support roll out of the policy. Over 300 staff have attended sessions since August 2018, with further sessions to be offered as part of Departmental training priorities in 2018/19. A Fraud Risk Assessment is scheduled to be undertaken, with the Department's Risk Management Framework being finalised to align with recent ISO Guidelines on Risk Management. An Online Risk Register is being developed to provide greater efficiency in recording risks, conducting assessments, identifying treatments and ongoing monitoring and reporting of risks.*

Department of Infrastructure, Planning and Logistics cont…

The Department of Infrastructure, Planning and Logistics comments continued:

- ***Management of risks*** *- Rollout of the new Risk Management Framework provides an opportunity to reinforce the role of employees in supporting continuous improvement and risk management with specific advice to be provided to project management staff around disputes and uncommon conditions such as those relating to IEPS.*

Jabiru Town Development Authority

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

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

The Authority is indebted to the Northern Territory Government as a result of loans provided to the Authority for the construction of infrastructure. The initial value of loans provided was $8.40 million, but by 1986, the amount outstanding had increased to $8.80 million due to the capitalisation of net unpaid interest. In August 1986, the Northern Territory Government granted the Authority a moratorium on interest payments and principal repayments on existing loans. That moratorium continued to apply at 30 June 2017.

Audit Opinion

The audit of the Jabiru Town Development Authority for the year ended 30 June 2018 resulted in an unqualified independent audit opinion, which was issued on 26 October 2018.

The audit opinion, while unqualified, did include the following material uncertainty related to going concern paragraphs:

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

Jabiru Town Development Authority cont…

Audit Observations

Legislative changes

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

Performance Overview

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

- The Authority's net liability position is due to a loan payable to the Northern Territory Government amounting to $8,804,916 (2017: $8,804,916). There is currently a moratorium in place providing the Authority relief from paying interest on the outstanding balance and making repayments of principal. Should this moratorium be lifted, it is uncertain as to whether the Authority would have sufficient liquid resources to meet these repayments. Had the moratorium not been applied in 1986 the loan at 30 June 2018 would be approximately $77 million (based on Reserve Bank of Australia capital market yield rates compounding monthly).
- In June 2013, the Federal Parliament ratified the *Aboriginal Land Rights and Other Legislation Amendment Act 2013*. One of the possible ramifications of this Bill is the transfer of the lease over the Jabiru township from the Authority to the Kakadu Aboriginal Land Trust. Should this occur, the current lease between the Director of National Parks and the Authority will cease to exist.

The Authority generated a loss for the year of $124,480 (2017: Loss of $263,870) predominantly due to there being no repairs and maintenance expenditure during the year.

The Authority has a net liability position of $7,125,629 (2017: $7,001,149). The net liability position comprised:

- Cash and cash equivalents of $1,588,008;
- Receivables of $1,417;
- Non-current assets of $146,608;
- Current payables of $56,746; and
- A loan payable to the Northern Territory Government of $8,804,916.

Jabiru Town Development Authority cont…

Financial Performance for the year

	2018	2017
	$'000	$'000
Income		
Grants	90	90
Interest	23	25
Sub-lease transfers	-	1
Total income	**113**	**116**
Expenditure		
Administration expenses	(175)	(157)
Repairs and maintenance	-	(160)
Amortisation of town infrastructure	(62)	(63)
Total expenditure	**(237)**	**(380)**
Deficit	**(124)**	**(264)**

Jabiru Town Development Authority cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	1,588	1,637
Receivables and other current assets	1	7
Less current liabilities	(57)	(49)
Working Capital	**1,532**	**1,595**
Add non-current assets	147	209
Less non-current liabilities	(8,805)	(8,805)
Net Assets	**(7,126)**	**(7,001)**
Represented by:		
Accumulated deficit	(7,126)	(7,001)
Equity	**(7,126)**	**(7,001)**

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

Audit Opinion

The audit of the Land Development Corporation for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 26 October 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Financial Analysis

The Corporation reported a deficit after tax of $1.32 million compared to a surplus for the prior year of $5.90 million. This was represented by the total revenue of $14.35 million for the year ended 30 June 2018 which included revenue from land sales of $21.20 million and cost of land sold of $10.70 million. The land sales represent sales from both industrial and residential developments. The increase in land sales is mainly a result of the sale of a large parcel of land for industrial development, for which proceeds were received in the prior year, previously recognised in unearned revenue and now recognised as revenue in the current year.

The Corporation's main operating expenditure during the year was a $6.03 million impairment of the Marine Industrial Industry Park ($5.98 million) and the Katherine Logistics and Agribusiness Hub ($0.05 million). The Corporation's employee expenses for the year were $2.87 million which slightly increased in comparison to prior year (2017: $2.64 million). The Corporation employed 20 full time equivalent employees as at 30 June 2018 (2017: 20 full time equivalent employees).

The Corporation held a strong net asset position of $139.93 million as at 30 June 2018, compared to $141.73 million at 30 June 2017. The Corporation held $28.08 million in cash and a portfolio of land including $27.37 million in current land inventory and $111.57 million in non-current land inventory.

Land Development Corporation cont…

Restatement of comparatives

The prior period comparative information included in the financial statements has been restated in order to reflect a lease agreement entered into by the Corporation as lessor in 2013 that had not been correctly accounted for in previous years. The lessee has obligations to carry out and pay for landfill works, which will be offset by the rent required each year until such time that the landfill costs are reduced to nil and then the lessee will begin to pay lease payments equivalent to market rates.

The Corporation had been recognising the rent revenue as income and offsetting this against the land rent expense account in the profit and loss statement where the effect was nil, consequently the Corporation had previously not accounted for the cost of construction of the landfill. During the 2017-18 financial year, the Corporation retrospectively accounted for the cost incurred in constructing the landfill by capitalising it to non-current inventory and recording the corresponding liability in the form of unearned revenue.

The value of non-current inventory was increased by $12.24 million in 2016 and $16.35 million in 2017 and the value of unearned income was increased by $11.91 million in 2016 and $15.31 million in 2017. The surplus after tax was increased by $0.23 million in 2016 and $0.5 million in 2017, mainly due to impacts on rental income, other administrative expenses and income tax expense.

Land Development Corporation cont…

Financial Performance for the year

	2018	Restated 2017
	$'000	$'000
Revenue		
Revenue from land sales	21,201	12,230
Royalties, rents and dividends	2,466	2,614
Community service obligations	-	3,005
Capital grants	429	16,244
Other	947	2,588
Total revenue	**25,043**	**36,681**
Expenditure		
Cost of land sold	(10,696)	(6,410)
Depreciation and amortisation	(511)	(357)
Employee expenses	(2,873)	(2,639)
Interest	(945)	(1,015)
Impairment loss	-	(14,848)
Write-off	(6,034)	-
Operational costs	(4,979)	(2,987)
Total expenditure	**(26,038)**	**(28,256)**
Profit/(loss) before income tax expense	**(995)**	**8,425**
Income tax expense	(323)	(2,528)
Profit/(loss) after income tax expense	**(1,318)**	**5,897**

Land Development Corporation cont…

Financial Position at year end

	2018	Restated 2017
	$'000	**$'000**
Cash and cash equivalents	28,083	39,435
Receivables and other current assets	27,927	26,157
Less current liabilities	(14,218)	(29,487)
Working Capital	**41,792**	**36,105**
Add non-current assets	127,337	135,884
Less non-current liabilities	(29,204)	(30,255)
Net Assets	**139,925**	**141,734**
Represented by:		
Capital	54,339	54,089
Reserves	369	369
Accumulated funds	85,217	87,276
Equity	**139,925**	**141,734**

Legislative Assembly Members' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

Amendments to the *Superannuation Act* passed during 2010 assigned to the Trustee Board, established under that Act, the power to exercise powers and perform functions under the *Legislative Assembly Members' Superannuation Fund Act*.

Audit Opinion

The audit of the Legislative Assembly Members' Superannuation Fund for the year ended 30 June 2018 resulted in unmodified independent audit opinion, which was issued on 18 October 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Fund has total assets of $72.3 million of which $71.9 million relates to investments of the Fund. The Fund experienced strong investment returns for the year which included $12.7 million of distribution income offset by a decrease in the fair market value of investments of $6.3 million. After recognising an income tax benefit of $0.22 million, the net result from superannuation activities after income tax was $6.6 million. Of this, $2.9 million was allocated to member accounts. The net change in member benefits of $2.6 million includes the movement in defined member benefit liability value as determined by a qualified actuary each year using demographic assumptions and the valuation methodology used in the last triennial review updated annually with current assumptions of future salary and pension growth, and asset-based discount rates. A reduction in future salary and pension growth assumptions contributed to the reduction in the benefit liability.

The operating result after income tax of $6.3 million is reflected directly in the decrease in employer-sponsor receivables of $2.2 million and increase in unallocated surplus of $4.1 million. After recognising benefits paid to members/beneficiaries of $4.0 million, net assets of the fund increased by approximately $4.0 million.

Legislative Assembly Members' Superannuation Fund cont…

Abridged Income Statement

	2018	2017
	$'000	**$'000**
Income		
Interest and distributions	12,661	3,127
Changes in net market value of investments	(6,252)	4,597
Total income	**6,409**	**7,724**
Other expenses	(6)	(10)
Expenditure	**(6)**	**(10)**
Net results from superannuation activities before income tax expense	**6,403**	**7,714**
Income tax benefit	225	253
Net results from superannuation activities after income tax expense	**6,628**	**7,967**
Net benefit allocated to member accounts	(2,907)	(7,096)
Net change in member benefits	2,550	8,795
Operating result after income tax	**6,271**	**9,666**

Legislative Assembly Members' Superannuation Fund cont…

Abridged Statement of Changes in Member Benefits

	2018	2017
	$'000	**$'000**
Member contributions	20	22
Member surcharge contributions	-	45
Territory contributions	-	1,000
Total contributions received	**20**	**1,067**
Income tax on contributions	-	(150)
Benefits paid	(3,973)	(4,465)
Net member benefits	**(3,953)**	**(3,548)**

Legislative Assembly Members' Superannuation Fund cont…

Abridged Statement of Financial Position

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	111	462
Investments	71,947	69,043
Employer-sponsor receivables	-	2,193
Tax asset	249	103
Total assets	**72,307**	**71,801**
Less non-member liabilities	(84)	(59)
Net assets available for member benefits	**72,223**	**71,742**
Defined benefit member liabilities	**68,146**	**71,742**

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

Motor Accidents (Compensation) Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

Effective 1 January 2015, the insurance business of the Territory Insurance Office was sold to Allianz Australia Insurance Ltd and the banking business sold to People's Choice Credit Union.

By virtue of the *Motor Accidents (Compensation) Commission Act 2014*, the Motor Accidents Compensation Fund in existence at that date continues after 31 December 2014 under the name of the Motor Accidents (Compensation) Commission (the Commission).

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

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

Three audit tasks were undertaken in relation to the Commission since 1 July 2018. These were:

- the audit of the financial statements for the year ended 30 June 2018;
- the audit of the Annual Return to the Treasurer for the year ended 30 June 2018; and
- the annual review of compliance with prudential standards issued by the Australian Prudential Review Authority (APRA).

Audit Opinion – Financial Statements

The audit of the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 3 October 2018.

Key Audit Matters

Outstanding Claims Provision and Insurance and Other Recoveries Receivable

The determination of the value of the Outstanding Claims Provision and associated value of Insurance and Other Recoveries Receivable involve significant assumptions and judgements by management and complex actuarial calculations.

Motor Accidents (Compensation) Commission cont…

Audit Observations

The audit did not identify any material weaknesses in controls.

Analysis of the Audited Financial Statements

The Commission generated a loss of $0.42 million for the year ended 30 June 2018 compared to a surplus of $90.44 million in the previous financial year. The decline in the net result is primarily due to a $139.54 million increase in net claims incurred during the 2018 year.

Net claims incurred includes the net movement of outstanding claim provision and reinsurance and other recoveries. The increase in net claims incurred was due to changes made to valuation assumptions used, lower discount rates and experience adjustments applied to claims development over the past year.

The Commission recognised financial investment income of $43.75 million during the year compared to $21.74 million in the year ended 30 June 2017. The Commission's investment returns are generated from investments in discounted securities, unit trusts and bonds. The increase is primarily due to the positive results achieved on Commonwealth Bonds which saw a return of $2.37 million compared to a loss of $13.49 million in the previous year.

Review of Work Performed by the Commission's Appointed Actuary

The work performed by the Commission's appointed actuary in relation to the Commission's outstanding claims valuation as at 30 June 2018 was also reviewed during the course of this audit. During this review it was noted that:

- the adopted Australia wide mortality rates do not take account of the unique demographic of the Northern Territory; and
- medical superimposed inflation and ordinary economic inflation have not been separately considered consistent with established industry practice. I note the impact of separately considering these two sources of inflation is not likely to be material to the valuation results.

Audit Opinion – Annual Return

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

Motor Accidents (Compensation) Commission cont…

Review Opinion - Prudential Review

The *Motor Accidents (Compensation) Commission Act Treasurer Determination 1/2017* (the Determination) requires the Commission to comply with prudential standards issued by the Australian Prudential Regulatory Authority (APRA). Thus while the Commission may lie outside the jurisdiction of APRA, the effect of the Determination is to subject the Commission to the same level of prudential regulation that applies to APRA regulated entities.

For the purposes of the Determination, the Auditor-General has been deemed to be the 'appointed auditor' consistent with the requirements imposed upon general insurers that are subject to direct supervision by APRA. Accordingly, I conducted reviews of the Commission's functions during the year ended 30 June 2018 to assess the extent to which the Commission met the requirements of the APRA prudential standards.

Following the review I issued a qualified review report to the Commissioner of the Motor Accidents (Compensation) Commission. The qualification primarily relates to non-compliance with GPS 310 *Audit and Related Matters*, paragraphs 12 and 13 (read in conjunction with the *Motor Accidents (Compensation) Commission Act Determination 1/2017)* which requires the Commission to submit to the Treasurer all certificates and reports prepared by its auditor and to provide to the Treasurer an annual declaration on financial information.

Motor Accidents (Compensation) Commission cont…

Financial Performance for the year

	2018	2017
	$'000	$'000
Income		
Compulsory third party contributions	85,283	84,658
Insurance and other recoveries	19,416	(2,735)
Finance revenue	43,755	21,737
Property revenue	4,587	4,772
Other	405	385
Total income	**153,446**	**108,817**
Expenditure		
Insurance expense	(6,285)	(9,731)
Net claims expense	(127,350)	12,195
Road safety program grants	(4,305)	(4,594)
Other	(15,929)	(16,246)
Total expenditure	**(153,869)**	**(18,376)**
Surplus/(deficit) before income tax expense	**(423)**	**90,441**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**(423)**	**90,441**

Motor Accidents (Compensation) Commission cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	61,225	21,378
Receivables and other current assets	607,891	601,149
Less current liabilities	(113,085)	(111,869)
Working Capital	**556,031**	**510,658**
Add non-current assets	181,841	159,594
Less non-current liabilities	(543,061)	(475,018)
Net Assets	**194,811**	**195,234**
Represented by:		
Retained earnings	194,811	195,234
Equity	**194,811**	**195,234**

Northern Territory Government and Public Authorities Employees' Superannuation Fund

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

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

Amendments to the Act in 2010 established the Trustee Board (which replaced the Superannuation Investment Board). The Trustee Board is required:

- to hold the Fund as trustee for the members of the Scheme;
- to direct the Commissioner in managing and investing the Fund on the Board's behalf;
- with the approval of the Minister, to exercise powers and perform functions in relation to any other superannuation fund or scheme; and
- to exercise any other functions conferred on the Trustee Board under this or any other Act.

The Trustee Board is also required to prepare financial statements in respect of the Fund, with those statements prepared on commercial accounting principles or on such other basis as the Treasurer may direct.

Audit Opinion

The audit of the Northern Territory Government and Public Authorities Employees' Superannuation Fund for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 18 October 2018.

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

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Fund has total assets of $1,516.1 million of which $577.9 million relates to investments of the Fund. The Fund experienced strong investment returns for the year of 8.16% (2017: 10.63%). This reflected approximately $48 million of distribution income and an increase in the fair market value of investments of approximately $1.9 million. After deducting income tax expenses of $3.5 million, the net result from superannuation activities after income tax was $46.4 million. Of this $44.8 was allocated to members accounts. The resulting operating result after income tax of $1.62 million is reflected in the unallocated surplus for defined contribution members.

The value of defined benefit member liabilities is determined by a qualified actuary each year using demographic assumptions and the valuation methodology of triennial reviews updated annually with current assumptions of future salary growth, and asset-based discount rates. The value determined for the year ended 30 June 2018 was $934.2 million, a decrease of $27.6 million from the prior year.

This is reflected directly in the decrease in employer-sponsor receivables of $27.6 million.

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

Abridged Income Statement

	2018	2017
	$'000	**$'000**
Income		
Interest and distributions	48,230	37,967
Changes in net market value of investments	1,861	23,857
Total income	**50,091**	**61,824**
Other expenses	(189)	(222)
Expenditure	**(189)**	**(222)**
Net results from superannuation activities before income tax expense	**49,902**	**61,602**
Income tax (expense)/benefit	(3,474)	(5,044)
Net results from superannuation activities after income tax expense	**46,428**	**56,558**
Net benefit allocated to defined contribution members accounts	(44,808)	(55,816)
Operating result after income tax	**1,620**	**742**

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

Abridged Statement of Changes in Member Benefits

	2018	2017
	$'000	**$'000**
Member contributions	42,362	30,072
Territory contributions	83,395	75,184
Total contributions received	**125,757**	**105,256**
Income tax on contributions	(3,391)	(1,899)
Benefits paid	(164,245)	(135,807)
Net benefits paid	**(41,879)**	**(32,450)**

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

Abridged Statement of Net Assets

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	2,017	1,857
Investments	577,937	573,793
Employer-sponsor receivables	934,221	961,860
Other receivables	1,928	1,355
Total assets	**1,516,103**	**1,538,865**
Less non-member liabilities	(4,626)	(4,324)
Net assets available for member benefits	**1,511,477**	**1,534,541**
Total member liabilities	(1,505,973)	(1,530,657)
Net assets	**5,504**	**3,884**
Total equity	**5,504**	**3,884**

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

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

The Northern Territory Legal Aid Commission (the Commission) is established under the *Legal Aid Act*. The Commission's charter is to ensure that people in the Northern Territory, particularly those who are disadvantaged, understand and have access to help to protect and enforce their legal rights and interests.

Audit Opinion

The audit of the Northern Territory Legal Aid Commission for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 13 September 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission incurred a deficit for the year of $0.416 million (2017: surplus of $0.997 million).

Total revenue of $14.799 million decreased from the prior year (2017: $15.587 million) primarily due to a decrease in grant income of $0.830 million reflecting amounts received in advance in the prior year and a comparable reduction in one-off project funding received in the current year.

Total expenses of $15.215 million increased from the prior year (2017: $14.590 million) as a result of an increase in employee benefits expense of $0.831 million caused by increased employee numbers and pay rate increases that took effect in 2018 and an increase in grant expenses of $0.115 million. Grant expenses increased as the current financial year is the first full financial year that financial support was provided to Katherine Women's Information and Legal Service. These increases were partially offset by a decrease in legal expenses of $0.325 million reflecting a decrease in the number and complexity of cases handled by the Commission.

The Commission's net asset position of $3.205 million (2017: $3.620 million) reduced in 2018 due to the deficit incurred for the year. The Commission's reduced total cash balances of $3.864 million held as at 30 June 2018 (2017: $4.066 million) reflect the operating loss before depreciation of $221,663.

Northern Territory Legal Aid Commission cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Grants – Northern Territory Government	6,887	6,810
Grants – Commonwealth	6,072	6,630
Grants – other	1,392	1,651
Rendering of services	316	254
Other	132	242
Total income	**14,799**	**15,587**
Expenditure		
Administration	(1,064)	(1,103)
Employee expenses	(9,629)	(8,798)
Legal	(2,442)	(2,767)
Depreciation and amortisation	(194)	(171)
Other	(1,886)	(1,751)
Total expenditure	**(15,215)**	**(14,590)**
Surplus/(deficit)	**(416)**	**997**

Northern Territory Legal Aid Commission cont…

Financial Position at year end

	2018	2017
	$'000	$'000
Cash and cash equivalents	2,864	3,566
Investments	1,000	500
Receivables and other current assets	461	378
Less current liabilities	(1,831)	(1,682)
Working Capital	**2,494**	**2,762**
Add non-current assets	1,014	1,169
Less non-current liabilities	(303)	(311)
Net Assets	**3,205**	**3,620**
Represented by:		
Reserves	2,748	3,189
Retained earnings	457	431
Equity	**3,205**	**3,620**

Northern Territory Major Events Company Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

Audit Opinion

The audit of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 16 October 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Company reported a profit for the year of $47 thousand (2017 profit: $208 thousand). Total revenue of $20.6 million for the year ended 30 June 2018 included the recognition of grant revenue of $16.2 million received to fund events that took place during the year.

The Company’s main operating expenditure during the year was $18.5 million and related to the expenditure incurred for events. The Company’s employee expenses for the year totalled $2.1 million, a slight increase in comparison to the prior year (2017: $2.0 million). A notable increase in revenue and expenditure, compared to prior year, was attributed to new events introduced in the current year.

The Company had a net asset position of $1.3 million as at 30 June 2018 (2017: $1.3 million).

Northern Territory Major Events Company Pty Ltd cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Government grants	16,159	13,284
Other	4,409	4,282
Total income	**20,568**	**17,566**
Expenditure		
Employee expenses	(2,050)	(1,966)
Depreciation	(18)	(18)
Other	(18,453)	(15,374)
Total expenditure	**(20,521)**	**(17,358)**
Surplus before income tax expense	**47**	**208**
Income tax expense	-	-
Surplus after income tax expense	**47**	**208**
Dividends	**-**	**-**
Net surplus	**47**	**208**

Northern Territory Major Events Company Pty Ltd cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	13,418	11,815
Receivables and other current assets	1,646	1,334
Less current liabilities	(13,860)	(11,984)
Working Capital	**1,204**	**1,165**
Add non-current assets	90	82
Less non-current liabilities	-	-
Net Assets	**1,294**	**1,247**
Represented by:		
Event reserve	508	489
Retained profits	786	758
Equity	**1,294**	**1,247**

Northern Territory Police Supplementary Benefit Scheme

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

The Northern Territory Police Supplementary Benefit Scheme differs from other superannuation schemes discussed in this report in that it was established under a Trust Deed rather than by legislation and is intended to supplement pensions payable from the Commonwealth Superannuation Scheme (CSS) for members of the Northern Territory Police.

Eligibility for membership of the CSS ceased from 1 January 1988 and membership of the scheme is declining steadily. At 30 June 2018 there were 30 members (37 in 2017) and 196 pensioners (192 in 2017).

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

A member qualifies for a supplementary benefit if:

- the member is at least 50 years of age or has at least 25 years CSS contributory service when ceasing to be a member of the scheme; and
- the member becomes entitled to a CSS age retirement pension, early retirement pension, deferred pension or postponed pension on or after ceasing to be a member of the scheme.

The supplementary benefit is based on the amount of the member's CSS employer-financed pension and the member's age when ceasing to be a member of the Northern Territory Police Force or a CSS contributor, whichever occurs later. Upon qualification for a supplementary benefit, the member's accumulated contributions and earnings are paid to the Northern Territory, which is responsible for the payment of the supplementary benefit.

The supplementary benefit is paid as a lifetime indexed pension, which commences when the CSS employer-financed pension commences. Alternatively, a pension may be commuted to a lump sum equal to ten times the annual amount of a pension. Where a person ceases membership and is not entitled to a supplementary benefit, an amount equal to the member's contributions plus earnings is paid.

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 18 October 2018.

Northern Territory Police Supplementary Benefit Scheme cont…

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Net assets of the Scheme decreased by approximately $0.2 million to $1.9 million (2017: $2.1 million) primarily due to the decline in active members. Although benefits paid by the fund decreased from $0.6 million in 2017 to $0.5 million in 2018, there was also a decrease in investment income and member's contributions of $0.1 million to $0.3 million (2017: $0.4 million).

Northern Territory Police Supplementary Benefit Scheme cont…

Abridged Income Statement

	2018	2017
	$'000	$'000
Income		
Interest	1	1
Distribution from investments	405	214
Movement in net market value of investments	(193)	76
Member revenue	58	69
Total income	**271**	**360**
Expenditure		
Benefits		
Refunds of accumulated contributions	(65)	-
Payment of accumulated contributions to the Territory	(422)	(576)
Other expenses	(5)	(7)
Total expenses	**(492)**	**(583)**
Revenue less expenses before income tax expense	**(221)**	**(223)**
Income tax expense	(14)	(7)
Change in net assets	**(235)**	**(230)**

Northern Territory Police Supplementary Benefit Scheme cont…

Abridged Statement of Financial Position

	2018	2017
	$'000	$'000
Cash and cash equivalents	63	55
Investments and other current assets	2,274	2,428
Total assets	**2,337**	**2,483**
Less liabilities	(480)	(392)
Net assets	**1,857**	**2,091**
Vested benefits		
Member financed	1,824	2,082
Employer financed	71,800	69,742
Total vested benefits	**73,624**	**71,824**
Net assets as a percentage of vested benefits	**2.5%**	**2.9%**

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

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

The Northern Territory Treasury Corporation (the Corporation) is constituted under the *Northern Territory Treasury Corporation Act* (the Act) and is the investment and borrowing agent for the Northern Territory Government.

The Under Treasurer constitutes the Corporation and is the Accountable Officer. There is an Advisory Board constituted under section 8 of the Act and the Board may, pursuant to section 11 of the Act, delegate any of its powers and functions to a member of the advisory board, an employee of the Corporation or an employee within the meaning of the *Public Sector Employment and Management Act*.

The Corporation is a Government Business Division and maintains its accounts in accordance with accounting principles applied generally by financial institutions. It is required to submit its financial statements for audit by the Auditor-General each year.

The host Agency is the Department of Treasury and Finance.

Audit Opinion

The audit of the Northern Territory Treasury Corporation for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 13 September 2018.

Northern Territory Treasury Corporation cont…

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The borrowing program for 2017/18, intended for the Central Holding Authority, was approximately $1,480 million compared to $527 million for 2016/17. The borrowing proceeds were used to pay maturing debts amounting to $521 million and to fund the new borrowing requirements of the NT Government (approximately $960 million).

In May 2018, the Corporation borrowed a further $250 million to pre-fund part of its 2018/19 borrowing requirements. The proceeds of the pre-funding were used to repay a maturing promissory note.

The average cost of borrowing for new borrowing was 3.10% compared to 2.54% in the previous year. The weighted average borrowing term issued during the year was 9.8 years compared to 5.2 years in 2017.

The outstanding loans receivable balance increased by $1,236 million at 30 June 2018. Outstanding loan balances at 30 June 2018 were:

	2018	2017
	$'millions	**$'millions**
Central Holding Authority	3,534	2,337
Power and Water Corporation	1,184	1,148
NT Home Ownership	207	202
Territory Generation	200	200
Department of Housing	72	74
Land Development Corporation	20	20
Total	**5,217**	**3,981**

Northern Territory Treasury Corporation cont…

Consistent with the movement in loans receivable balances, the borrowing portfolio also increased by $1,202 million at 30 June 2018. Outstanding borrowings at 30 June were:

	2018	2017
	$'millions	**$'millions**
Fixed Interest Securities	4,870	3,663
Territory Bonds	87	86
Migration Linked Bonds	1	1
Credit Foncier Loans	209	216
Total	**5,167**	**3,966**

The Corporation's profit after tax during the year was $19.18 million compared to $14.96 million in 2017. The increase was driven by an increase in net interest income as a result of the increase in loan balances of $1,236 million.

The average interest rates on outstanding borrowings reduced from 4.65% in 2017 to 4.19% in 2018 as new borrowings were achieved at rates lower than existing average rates. There was a similar reduction in average interest rates on outstanding loans from 5.23% in 2017 to 4.80% in 2018.

Northern Territory Treasury Corporation cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Interest	232,150	213,749
Other	822	822
Total income	**232,972**	**214,571**
Expenditure		
Interest	(203,288)	(190,982)
Administration	(2,283)	(2,222)
Total expenditure	**(205,571)**	**(193,204)**
Surplus before income tax expense	**27,401**	**21,367**
Income tax expense	(8,220)	(6,410)
Surplus after income tax expense	**19,181**	**14,957**

Northern Territory Treasury Corporation cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Total assets	5,268,961	4,056,115
Less total liabilities	(5,247,331)	(4,034,485)
Net Assets	**21,630**	**21,630**
Represented by:		
Contributed capital	21,630	21,630
Equity	**21,630**	**21,630**

NT Build

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Scope and Objectives

The objective of the audit was to conduct sufficient audit work to form an audit opinion on the financial statements of NT Build for the year ended 30 June 2018.

Background

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

Audit Opinion

The audit of the NT Build for the year ended 30 June 2018 resulted in an unqualified independent audit opinion, which was issued on 31 October 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

The audit opinion on the financial statements of NT Build for the year ended 30 June 2018 was unqualified however an emphasis of matter paragraph was included to draw the attention of users of the financial statements to uncertainties related to the Long Service Leave liability valuation.

Due to the nature of the long service leave liability and the inability to complete the valuation based on long term scheme historical data, the estimate maintains a high level of uncertainty. It is noted that in particular the liability is moderately sensitive to the assumption that 30% of inactive members will reactivate. If a range of 20-40% of inactive members reactivates, the liability may change up to 4%, with higher reactivations leading to higher liability. Furthermore, the series of assumptions made regarding the benefit payments and timing of exit is uncertain and specific sensitivities include:

- decreasing withdrawal rates for active members by 25% would increase the liability by 4%;
- increasing withdrawal rates for active members by 50% would decrease the liability by 7%;
- increasing or decreasing the future benefit rate of inflation by 0.5% would move the liability in the same direction by about 2.5%; and
- increasing or decreasing the discount rate used in the valuation by 0.5% would move the liability in the same direction by about 2.5%.

NT Build cont…

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

Performance Overview

NT Build reported a deficit of $7.39 million compared to prior year's surplus of $12.61 million. The deterioration in the position is attributed to:

- Total expenses increased to $22.96 million when compared to the 2017 figure of $2.86 million. The increase in expenses of $20.10 million is mainly due to an increase in long service leave benefit payments by $3.33 million and long service leave scheme revaluation by $16.86 million.
- There was an insignificant movement in the total income figures between the two years.

The net asset position of NT Build remains strong despite a 24% decrease when compared to the prior year position. The net asset position as at 30 June 2018 was $23.09 million (2017: $30.48 million). The deficit of $7.39 million incurred during the year was the main cause of the decrease in the net asset position.

NT Build cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Contributions from levy payers	1,660	2,446
Movement in equity investments	(4,491)	5,019
Investment income	11,795	3,761
Other	6,599	4,248
Total income	**15,563**	**15,474**
Expenditure		
Employee expenses	(880)	(897)
Occupancy costs	(103)	(91)
Depreciation and amortisation	(81)	(80)
Fees and allowances	(58)	(57)
Long service leave benefit payment	(11,177)	(7,848)
Long service scheme benefit/(expense)	(10,210)	6,650
Other	(446)	(541)
Total expenditure	**(22,955)**	**(2,864)**
Surplus/(deficit)	**(7,392)**	**12,610**

NT Build cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	3,383	2,700
Receivables and other current assets	85,872	83,940
Less current liabilities	(9,348)	(8,320)
Working capital	**79,907**	**78,320**
Add non-current assets	250	319
Less non-current liabilities	(57,072)	(48,162)
Net assets	**23,085**	**30,477**
Represented by:		
Implementation funding	297	297
Accumulated surplus	22,788	30,180
Equity	**23,085**	**30,477**

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

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

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

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 18 September 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet produced a net surplus before tax of $9.4 million for the year ended 30 June 2018 compared to the prior year surplus of $10.1 million.

Total revenue of $41.9 million (2017: $43.0 million) decreased from the prior year by $1.1 million. This has mainly been caused by a $1.5 million decline in gain on disposal of assets, due to a significant drop in the number of vehicles disposed of during the year (2018: 572 vehicles disposed; 2017: 835 vehicles disposed) as a result of the lease period extension for light commercial vehicles with low utilisation. This decrease was partially offset by an increase of $0.5 million in revenue from lease rentals, which has been mainly influenced by the increase in lease cost due to an increased cost of acquiring light commercial vehicles.

Total expenses of $32.5 million (2017: $32.8 million) decreased from the prior year by $0.3 million. This has primarily been caused by a $0.5 million decrease in employee expenses. This decrease is as a result of a transfer of employees from NT Fleet to DCIS. There was a $0.4 million reduction in motor vehicle expenses, which has been driven by a fall in revenue from recoverable works. Depreciation and amortisation expenses increased by $0.6 million, mainly as a result of vehicle additions during the year.

NT Fleet will pay an income tax equivalent of $2.8 million and return a dividend of $3.3 million to government for the year ended 30 June 2018.

As at 30 June 2018, the net asset position of NT Fleet was $119.5 million (2017: $116.2 million).

NT Fleet cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Revenue from vehicle lease rentals	39,536	39,015
Gain on disposal of assets	1,833	3,375
Other revenues	481	565
Total income	**41,850**	**42,955**
Expenditure		
Operational costs	(12,467)	(12,858)
Employee expenses	(2,396)	(2,883)
Depreciation and amortisation	(17,640)	(17,076)
Total expenditure	**(32,503)**	**(32,817)**
Surplus before income tax expense	**9,347**	**10,138**
Income tax expense	(2,804)	(3,041)
Surplus after income tax expense	**6,543**	**7,097**
Dividends	(3,271)	(3,548)
Net surplus	**3,272**	**3,549**

NT Fleet cont…

Financial Position at year end

	2018	2017
	$'000	$'000
Cash and cash equivalents	22,663	23,925
Receivables and other current assets	3,743	2,422
Less current liabilities	(8,573)	(9,649)
Working Capital	**17,833**	**16,698**
Add non-current assets	101,671	99,535
Less non-current liabilities	-	-
Net Assets	**119,504**	**116,233**
Represented by:		
Accumulated funds	118,939	115,668
Capital	565	565
Equity	**119,504**	**116,233**

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

NT Home Ownership is a Government Business Division which oversees the Government's home purchase assistance initiative.

The host Agency is the Department of Housing and Community Development.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 26 September 2018.

Audit Observations

Use of an outsourced service provider

NT Home Ownership home loans are administered by an external service provider under a management arrangement.

At the time of completion of the audit fieldwork, the service provider had not provided independently verified assurance that the controls, including information technology controls, in place at the provider are adequate to ensure compliance with the National Credit Code and the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*. No assurance had been received for either of the two preceding years. The assurance report relevant to the year ended 30 June 2018 was received by NT Home Ownership and provided to me on 27 September 2018.

I recommended that management of NT Home Ownership consider what actions it may take to ensure the receipt of the report in a timely manner in order for management to assess the extent of assurance over the controls environment at the service provider. Such consideration should include assessment of the effects on NT Home Ownership, if any, of identified controls weaknesses described in the independent assurance report.

NT Home Ownership cont…

Performance Overview

NT Home Ownership (Home Ownership) recorded a net deficit before tax of $6.3 million in the 2018 year (2017: $5.2 million).

Total revenue of $12.1 million (2017: $12.1 million) has remained steady during the year. Total expenditure of $18.4 million (2017: $17.3 million) increased from the prior year by $1.1 million due to the shared equity investments revaluation loss.

The loss on the revaluation of shared equity investments continues to reflect the decline in the Northern Territory property market.

Although impacted by continued deficits, NT Home Ownership continues to maintain a positive net asset position of $15.5 million (2017: $21.8 million) at 30 June 2018.

NT Home Ownership cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Sales of goods and services	16	3
Interest revenue	8,602	8,602
Community Service Obligations	3,455	3,445
Total income	**12,073**	**12,050**
Expenditure		
Employee expenses	(228)	(241)
Administration fees	(1,834)	(1,878)
Borrowing costs	(9,552)	(9,817)
Loss on revaluation of investments	(5,075)	(3,819)
Loss on disposal of investments	(518)	(376)
Other expenses	(1,154)	(1,137)
Total expenditure	**(18,361)**	**(17,268)**
Deficit before income tax expense	**(6,288)**	**(5,218)**
Income tax expense	-	-
Deficit after income tax expense	**(6,288)**	**(5,218)**

NT Home Ownership cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	12,519	2,988
Receivables and other current assets	3,159	2,957
Less current liabilities	(6,610)	(6,655)
Working Capital	**9,068**	**(710)**
Add non-current assets	206,973	219,027
Less non-current liabilities	(200,519)	(196,507)
Net Assets	**15,522**	**21,810**
Represented by:		
Accumulated funds	(7,223)	(935)
Capital	22,745	22,745
Equity	**15,522**	**21,810**

Power and Water Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

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

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

Audit Opinion

The audit of the Power and Water Corporation for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 28 September 2018.

Key Audit Matters

Unbilled Revenue

Revenue from the sale of goods, as disclosed in Note 3(a) to the financial statements, includes estimated values for unbilled revenue from Power Networks, System Control, Electricity and Water totalling $44.183 million. The estimated values are based upon unbilled units supplied to customers between the date of the last meter reading and the year end. The relevant units comprise kilowatt hours for Power Networks, System Control and Electricity, and kilolitres for Water. The estimation of the unbilled revenue is a key audit matter as it requires significant management judgment to estimate customer consumption between the last invoice date and the end of the reporting period.

Valuation of Property, Plant and Equipment

Property, plant and equipment, as disclosed in Note 12 to the Financial Statements, totals $3,026 million. The valuation of non-current assets is a key audit matter due to the complexity involved in estimating the recoverable amount of assets which requires significant judgement in determining key assumptions supporting the expected future cash flows of the Corporation and expected utilisation of the relevant assets.

Power and Water Corporation cont…

Provision for Onerous Contracts

As disclosed in Note 18 to the financial statements, the Corporation has recorded a provision of $61.604 million to recognise that economic costs associated with some gas contracts outweigh the expected benefits to be derived based on current circumstances. The net present value calculation of contracts is a key audit matter as the calculation is complex and the valuation model is based on assumptions and estimates that are affected by future performance and market conditions.

Capital Work in Progress

As disclosed in Note 12 to the financial statements, the Corporation has recorded Capital Work in Progress valued at $300.66 million. The valuation of Capital Work in Progress is a key audit matter due to the judgements and assumptions involved in the valuation of Capital Work in Progress accrued at year end and the degree of judgement involved in the classification between operational and capital expenditure.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Income increased by $7.7 million predominantly due to developer, customer and other capital contributions increasing by $13.9 million offset by an $8.3 million decrease in the sale of goods and services, and a $1.6 million decrease in the rendering of services (sewerage services).

Whilst, as noted above, sales of goods and services decreased by $8.3 million, expenditure on raw materials increased by $3.5 million, finance costs increased by $1.3 million, employee expenses increased by $3.4 million, external service agreements increased by $1.9 million, depreciation increased by $3.1 million and other expenses increased by $4.3 million. The net loss on disposal of property, plant and equipment increased by $17.5 million predominantly due to streetlights being gifted to local councils with a value of $16.4 million. These increases were offset by a $34.6 million decrease in the impairment of non–current assets and onerous contract expenses.

Overall the sale of goods and services and the income from rendering of services decreased by $9.8 million whilst expenditure (excluding impairment and loss on disposal of property, plant and equipment) increased by $17.0 million.

Power and Water Corporation cont…

Onerous Contract

Management have prepared a model to determine the net present cash flows from the life of the gas contracts held by the Corporation, and as at 30 June 2018, the expected economic costs of some contracts are expected to outweigh the expected benefits to be derived. As a result, these contracts have been assessed as onerous under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and a provision of $61.604 million has been recognised in the statement of financial position as at 30 June 2018.

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

Property, plant and equipment

Management has undertaken some work on adjusting the useful lives of some items of property, plant and equipment which were nearing a zero written book value by the end of the 2019 financial year end. Through this exercise, useful lives of some assets were extended by a further five years. As a result, depreciation expense recognised in the Statement of Profit or Loss and Other Comprehensive Income reduced by $19.9 million.

Power and Water Corporation cont…

Financial Performance for the year of the Corporation

	2018	2017
	$'000	**$'000**
Income		
Sale of goods and services	445,139	453,394
Rendering of services	74,523	76,082
Finance revenue	1,433	1,140
Developer, customer and other capital contributions	29,785	15,828
Other	64,235	60,926
Total income	**615,115**	**607,370**
Expenditure		
Raw materials and consumables used	(189,604)	(186,077)
Finance costs	(46,981)	(45,698)
Repairs and maintenance expenses	(55,423)	(55,856)
Employee expenses	(85,395)	(82,039)
External service agreements	(27,093)	(25,196)
Depreciation and amortisation	(107,022)	(103,966)
Impairment of non-current assets and onerous contract provisions	(20,316)	(54,867)
Net loss on disposal of property, plant and equipment	(19,571)	(2,092)
Other expenditure	(53,454)	(49,128)
Total expenditure	**(604,859)**	**(604,919)**
Profit/(loss) before income tax expense	**10,256**	**2,451**
Income tax (expense)/benefit	(3,060)	(737)
Profit/(loss) after income tax expense	**7,196**	**1,714**

Power and Water Corporation cont…

Financial Position at year end of the Corporation

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	59,063	95,090
Receivables and other current assets	133,152	111,674
Less current liabilities	(389,785)	(389,621)
Working Capital	**(197,570)**	**(182,857)**
Add non-current assets	2,427,648	2,182,062
Less non-current liabilities	(1,123,024)	(1,020,046)
Net Assets	**1,107,054**	**979,159**
Represented by:		
Retained profits	614,124	604,835
Contributed equity	34,336	34,336
Asset revaluation reserve	458,594	339,988
Equity	**1,107,054**	**979,159**

Indigenous Essential Services Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

Indigenous Essential Services Pty Limited (the Company) is a not-for-profit entity formed on 26 June 2003, commencing operations on 1 July 2003, which provides electricity, water and sewerage services to remote communities in the Northern Territory. The Company is a proprietary company (limited by shares) pursuant to the *Corporations Act 2001* that is controlled by Power and Water Corporation (PWC). PWC is a Government Owned Corporation pursuant to the Northern Territory's *Government Owned Corporations Act 2001*.

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

Audit Opinion

The audit of Indigenous Essential Services Pty Ltd for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 28 September 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Income increased by $21.8 million predominantly due to a $20.8 million increase in government grants, specifically a $24.7 million increase due to the release of capital grant revenue (phase one of the Solar Set-up project) offset by a $3.9 million decrease in other grants that related to assistance from the Community Recovery Fund relating to Cyclone Lam. A $1.0 million increase in revenue from the sale of goods had a corresponding increase in expenditure on raw materials.

Expenditure decreased overall by $16.0 million. This was predominantly due to a $12.1 million decrease in other costs (due to an $11.2 million decrease in assets being retired during the year) and a $5 million decrease in depreciation and amortisation, offset by the $1 million increase in raw materials noted above.

Management has undertaken some work on adjusting the useful lives of some items of property, plant and equipment which were nearing a zero written book value by the end of the 2019 financial year end. Through this exercise, useful lives of some assets were extended by a further five years. As a result, depreciation expense recognised in the Statement of Profit or Loss and Other Comprehensive Income was reduced by $9.2 million.

Indigenous Essential Services Pty Ltd cont…

Financial Performance for the year

	2018	2017
	$’000	$’000
Income		
Revenue from sale of goods	37,452	36,466
Grants – recurrent	49,347	49,437
Grants – capital	49,521	24,779
Grants – other	-	3,851
Revenue from rendering of services	3,079	3,096
Other revenues	2,362	2,290
Total income	**141,761**	**119,919**
Expenditure		
Raw materials and consumables	(31,794)	(30,853)
Employee expenses	(18,485)	(18,528)
Repairs and maintenance	(15,714)	(16,336)
Corporate allocation costs	(6,154)	(5,970)
Agents – community contract fees	(10,414)	(10,199)
Depreciation and amortisation	(59,479)	(64,472)
Finance costs	(772)	(290)
Other costs	(8,292)	(20,433)
Total expenditure	**(151,104)**	**(167,081)**
Deficit	**(9,343)**	**(47,162)**

Indigenous Essential Services Pty Ltd cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	44,851	49,651
Receivables and other current assets	6,957	5,736
Less current liabilities	(66,897)	(68,716)
Working Capital	**(15,089)**	**(13,329)**
Add non-current assets	730,819	737,984
Less non-current liabilities	(18,985)	(18,567)
Net Assets	**696,745**	**706,088**
Represented by:		
Retained earnings	215,235	221,460
Asset revaluation reserve	481,510	484,628
Equity	**696,745**	**706,088**

Power Generation Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

Audit Opinion

The audit of Power Generation Corporation for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 27 September 2018.

Key Audit Matters

Property, Plant and Equipment

Property, plant and equipment totalling $286.068 million, as disclosed in Note 10 to the financial statements and an asset impairment of $143.920 million disclosed in the statement of profit or loss and other comprehensive income represent significant balances within the Corporation's financial statements. Significant management judgement is applied in determining the value in use of property, plant and equipment and any related impairment adjustment attributable to each cash generating unit. The valuation of property, plant and equipment is a key audit matter due to the complexity in the evaluation of the recoverable amount of the assets which requires significant judgement in determining the key assumptions supporting the expected future cash flows of the Corporation, the utilisation of the relevant assets and the useful lives of property, plant and equipment. Furthermore, the utilisation and useful life of each asset can change significantly as a result of technical innovations or other events.

Decommissioning Provision

The provision associated with the Ron Goodin Power Station decommissioning of $6.663 million, as disclosed in Note 15 to the financial statements, represents a significant balance. The estimation of future decommissioning costs requires significant judgement as decommissioning is an evolving activity and there is limited historical precedent against which to benchmark estimated future costs.

Recoverability of deferred tax assets

The deferred tax asset of $47.698 million, as disclosed at Note 11 to the financial statements, represents a significant balance in the Corporation's financial statements. Recognition of the deferred tax asset is influenced by management's assessment of the ability of the Corporation to realise the asset.

Power Generation Corporation cont…

Unbilled Revenue

Unbilled revenue of $19.269 million, as disclosed in Note 7 to the financial statements, represents an estimate of the value of electricity generated and sent out however not billed as at 30 June 2018. Management's estimate is based upon information provided by the market operator.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

For the year ended 30 June 2018, the Corporation recognised a net loss of approximately $121.3 million compared to a net loss of $554,000 for the year ended 30 June 2017. The combination of reduced electricity demand, high input costs and recognition of impairment losses of $143.9 million contributed to the significant net loss for the financial year.

The influx of solar generator players and the preference of end users for renewable energy to reduce users' costs have impacted the Corporation's electricity sales during the year.

The lower electricity sales, along with the slow growth in the Northern Territory economy resulted in management recognising a provision for impairment in response to concerns about the future recoverability of the Corporation's assets.

Administrative expenses increased by $6.0 million (2018: $30.1 million, 2017: $24.1 million).

Consultant fees decreased by $3.3 million (2018: $1.8 million, 2017: $5.1 million) as the Owen Springs and Tennant Creek projects were nearing completion and a major consultation for commercial and strategic analysis growth opportunities was undertaken in 2017 resulting in an overall decrease in professional charges.

Cash Requirements

The Corporation's positive working capital as at 30 June 2018 represents an improvement from the negative working capital in the prior year and the Corporation's current ratio at 30 June 2018 indicates that its liquid assets are about sufficient to pay its current liabilities.

Cash balances have declined by $13.3 million from the prior year. The Corporation has a current arrangement permitting a $15 million capital cash injection from its shareholder and a $20 million credit facility with Northern Territory Treasury Corporation which expires on 30 December 2018.

Power Generation Corporation cont…

Going Concern

The Corporation faces the risk of losing market share due to the introduction of solar power at lower costs and potential competitors entering the market with newer technologies. The Corporation's Statement of Corporate Intent (SCI) recognised that the introduction of solar power will benefit the consumers however will lead to lower revenue for the Corporation.

Since the publication of the SCI 2018/19, the Corporation has reorganised the organisation leading to a number of redundant positions and the termination of some employees on high value contracts. The Corporation at present is delivering two major capital projects to replace aged generation assets and improve efficiency and reliability in Alice Springs and Tennant Creek. These projects are due for completion during the coming financial year.

Negotiation of the gas price to reflect market rate, encouraging economic pricing of ancillary services, and endorsing the planned pricing schedule, are some of the mitigating strategies adopted by the Corporation to improve its performance. These strategies were disclosed in the Corporation's SCI.

The ability of the Corporation to continue as a going concern is dependent on its ability to successfully implement the mitigation strategies disclosed in the SCI and the ability to source financial support from Northern Territory Government if required.

Power Generation Corporation cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Sales revenue		
Electricity sales	272,554	294,612
Gas sales	-	211
Interest revenue	235	760
Other revenue	92	4,539
Total income	**272,881**	**300,122**
Expenditure		
Cost of energy	(231,379)	(259,884)
Administrative expenses	(30,115)	(24,122)
Consultants fees	(1,817)	(5,053)
Finance costs	(8,870)	(8,422)
Impairment	(143,920)	-
Other expenses	(5,559)	(3,185)
Total expenditure	**(421,660)**	**(300,666)**
Loss before income tax expense	**(148,779)**	**(544)**
Income tax expense/(benefit)	27,502	(10)
Loss after income tax expense/(benefit)	**(121,277)**	**(554)**

Power Generation Corporation cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	10,440	23,740
Receivables and other current assets	55,524	60,731
Less current liabilities	(41,718)	(95,133)
Working Capital	**24,246**	**(10,662)**
Add non-current assets	333,772	445,539
Less non-current liabilities	(254,798)	(210,380)
Net Assets	**103,220**	**224,497**
Represented by:		
Retained earnings	(95,480)	25,797
Reserves	107	107
Contributed equity	198,593	198,593
Equity	**103,220**	**224,497**

Power Retail Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

Audit Opinion

The audit of Power Retail Corporation for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 19 October 2018.

Key Audit Matters

Revenue and Receivables

During the year ended 30 June 2018, the Corporation migrated mass market customer data to the newly implemented Retail Operating System (ROS) from the Revenue Management System controlled by a third party. There is a significant risk associated with the migration of data including ensuring that the migrated data is complete and accurate.

Unbilled Consumption

Revenue from sale of goods, as disclosed in Note 4 to the financial statements, includes estimated values for unbilled revenue from electricity totalling $38.762 million, as disclosed in Note 8 to the financial statements. The estimated values are based upon unbilled kilowatt hours supplied to customers between the date of the last meter reading and the year end. There is a significant risk around the measurement and recognition of revenue related to unbilled revenue due to the complexity and estimates required in determining actual consumption levels relating to unbilled revenue.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The financial year ended 30 June 2018 was the Corporation's fourth year of operation. Total revenue for the year was $494.2 million compared to $504.9 million in the previous year. Revenue included Community Service Obligations of $79.5 million (2017: $77.8 million), an amount largely consistent with the prior year. Revenue from sale of goods decreased by $14.4 million (3%) with the decline attributable to reduced consumption. Reasons for reduced consumption include an increased uptake of renewable energy sources, temperature and weather impacts, the impact of competition entering the retail electricity market, the slowing Northern Territory economy and power outages resulting from cyclone Marcus.

Power Retail Corporation cont…

Expenses excluding tax decreased to $479.8 million (2017: $495.3 million). Expenses comprise cost of sales of $460.4 million (2017: $477.7 million) and operating expenses of $19.4 million (2017: $17.6 million). Whilst revenue from sales of goods decreased by $14.4 million as noted above, cost of sales decreased by $17.4 million from the prior year as a result of lower generation costs.

Net profit after tax for the year ended 30 June 2018 was $10.1 million compared to $6.8 million for the year ended 30 June 2017.

Net assets decreased from $67.3 million to $54.1 million as at 30 June 2018 as reflected in decreases in cash and cash equivalents of $15.5 million, receivables and other current assets of $4.5 million and property, plant and equipment of $3.8 million, partially offset by increases in trade and other receivables of $4.5 million and intangible assets of $5.8 million. The increase in intangibles relates to the capitalisation of costs associated within the implementation of the ROS.

Total liabilities decreased by $4.7 million from $85.8 million in the prior year. This decrease was attributable to movements in accrued expenses and unbilled consumption.

The movement of net assets from $67.3 million at the beginning of the year to $54.1 million as at 30 June 2018 represents the net impact of the profit of $10.1 million and the payment of $23.3 million in dividends during the financial year.

Reconciliation of Pronto and ROS

Initially, PWC provided all retail services to the Corporation and continued to provide billing support after the Corporation started to process invoices autonomously. In May 2015, data migration commenced from RMS to ROS. Whilst migrating the majority of Commercial and Industrial customers to the newly introduced ROS in April 2017, the Corporation continued to use PWC's Revenue Management System under licence from PWC until April 2018. In April 2018, the Corporation migrated the Mass Market customers to the ROS completing the migration to a new revenue system. The ROS system is configured to interface with the Corporation's general ledger system (Pronto).

Attempts to reconcile the customer data and balances between Pronto and the ROS have not been fully successful with unexplained variances occurring at each attempt. As the ROS is a point in time system, meaning it is unable to extract consistent reports of data as it existed at an earlier date, the ability of management to adequately and accurately reconcile the data has been impaired. Whilst I acknowledge that personnel have attempted to resolve the matters, this contributed to delays in finalising the audit and there remains an unknown variance between the two systems which brings into question the integrity of the data in one or both systems. For the purposes of the audit, there was no evidence to suggest that the unknown variance was material to the financial statements.

Power Retail Corporation cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Sale of goods	410,399	424,777
Community Service Obligations	79,542	77,809
Interest revenue	918	802
Other income	3,333	1,496
Total income	**494,192**	**504,884**
Expenditure		
Energy cost of sales	(460,375)	(477,727)
Depreciation	(649)	(55)
Employee expenses	(7,792)	(7,150)
External service agreements	(4,430)	(4,241)
Other expenses	(6,548)	(6,172)
Total expenditure	**(479,794)**	**(495,345)**
Profit before income tax expense	**14,398**	**9,539**
Income tax expense	(4,320)	(2,862)
Profit after income tax expense	**10,078**	**6,677**

Power Retail Corporation cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	45,323	60,812
Receivables and other current assets	79,366	83,884
Less current liabilities	(81,014)	(85,672)
Working Capital	**43,675**	**59,024**
Add non-current assets	10,499	8,433
Less non-current liabilities	(103)	(126)
Net Assets	**54,071**	**67,331**
Represented by:		
Accumulated funds	6,405	19,665
Capital	47,666	47,666
Equity	**54,071**	**67,331**

Selected Agencies

End of Year Reviews

Review Objective and Scope

The objective of the end of year review was to review the adequacy of selected aspects of end of financial year reporting and controls over accounting and material financial transactions at each agency. The reviews are undertaken under section 13 of the *Audit Act* in order to support the audit fieldwork and resultant independent audit opinion issued upon the Treasurer's Annual Financial Statement (TAFS).

The reviews were not directed to auditing financial information contained within each Agencies' annual report.

Background

As the purpose of the end of year reviews of the Public Account was to provide support to the audit of the TAFS, the strategy was to review the reasonableness of agencies' end of financial year reporting and controls over accounting, material financial transactions and, most importantly, the agencies' end of year financial data consolidated into the TAFS by the Department of Treasury and Finance.

The reviews may also provide matters for Accountable Officers to consider when they are preparing their representations to their relevant Ministers.

Whilst an audit opinion is not expressed on the financial statements of each agency, each Authorised Auditor provided a representation to my Office at the completion of each review confirming that the reviewed agency's APEX input documentation for the year ended 30 June (effectively a trial balance) contained no material misstatement.

Selected Agencies cont…

End of year reviews were performed in each of the following 19 agencies:

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

Selected Agencies cont…

Audit Observations

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

Number of Agencies	Number of Issues raised
10	0
5	1
1	2
2	3
1	4

Matters Identified

A limited number of findings were raised in relation to the general controls environment, these included the need for adherence to Agency Accounting and Property Manuals, improved processes for recording transactions surrounding year-end (cut-off) and the need for more timely and accurate reconciliations. Beyond these findings, observations arising from the reviews were mostly related to two areas; accounting for property, plant and equipment; and accounting for revenue.

In relation to accounting for property, plant and equipment, the following matters were noted:

- Infrastructure additions had not been assessed to determine what amounts represented repairs and maintenance and therefore should be expensed rather than capitalised.
- Accounting processes and controls could be improved in relation to property, plant and equipment.
- Instances were noted where equipment was incorrectly classified as buildings and depreciated over excessive useful lives.
- Cultural Assets have not been valued in accordance with the revaluation model in Treasurer's Direction.

In relation to accounting for revenue, the following matters were noted:

- Classification of revenue was not clearly articulated or consistently applied.
- Reconciliations between revenue/receivables systems and ledger systems were not completed.
- Rebates were not processed in a timely manner resulting in an overstatement of gross debtors.

Selected Agencies cont…

The Department of Corporate and Information Services has commented:

The Department of Corporate and Information Services notes its End of Year Review confirmed its accounting and control procedures are generally satisfactory with no significant control weaknesses.

Northern Territory Police, Fire and Emergency Services has commented:

Northern Territory Police, Fire and Emergency Services notes that the End of Year Review found that the Agency's accounting and control procedures were generally satisfactory, with no significant matters raised.

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

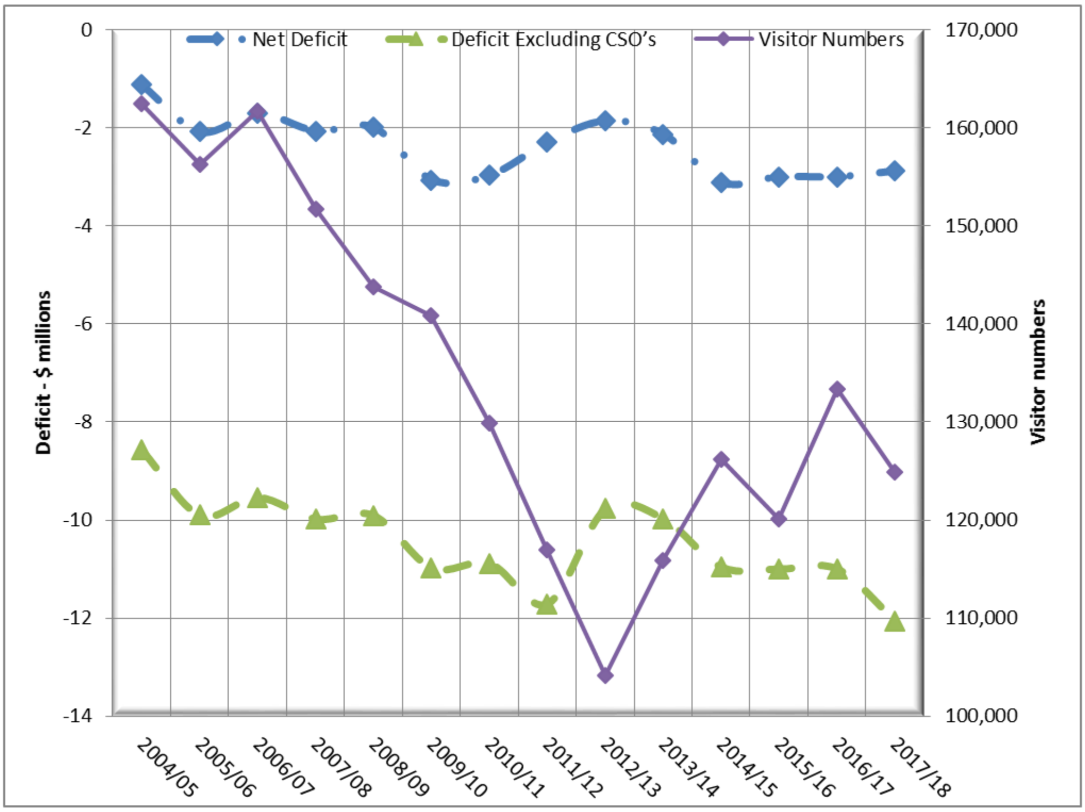
The host Agency is the Department of Tourism and Culture.

Audit Opinion

The audit of the Territory Wildlife Parks for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 28 September 2018.

Audit Observations

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



Territory Wildlife Parks cont…

	Net Deficit $,000	CSO Income $,000	Deficit Excluding CSO's $,000	Visitor Numbers
2004/05	(1,123)	7,445	(8,568)	162,424
2005/06	(2,080)	7,817	(9,897)	156,323
2006/07	(1,700)	7,834	(9,534)	161,660
2007/08	(2,063)	7,915	(9,978)	151,675
2008/09	(1,990)	7,915	(9,905)	143,775
2009/10	(3,063)	7,915	(10,978)	140,854
2010/11	(2,970)	7,915	(10,885)	129,933
2011/12	(2,294)	9,418	(11,712)	116,954
2012/13	(1,854)	7,915	(9,769)	104,177
2013/14	(2,128)	7,842	(9,970)	115,877
2014/15	(3,118)	7,842	(10,960)	126,153
2015/16	(2,818)	7,824	(10,642)	120,073
2016/17	(2,868)	7,824	(10,692)	133,327
2017/18	(2,882)	9,174	(12,056)	124,888

Performance Overview

Funding for Community Service Obligations received from the Territory during the year ended 30 June 2018 increased by $1.35 million from the year ended 30 June 2017.

As can be seen in the above table, visitor numbers fluctuate significantly between years. The parks had 124,888 visitors during the year ended 30 June 2018, representing a decline in visitor numbers of 8,439 (6%) from the prior year. Sales of goods and services declined by $114,000 (3.5%) from the prior year reflecting the decreased visitor numbers partially offset by the impacts of increased admission prices.

The decrease in revenue from the sales of goods and services, together with an increase in employee expenses of $426,000 (Territory Wildlife Parks had 107 employees at 30 June 2018 compared to 94 employees at 30 June 2017) and an increase in other expenses of $714,000 entirely offset the increase in Community Service Obligations.

Territory Wildlife Parks cont…

Operating losses

Territory Wildlife Parks incurred an operating loss of $2.9 million this year (2017: $2.9 million). This loss again calls into question the viability of the entity in the medium to longer term.

Negative Working Capital

Territory Wildlife Parks has reported negative working capital since 2008 and in 2018, total current liabilities of $1.3 million (2017: $1.3 million) exceeded total current assets of $0.8 million (2017: $0.8 million). This resulted in negative working capital as at 30 June 2018 of $0.5 million (2017: $0.5 million). Negative working capital is an indicator of the potential for financial failure in the future. Without support from the Northern Territory Government, Territory Wildlife Parks will not be likely to have sufficient available funds to meet its financial obligations as they fall due and as such, the going concern basis of accounting may no longer be appropriate. My audit opinion was premised on the expectation that such funding will continue.

Negative Cash Flows from Operating Activities

Territory Wildlife Parks has also been reporting negative cash flows from operating activities over the past few years, including $0.7 million in 2018 (2017: $0.7 million).

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

Territory Wildlife Parks cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Community Service Obligations	9,174	7,824
Sales of goods and services	3,159	3,273
Other revenues	58	65
Total income	**12,391**	**11,162**
Expenditure		
Employee expenses	(7,589)	(7,163)
Depreciation and amortisation	(2,131)	(2,028)
Other expenses	(5,553)	(4,839)
Total expenditure	**(15,273)**	**(14,030)**
Deficit	**(2,882)**	**(2,868)**

Territory Wildlife Parks cont…

Financial Position at year end

	2018	2017
	$'000	$'000
Cash and cash equivalents	572	501
Receivables and other current assets	265	301
Less current liabilities	(1,324)	(1,323)
Working Capital	**(487)**	**(521)**
Add non-current assets	38,418	38,634
Less non-current liabilities	-	-
Net Assets	**37,931**	**38,113**
Represented by:		
Accumulated losses	(29,876)	(26,994)
Contributed equity	29,974	27,274
Asset revaluation reserve	37,833	37,833
Equity	**37,931**	**38,113**

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Background

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

The Service comprises the Royal Darwin, Gove and Katherine hospitals, primary health care, aged care and mental health and is funded predominantly by national health reform payments paid through the Department of Health. From the year ending 30 June 2019, Palmerston Regional Hospital will also become part of the Top End Health Service.

The host Agency is the Department of Health.

Audit Opinion

The audit of the Top End Health Service for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 10 October 2018.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Top End Health Service incurred a net deficit of $1.2 million for the year ended 30 June 2018. An analysis of key balances from the financial statements of Top End Health Service over the past four years is presented below.

	2018 $'000	**2017 $'000**	**2016 $'000**	**2015 $'000**
Net surplus/(deficit)	(1,166)	(43,223)	(71,640)	2,911
Add back depreciation	30,092	28,540	25,671	21,667
Net surplus/(deficit) before depreciation	**28,926**	**(14,683)**	**(45,969)**	**24,578**
Total current assets	72,105	49,959	54,540	81,260
Total current liabilities	(152,004)	(140,768)	(129,439)	(106,276)
Working capital deficit	**(79,899)**	**(90,809)**	**(74,899)**	**(25,016)**

Top End Health Service cont…

Top End Health Service has improved its financial performance and cash flow from operating activities however the ongoing working capital deficit continues to highlight an increased risk that Top End Health Service will be unable to pay its debts as and when they fall due without additional financial support.

Revenue

Total revenue for Top End Health Service increased by approximately $90.6 million from the prior year. The increase in Sales of Goods and Services Income of $26.3 million was largely due to increased Commonwealth Activity Based Funding. The increase in Current Grants and Subsidies Income of $64.2 million was attributed to a $67.7 million increase in NT Block Funding partially offset by a decrease of $3.5 million in Commonwealth funded programs.

Expenditure

Total expenditure increased by approximately $48.5 million from prior year. Employee expenses increased by $38.6 million due to recruitment and retention difficulties resulting in high labour and overtime costs. Repairs and maintenance expenditure increased by $7.7 million.

Other comprehensive income

Other comprehensive income represents an upward movement in the asset revaluation reserve of $1.0 million being the net revaluation increment on land and buildings that were revalued during the year. In the prior year there was a net revaluation decrement of $7.2 million.

Assets

Total assets increased by approximately $65.2 million from the prior year reflecting increases in cash and deposits of $21.8 million, prepayments of $4.8 million and property, plant and equipment of $43.0 million. The significant increase in the value of property, plant and equipment was due to the acquisition of a new high voltage chiller at Royal Darwin Hospital.

Liabilities

Total liabilities increased by $10 million from the prior year. The increase was mainly attributed to increased accrued expenses, including the liability for cross border patient expenses, and the increase in employee provisions due to an increased number of employees during the 2018 financial year. Top End Health Service employed 4,354 personnel at 30 June 2018 (2017: 4,130 employees).

Equity

Equity increased by $55.3 million from the prior year as a result of an equity contribution from the Northern Territory Government to enable the acquisition of plant and equipment.

Top End Health Service cont…

Financial Performance for the year

	2018	2017
	$'000	**$'000**
Income		
Current grants and subsidies	582,864	518,704
Sales of goods and/or services	413,588	387,281
Other revenues	2,234	2,140
Total income	**998,686**	**908,125**
Expenditure		
Employee expenses	(577,392)	(538,838)
Repairs and maintenance	(27,731)	(20,061)
Supplies and services	(324,436)	(325,559)
Depreciation and amortisation	(30,092)	(28,540)
Interest expense	(180)	(192)
Current grants and subsidies	(39,060)	(37,415)
Other expenses	(961)	(743)
Total expenditure	**(999,852)**	**(951,348)**
Deficit before income tax expense	**(1,166)**	**(43,223)**
Income tax expense	-	-
Deficit after income tax expense	**(1,166)**	**(43,223)**

Top End Health Service cont…

Financial Position at year end

	2018	2017
	$'000	**$'000**
Cash and cash equivalents	24,264	2,506
Receivables and other current assets	47,841	47,453
Less current liabilities	(152,004)	(140,768)
Working Capital	**(79,899)**	**(90,809)**
Add non-current assets	581,347	538,283
Less non-current liabilities	(26,288)	(27,568)
Net Assets	**475,160**	**419,906**
Represented by:		
Accumulated funds	(158,380)	(157,214)
Asset revaluation reserve	168,263	167,263
Capital	465,277	409,857
Equity	**475,160**	**419,906**

Top End Health Service cont…

Top End Health Service has commented:

The Service acknowledges the audit findings and endeavours to continue working in partnership with the Department of Health (System Manager) to further enhance systems and controls.

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2018

Audit Opinion

This report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2018. TAFS forms part of the Treasurer's Annual Financial Report (TAFR).

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

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

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

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

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

Treasurer's Annual Financial Statement cont…

Figure 1: TAFS Composition

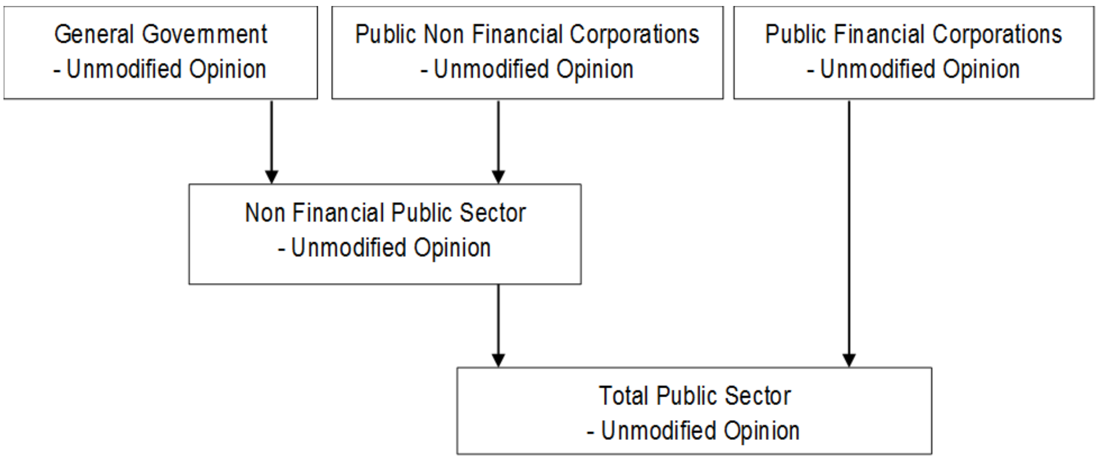


Table 1 outlines the key reporting elements of the Northern Territory.

Table 1: Northern Territory Government reporting entity

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

Treasurer's Annual Financial Statement cont…

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

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

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

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

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

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

Entities not consolidated into any of the above sectors

The consolidated financial statements of the Total Public Sector comprise all agencies, Government Business Divisions, Government Owned Corporations and other entities controlled by the Northern Territory Government. The following entities are excluded from the consolidation:

- Charles Darwin University and its associated entities
- Menzies School of Health Research
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board
- Nitmiluk (Katherine Gorge) National Park Board
- Surveyors Board of the Northern Territory of Australia
- Northern Territory Grants Commission

Treasurer's Annual Financial Statement cont…

- Northern Territory Government and Public Authorities Employees' Superannuation Fund
- Legislative Assembly Members' Superannuation Trust
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local Government/Regional Councils.

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

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

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

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

Net Operating Balance – a measure of financial performance calculated as the excess of revenues over expenses. The Net Operating Balance is a measure of the sustainability of a government.

Fiscal Balance – a measure of financial performance sometimes referred to as Net Lending/Borrowing and calculated as the Net Operating Balance less the net acquisition of non-financial assets. It is a measure of the extent to which a government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. A net lending (or fiscal surplus) balance indicates that a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit position) indicates that a government's level of investment is greater than its level of savings.

Treasurer's Annual Financial Statement cont…

Net Worth – a measure of financial position calculated as total financial and non-financial assets less total liabilities and contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

Net Financial Worth – a measure of financial position calculated as total financial assets less total liabilities. This measure can be viewed as an alternative measure for assessing the sustainability of fiscal activities as it may be difficult to attach market values to some general government sector non-financial assets that form part of the calculation of Net Worth.

Net Debt – a measure of financial position comprising certain financial liabilities less financial assets. The items included in this measure are discussed in some detail in the Budget Papers.

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

Treasurer’s Annual Financial Statement cont…

Audit Opinion

My audit of the Treasurer’s Annual Financial Statement for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 11 October 2018.

The purpose and structure of my audit report on the TAFS

My audit report on the TAFS was signed on 11 October 2018. The purpose of an audit report on a financial report is to enhance the credibility of the financial information presented in relation to an entity’s financial performance, financial position and cash flows and, where relevant, advise readers of matters of importance relating to the financial report. The audit report is structured to clearly define the financial report being audited, the person(s) responsible for preparing the financial report, explain the scope of the audit and present the auditor’s opinion on the financial report.

The extent or scope of the audit

The first paragraph of my audit report details my opinion and the elements of the TAFS upon which I am forming an opinion.

The audit report explains that the Treasurer is responsible for preparing and presenting the TAFS and the information it contains is in accordance with the requirements of the *Financial Management Act* and the *Fiscal Integrity and Transparency Act*. Section 9 of the *Financial Management Act* allows the Treasurer to prescribe the form of the TAFS, including the accounting policies to be used, and these are detailed in the Reporting Framework.

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

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

Treasurer's Annual Financial Statement cont…

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

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

Impact of materiality and audit procedures on the audit opinion

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

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

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

Treasurer's Annual Financial Statement cont…

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

What the audit opinion does not provide

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

My audit of the Public Account assists considerably in forming a view on the TAFS however users of this report are reminded that I do not separately audit and form an opinion on the financial statements of individual Agencies.

Audit Observations

Performance overview

My comments and findings on the most recent audits I have conducted in relation to individual entities within the Total Public Sector are reported separately within this report. Accordingly, the comments that follow are largely confined to the General Government Sector. The sector is arguably the most important sector of government. It is that sector that is funded largely through taxation and on that basis alone deserves to be considered, but it is also the sector that is responsible for the provision of those services that the community commonly associates with the role of a government.

The financial performance of the General Government Sector, as measured by the Net Operating Balance, decreased during the year ended 30 June 2018 when compared with the prior year. The Net Operating Balance for the year ended 30 June 2018 was a deficit of $375.2 million, a decrease of $298.2 million when compared to the deficit of $77.0 million reported for the year ended 30 June 2017. Total revenues increased by $52.5 million when compared to the previous year. Revenue sources contributing the largest decrease were capital grants with a decrease of $186.1 million, offset by increases in other revenue ($173.7 million), interest income ($29.3 million) and taxation revenue ($27.3 million).

Treasurer's Annual Financial Statement cont…

Whilst total revenues increased by $52.5 million from the prior year, total expenses were $350.7 million higher than the prior year indicating opportunities may exist where spending could be restrained in the current economic environment. The largest component of expense growth related to other operating expenses (an increase of $113.1 million). Significant increases were also noted in employee benefits ($89.6 million), depreciation ($62.5 million), and capital grants $34.8 million).

The Fiscal Balance deficit result also increased, from a deficit of $466.4 million for the year ended 30 June 2017 to a deficit for the year ended 30 June 2018 of $699.6 million. For the year ended 30 June 2018, $65.0 million less was invested in the net acquisition of non-financial assets (2018: $324.4 million, 2017: $389.4 million).

The financial position of the General Government Sector, as measured by Net Debt, deteriorated by $620.1 million for the year. The following are the significant changes to the financial position:

- an increase in cash of $319.2 million;
- an increase in investments, loans and placements of $181.5 million; and
- an increase in borrowings of $1,191.0 million.

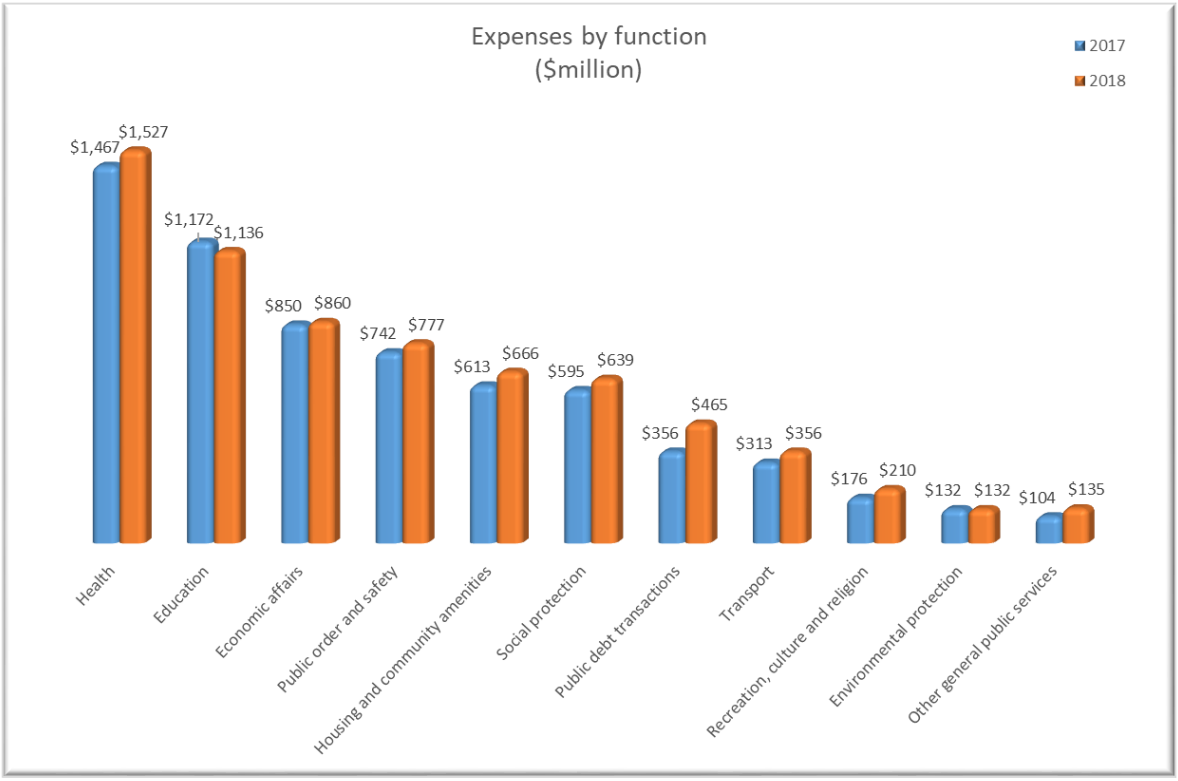
Net Financial Worth deteriorated by $703.7 million to negative $4,590.6 million when compared with the position at 30 June 2017 demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities increased by $723.3 million for the year reflecting the change in Net Financial Worth of $703.7 million adjusted by $19.6 million increase in equity assets, being the value of investments in other public sector entities.

Treasurer's Annual Financial Statement cont…

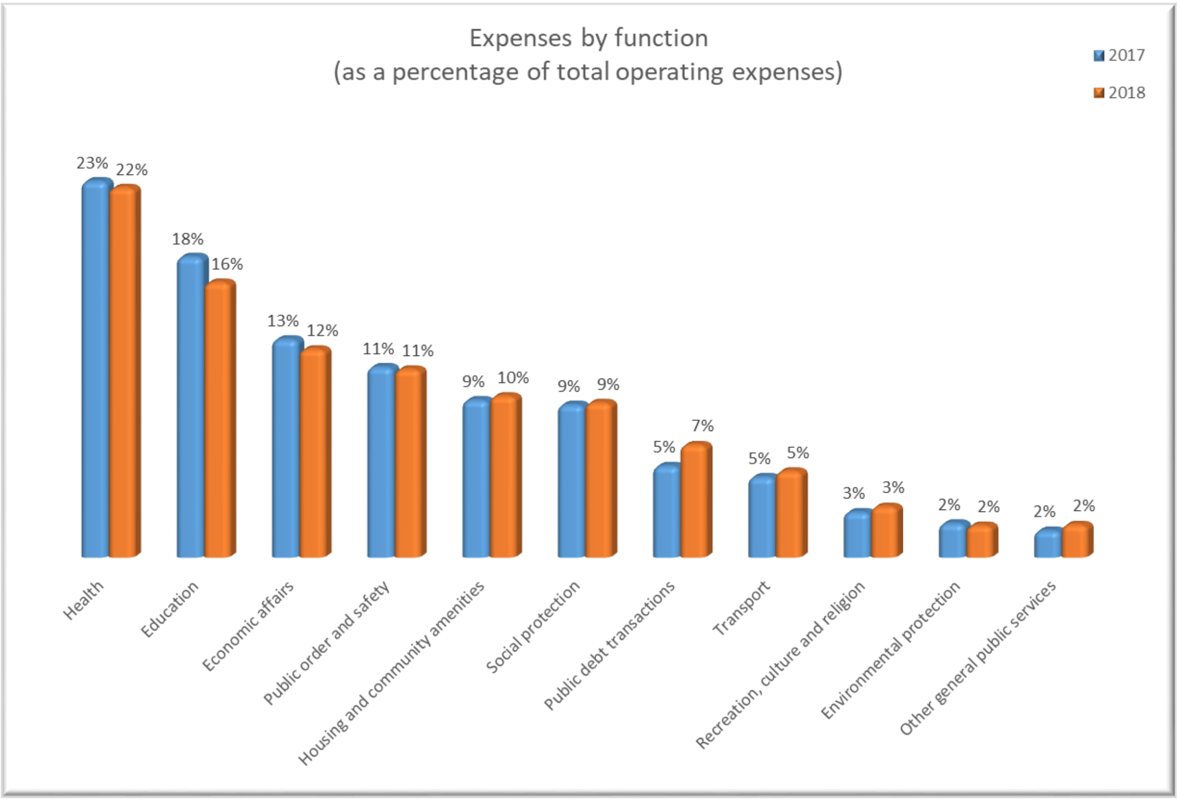
Total public sector expenses by function

The following graphs present the total public sector expenses from transactions reported in Note 14 of the Treasurer's Annual Financial Statement. The expenses are classified according to the Classifications of Functions of Government Australia which is based on the Australian Bureau of Statistics classifications.



Source: Note 14 of the Treasurer's Annual Financial Statement

Treasurer's Annual Financial Statement cont…



Source: Note 14 of the Treasurer's Annual Financial Statement

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Performance

	2018	2017
	$'million	**$'million**
Taxation revenue	637.1	609.8
Grants – current	4,207.7	4,195.8
Grants – capital	115.2	301.3
Sales of goods and services	374.4	366.3
Interest income	126.3	97.2
Dividend and income tax equivalent income	64.9	76.5
Other	421.3	247.6
Total revenues	**5,946.9**	**5,894.5**
Employee expenses	(2,356.7)	(2,267.2)
Other expenses	(1,532.9)	(1,418.8)
Depreciation	(398.0)	(335.5)
Superannuation expense	(316.6)	(313.8)
Interest expense	(228.3)	(212.0)
Grants – current	(1,049.8)	(1,025.7)
Grants – capital	(160.5)	(125.7)
Subsidies and personal benefit payments	(279.2)	(272.8)
Total expenses	**(6,322.1)**	**(5,971.5)**
Net operating balance	**(375.2)**	**(77.0)**
Other economic flows	(63.3)	65.8
Operating result	**(438.5)**	**(11.2)**
Net operating balance	**(375.2)**	**(77.0)**
Less net acquisition of non financial assets	(324.4)	(389.4)
Fiscal balance	**(699.6)**	**(466.4)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Position

	Balance at 30 June 2018	Movement for 2017/18	Balance at 30 June 2017
	$'million	**$'million**	**$'million**
Cash and deposits	603.2	319.2	284.0
Advances paid	168.0	(3.4)	171.4
Investments, loans and placements	2,256.3	181.4	2,074.9
Deposits held	(341.2)	75.7	(416.9)
Advances received	(283.9)	(2.0)	(281.9)
Borrowings	(4,183.6)	(1,191.0)	(2,992.6)
Net debt	**(1,781.3)**	**(620.1)**	**(1,161.2)**
Other non-equity financial assets	374.1	(12.2)	386.3
Equity assets	2,256.0	19.6	2,236.4
Superannuation liabilities	(3,622.1)	54.1	(3,676.2)
Other employee entitlements and provisions	(660.0)	(36.0)	(624.0)
Other non-equity liabilities	(1,157.3)	(109.0)	(1,048.3)
Net financial worth	**(4,590.6)**	**(703.7)**	**(3,886.9)**
Less: Equity assets	(2,256.0)	(19.6)	(2,236.4)
Net financial liabilities	**(6,846.6)**	**(723.3)**	**(6,123.3)**
Net carrying amounts of non financial assets	15,246.4	294.8	14,951.6
Equity assets	2,256.0	19.6	2,236.4
Net worth	**10,655.8**	**(408.8)**	**11,064.6**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Abridged Statement of Changes in Equity

2017/18	Equity at 1 July $'million	Comprehensive Result $'million	Equity at 30 June $'million
Accumulated funds	**2,487.9**	**(438.5)**	**2,049.5**
Transfers from reserves	-	38.2	38.2
Other movements directly to equity	-	12.1	12.1
Total accumulated funds	**2,487.9**	**(388.2)**	**2,099.7**
Reserves			
Asset revaluation surplus	6,968.5	(39.6)	6,929.0
Investments in public sector entities revaluation surplus	1,589.4	19.4	1,608.7
Other reserves	18.8	(0.4)	18.4
Total reserves	**8,576.7**	**(20.7)**	**8,556.0**
Total equity at end of financial year	**11,064.6**	**(408.9)**	**10,655.7**
2016/17			
Accumulated funds	**1,920.3**	**(11.2)**	**1,909.1**
Transfers from reserves	-	18.3	18.3
Other movements directly to equity	-	560.5	560.5
Total accumulated funds	**1,920.3**	**567.7**	**2,487.9**
Reserves			
Asset revaluation surplus	6,338.4	630.1	6,968.5
Investments in public sector entities revaluation surplus	1,395.7	193.7	1,589.4
Other reserves	18.0	0.8	18.8
Total reserves	**7,752.1**	**824.6**	**8,576.7**
Total equity at end of financial year	**9,672.4**	**1,392.3**	**11,064.6**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Performance

	2018	2017
	$'million	**$'million**
Taxation revenue	625.8	598.8
Grants – current	4,207.7	4,195.8
Grants – capital	127.6	317.7
Sales of goods and services	952.1	928.3
Interest income	126.4	97.2
Other	463.9	279.0
Total revenues	**6,503.6**	**6,416.9**
Employee expenses	(2,480.7)	(2,383.6)
Depreciation	(589.0)	(529.9)
Superannuation expense	(329.7)	(327.9)
Interest expense	(261.1)	(250.6)
Other expenses	(1,963.0)	(1,825.0)
Grants – current	(991.5)	(963.8)
Grants – capital	(133.4)	(93.4)
Subsidies and personal benefit payments	(155.5)	(144.2)
Total expenses	**(6,903.9)**	**(6,518.5)**
Net operating balance	**(400.4)**	**(101.6)**
Other economic flows	(190.2)	34.2
Operating result	**(590.5)**	**(67.4)**
Net operating balance	**(400.3)**	**(101.6)**
Less net acquisition of non financial assets	(389.4)	(446.7)
Fiscal balance	**(789.7)**	**(548.4)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Position

	Balance at 30 June 2018	Movement for 2017/18	Balance at 30 June 2017
	$'million	**$'million**	**$'million**
Cash and deposits	603.2	319.2	284.0
Advances paid	167.9	(3.5)	171.4
Investments, loans and placements	2,256.3	181.4	2,074.9
Deposits held	(107.4)	(25.9)	(81.5)
Advances received	(214.1)	7.4	(221.5)
Borrowings	(5,617.1)	(1,202.7)	(4,414.4)
Net debt	**(2,911.1)**	**(723.9)**	**(2,187.2)**
Other non-equity financial assets	476.8	47.7	429.1
Equity assets			-
Superannuation liabilities	(3,622.1)	54.1	(3,676.2)
Other employee entitlements and provisions	(720.3)	(37.1)	(683.2)
Other non-equity liabilities	(1,365.5)	(124.2)	(1,241.3)
Net financial worth	**(8,142.3)**	**(783.5)**	**(7,358.8)**
Less: Equity assets	-	-	-
Net financial liabilities	**(8,142.4)**	**(783.5)**	**(7,358.8)**
Net carrying amounts of non financial assets	18,798.0	374.6	18,423.4
Equity assets	-	-	-
Net worth	**10,655.7**	**(408.9)**	**11,064.6**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Abridged Statement of Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity at 30 June
2017/18	**$'million**	**$'million**	**$'million**
Accumulated funds	**3,248.9**	**(590.5)**	**2,658.3**
Transfers from reserves	-	95.5	95.5
Other movements directly to equity	-	14.0	14.0
Total accumulated funds	**3,248.9**	**(481.0)**	**2,767.9**
Reserves			
Asset revaluation surplus	7,797.0	72.6	7,869.5
Other reserves	18.8	(0.4)	18.4
Total reserves	**7,815.8**	**72.1**	**7,887.9**
Total equity at end of financial year	**11,064.6**	**(408.9)**	**10,655.7**
2016/17			
Accumulated funds	**2,640.1**	**(67.4)**	**2,572.7**
Transfers from reserves	-	114.2	114.2
Other movements directly to equity	-	562.0	562.0
Total accumulated funds	**2,640.1**	**608.8**	**3,248.9**
Reserves			
Asset revaluation surplus	7,014.3	782.7	7,797.0
Other reserves	18.0	0.8	18.8
Total reserves	**7,032.2**	**783.5**	**7,815.8**
Total equity at end of financial year	**9,672.3**	**1,392.3**	**11,064.6**

Note: Totals may not add due to rounding

Utilities Sector

Power and Water Corporation, Indigenous Essential Services, Power Generation Corporation and Power Retail Corporation

Background

During the 2018 Estimates Hearing process, I was asked by the Members of the Estimates Committee if it was possible to provide a comparison of the financial position and financial performance of the utilities sector prior to and after the structural separation of Power and Water Corporation into three entities effective 1 July 2015. The utilities sector entities in existence following structural separation are Power Generation Corporation (trading as Territory Generation), Power Retail Corporation (trading as Jacana Energy), Power and Water Corporation and, Indigenous Essential Services Pty Ltd (a wholly owned subsidiary of Power and Water Corporation).

With the assistance of the Department of Treasury and Finance, I have compiled the following consolidated results for the utilities sector for the year ended 30 June 2014 (the last financial year prior to structural separation) and the year most recently ended being 30 June 2018. Entries between entities in the utilities sector have been eliminated as is usual practice upon consolidation. This enables comparability of results as the financial balances presented reflect only transactions that have occurred with parties outside the utilities sector.

The following collated results have not been subject to audit beyond that which occurred for each reporting entity at the conclusion of each of the financial years. Consequently, I form no opinion on the collated results and provide them to enable analysis by a user of this report.

Information relevant to the collated results

I have not attempted to analyse the movements between the reported results however make the following observations.

Asset revaluation and impairment exercises conducted by entities in the utilities sector directly impact the value of non-current assets and directly impact the annual depreciation and amortisation expense as do adjustments to the useful lives of assets. Depreciation and amortisation expenses in 2018 were $190 million, $100 million less than in the year ended 30 June 2014.

The analysis show revenue in each year is largely consistent with a variance less than $1 million. Total expenses are $27 million lower. Key contributors to this movement are the decreases in depreciation and amortisation expense of $100 million and interest expense of $21 million (associated with reduced borrowings within the utilities sector) largely offset by increases in employee expenses of $43 million, other expenses of $41 million and purchases of goods and services of $15 million.

Utilities Sector cont…

Financial Performance for the years ended 30 June 2014 and 2018

	2014	2018
	$'000	**$'000**
Income		
Current and capital grants	73,768	97,167
Community Service Obligations	84,042	125,065
Sales of goods and services	671,781	634,699
Interest income	2,568	2,614
Gain/(loss) on disposal of assets	251	81
Other revenues	70,342	43,882
Total income	**902,752**	**903,508**
Expenditure		
Employee expenses	(106,089)	(149,336)
Purchases of goods and services	(386,814)	(401,979)
Repairs and maintenance	(92,969)	(93,410)
Depreciation and amortisation	(290,795)	(190,490)
Interest expense	(85,186)	(63,873)
Grants and subsidies	(6,914)	(1,368)
Other expenses	(76,481)	(117,555)
Total expenditure	**(1,045,248)**	**(1,018,011)**
Loss before income tax expense	**(142,496)**	**(114,503)**
Income tax expense	(7,480)	(12,800)
Loss after income tax expense	**(149,976)**	**(127,303)**

Note: Totals may not add due to rounding

Utilities Sector cont…

Financial Position as at 30 June for the years ended 2014 and 2018

	2014	2018
	$'000	**$'000**
Cash and cash equivalents	93,825	158,946
Receivables and other current assets	156,444	186,875
Less current liabilities	(167,209)	(424,876)
Working Capital	**83,060**	**(79,055)**
Add non-current assets	3,180,478	3,346,058
Less non-current liabilities	(1,325,542)	(1,172,980)
Net Assets	**1,937,996**	**2,094,023**
Represented by:		
Accumulated funds	493,373	579,601
Reserves	1,095,412	940,211
Capital	349,211	574,211
Equity	**1,937,996**	**2,094,023**

Note: Totals may not add due to rounding

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

Background

The *Public Information Act* (the Act), and its associated Regulations, which came into effect in 2010 and was subsequently amended effective 14 February 2017, seeks to achieve a transparent and accountable mechanism for the review of public information produced by public authorities. A public authority is defined in section 5 of the Act and that definition is broad, capturing:

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

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

Excluded from the definition are:

- holders or occupiers of:
  - judicial office;
  - an office as a member of a tribunal established under a law of the Territory;
  - the office of the Auditor-General;
- a local government council;
- Jacana Energy;
- the Power and Water Corporation;
- Territory Generation; and
- a person or body prescribed by regulation.

The definition of what constitutes public information is equally broad and is defined in section 4(1) of the Act as "*information given by a public authority to the public by using money or other property of the Territory…*" Exemptions from this definition are:

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

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

Section 6(1) of the Act provides that the Auditor-General must, upon the receipt of a written request of a Member of the Legislative Assembly, conduct a review of that information to determine whether the provisions of the Act have been contravened, with regard to the Public Information Regulations.

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

The Auditor-General may determine that the Act has been contravened if the material that is the subject of the review contravenes section 6(2) of the Act in that it:

- promotes particular party interests;
- includes statements that are misleading or factually inaccurate;
- does not clearly distinguish a statement of facts from a statement of comments; or
- is an advertisement that includes an image of the holder or occupier of the office of a Minister.

Section 6(2A) of the Act requires the Auditor-General to determine the Act has been contravened in relation to the 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 of prohibitions prescribed by regulation for the giving of public information.

There have been two matters referred since my August 2018 Report to the Legislative Assembly. I have concluded my enquiries in relation to one matter and included my determination within this report. In accordance with Section 7(5) of the Act, a copy of my determination was tabled in the Legislative Assembly on 30 October 2018. My assessment of the second matter is ongoing at the time of this report.

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

Referral of a complaint to the Auditor-General – Project Signage

On 14 August 2018 a Member of the Legislative Assembly referred a matter to the Auditor-General in relation to the building sites around Darwin that are surrounded by bunting making reference to the Northern Territory Government. The referrer advised concerns had been raised by individuals that the bunting promotes the Northern Territory Government and the words "*Another Job Creating Project*" are construed as political thereby contravening the *Public Information Act*.

The Department of Infrastructure, Planning and Logistics confirmed that, at the time of my inquiry, bunting containing images was being used at 13 construction sites within the Northern Territory. The images printed on the bunting includes:

- The name of the construction project;
- The logos of the entities (primarily one or more tiers of the public sector) that funded the project; and
- The words "*Another Job Creating Project*".

Review of Allegation

After examining the images on the bunting, I formed the opinion that the content has not contravened the requirements of the Act.

I was unable to clearly identify a connection between the words "*Another Job Creating Project*" and a political party, therefore I am of the view that the bunting does not promote particular party political interests.

I am not of the opinion that the images or words are misleading or factually inaccurate.

The images contained on the bunting appear consistent with the criteria listed in Part 2, Section 3a (vii) which permits public information to be provided where the public information serves to encourage usage of, or familiarity with, government products or services.

Conclusion

Following from the above I concluded that the provisions of the Act were not contravened.

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

Recommendation

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

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

Given my conclusion, I make no recommendations in relation to the images presented on the bunting.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 30 June 2018

Financial Statements for the year ended 30 June 2018

	Date 2018 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2018	Date of Audit report year ended 30 June 2017
Central Australia Health Service	31 October 18	10 October 18	2 October 17
Darwin Waterfront Corporation	Not yet tabled	1 October 18	27 September 17
Data Centre Services	31 October 18	18 September 18	15 September 17
Indigenous Essential Services Pty Ltd	Not required	28 September 18	29 September 17
Jabiru Town Development Authority	Not yet tabled	26 October 18	13 November 17
Land Development Corporation	Not yet tabled	26 October 18	25 September 17
Legislative Assembly Members' Superannuation Fund	30 October 18	18 October 18	27 October 17
Motor Accidents (Compensation) Commission	25 October 18	3 October 18	28 September 17
Northern Territory Government and Public Authorities Employees' Superannuation Fund	31 October 18	18 October 18	27 October 17
Northern Territory Grants Commission(1)	1 November 18	9 October 18	25 September 17
Northern Territory Legal Aid Commission	Not yet tabled	13 September 18	25 September 17
Northern Territory Major Events Company Pty Ltd	Not required	16 October 18	25 September 17

Not yet tabled – as at 1 November 2018
Not required – Financial statements are not required to be tabled
N/A – Not applicable
(1) Not separately reported within this report

Appendix 1: Audit Opinion Reports Issued Since 30 June 2018 cont…

	Date 2018 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2018	Date of Audit report year ended 30 June 2017
Northern Territory Police Supplementary Benefit Scheme	Not required	18 October 18	27 October 17
Northern Territory Treasury Corporation	25 October 18	13 September 18	27 September 17
NT Build	Not yet tabled	31 October 18	20 November 17
NT Fleet	31 October 18	18 September 18	15 September 17
NT Home Ownership	30 October 18	26 September 18	8 September 17
Power and Water Corporation	30 October 18	28 September 18	29 September 17
Power Generation Corporation	31 October 18	27 September 18	29 September 17
Power Retail Corporation	31 October 18	19 October 18	10 October 17
Territory Wildlife Parks	1 November 18	28 September 18	29 September 17
Top End Health Service	31 October 18	10 October 18	2 October 17
Treasurer's Annual Financial Statement	25 October 18	11 October 18	12 October 17

Not yet tabled – as at 1 November 2018
Not required – Financial statements are not required to be tabled

Appendix 1: Audit Opinion Reports Issued Since 30 June 2018 cont…

Acquittals or other returns for the year ended 30 June 2018

	Deadline for submission of Audited Financial Statements	Date of Audit report year ended 30 June 2018	Date of Audit report year ended 30 June 2018
Health Pool Funding Acquittal	30 September 18	13 September 18	12 September 17
Local Government Financial Assistance Acquittal	Not specified	8 October 18	25 September 17
Motor Accidents (Compensation) Commission Annual Return	31 October 18	31 October 18	31 October 17
Natural Disaster Relief and Recovery Arrangements	31 March 19	Not yet completed	24 October 17

Not yet completed – as at 31 October 2018
Not specified – No deadline specified

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Appendix 2: Status of Audit Activity

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits and reviews, were identified in Appendix 3 of my August 2018 Report to the Legislative Assembly as being scheduled for the period:

Department of Environment and Natural Resources	
Evaluation of Performance Management System	Not yet completed
Department of Health	
eProcurement	Not yet completed
Department of Housing and Community Development	
Procurement Compliance	Not yet completed
Department of Infrastructure, Planning and Logistics	
Indigenous Employment Provisional Sum	Refer page 31
Department of the Attorney-General and Justice	
Veritas	Not yet completed
Department of Tourism and Culture	
Evaluation of Performance Management System	Not yet completed
Department of Trade, Business and Innovation	
Luxury Hotel Development and Water Theme Park	Not yet completed
Department of Treasury and Finance	
Infrastructure Development Fund	Not yet completed

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Appendix 3: Abbreviations

AASB	Australian Accounting Standards Board
AIS	Asset Information System
APRA	Australian Prudential Review Authority
APRO	Agency Procurement Requisition Online
ASA	Australian Auditing Standard
CCU	Contractor Compliance Unit
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DCIS	Department of Corporate and Information Services
DIPL	Department of Infrastructure, Planning and Logistics
DoI	Department of Infrastructure
FMA	*Financial Management Act*
GFS	Government Financial Statistics
GPS	General Prudential Standard
HPRM	HP Record Manager
IAT	Inter-Agency Taskforce
IEPS	Indigenous Employment Provisional Sum
IPoCP	Indigenous Participation on Construction Projects
NT	Northern Territory
NTAGO	Northern Territory Auditor-General's Office
PFCs	Public Financial Corporation Sector
PNFCs	Public Non Financial Corporation Sector
Pronto	Power Retail Corporation's general ledger system
PWC	Power and Water Corporation
RMS	Revenue Management System
ROS	Retail Operating System

Appendix 3: Abbreviations cont…

SCI	Statement of Corporate Intent
TAFR	Treasurer’s Annual Financial Report
TAFS	Treasurer’s Annual Financial Statement
TAP	Territory Availability Payment
TEP	Territory Efficiency Payment
TIP	Territory Incentive Payment
TOP	Territory Operating Payment

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